

Annual Accounts

Aithris Chunntasan

2015/16

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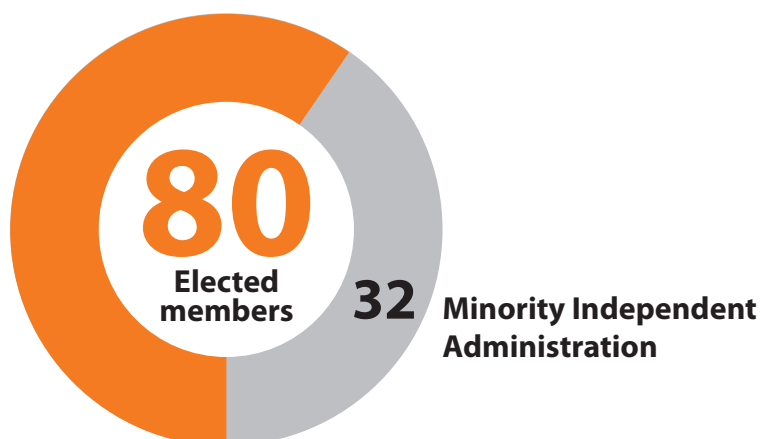
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Management Commentary

Aithris Stiùiridh

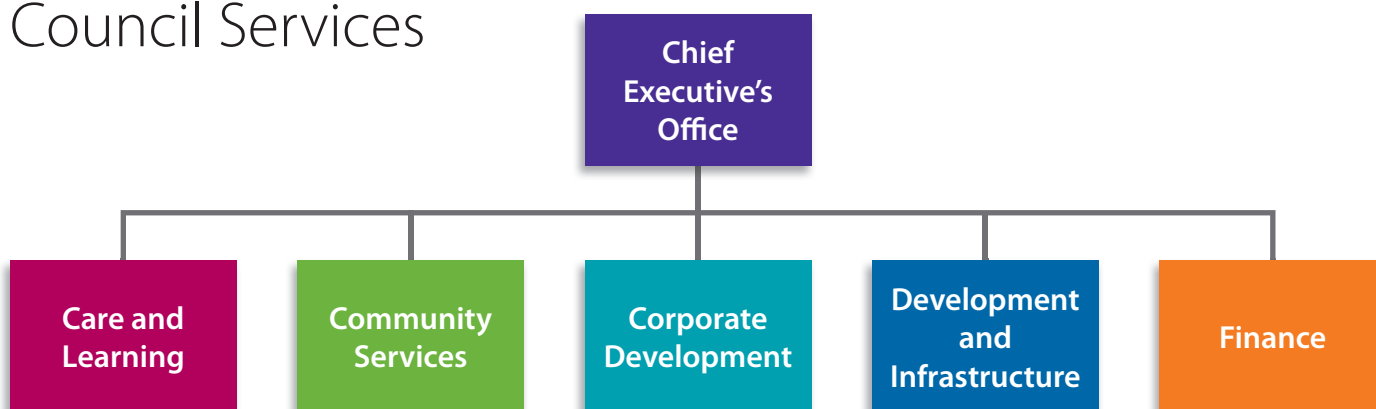
The management commentary is intended to assist users in understanding the objectives and strategy of the Council, and provide a review of its business and financial performance in the year. In addition it provides information on the principal risks and uncertainties which are likely to affect the future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

About The Highland Council



232,950
Population (mid 2013)

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

Council Highlights 2015/16

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

City-Region Deal



Agreement to £315m of investment over the next ten years in the regional economy by the Council, regional partners, UK Government and Scottish Government to support transport, innovation, digital connectivity, housing, skills, infrastructure and tourism.

Community Empowerment



Decision making for Community Services budgets devolved to 8 local committees increasing local decision making and scrutiny. Participatory budgeting approaches implemented across Highland, enabling communities to have a say on local spending.

Scottish Quality Housing Standards

During the year work was substantially completed on the programme to ensure that all our council houses meet the required standards.

Collaboration and Joint Working

Partnerships with NHS Highland, Police Scotland, HIE and our many and varied local and national partners continue to flourish.

New Finance System

Successful deployment of the new Integra finance system realising both cost savings and business process improvements.

Fort William redevelopment



£5.7m contract awarded to transform a former secondary school into new Council offices.

Inverness West Link



£22.5m stage 1 contract underway and scheduled for completion in late 2017.

Bun-Sgoil Ghaidhlig Loch Abar

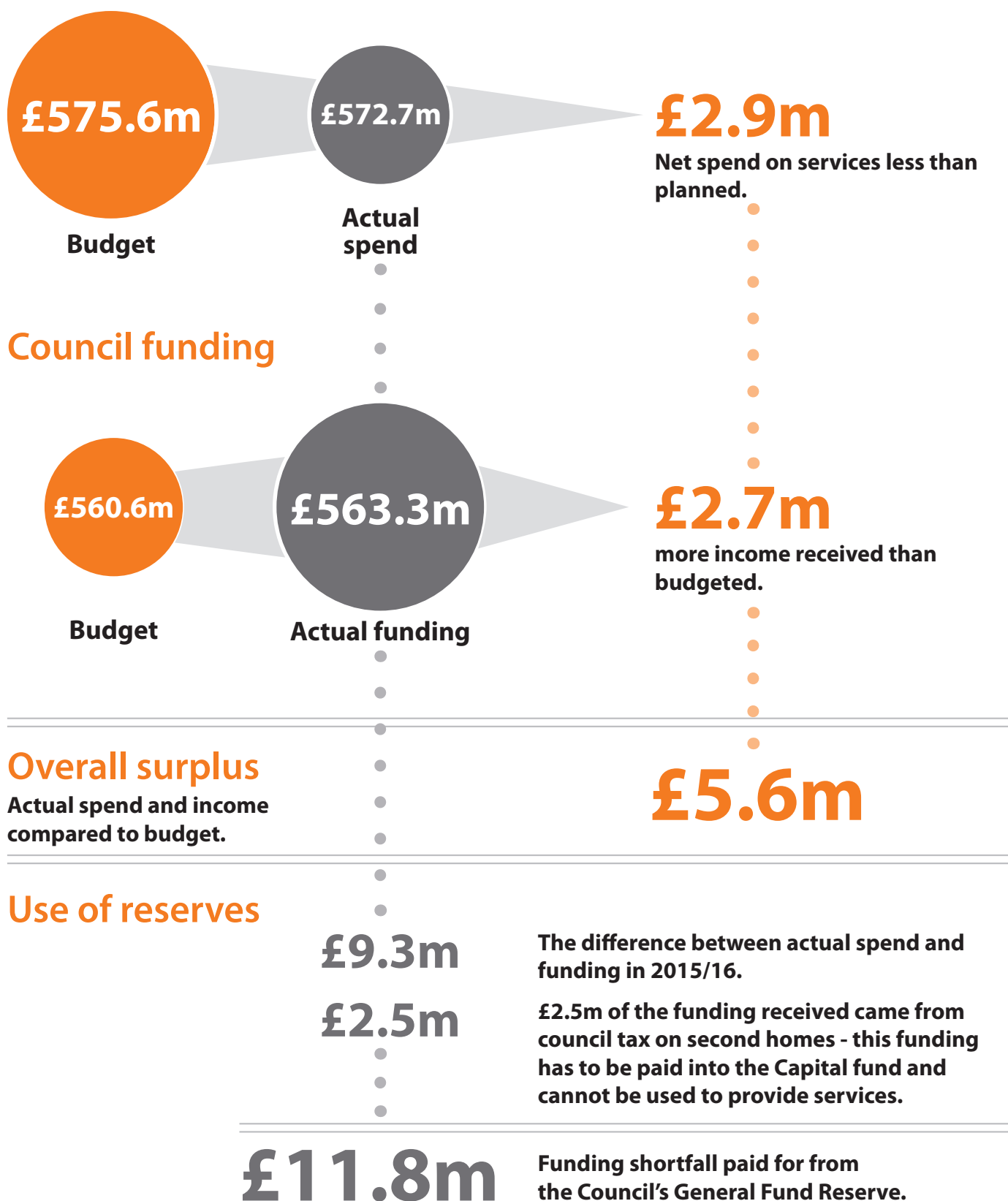


The Council's second Gaelic school opened in Fort William in March 2016. A contract has been awarded for the construction of a third Gaelic school, in Portree.

General Fund Revenue Outturn 2015/16

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. See note 19 to the accounts for more detail.

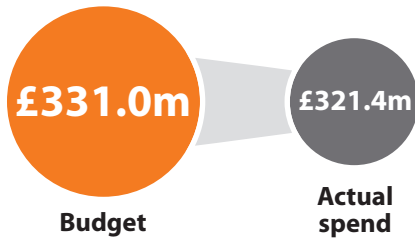
General fund service spend



Analysis of spend

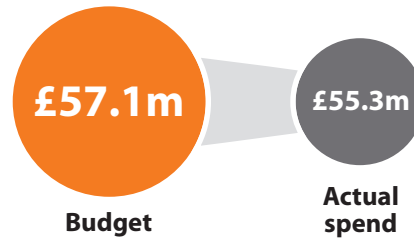
Staff costs

The cost of the Council's employees.



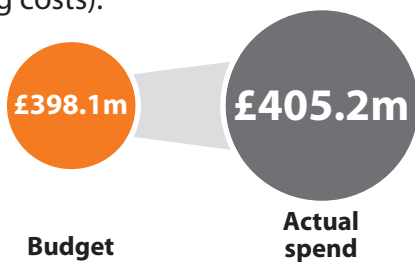
Financing costs

The cost of borrowing to finance capital investment.



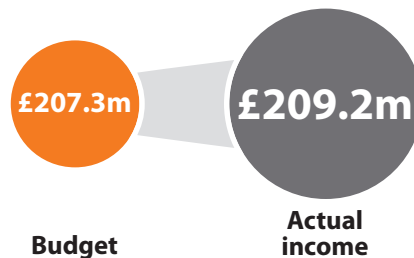
Other costs

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



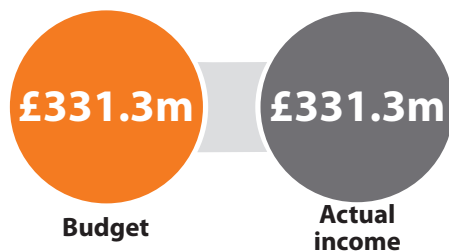
Service income

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

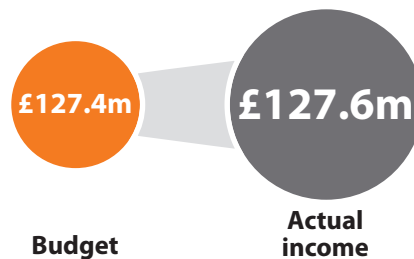


Council funding

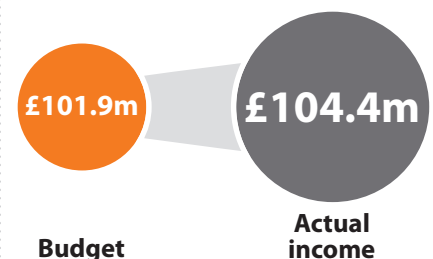
Revenue Support Grant



Non-Domestic Rates



Council Tax

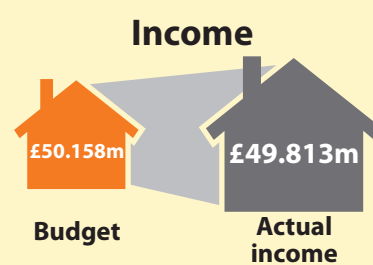
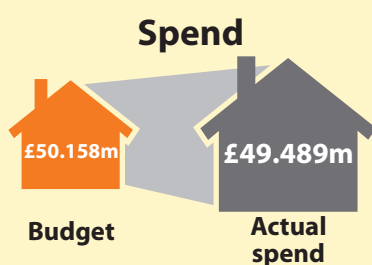


Funding direct from the Scottish Government.

Housing revenue account



The Council owns 13,900 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

£11.7m

(2014/15 £20.2m)

Funds held as a general contingency.

Capital Fund

£30.6m

(2014/15 £30.6m)

To buy land for affordable housing provision.

Insurance Fund

£2.7m

(2014/15 £2.8m)

Insurance for items not covered by external insurance policies.

General Fund Earmarked Reserve

£18.7m

(2014/15 £22.0m)

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

Renewal and Repair Fund

£1.7m

(2014/15 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2014/15 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£2.4m

(2014/15 £2.2m)

Capital receipts available to finance future capital expenditure.

Total Useable Reserves

£75.1m

(2014/15 £86.9m)

See notes 6 and 12 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. This is the first time the figure has been lower than 2.5%.

Use of useable reserves during the year

-£10.0m

To fund the one-off cost of 340 staff leaving under the voluntary redundancy scheme. This will deliver over £10m of recurring annual staff cost savings.

-£2.4m

Additional investment in roads.

+£5.6m

Service underspends and excess income in 2015/16 added into general fund non-earmarked reserve.

-£1.6m

Use of earmarked balances for their specific purposes.

-£3.4m

Planned as part of the 2015/16 budget to meet pay, pensions and other cost increases.

Capital Outturn 2015/16

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.

£119.1m

Actual capital spend in 2015/16 (excluding HRA).

£15.9m

Capital expenditure planned for 2015/16 but delayed until later years.

£1.6m

Overspend on capital projects delivered in the year.

Projects with the largest capital spend in 2015/16:

New Fort William primary schools

£13.3m



Investment in other school buildings

£27.7m



Investment in roads and bridges

£15.2m



New Inverness Royal Academy

£19.3m



Flood prevention schemes

£9.3m



Housing Revenue Account

£55.8m investment in housing stock in 2015/16



Assets and Liabilities

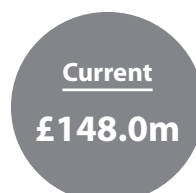
The Council's Balance Sheet shows its assets, liabilities and reserves. More information on its component parts can be seen in the notes to the accounts.

Total Assets

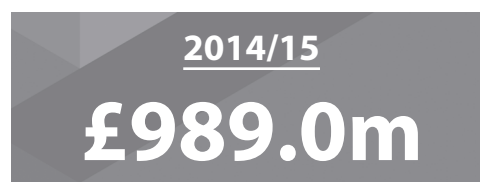


(increase in long term assets due to capital investment and asset revaluations)

Total Liabilities



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

£855.4m



Infrastructure assets

£365.3m



Other assets

£134.3m



Other land and buildings

£1,100.0m



From 2016/17 valuation of our infrastructure assets will change. A new 'Highways Network Asset' will be recognised which will add around £4,823m to the value of our assets.

Vehicles, plant and equipment

£58.1m



Liabilities

Borrowing

-£829.5m



Pensions liability

-£313.0m



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

Finance leases

-£122.0m



The outstanding borrowing for PPP schools.

Short term creditors

-£107.4m



Other liabilities

-£15.7m



9.66%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2014/15 9.95%).

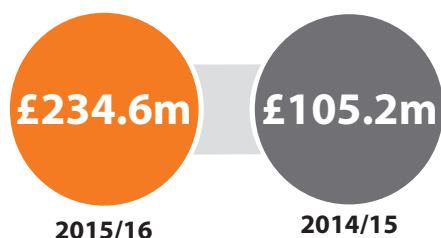
Group Accounts

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:



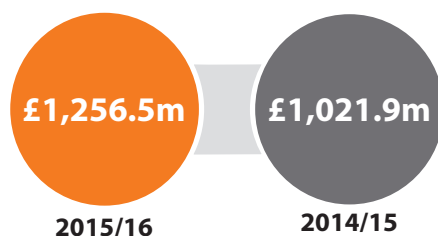
Key Group Financial Information

Total Comprehensive income and expenditure



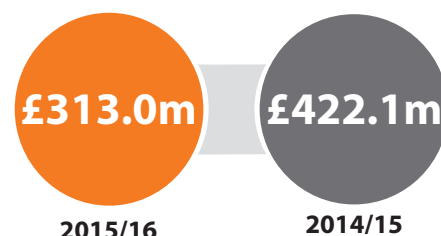
The overall change in total Group reserves calculated on an accounting basis.

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 2014/15

The latest year's Statutory Performance Indicators for 2014/15 demonstrate improved performance on the year. This is a positive report of improving performance overall. 74% of our Statutory Performance Indicators have improved by 5% or more in the year 2014/15 which compares to 54% 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 & Learning

- The cost per museum visit has reduced from **£2.32** to **£2.10**
- The number of offence based referrals to Scottish Children's Reporter Administration (SCRA) reduced from **417** to **343**
- The proportion of children on the child protection register who were previously registered has fallen from **5.31%** to **3.67%**

Community Services

- The average time to complete an emergency council house repair reduced from **14.5 hours** to **9.1 hours**
- The percentage of rent lost through time between tenancies (voids) reduced from **1.2%** to **0.9%**
- The number of Anti-social Behaviour cases reported and resolved increased from **67.5%** to **76.3%**
- The percentage of tenants satisfied with the quality of their

home increased from **70.9%** to **78.8%**

- The percentage of council house repairs completed at first visit increased from **73%** to **83%**
- The percentage of council housing at or above national energy efficiency ratings (NHER/SAP) increased from **75.7%** to **86.7%**
- The percentage of council housing meeting the Scottish Housing Quality Standards (SHQS) increased from **70.2%** to **85.2%**

Development & Infrastructure

- Asset management – the percentage of council buildings in acceptable condition increased from **58%** to **79.3%**
- The cost per archaeological consultation reduced from **£16.53** to **£14.42**

Finance and Corporate

- The cost per dwelling of collecting Council Tax reduced from **£14.22** to **£11.83**
- The percentage of women managers in the top 2% of

earners increased from **35.8%** to **40.2%**

Indicators that have shown a change of:



Care & Learning

- The percentage of adults satisfied with leisure facilities declined from **87%** to **77%**

Community Services

- The average time people are in temporary/emergency accommodation increased from **11 weeks** to **16 weeks**
- The average time taken to re-let council homes increased from **37.6 days** to **42 days**

Development & Infrastructure

- The percentage of unemployed people assisted into work reduced from **7.4%** to **6.56%**



Looking Ahead

Following difficult budget decisions in February 2016, the Council is facing significant reductions in staff and service budgets from the beginning of the 2016/17 financial year. The impacts of these reductions are not yet fully known but it is clear that former levels of service and performance are unsustainable. Further budget reductions are anticipated in view of uncertain future grant settlements. In view of these factors The Highland Council agreed on 24th March 2016 to undertake a complete redesign of the Council. This will be an inclusive process led by a Board of Members which will include the following:

- Renew the Council's purpose and ambition
- Renew the Council's priorities
- Develop proposals for affordable service and delivery options
- Explore the best options for public participation
- Take on board the views of a wide range of stakeholders, including the public, staff and partners

The Board is due to report to the meeting of The Highland Council in December 2016 on budget proposals, and in March 2017 on final proposals for service delivery. Implementation of the budget decisions would be from April 2017.

Risks, Uncertainties and Future Developments

Spending Review

It may not be until December 2016 that we know the level of funding we will receive from the Scottish Government for financial year 2017/18.

Long Term Planning

Uncertainty around government funding, particularly in light of the decision for Britain to leave the EU, makes it difficult for us to plan far ahead, other than knowing that we are likely to see our level of funding decreasing.

Council Tax

Although the Council Tax freeze is likely to end it seems likely that we would only be able to raise levels by a maximum of 3% if we chose to.

Cost Pressures

Our costs are likely to rise in future years through no control of our own, such as from the Apprenticeship Levy, a potential requirement for all primary school pupils to receive 25 weekly of hours education or external contract cost increases.

Delivery of Existing Savings

We have to deliver budget savings of over £35m in 2016/17 just to make our budget balance.

Reducing Workforce

The size of our workforce is reducing which means we have to change the way we work and the things we do.

Steve Barron

Chief Executive

29th September 2016

Margaret Davidson

Leader of the Council

29th September 2016

Derek Yule

Director of Finance

29th September 2016

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 29 September 2016.

Signed on behalf of Highland Council

Margaret Davidson

Leader of the Council
29 September 2016

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 2015/16 (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 2016.

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

Director of Finance
29 September 2016

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 and reflects the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework. The Council's financial management arrangements conform to the governance requirements included therein. The Local 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 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 2016 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

In 2016/17 a number of actions will be carried forward for completion under the revised code of governance: a review of performance management to align better with financial management is underway and the performance management team has moved to form a new Audit and Performance team that will undertake this work and strengthen arrangements in the future;

workforce plans have been put in place for all services but, as a result of the voluntary redundancy scheme - these will now need to be reviewed and aligned to the proposals emerging from the Council re-design; new arrangements for local communities have been put in place, as planned, however work is still needed to complete the arrangements for new local community planning arrangements in line with the requirements of the new Community Empowerment Act. The work now underway around the Council re-design will reconsider the organisational values and how they are applied to decision making within the organisation. These actions will be carried forward into the 2016/17 Code of Corporate Governance which will be reported to Council for approval in September 2016.

Following service re-design as a result of voluntary severance, the Internal Audit and Risk Management function has been combined with the Performance Management Team to create a new Audit and Performance team. This combined team is expected to enhance value for money work and provide a greater link between performance and financial management, linking with accountancy teams. There has, however, been a net reduction in the Internal Audit resource and this has been reflected in a revised audit plan which reflects the available staff resources. All regulatory and systems audits will continue, but other lower priority work will be undertaken less frequently. It is not expected that these changes will impact on the ability to provide an annual assurance statement.

2015/16 saw the successful introduction of a new Financial Management System, a significant project for staff within the Finance service. Over the course of the year a number of issues arose in terms of ensuring data was correct, reconciled timeously, and writing new reports for the year end accounts. All of these issues were resolved by year end and process improvements have been put in place to ensure there is no recurrence in future years.

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 and 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 and Director of Corporate Development has taken into account the results of reviews of internal control which 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 2015/16 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"

Internal Audit responsibilities in this regard were discharged through the presentation of the Statement of Internal Control and Annual Report 2015/16 to the Audit and Scrutiny Committee on 16 June 2016.

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 measures are already in place such as the policy framework which includes 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 will be undertaken during 2016/17 and an action plan will be produced to address any improvements that 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. There have been several examples of delays in obtaining information necessary to complete audit work and sign off final audit reports. A new Internal Audit reporting and escalation protocol was approved by the Executive Leadership Team and will come into effect from 30 May 2016. The protocol is designed to ensure that all audit matters, including action tracking, are dealt with in a timely manner.

The 2015/16 Statement of Internal Control and Annual report stated that a total of 164 audit recommendations were made and of these, 40 were classified as high grade. This number is significantly higher than in previous years (19 high grades in 2014/15) but 17 of the high grades come from the 3 audit reports on project governance (see the Significant Governance Issues section).

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 2016.

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

Significant Governance Issues

Internal Audit work undertaken during the year has highlighted particular issues with the governance of projects within the Council. Three reports were issued in this respect:

- The project to implement a new debt recovery system
- The capital project for the building of the new Ben Wyvis School
- Governance of Inverness Old Town Arts and Inverness City Arts Group

All of these reports had the audit opinion of "Limited Assurance". Action plans were agreed to address the areas of concern identified by Internal Audit and these will be followed up in the normal manner.

The Council has recognised that it needs to make improvements to how it manages and reports on major projects (for capital this is defined as projects with a value greater than £4m). All major capital projects are now reported separately to Resources Committee on a quarterly basis, indicating the total project cost and estimated timescale for completion. This reporting process still has to be refined, and the Council has to do more in updating costs on a regular basis, and reporting outcomes post completion. Major ICT projects are also reported to Resources Committee on a quarterly basis.

The Council has introduced a new Project Management Governance Policy. The policy provides a framework for accountability and responsibilities and ensuring that project decision making is robust, logical and that projects provide value to the organisation. It offers a mechanism for ensuring that accurate and appropriate project status reports are presented regardless of the Service running the project or the type of project.

Some issues arose with the new Financial Management System including the intercompany reconciliations and commitment accounting. The Goods Received not Invoiced accrual contained errors. Process improvements have been put in place to ensure there is no recurrence in future years.

The loss of a significant number of staff including senior managers following the implementation of the voluntary severance scheme poses a risk to service delivery including important controls. Applications were considered taking cognizance of service implications and the risk will be managed appropriately.

The Annual Internal Audit reports identified no significant weaknesses in the following group entities:

- Inverness and Nairn Common Good Funds
- Highland and Western Isles Valuation Joint Board
- Highland and Islands Transport Partnership
- High Life Highland

Margaret Davidson
Leader of the Council
29 September 2016

S Barron
Chief Executive
29 September 2016

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 for Scotland

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Funds Accounts, the Charitable, Education and Other Trust Funds Accounts and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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. In addition, I 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure 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 2015/16 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.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
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8 Nelson Mandela Place
Glasgow
G2 1BT

30 September 2016

REMUNERATION REPORT

Highland Council Remuneration Report

All information disclosed in paragraphs 1 and 3 below have been audited by Audit Scotland. The other sections of the Remuneration Report have been reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

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 2015/16 the remuneration for the Leader of Highland Council is £39,028. The regulations permit the Council to remunerate a Civic Head. The Civic Head role in Highland Council is the Convener in 2015/16. Remuneration for both the Civic Head and Convenor 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. £29,272. 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 yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £436,939 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 2015/16 for all councillors was £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 meetings on 31 May 2012: the report is available at http://www.highland.gov.uk/meetings/meeting/1236/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 Convenors and Vice-Convenors of Joint Boards for 2015/16

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.

2014/15			Senior Councillor Name	Responsibility	2015/16		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
28,982	-	28,982	Jimmy Gray	Convener of the Council to 11/6/15 (£29,272)	19,165	-	19,165
-	-	-	Isobel McCallum	Convener of the Council from 11/6/15 (£29,272)	26,832	-	26,832
38,642	1,908	40,550	Andrew Hendry	Leader of the Council to 18/5/15 (£39,028)	15,692	-	15,692
20,364	-	20,364	Margaret Davidson	Chair of Audit and Scrutiny Committee to 11.5.16 then Leader of the Council from 11/6/15 (£39,028)	35,439	-	35,439
28,982	-	28,982	David Alston	Depute Leader of the Council to 11/6/15 (£29,272)	19,165	-	19,165
-	-	-	Alasdair Rhind	Depute Leader of the Council from 11/6/15 (£29,272)	26,345	-	26,345
23,774	-	23,774	Carolyn Wilson	Leader of the Opposition to 11/6/15 (£25,222)	17,552	-	17,552
24,489	-	24,489	Maxine Smith	Chair of Resources Committee to 11/6/15 and Leader of the Opposition from 11/6/15 (£25,222)	25,222	-	25,222
-	-	-	Bill Fernie	Chair of Resources Committee from 11/6/15 (£25,222)	23,570	2,777	26,347
-	-	-	Alistair MacKinnon	Vice Chair of Resources Committee from 25/6/15 (£20,568)	19,672	-	19,672
24,972	249	25,221	Thomas Prag	Chair of Planning, Development and Infrastructure Committee to 11/6/15 (£25,222)	18,378	211	18,589

2014/15					2015/16		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
-	-	-	Audrey Sinclair	Chair of Planning, Development and Infrastructure Committee from 11/6/15 (£25,222)	23,570	1,831	25,401
20,364	2,423	22,787	George Farlow	Vice Chair of Planning, Development and Infrastructure Committee to 11/6/15 (£20,568)	17,473	1,858	19,331
-	-	-	Matthew Reiss	Vice Chair of Planning, Development and Infrastructure Committee from 11/6/15 (£20,568)	19,672	1,530	21,202
17,442	214	17,656	Graham Philips	Vice Chair of Audit and Scrutiny Committee from 11/6/15. (£25,222)	17,480	108	17,588
24,489	80	24,569	Graham MacKenzie	Chair of Community Services Committee to 11/6/15 (£25,222)	18,378	106	18,484
-	-	-	Allan Henderson	Chair of Community Services Committee from 11/6/15 (£25,222)	23,570	2,660	26,230
20,364	-	20,364	Elizabeth McAllister	Vice Chair of Community Services Committee to 11/6/15 (£20,568)	17,473	-	17,473
-	-	-	Richard Greene	Vice Chair of Community Services Committee from 25/6/15 (£20,568)	19,672	-	19,672
24,972	-	24,972	Alasdair Christie	Chair of Education, Children and Adult Services Committee to 11/6/15 (£25,222)	18,378	-	18,378

2014/15					2015/16		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
18,769	-	18,769	Andrew Millar	Chair of Community Safety, Public Engagement and Equalities Committee (£20,568) until 25/6/15 then Chair of Education, Children and Adult Services Committee from 11/6/15 (£25,222)	23,570	-	23,570
-	-	-	Fiona Robertson	Vice Chair of Education, Children and Adult Services Committee from 25/6/15 (£20,568)	19,672	-	19,672
-	-	-	Isabelle Campbell	Vice Chair of Education, Children and Adult Services Committee from 25/6/15 (£20,568)	19,672	-	19,672
-	-	-	Richard Laird	Chair of Audit and Scrutiny Committee from 11/6/15 (£25,222)	20,734	-	20,734
17,442	371	17,813	David Fallows	Chair of Pensions Committee to 11.6.15 (£25,222)	-	-	-
24,972	1,349	26,321	Hamish Fraser	Chair of Gaelic Implementation Group and Leader Skye, Ross and Cromarty and also Chair of Communities and Partnership Committee from 21/1/16 (£25,222)	25,222	1,229	26,451
-	-	-	Angela McLean	Vice Chair of Communities and Partnership Committee from 21/1/16 (£20,568)	17,473	270	17,743
20,364	2,703	23,067	Linda Munro	Champions' Coordinator and Children's Champion (£20,568) ceased 25/6/15	-	-	-

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2014/15					2015/16		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
-	-	-	Ian Cockburn	Chair of Licensing Committee (and Chair of Licensing Board) from 11/6/15 (£20,568)	19,821	-	19,821
24,972	-	24,972	Ian Brown	Leader Inverness City and Area to 25/6/15 (£25,222)	18,708		18,708
20,702	-	20,702	Helen Carmichael	Convener of Highland and Western Isles Joint Board to 16/9/15 and Leader Inverness City and Area from 25/6/15 (£20,909)	22,287	-	22,287
24,972	3,197	28,169	Deirdre Mackay	Leader Caithness and Sutherland (£25,222) ceased 31/10/15	21,659	1,134	22,793
24,972	-	24,972	Elizabeth MacDonald	Leader Nairn Badenoch and Strathspey (£25,222) ceased 31/10/15	21,659	-	21,659
24,972	-	24,972	Thomas MacLennan	Leader Lochaber Area Committee (£25,222) ceased 21/1/16	23,555	-	23,555
-	-	-	Ken Gowans	Convener of Highland and Western Isles Joint Board from 17/9/15 (£20,909)	16,726	-	16,726

Full year equivalent salary is shown in brackets.

Where Highland Council members hold senior positions on related Joint Boards their costs have been recharged as follow:

2014/15					2015/16		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Councillor	Board Recharged	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
4,142	-	4,142	Helen Carmichael (£20,702)	Convener of Highland and Western Isles Valuation Joint Board to 16/9/15	1,929	-	1,929
-	-	-	Ken Gowans (£18,814)	Convener of Highland and Western Isles Valuation Joint Board from 17/9/15	2,254	-	2,254

Full year equivalent salary is shown in brackets

Four Highland councillors also sit on the Board of High Life Highland however these are non-remunerated positions.

Members' allowances and expenses

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

2014/15 £000		2015/16 £000
1,477	Remuneration	1,480
224	Travel and Subsistence	247
36	All other expenses	37
1,737	Total	1,764

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/144 sets the amount of salary for the Chief Executive of Highland Council for the period 2008 to 2016. 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.

2014/15				2015/16	
Salary, fees and allowances	Total Remuneration	Senior Employee	Position	Salary, fees and allowances	Total Remuneration
£	£	£		£	£
158,421	158,421	Steve Barron	Chief Executive** (£145,068)	155,878	155,878
118,325	118,325	Michelle Morris	Depute Chief Executive & Director of Corporate Development (£120,097)	120,097	120,097
107,568	107,568	William Alexander	Director of Care & Learning (£109,179)	109,179	109,179
107,568	107,568	Stuart Black	Director of Development & Infrastructure (£109,179)	109,179	109,179
107,568	107,568	William Gilfillan	Director of Community Services (£109,179)	109,179	109,179
107,568	107,568	Derek Yule	Director of Finance (£109,179)	109,179	109,179
53,990	53,990	Hugh Fraser	Director of Education, Culture and Sport to 30.09.14	-	-
79,581	79,581	Ian Murray	Chief Executive, High Life Highland (£84,220)	84,220	84,220
73,728	73,728	Carron McDiarmid	Head of Policy and Reform (£74,838)*	74,838	74,838
45,828	45,828	Ruth Cleland	Corporate Communications Manager (£47,884)*	47,884	47,884

Full year equivalent salary shown in brackets

No taxable expenses were paid in 2015/16 or 2014/15.

No Compensation for Loss of Office payments were made in 2015/16 or 2014/15.

*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.

** 2014/15: includes £8,645 (75%) paid to the Chief Executive in his role as Counting Officer for the Referendum on Scottish Independence; £234 paid in his role as Returning Officer for a local by-election; and £6,616 paid in his role as Returning Officer for the European Election.

2015/16: 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.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2015/16	2014/15
50,000 - 54,999	150	154
55,000 - 59,999	69	51
60,000 - 64,999	18	21
65,000 - 69,999	21	5
70,000 - 74,999	27	15
75,000 - 79,999	3	-
80,000 - 84,999	1	-
95,000 - 99,999	2	-
100,000 - 104,999	2	-
105,000 - 109,999	4	4
110,000 - 114,999	1	-
115,000 - 119,999	-	1
120,000 - 124,999	1	-
140,000 - 144,999	-	1
145,000 - 149,999	1	-

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. Included in the 2015/16 figures are 284 employees who were members of the Highland Council Pension Fund (2014/15). The gross actuarial cost of these exit packages is £15.007m (2014/15 £0.536m) and the net savings from these severance packages, on an actuarial basis are £42.514m (2014/15 £1.553m).

2014/15			2015/16	
Number of Employees	Total Cost £	Cost Band	Number of Employees	Total Cost £
12	70,245	£0 - £20,000	135	1,455,403
1	31,007	£20,001 - £40,000	96	2,803,132
1	52,079	£40,001 - £60,000	53	2,576,947
1	65,414	£60,001 - £80,000	39	2,661,497
1	81,351	£80,001 - £100,000	14	1,216,049
1	103,881	£100,001 - £150,000	27	3,249,313
3	493,685	£150,001 - £200,000	19	3,181,482
-	-	£200,001 - £250,000	4	924,958
20	897,662	Total	387	18,068,781

A Voluntary Redundancy Scheme (VRS) was launched on 21 December 2015 with a closing date of 29 January 2016. At the Council meeting on 21 December 2015 the Chief Executive and Director of Finance were given delegated authority to approve or refuse straightforward applications, with the applications exceeding a three year payback being presented to the Employment Release Sub Committee (ERSC).

The full year staffing cost saving that will be delivered by the scheme is £10.860m. This saving reflects the staffing cost of 340 staff members leaving under the scheme.

A corporate savings target from the VRS of £5.900m was agreed by the Council as part of its 2016/17 revenue budget. This figure reflects the net saving target required from VRS once the savings from the staff relating to service specific savings, savings from "bumped redundancies", and adjustments from service restructurings are taken into account.

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 Convenor. Most other Senior Councillors were appointed at Council on 11 June 2015.

The Senior Councillor posts held in the Council are:

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

ii) Senior Employees

The Head of Service Appointments Panel comprises 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 2015/16 contribution tiers and rates are as follows:

Whole time 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%

2014/15 contribution tiers and rates

Whole time pay	Contribution rate 2014/15
On earnings up to and including £20,335	5.50%
On earnings above £20,335 and up to £24,853	7.25%
On earnings above £24,853 and up to £34,096	8.50%
On earnings above £34,096 and up to £45,393	9.50%
On earnings above £45,393	12.00%

In 2015/16 the employer's contribution rate is 18.50% of pensionable pay.

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

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 final pensionable salary and years of pensionable service. (Prior to 31st March 2015 the accrual rate guaranteed a pension based on 1/60th and a lump sum based on 3/60th of final pensionable salary and years of pensionable service).

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 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 2016 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

Name	Responsibility	Pension Contributions in year to				
		31/03/16	31/03/15		Accrued Pension Benefits as at 31/03/16	Difference from 31/03/15
		£	£		£000	£000
Isobel McCallum	Convener of the Council from 11/6/15	4,768	-	Pension: Lump Sum:	4 1	- -
Andrew Hendry	Leader of the Council to 18/5/15	2,010	6,950	Pension: Lump Sum:	12 26	1 -
Margaret Davidson	Chair of Audit and Scrutiny Committee to 11/5/16 then Leader of the Council from 11/6/15	6,268	3,662	Pension: Lump Sum:	4 2	1 -
David Alston	Depute Leader of the Council to 11/6/15	3,735	5,212	Pension: Lump Sum:	4 2	- -
Alasdair Rhind	Depute Leader of the Council from 11/6/15	4,678	-	Pension: Lump Sum:	3 1	- -
Carolyn Wilson	Leader of the Opposition to 11/6/15	3,309	4,339	Pension: Lump Sum:	4 2	1 -
Maxine Smith	Chair of Resources Committee to 11/6/15 and Leader of the Opposition from 11/6/15	4,662	4,336	Pension: Lump Sum:	1 -	- -
Bill Fernie	Chair of Resources Committee from 11/6/15	4,227	-	Pension: Lump Sum	4 2	- -
Thomas Prag	Chair of Planning, Development and Infrastructure Committee to 11/6/15	3,527	4,491	Pension: Lump Sum	3 2	- 1
Audrey Sinclair	Chair of Planning, Development and Infrastructure Committee from 11/6/15	4,227	-	Pension: Lump Sum	1 -	- -
George Farlow	Vice Chair of Planning, Development and Infrastructure Committee to 11/6/15	3,289	3,662	Pension: Lump Sum	3 2	1 1
Matthew Reiss	Vice Chair of Planning, Development and Infrastructure Committee from 11/6/15	3,577	-	Pension: Lump Sum	1 -	- -
Graham Philips	Vice Chair of Audit and Scrutiny Committee from 11.6.15.	3,281	3,262	Pension: Lump Sum	2 -	1 -

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Name	Responsibility	Pension Contributions in year to				
		31/03/16	31/03/15		Accrued Pension Benefits as at 31/03/16	Difference from 31/03/15
		£	£		£000	£000
Graham MacKenzie	Chair of Community Services Committee to 11/6/15	3,527	4,336	Pension: Lump Sum	2 -	- -
Allan Henderson	Chair of Community Services Committee from 11/6/15	4,227	-	Pension: Lump Sum	3 1	- -
Elizabeth McAllister	Vice Chair of Community Services Committee to 11/6/15	3,289	3,662	Pension: Lump Sum	3 2	1 1
Alasdair Christie	Chair of Education, Children and Adult Services Committee to 11/6/15	3,527	4,491	Pension: Lump Sum	3 -	1 -
Andrew Millar	Chair of Community Safety, Public Engagement and Equalities Committee until 25/6/15 then Chair of Education, Children and Adult Services Committee from 11/6/15	4,227	3,432	Pension: Lump Sum	4 3	1 1
Fiona Robertson	Vice Chair of Education, Children and Adult Services Committee from 25/6/15	3,577	-	Pension: Lump Sum	2 -	- -
Isabelle Campbell	Vice Chair of Education, Children and Adult Services Committee from 25/6/15	3,577	-	Pension: Lump Sum	3 1	- -
David Fallows	Chair of Pensions Committee to 11.6.15.	3,092	3,262	Pension: Lump Sum	3 2	1 -
Hamish Fraser	Chair of Gaelic Implementation Group and Leader Skye, Ross and Cromarty then Chair of Communities and Partnership Committee from 21/1/16	4,662	4,491	Pension: Lump Sum	1 -	- -
Angela McLean	Vice Chair of Communities and Partnership Committee from 21/1/16	3,289	-	Pension: Lump Sum	3 1	- -
Linda Munro	Champions' Coordinator and Children's Champion (£20,568) until 25/6/15	3,314	3,662	Pension: Lump Sum	3 1	1 -
Ian Brown	Leader Inverness City and Area to 25/6/15	3,588	4,491	Pension: Lump Sum	4 2	2 -

Name	Responsibility	Pension Contributions in year to				
		31/03/16	31/03/15		Accrued Pension Benefits as at 31/03/16	Difference from 31/03/15
		£	£		£000	£000
Helen Carmichael	Convener of Highland and Western Isles Valuation Joint Board to 16/9/15 and Leader Inverness City and Area from 25/6/15	4,410	3,723	Pension: Lump Sum	4 2	1 -
Elizabeth MacDonald	Leader Nairn Badenoch and Strathspey ceased 31/10/15	4,134	4,491	Pension: Lump Sum	5 7	1 -
Thomas MacLennan	Leader Lochaber Area Committee Ceased 21/1/16	4,485	4,491	Pension: Lump Sum	2 -	1 -
Ken Gowans	Convener of Highland and Western Isles Joint Board from 17/9/15	3,444	-	Pension: Lump Sum	1 -	- -
	Total	111,927	80,446	Pension: Lump Sum:	92 62	15 4

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 2016 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31/03/16	Difference from 31/03/16
		31/03/16	31/03/15			
		£	£		£000	£000
Steve Barron	Chief Executive	26,838	25,727	Pension: Lump Sum:	58 120	4 1
Michelle Morris	Depute Chief Executive and Director of Corporate Development	22,218	21,298	Pension: Lump Sum:	39 74	3 1
William Alexander	Director of Care and Learning	20,198	19,362	Pension: Lump Sum:	52 115	3 1
Stuart Black	Director of Development and Infrastructure	20,198	19,362	Pension: Lump Sum:	45 96	3 2
William Gilfillan	Director of Community Services	20,198	19,362	Pension: Lump Sum:	40 80	3 1
Derek Yule	Director of Finance	20,198	19,362	Pension: Lump Sum:	52 117	3 1
Ian Murray	Chief Executive, High Life Highland	15,581	14,935	Pension: Lump Sum:	39 85	3 1
Carron McDiarmid	Head of Policy and Reform	13,845	13,271	Pension: Lump Sum:	29 61	1 -
Ruth Cleland	Corporate Communications Manager	8,859	5,128	Pension: Lump Sum:	1 -	1 -
	Total	168,133	157,807	Pension: Lump Sum	355 748	24 8

Margaret Davidson
Leader of the Council
29 September 2016

Steve Barron
Chief Executive
29 September 2016

MOVEMENT IN RESERVES STATEMENT 2014/15

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 Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase/Decrease before Transfer to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the 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 Reserves £000
Balance at 31 March 2014	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670
Movement in reserves during 2014/15									
Surplus/(deficit) on provision of services (accounting basis)	5,882	4,252	-	-	-	-	10,134	-	10,134
Other comprehensive income and expenditure	-	-	-	-	-	-	-	96,159	96,159
Total comprehensive income and expenditure	5,882	4,252	-	-	-	-	10,134	96,159	106,293
Adjustments between accounting basis and funding basis under regulations (note 5)	(2,196)	(4,252)	317	-	-	-	(6,131)	6,131	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,686	-	317	-	-	-	4,003	102,290	106,293
Transfers to/from other statutory reserves	(1,786)	-	-	42	375	(1,072)	(2,441)	2,441	-
Increase/(decrease) in 2014/15	1,900	-	317	42	375	(1,072)	1,562	104,731	106,293
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 STATEMENT 2015/16

	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									
Surplus/(deficit) on provision of services (accounting basis)	(23,497)	11,049	-	-	-	-	(12,448)	-	(12,448)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	247,661	247,661
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

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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movements in Reserves Statement.

Gross Expenditure £000	2014/15 (restated) Gross Income £000	Net Expenditure £000		Note	2015/16		
					Gross Expenditure £000	Gross Income £000	Net Expenditure £000
274,558	(10,030)	264,528	Education services		265,572	(9,772)	255,800
71,113	(62,913)	8,200	Housing services		69,748	(61,904)	7,844
43,121	(48,183)	(5,062)	Council Housing – Housing Revenue Account		37,004	(49,751)	(12,747)
32,808	(3,278)	29,530	Cultural and related services		37,229	(2,368)	34,861
73,005	(27,025)	45,980	Environmental services		60,692	(25,046)	35,646
84,311	(42,649)	41,662	Roads and transport services		84,535	(37,589)	46,946
18,955	(11,444)	7,511	Planning and development services		24,465	(11,814)	12,651
155,305	(13,203)	142,102	Social work services		159,220	(13,370)	145,850
16,327	(16,707)	(380)	Central Services to the public		25,425	(8,006)	17,419
			Joint board requisitions				
2,258	-	2,258	Highland and Western Isles Valuation Joint Board		2,329	-	2,329
91	-	91	Highland and Islands Transport Partnership		91	-	91
10,450	(70)	10,380	Corporate and democratic core	7	8,388	(68)	8,320
3,615	-	3,615	Non Distributed Costs	8	7,409	-	7,409
785,917	(235,502)	550,415	Cost of services carried forward		782,107	(219,688)	562,419

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

Gross Expenditure £000	2014/15 (restated)	Net Expenditure £000		Note	2015/16		
	Gross Income £000				Gross Expenditure £000	Gross Income £000	Net Expenditure £000
785,917	(235,502)	550,415	Cost of services brought forward		782,107	(219,688)	562,419
		1,388	Other operating expenditure	9			3,951
		62,210	Financing and investment income and expenditure	10			58,856
		(624,147)	Taxation and non-specific grant Income	11			(612,778)
		(10,134)	Deficit/(surplus) on provision of services				12,448
		(91,539)	Surplus on revaluation of non-current assets				(114,792)
		(4,620)	Remeasurements of the net defined liability				(132,869)
		(96,159)	Other comprehensive income and expenditure				(247,661)
		(106,293)	Total comprehensive income and expenditure				(235,213)

Note 19 (Amounts reported for resource allocation decisions) reconciles the General Fund Services outturn to the cost of services.

2014-15 comparatives were restated following a review of the allocation of Gross Income and Expenditure across the headings in the Comprehensive Income and Expenditure Statement. The significant movements were as follows: Social Work, Culture & Leisure and Environmental Services net expenditure increased by £2.945m, £1.443m and £4.281m respectively. Education Services and Roads & Transport net expenditure decreased by £7.052m and £1.405m respectively.

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'.

31/03/15 £000 (restated)		Notes	31/03/16 £000
2,235,455	Property, plant and equipment	28	2,454,108
8,537	Heritage assets	35	8,536
1,118	Long term investments	36	624
45,417	Long term debtors (net of impairment)	38	49,878
2,290,527	Long term assets		2,513,146
632	Short term intangible assets	32	731
22,038	Short term investments	45	19,298
3,271	Inventories	37	3,964
42,923	Short term debtors	39	43,186
42,784	Cash and cash equivalents	45	30,320
3,914	Assets held for sale	33	1,210
115,562	Current assets		98,709
(44,592)	Short term borrowing	45	(118,309)
(94,091)	Short term creditors	40	(107,379)
(1,364)	Provisions	41	(4,078)
(7,919)	Capital Grant Receipts in Advance		(13,276)
(147,966)	Current liabilities		(243,042)
(726,971)	Long term borrowing	45	(711,235)
(542,189)	Other long term liabilities	42	(433,402)
(1,269,160)	Long term liabilities		(1,144,637)
988,963	Net assets		1,224,176

BALANCE SHEET (CONTINUED)

31/03/15 £000		Notes	31/03/16 £000
2,202	Capital Receipts Reserve		2,407
1,711	Renewal and Repair Fund		1,670
30,631	Capital Fund		30,550
2,784	Insurance Fund		2,706
42,240	General Fund		30,410
7,328	Housing Revenue Account		7,328
<u>86,896</u>	Usable reserves	12	<u>75,071</u>
438,165	Revaluation Reserve		545,550
(418,069)	Pensions Reserve		(313,027)
922,107	Capital Adjustment Account		952,287
(31,052)	Financial Instruments Adjustment Account		(29,028)
(9,084)	Employee Statutory Adjustment Account		(6,677)
<u>902,067</u>	Unusable reserves	13	<u>1,149,105</u>
<u>988,963</u>	Total reserves		<u>1,224,176</u>

The unaudited Annual Accounts were issued on 29 June 2016 and the audited Annual Accounts were authorised for issue on 29 September 2016.

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

Director of Finance

29 September 2016

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.

2014/15		Notes	2015/16
£000			£000
10,134	Net surplus/(deficit) on the provision of services		(12,448)
105,354	Adjust net surplus/(deficit) on the provision of services for non-cash movements	14	130,378
(66,059)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11	(49,520)
<u>49,429</u>	Net cash inflow from operating activities		<u>68,410</u>
(135,214)	Investing activities	16	(185,425)
87,060	Financing activities	17	104,551
<u>1,275</u>	Net increase or decrease in cash and cash equivalents		<u>(12,464)</u>
41,509	Cash and cash equivalents at 1 April 2015		42,784
<u>42,784</u>	Cash and cash equivalents at 31 March 2016	18	<u>30,320</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 2015/16 and its financial position at 31 March 2016. 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 2015/16 (The Code) and the Service reporting code of practice for local authorities 2015/16 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 Board'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 second 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

Services, support services and trading account 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 Education 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 Non-Distributed Costs.
- 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.

However, the Council has made a number of loans at less than market rates (soft loans) in support of policy objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain 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.

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.

Overheads and support services

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

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

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

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 £500,000 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.

No depreciation is charged in the year of acquisition but a full year's depreciation is charged in the year of disposal.

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.

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.

- The core collections of the Highland Folk Museum, an open air living facility, number circa 10,000 items, mainly representing Highland rural culture from the 1700s to the present day. These items of vernacular, social, personal, domestic and working life origin range from furniture to farm machinery. The museum's interpretation programs are further aided by similarly themed non-accessioned 'working collections' of indeterminate number, specifically acquired for practical, often hands on interpretive use.
- The Inverness Museum and Art Gallery collections are mixed, representing both the natural and human history of Inverness and the Highlands. In addition to an indeterminate number of archaeological finds, there are in excess of 9,000 items relating to social and domestic history, textiles and costumes, arms and armour, trades and crafts, Jacobites, maps, archives and paper ephemera, fine art, numismatic and applied art. There are a further circa 35,000 natural sciences specimens, mineralogy, palaeontology, invertebrate zoology, vertebrate zoology and botany items. The museum also holds a bust of Sir John Gordon by Edme Bouchardon, which has an insurance value of £1.4m.

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 two PFI 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 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 43 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 13.

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

Amendments to the following accounting standards will be adopted within the 2016/17 Code effective from 1 April 2016. There is therefore no impact on the 2015/16 financial statements.

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2011 – 2013 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

The issues included in the Annual Improvements to IFRSs 2011-2013 cycle are:

- IFRS 3 Business Combinations (Accounting for contingent consideration in a business combination)
- IFRS 8 Operating Segments (Aggregation of operating segments, and reconciliation of the total of the reportable segments' assets to the entity's assets)
- IFRS 13 Fair Value Measurement (Short term receivables and payables)
- IAS 16 Property, Plant and Equipment (Revaluation method – proportionate restatement of accumulated depreciation)
- IAS 24 Related Party Disclosures (Key management personnel)
- IAS 38 Intangible Assets (Revaluation method – proportionate restatement of accumulated depreciation)

The issue included in the Annual Improvements to IFRSs 2012-2014 cycle are:

- IFRS 5 Non-current Assets held for and Sale and Discontinued Operations (Changes in methods of disposal)
- IFRS 7 Financial Instruments: Disclosures (Servicing contracts)

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

Highways Network Assets are to be recognised as a separate class of Property, Plant and Equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements, in accordance with the CIPFA Code of Practice on Transport Infrastructure Assets and the recognition, measurement and disclosure requirements of section 4.1 of the Code. The estimated effect of this would be to increase net assets on the balance sheet by £4.823bn, with a corresponding increase in total Unusable Reserves.

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. 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 2016 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 £2.7m for every year that useful lives had to be reduced.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provisions	The Council has made a provision of £0.358m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase or decrease over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would have the effect of increasing or reducing the provision needed by £0.036m.
Arrears	At 31 March 2016 the Council had a balance of sundry debtors of £14.970m. A review of balances suggested that an allowance for impairment of £3.445m 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 24.
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.	<p>The indexation adjustment includes an efficiency factor which for 2015/16 resulted in indexation being applied to approximately 85% of the Unitary Charge.</p> <p>If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £22,855 in 2015/16.</p>
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.	<p>The indexation adjustment applies to 48% of the Unitary Charge as per the terms of the Project Agreement.</p> <p>If RPIX should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £97,579 in 2015/16.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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.</p> <p>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).</p> <p>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.

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 Statetment	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)	-

2014/15	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 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	57,812	15,312	-	73,124	(73,124)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(59,692)	(10,387)	-	(70,079)	70,079	-
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 Statetment	1,267	2,406	-	3,673	(3,673)	-
Revenue expenditure funded by capital	3,699	-	-	3,699	(3,699)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(28,240)	(7,034)	-	(35,274)	35,274	-
Repayment of Finance Lease Creditors	(3,575)	-	-	(3,575)	3,575	-
Capital expenditure charged against the General Fund and HRA balances	(250)	(4,198)	-	(4,448)	4,448	-
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	(478)	(1,807)	2,285	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,968)	(1,968)	1,968	-

2014/15

	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	(1,507)	(516)	-	(2,023)	2,023	-
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	50,104	3,457	-	53,561	(53,561)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(21,722)	(1,499)	-	(23,221)	23,221	-
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	306	14	-	320	(320)	-
Total adjustments 2014/15	(2,196)	(4,252)	317	(6,131)	6,131	-

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 2015/16. The decrease in General Fund of £14.394m (2014/15 - £1.900m increase) comprises a decrease in earmarked balances of £6.650m (2014/15 - £1.165m) and decrease in non-earmarked balances of £7.744m (2014-15 -£3.065m increase) .

	Balance at 1/04/14	Transfers out	Transfers in	Interest on balances	Balance at 31/03/15	Transfers out	Transfers in	Interest on balances	Balance at 31/03/16
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Developer's Contributions	-	(146)	2,150	13	2,017	(541)	622	13	2,111
Strategic Change and Development Fund	4,628	(1,138)	1,010	21	4,521	(4,456)	2,319	24	2,408
NHS Adult Care	3,500	(3,500)	-	-	-	-	-	-	-
IT Investment Fund	2,797	(604)	400	7	2,600	(1,869)	776	6	1,513
Devolved School Management	1,829	-	764	-	2,593	(500)	1,520	-	3,613
Grants and match funding	1,768	(610)	340	-	1,498	(438)	50	5	1,115
Business Rates Incentivisation Scheme	1,306	-	-	5	1,311	(940)	-	6	377
Road Maintenance 2014-15	1,250	(1,990)	740	-	-	-	-	-	-
Welfare Issues	1,166	(32)	-	5	1,139	(486)	-	3	656
Community Challenge Fund	1,005	(500)	-	4	509	(511)	-	2	-
Additional Support Needs	1,000	(1,000)	-	-	-	-	-	-	-
Pathfinder	823	(293)	-	3	533	(447)	1,751	2	1,839
Central Energy Efficiency Fund	730	(56)	-	3	677	(315)	-	3	365
Police Funding	722	-	-	-	722	(722)	-	-	-
Spend to Save Fund	530	-	-	-	530	(530)	-	-	-
Inverness Royal Academy Extension	152	-	-	1	153	-	-	-	153
Winter Maintenance	-	-	1,000	-	1,000	(1,007)	3	4	-
Discretionary Housing Payments	-	-	172	-	172	(162)	-	-	10
Badaguish Outdoor Centre	-	-	454	-	454	-	-	2	456
Early Years Investment Fund	-	-	1,126	-	1,126	(1,131)	-	5	-
Walks to Water	-	-	124	-	124	-	-	1	125
Developing the Young Workforce	-	-	362	-	362	(289)	323	2	398
Citizens Advice Bureaux Transitional	-	-	-	-	-	-	102	-	102
Council Redesign	-	-	-	-	-	-	150	-	150
Voluntary Redundancy	-	-	-	-	-	-	3,366	-	3,366
Total	23,206	(9,869)	8,642	62	22,041	(14,344)	10,982	78	18,757

7. Comprehensive Income and Expenditure Statement – Corporate and democratic core costs

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

2014/15 Net £000		2015/16 Expenditure £000	Income £000	Net £000
6,798	Democratic representation and management	7,303	(68)	7,235
3,582	Corporate management	1,085	-	1,085
<u>10,380</u>	Total	<u>8,388</u>	<u>(68)</u>	<u>8,320</u>

8. Comprehensive Income and Expenditure Statement – Non distributed costs

Non distributed costs are excluded from individual services and comprise:

2014/15 £000		2015/16 £000
2,821	Pension fund charges for added years and early retirement	2,483
810	Pension fund past service contributions	3,366
(16)	Depreciation of non-operational properties	1,560
<u>3,615</u>		<u>7,409</u>

9. Comprehensive Income and Expenditure Statement – Other operating expenditure

2014/15 £000		2015/16 £000
<u>1,388</u>	Losses on the disposal of non-current assets	<u>3,951</u>

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

2014/15 £000		2015/16 £000
(96)	Gains on trading operations (note 20)	(1,113)
46,332	Interest payable and similar charges	46,805
16,358	Pensions net interest expense	13,613
(384)	Interest and investment income	(449)
<u>62,210</u>		<u>58,856</u>

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

2014/15 £000		2015/16 £000
(331,930)	Revenue support grant	(331,287)
(101,626)	Council tax income	(104,358)
(124,211)	Non-Domestic rates	(127,613)
(66,380)	Capital grants and contributions	(49,520)
<u>(624,147)</u>		<u>(612,778)</u>

12. Balance Sheet – usable reserves

31/03/15 £000		31/03/16 £000
2,202	Capital Receipts Reserve (a)	2,407
1,711	Renewal and Repair fund (b)	1,670
30,631	Capital fund (c)	30,550
2,784	Insurance fund (d)	2,706
42,240	General fund	30,410
7,328	Housing Revenue account	7,328
<u>86,896</u>		<u>75,071</u>

(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 2015	30,631
Transferred from General Fund	2,373
Transferred from HRA	324
Transferred to Capital Adjustment account	(2,778)
Balance at 31 March 2016	30,550

(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 the risks of storm, flood, burst pipes and malicious damage.

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

13. Balance Sheet – unusable reserves

31/03/15 £000		31/03/16 £000
438,165	Revaluation Reserve (a)	545,550
922,107	Capital Adjustment Account (b)	952,287
(31,052)	Financial Instruments Adjustment Account (c)	(29,028)
(418,069)	Pensions Reserves (d)	(313,027)
(9,084)	Employee Statutory Adjustment Account (e)	(6,677)
902,067		1,149,105

(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.

2014/15 £000		£000	2015/16 £000
353,235	Balance at 1 April 2015		438,165
120,188	Upward revaluation of assets	142,405	
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of services	(27,612)	
(28,649)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		114,793
91,539	Difference between fair value depreciation and historical cost depreciation	(6,739)	
(6,282)	Accumulated gains on assets sold or scrapped	(669)	
(327)	Amount written off to the Capital Adjustment Account		(7,408)
(6,609)			
438,165	Balance at 31 March 2016		545,550

(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.

2014/15 £000			2015/16 £000
878,289	Balance at 1 April 2015		922,107
(3,699)	Revenue Expenditure funded from capital under statute	(5,429)	
(50,285)	Charges for depreciation on non-current assets	(54,005)	
(22,839)	Revaluation losses on Property, Plant and Equipment	(16,184)	
(80)	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		
(3,673)	Comprehensive Income and Expenditure Statement	(5,909)	
(80,576)			(81,527)
	Adjusting amounts written out of the Revaluation		
6,609	Reserve	7,408	
6,609	Net written out amount of the cost of non-current assets consumed in the year		7,408
	Capital Financing applied in the year		
3,575	Repayment of PPP creditors	3,953	
1,968	Use of the Capital Receipts Reserve to finance new capital expenditure	1,753	
70,079	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	54,949	
2,441	Use of the Capital Fund	2,778	
35,274	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	35,587	
4,448	Capital expenditure charged against the General Fund and HRA balances	5,279	
117,785			104,299
922,107	Balance at 31 March 2016		952,287

(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.

2014/15 £000		2015/16 £000
(33,075)	Balance at 1 April 2015	(31,052)
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	1,952
14	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	15
57	Proportion of equivalent interest rate calculation on soft loans	57
(31,052)	Balance at 31 March 2016	(29,028)

(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.

2014/15 £000		2015/16 £000	£000
(392,349)	Balance at 1 April 2015		(418,069)
(165,698)	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	130,047	
109,729	Return on plan assets	(13,684)	
60,589	Other experience adjustments	16,506	
4,620	Total remeasurements of the net defined liability		132,869
(53,561)	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	(54,069)	
23,221	Employer's pension contributions and direct payments to pensioners payable in the year	26,242	
(30,340)			(27,827)
(418,069)	Balance at 31 March 2016		(313,027)

(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.

2014/15 £000		2015/16 £000
(8,764)	Balance at 1 April 2015	(9,084)
8,764	Settlement or cancellation of accrual made at the end of the preceding year	9,084
(9,084)	Amounts accrued at the end of the current year	(6,677)
<u>(9,084)</u>	Balance at 31 March 2016	<u>(6,677)</u>

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

2014/15 £000		2015/16 £000
	Non-cash items	
73,203	Depreciation and impairments	70,189
1,388	Loss on sale of fixed assets	3,951
30,340	IAS 19 transactions	27,827
382	Financial instruments adjustments	559
	Items on accruals basis	
2,280	Decrease/(increase) in inventories	(693)
5,913	Decrease/(increase) in debtors	2,480
(8,291)	(Decrease)/increase in creditors	23,351
139	(Decrease)/increase in provisions	2,714
<u>105,354</u>		<u>130,378</u>

15. Cash flow statement – operating activities

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

2014/15 £000		2015/16 £000
<u>(305)</u>	Interest received	<u>(449)</u>
<u>46,375</u>	Interest paid	<u>46,795</u>

16. Cash flow statement – investing activities

2014/15 £000		2015/16 £000
(143,368)	Purchase of property, plant and equipment	(188,097)
(6,020)	Other payments for investing activities	(5,572)
(632)	Purchase of short term intangibles	(99)
2,491	Proceeds from the sale of property, plant and equipment	225
9,054	Sale of long and short-term investments	2,741
3,261	Other receipts from investing activities	5,377
(135,214)	Net cash flows from investing activities	(185,425)

17. Cash flow statement – financing activities

2014/15 £000		2015/16 £000
120,820	Cash receipts of short and long term borrowing	157,028
66,059	Other receipts from financing activities	49,520
	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(3,953)
(3,575)		
(102,800)	Repayments of short and long term borrowing	(98,700)
6,556	Other payments for financing activities	656
87,060		104,551

18. Cash flow statement – cash and cash equivalents

	At 1 April 2015 £000	Cash flow £000	At 31 March 2016 £000
Temporary investments	43,562	(11,457)	32,105
Cash in hand	65	(1)	64
Cash at bank	(843)	(1,006)	(1,849)
Total cash and cash equivalents	42,784	(12,464)	30,320

19. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Account is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Resources Committee on the basis of monitoring reports analysed across the various services. 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

- expenditure on some support services is budgeted for centrally and not charged to services

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 2015 to 31 March 2016. 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 2015/16

	Budget £m	Actual £m	Over/(Under) £m
Care and Learning	395.234	395.082	(0.152)
Chief Executive's Office	5.985	5.922	(0.063)
Corporate Development	20.427	19.956	(0.471)
Community Services	62.086	61.731	(0.355)
Development and Infrastructure	14.233	14.519	0.286
Finance Service	14.457	14.510	0.053
Housing Benefit	0.121	0.027	(0.094)
Discretionary Housing Payments	0.360	0.360	-
Non Domestic Rates reliefs	0.701	0.690	(0.011)
Scottish Welfare Fund Grants	0.801	0.792	(0.009)
Advice Services	1.792	1.746	(0.046)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2.380	2.329	(0.051)
Highland and Islands Transport Partnership	0.091	0.091	-
Financing			
Loan Charges	57.060	55.295	(1.765)
Interest and Investment Income	(0.180)	(0.388)	(0.208)
Total General Fund Services	575.548	572.662	(2.886)
Appropriations to/from Reserves			
Repairs & Renewals Fund	(0.048)	(0.041)	0.007
Insurance Fund	(0.078)	(0.078)	-
Affordable Housing	2.600	2.545	(0.055)
Amount to be funded from Taxpayers and General Fund Balance	578.022	575.088	(2.934)
Funding			
Revenue Support Grant	(331.287)	(331.287)	-
Non-domestic Rates	(127.403)	(127.613)	(0.210)
Council Tax	(101.909)	(104.358)	(2.449)
Use of General Fund in the year	17.423	11.830	(5.593)

Service income and expenditure 2015/16	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
	£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
Community Services	(82,410)	(880)	(26)	(83,316)	58,928	86,119	145,047	61,731
Corporate Development	(11,693)	-	-	(11,693)	10,565	21,084	31,649	19,956
Finance Service	(6,122)	-	-	(6,122)	17,886	2,746	20,632	14,510
Housing Benefit	(1,527)	(49,752)	-	(51,279)	-	51,306	51,306	27
Discretionary Housing Payments	-	-	-	-	-	360	360	360
Scottish Welfare Fund Grants	-	-	-	-	-	792	792	792
Advice Services	(165)	-	-	(165)	430	1,481	1,911	1,746
Non Domestic Rates reliefs	-	-	-	-	-	690	690	690
Development and Infrastructure	(28,316)	(3,861)	-	(32,177)	22,456	24,240	46,696	14,519
Chief Executive's Office	(901)	(2)	-	(903)	4,278	2,547	6,825	5,922
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

Service income and expenditure 2014/15	Fees, charges and other income £000	Government grants and other contributions £000	Interest and investment income £000	Total income £000	Staff costs £000	Other costs £000	Total expenditure £000	Net expenditure £000
Care and Learning	(18,675)	(6,123)	-	(24,798)	197,463	210,981	408,444	383,646
Community Services	(65,225)	(740)	(29)	(65,994)	69,351	58,053	127,404	61,410
Corporate Development	(11,650)	-	-	(11,650)	8,592	21,066	29,658	18,008
Finance Service	(5,731)	-	(532)	(6,263)	16,225	1,817	18,042	11,779
Housing Benefit	(51,068)	-	-	(51,068)	-	50,722	50,722	(346)
Discretionary Housing Payments	-	-	-	-	-	909	909	909
Scottish Welfare Fund Grants	-	-	-	-	-	917	917	917
Advice Services	(136)	-	-	(136)	410	1,271	1,681	1,545
Non Domestic Rates reliefs	-	-	-	-	-	690	690	690
Development and Infrastructure	(28,958)	(2,692)	-	(31,650)	19,425	24,776	44,201	12,551
Chief Executive's Office	(184)	-	-	(184)	3,996	2,685	6,681	6,497
Nairn Common Good Fund	-	-	-	-	-	187	187	187
Loan Charges	-	-	-	-	-	55,230	55,230	55,230
Interest and investment income	-	-	-	-	-	(340)	(340)	(340)
Joint Board Requisitions								
Valuation Joint Board	-	-	-	-	-	2,258	2,258	2,258
Highland and Islands Transport Partnership	-	-	-	-	-	91	91	91
	(181,627)	(9,555)	(561)	(191,743)	315,462	431,313	746,775	555,032

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

2014/15 £000		2015/16 £000
555,032	Net expenditure in the service analysis	572,662
(5,062)	Housing Revenue Account net income not included in the analysis	(324)
69,815	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	73,267
(59,479)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(83,186)
(9,891)	Allocation of recharges	-
550,415	Cost of services in Comprehensive Income and Expenditure Statement	562,419

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

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

2014/15	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	(181,627)	(48,183)	-	-	(8,817)	(238,627)	-	(238,627)
Interest and investment income	(9,555)	-	-	-	-	(9,555)	(384)	(9,939)
Income from council tax	-	-	-	-	-	-	(101,626)	(101,626)
Government grants and contributions	(561)	-	(3,701)	-	-	(4,262)	(522,521)	(526,783)
Total Income	(191,743)	(48,183)	(3,701)	-	(8,817)	(252,444)	(624,531)	(876,975)
Employee expenses	315,462	-	12,439	-	-	327,901	16,358	344,259
Other service expenses	431,313	27,810	(949)	(4,249)	(1,074)	452,851	(96)	452,755
Depreciation, amortisation and impairment	-	15,311	62,083	-	-	77,394	-	77,394
Interest payments	-	-	(57)	(55,230)	-	(55,287)	46,332	(8,955)
Loss on disposal of non-current assets	-	-	-	-	-	-	1,388	1,388
Total expenditure	746,775	43,121	73,516	(59,479)	(1,074)	802,859	63,982	866,841
(Surplus)/deficit on the provision of services	555,032	(5,062)	69,815	(59,479)	(9,891)	550,415	(560,549)	(10,134)

20. 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 2015/16 is as follows:

Fishery, Piers and Harbours	£000
Turnover	11,684
Expenditure	(10,545)
Surplus	1,139
Less internal surplus included in service net expenditure	(22)
Less interest on revenue balances	(4)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 10)	1,113
Three year surplus	
Financial Year	£000
2013/14	88
2014/15	96
2015/16	1,113
	1,297

The Local Government in Scotland Act 2003 requires each 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.

21. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2015/16 the Council collected £117.394m and received £127.613m contribution from the non-domestic rates pool (2014/15 collected £111.813m and received £124.210m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2015/16 the Council paid over £33.101 m and received £0.755m for providing this service. During 2014/15 the Council paid over £32.901m and received £0.755m for providing this service.

Payments totalling £0.131m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2014/15 - £0.125m).

22. External audit costs

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

2014/15 £000		2015/16 £000
449	Fees payable to Audit Scotland with regard to external audit services	438

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

23. 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 2015/16 the Council paid £15.189m to Teachers' Pensions in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (from 1 September 2015, 14.9% prior to this date). The figures for 2014/15 were £14.105m and 14.9%. There were no contributions remaining payable at the year-end.

In 2015/16 the Council paid £0.915m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 14.9% of pensionable pay. The figures for 2014/15 were £0.797m and 13.5%. 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 24.

24. 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	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	36,393	37,090	-	-
Past service cost (including curtailments)	810	3,366	-	-
	<u>37,203</u>	<u>40,456</u>	<u>-</u>	<u>-</u>
Financing and investment income and expenditure	14,357	11,874	2,001	1,739
Total post employment benefits charged to the surplus or deficit on the provision of services	51,560	52,330	2,001	1,739
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	(109,729)	13,684	-	-
Actuarial losses arising on changes in financial assumptions	145,707	(127,824)	3,825	(2,223)
Actuarial losses arising on changes in demographic assumptions	15,519	-	647	-
Experience adjustments	<u>(62,737)</u>	<u>(15,342)</u>	<u>2,148</u>	<u>(1,164)</u>
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	<u>40,320</u>	<u>(77,152)</u>	<u>8,621</u>	<u>(1,648)</u>

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

(51,560)	(52,330)	(2,001)	(1,739)
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Actual amount charged against the General Fund balance for pensions in the year

Employers contributions payable to the scheme

20,422	23,342	2,799	2,900
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Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/15 £000	31/3/16 £000	31/3/15 £000	31/3/16 £000
Present value of the defined benefit obligation	(1,360,139)	(1,268,611)	(55,740)	(51,192)
Fair value of pension fund assets	997,810	1,006,776	-	-
Net liability arising from defined benefit obligation	(362,329)	(261,835)	(55,740)	(51,192)

Information about the defined benefit obligation

	Liability split 31/3/16		Duration Years
	£000	(%)	
Active members	709,292	55.9%	22.4
Deferred members	166,966	13.2%	21.6
Pensioner members	392,323	30.9%	11.3
Total	1,268,581	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	
	31/3/15	31/3/16	31/3/15	31/3/16
	£000	£000	£000	£000
Opening fair value of scheme assets	860,664	997,810	-	-
Interest income	35,107	31,785	-	-
Return on plan assets	109,729	(13,684)	-	-
Contributions by employer	20,422	23,342	2,799	2,900
Contributions by Scheme participants	6,743	6,816	-	-
Estimated benefits paid (net of transfers in)	(34,855)	(39,293)	(2,799)	(2,900)
Closing fair value of scheme assets	997,810	1,006,776	-	-

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	31/3/15	31/3/16	31/3/15	31/3/16
	£000	£000	£000	£000
Opening defined benefit obligation	(1,203,095)	(1,360,139)	(49,918)	(55,740)
Current service cost	(36,393)	(37,090)	-	-
Past service cost	(810)	(3,366)	-	-
Interest cost	(49,464)	(43,659)	(2,001)	(1,739)
Contributions by scheme participants	(6,743)	(6,816)	-	-
Remeasurement (gains) and losses:				
Actuarial (gains)/losses from changes in financial assumptions	(145,707)	127,824	(3,825)	2,223
Actuarial losses from changes in demographic assumptions	(15,519)	-	(647)	-
Experience adjustments	62,737	15,342	(2,148)	1,164
Estimated benefits paid (net of transfers in)	34,855	39,293	-	-
Unfunded pension payments	-	-	2,799	2,900
Closing value	(1,360,139)	(1,268,611)	(55,740)	(51,192)

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:

2014/15		2015/16
1%	Cash and cash equivalents	3%
	Equity Securities:	
	By industry type	
11%	Consumer	14%
8%	Manufacturing	5%
4%	Energy and utilities	4%
10%	Financial institutions	10%
3%	Health and care	2%
7%	Information technology	8%
2%	Other	2%
	Debt Securities:	
	By sector	
14%	Corporate	8%
7%	Government	5%
3%	Private Equity	4%
-	Property Debt	2%
	Property:	
10%	UK	11%
1%	Overseas	-
	Other Investment Funds:	
19%	Equity	22%
100%	Total	100%

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

31 March 2015 £000	Fair value of pension fund assets	31 March 2016 £000
	Equity Instruments	
867,327	Quoted in an active market	966,412
130,483	Not quoted in an active market	40,364
997,810	Total equity instruments	1,006,776

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:

	2014/15	2015/16
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	2.4%	2.2%
Rate of increase in salaries	4.3%	4.2%
Rate of increase in pensions	2.4%	2.2%
Rate for discounting fund liabilities	3.2%	3.5%
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)
Member life expectancy (increase or decrease in 1 year)	3%	39,612
Rate of increase in salaries (increase or decrease by 0.5%)	3%	42,482
Rate of increase in pensions (increase or decrease by 0.5%)	7%	93,734
Rate for discounting fund liabilities (increase or decrease by 0.5%)	11%	138,723

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 to 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 79% of the Fund's investments in active management and 21% 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 2017 will be approximately £21.617m.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years 2015/16 (17.8 years 2014/15).

25. 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 | 12. Highlife Highland |
| 2. Inverness Leisure | 13. Inverness Harbour Trust |
| 3. An Comunn Gaidhealach | 14. Morrison FM |
| 4. Cromarty Firth Port Authority | 15. NHS Highland |
| 5. Eden Court Theatre | 16. Skills Development Scotland |
| 6. Fujitsu Ltd | 17. Stornoway Port Authority |
| 7. Forth & Oban Limited | 18. University of the Highlands & Islands |
| 8. Hebridean Housing Partnership | 19. Vacman Limited |
| 9. Highland Blindcraft | 20. Sight Action |
| 10. Highland & Islands Enterprise (HIE) | |
| 11. Highland Opportunity Ltd | |

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

2015/16	Contributors	Pensioners	Deferred Pensioners
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
2014/15			
Highland Council	6,984	5,887	5,493
Scheduled Bodies	2,771	1,702	1,787
Admitted Bodies	2,393	496	679
Total	12,148	8,085	7,959

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.

26. 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 45.

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 2015/16 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 65 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 to ensure a full response in future.

One funeral director business, owned by a councillor, had debts of £0.017m owed to the Council at 31st March 2016.

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 £1.064m (2014/15 £1.012m) 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 2015/16 Highland Council paid NHS Highland £94.300m (2014/15 - £93.072m) for the provision of integrated adult services and NHS Highland made payment of £8.945m (2014/15 - £8.659m) 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. HOL will cease trading during 2016/17 and the Council will take over delivery of some of the services currently provided by HOL.

The latest 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 2015	261	(279)	(279)
31 March 2014	734	(143)	(143)

HOL holds 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 Ltd	Provision of office services

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 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
Year ended 31 March 2014			
Highland Opportunity (Communities) Limited	355	2	2
Highland Opportunity (EBS) Limited	105	(41)	(41)
Highland Opportunity (Investments) Limited	2,220	34	28
Ness Horizons Ltd	(23)	3	2

Pathfinder North

Provision of Wide Area Network (WAN) services has been provided to the Highland Council through the Pathfinder North contract with Vodafone Limited (Vodafone). The Highland Council is the Lead Authority in the Pathfinder North 1 partnership with Argyll and Bute Council, Moray Council, Orkney Islands Council and Shetland Islands Council being the other Partner Authorities. The initial contract with Vodafone was to provide WAN services to the Partner Authorities until March 2014.

As the Pathfinder North contract was coming to an end, the Scottish Government introduced the Scottish Wide Area Network (SWAN) under which all organisations within the Scottish Public Sector could draw down Broadband Services from one service provider. The Scottish Government undertook a procurement exercise to select a contractor to provide the services under Swan and Capita plc (Capita) were appointed the successful contractor. Pathfinder North agreed to procure WAN services from Capita under the SWAN arrangements but the timing of these SWAN services becoming available in March 2016 required the Pathfinder North partnership to extend the original contract with Vodafone for a period of 2 years.

To procure services under SWAN, a new Pathfinder North 2 Partnership (PFN2) has been formed with Shetland Islands Council deciding to leave the partnership and being replaced by the Comhairle nan Eilean Siar.

27. 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

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

31/03/15 £000		31/03/16 £000
2,380	Not later than one year	2,534
7,995	Later than one year and not later than five years	8,033
81,214	Later than five years	75,366
<u>91,589</u>		<u>85,933</u>

Highland Council as Lessee

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

31/03/15 £000		31/03/16 £000
2,840	Not later than one year	3,384
4,672	Later than one year and not later than five years	3,653
6,352	Later than five years	1,858
<u>13,864</u>		<u>8,895</u>

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

31/03/15 £000		31/03/16 £000
<u>4,998</u>	Minimum lease payments	<u>4,280</u>

28. 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 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)/from 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

	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)/from 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

Comparative Movements in 2014/15

	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 2014	757,613	1,042,002	89,373	383,162	2,235	10,639	10,874	2,295,898	166,233
Additions	43,238	30,295	12,176	29,599	984	127	31,787	148,206	84
Revaluation increases/(decreases) recognised in the surplus/deficit of services	(966)	(25,784)	-	-	-	(1,234)	(215)	(28,199)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(9,150)	44,940	-	-	-	28	-	35,818	28,345
Derecognition - disposals	(2,406)	(244)	(373)	-	-	-	-	(3,023)	-
Assets reclassified (to)/from Held for Sale	(130)	(2,839)	-	-	-	(951)	-	(3,920)	-
Reclassifications	-	1,055	-	2,528	47	110	(3,740)	-	-
At 31 March 2015	788,199	1,089,425	101,176	415,289	3,266	8,719	38,706	2,444,780	194,662

	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 2014	48,477	64,140	37,869	61,195	-	249	-	211,930	13,221
Depreciation charge	13,695	16,315	8,962	11,266	-	46	-	50,284	3,107
Depreciation written out to the revaluation reserve	-	(47,179)	-	-	-	(5)	-	(47,184)	(13,222)
Depreciation written out to the surplus/deficit on provision of services	-	(5,193)	-	-	-	(105)	-	(5,298)	-
Derecognition - disposals	-	(15)	(188)	-	-	-	-	(203)	-
Reclassifications	-	(1)	-	-	-	1	-	-	-
Assets reclassified (to)/from Held for Sale	-	(173)	-	-	-	(31)	-	(204)	-
At 31 March 2015	62,172	27,894	46,643	72,461	-	155	-	209,325	3,106
Net book value									
At 31 March 2015	726,027	1,061,531	54,533	342,828	3,266	8,564	38,706	2,235,455	191,556
At 31 March 2014	709,136	977,862	51,504	321,967	2,235	10,390	10,874	2,083,968	153,012

29. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2016, for the acquisition of property, plant and equipment, was £64.641m (31 March 2015 £106.683m). Details of the major commitments by contract or project are as follows:

Contract or Project	2015/16 £m
West Link Road	22.500
HRA Housing - Council House New Builds	18.934
New Gaelic Primary School Portree	9.685
New School, Inverness Royal Academy	6.670
Fort William Offices	6.662
Miscellaneous projects with an individual commitment less than £0.5m	4.508
New Primary, Caol Joint Campus Fort William	4.070
Muir of Ord Railway Bridge	2.695
HRA Housing, Lochaber Installation of Biomass Heating	2.161
Elgin Hostel	1.820
Thurso Leisure	1.784
Noss Primary School, Wick	1.570
Network Refresh	1.000
A832 Slattadale Widening	0.731
Office Rationalisation, Kingussie	0.631
HRA Housing - Inverness Installation of Gas Heating	0.542
Lochaber High School Refurbishment	0.500
	<u>86.463</u>

30. 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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2014/15 £000		2015/16 £000
860,420	Opening capital financing requirement	894,529
	Capital investment	
148,206	Property, Plant and Equipment	177,253
3,699	Revenue Expenditure funded from capital under statute	5,429
	Sources of finance	
(1,968)	Capital receipts	(1,753)
(2,441)	Capital Fund	(2,778)
(70,079)	Government grants and other contributions	(54,949)
	Sums set aside from revenue	
(4,448)	- direct revenue contributions	(5,279)
(35,274)	- loans fund principal	(35,587)
(11)	House loans	(14)
(3,575)	Reduction in Finance Lease Creditors (PPP)	(3,953)
<u>894,529</u>	Closing capital financing requirement	<u>972,898</u>
	Explanation of movements in the year	
34,098	Increase in underlying need to borrow (supported by government financial assistance)	78,355
11	Increase in underlying need to borrow (unsupported by government financial assistance)	14
<u>34,109</u>	Increase/(decrease) in capital financing requirement	<u>78,369</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	√	√

31. Private finance initiatives and similar contracts

Fujitsu Services Ltd

The Council signed a contract with Fujitsu Services Ltd in April 2010 for the provision of ICT Services. The contract is for a period of 5 years but with an option to extend for a further two years. The total estimated charges over the 5 years, after efficiency savings, amounts to £63.8m. During 2013/14 the Council agreed a Service Continuation agreement with Fujitsu Services Ltd under which certain ICT services would continue to be provided by Fujitsu until October 2016. During 2015/16 this Service Continuation arrangement was extended to 31 March 2017 to match in with the Service Commencement Date for the new ICT service being procured under the ICT Reprovision procurement. The Service Continuation arrangements will require the Council to pay Fujitsu £10.729m in 2016/17.

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 2015/16 was £3.680m (2014/15 £3.654m). 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 2016 until July 2027 amounts to £38.35m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £16.01m 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 2015/16 was £20.328m (2014/15 £20.217m). 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 £429.803m 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 £150.360m 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. The ASC commences from the school availability date scheduled to be 16 September 2016. The Annual Service Charge in the first full year (2017/18) payable by the Council amounts to £4.617m.

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 £0.549m 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 28.

Liabilities arising from PFI and similar contracts

2014/15 £000		2015/16 £000
(129,498)	As at 1 April 2015	(125,923)
3,575	Repaid in year	3,953
<u>(125,923)</u>	As at 31 March 2016	<u>(121,970)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2016 (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	3,745	20,036	23,781
within 2 to 5 years	17,592	80,460	98,052
within 6 to 10 years	27,319	102,099	129,418
within 11 to 15 years	28,987	93,057	122,044
within 16 to 20 years	35,355	88,414	123,769
within 21 to 25 years	8,972	16,680	25,652
	<u>121,970</u>	<u>400,746</u>	<u>522,716</u>

32. Intangible assets (current)

31/03/15 £000		31/03/16 £000
-	Opening Balance	632
632	Additions	809
-	Disposals	(710)
<u>632</u>	As at 31 March 2016	<u>731</u>

33. Assets held for sale

2014/15 £000		2015/16 £000
989	As at 1 April 2015	3,914
3,716	Reclassifications	3,180
-	Revaluation increases/(decreases) recognised in the Revaluation Reserve	(901)
62	Revaluation increases/(decreases) recognised in the surplus/(deficit) on the provision of services	(1,440)
(853)	Assets sold	(3,543)
<u>3,914</u>	As at 31 March 2016	<u>1,210</u>

34. 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 2016 are as follows:

	Other significant observable inputs (level 2)	Fair Value at 31/3/16
	£000	£000
Buildings – Corporate Surplus	1,080	1,080
Buildings – Held for Sale	1,130	1,130
Land – Corporate Surplus	1,232	1,232
Land – Held for Sale	81	81
	<u>3,523</u>	<u>3,523</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).

35. Heritage assets

	Museum Collections	Works of Art & Civic Regalia	Total
	£000	£000	£000
Balance at 1 April 2014	-	-	-
Revaluations	6,290	2,247	8,537
Balance at 31 March 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>

36. Long term investments

31/03/15			31/03/16	
Cost	Carrying Amount		Cost	Carrying Amount
£000	£000		£000	£000
<u>1,175</u>	<u>1,118</u>	Inverness Airport Business Park Ltd	<u>1,175</u>	<u>624</u>

37. Inventories

31/03/15		31/03/16
£000		£000
<u>3,271</u>	Raw materials and consumables	<u>3,964</u>

38. Long term debtors

31/03/15		31/03/16
£000		£000
15,378	Police Scotland	14,861
7,845	Scottish Fire and Rescue Service	7,351
10,883	Landbanking fund advances	11,307
11,100	National Housing Trust	16,169
125	House Loans	110
8	Car Loans	2
78	Other loans	78
<u>45,417</u>	Long term debtors (net of impairment)	<u>49,878</u>

39. Short term debtors

31/03/15		31/03/16
£000		£000
20,666	Central government bodies	23,172
269	Other local authorities	279
165	NHS bodies	629
3	Public corporations	29
<u>57,976</u>	Other entities and individuals	<u>55,522</u>
79,079		79,631
(36,156)	Provision for impairment	(36,445)
<u>42,923</u>	Total (net of impairment)	<u>43,186</u>

40. Short term creditors

31/03/15		31/03/16
£000		£000
(restated)		
10,939	Central government bodies	7,418
15	Other local authorities	409
23,284	NHS bodies	22,868
1,231	Public corporations	1,329
3,953	Finance lease creditors	3,745
<u>54,669</u>	Other entities and individuals	<u>71,609</u>
<u>94,091</u>	Total	<u>107,379</u>

41. Provisions

	Note	At 1/04/15	Increase in provision	Use of provision	Unused amounts reversed during the year	At 31/03/16
		£000	£000	£000	£000	£000
Short term						
Equal Pay	1	379	1,250	(21)	-	1,608
Insurance	2	516	224	-	-	740
Building Dilapidations	3	469	37	-	-	506
Voluntary Redundancy	4	-	1,224	-	-	1,224
		<u>1,364</u>	<u>2,735</u>	<u>(21)</u>		<u>4,078</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 increase 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.

42. Long Term Liabilities

31/03/15 £000 (restated)		31/03/16 £000
418,069	Pension Liability	313,027
121,970	Finance lease creditors	118,225
2,150	Other long term creditors	2,150
<u>542,189</u>		<u>433,402</u>

43. 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 2016 is £0.225m (31 March 2015 £0.248m).

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 recent Case Law relating to a European Directive, Local Authorities expect to have to amend their traditional calculation of holiday pay. COSLA are drafting new guidance on the method of calculation and therefore the Council 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. Every attempt is made to maintain leased buildings in reasonable order. However 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 £0.505m 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 have indicated that they plan to initiate legal action against the Council seeking recovery of £0.900m in respect of the dry recycle contract.

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

Developer Contribution

A developer has indicated that they may seek recovery of a contribution of £0.334m paid to the Council.

River Ness Flood Alleviation

The construction of The River Ness Flood Alleviation Contract was an NEC Engineering and Construction Contract Option A, which meant the contract value was determined by the Council. The contractor raised a dispute based on their final application of work completed, as the difference between this and the amount certified amounted to £5m. The contract now has to be considered by an adjudicator and until their decision is reached the amount to be certified is unknown. An independent adjudicator awarded an additional £1.7m to the contractor and this sum is disclosed within short term creditors. The contractor is however appealing against the adjudicator's view and seeking to recover the full £5m claimed.

Clydesdale Bank

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 is undertaking a series of environmental projects known as Nevis Landscape Partnership and has obtained funding to meet the costs of the project works. The project cashflows identified occasional short periods of time when Nevis Partnership will require to pay their contractors in advance of receiving the long term funding from the funding bodies that are supporting the project. The overdraft facility is to provide Nevis Partnership with liquidity during these periods of time.

A formal guarantee document between the Council and the Clydesdale Bank has been signed. In the event of default by Nevis Partnership the Council would be liable to repay any outstanding overdraft amounts up to a maximum of £150,000, interest on the amount owed and all costs charges and expenses incurred by the Clydesdale Bank. 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.

Compulsory purchase powers

The Council acquired land under compulsory purchase powers paying the value determined by the potential alternative development value of this land. The landowners have until the 26th September 2016 to appeal this valuation which, if successful may create a potential liability for the Council.

Highland Council Pension Fund

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

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

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.

44. Grant income

The Comprehensive Income and Expenditure Statement in 2015/16 includes the following grants, contributions and donations:

2014/15 £000		2015/16 £000
	Credited to Taxation and non-specific grant income	
331,930	Revenue support grant	331,287
124,211	Non-Domestic rates	127,613
<u>66,380</u>	Capital grants and contributions	<u>49,520</u>
522,521		508,420
	Credited to services	
3,699	Capital grants and contributions	5,429
	Department of Works and Pensions	
51,138	Housing benefits	49,752
	General Fund Housing	
-	- Universal Home Insulation	
	Home Energy Efficiency Programmes for Scotland: Area Based	
3,183	Schemes	3,491
	Education, Culture and Sport	
940	Gaelic	940
915	EMA	875
156	Activity agreement pilots	157
543	Youth Music Initiative	543
	Health and Social Care	
3,229	Criminal Justice Grant	3,101
<u>294</u>	Family Nurse Partnership	<u>180</u>
<u>586,618</u>	Total	<u>572,888</u>

45. Financial instrument balances

Categories of Financial Instruments

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

31/03/15 (restated)			31/03/16	
Long term £000	Current £000		Long term £000	Current £000
		Investments		
1,118	-	Loans and receivables	624	-
1,118	-	Total investments	624	-
		Debtors		
45,417	42,923	Loans and receivables	49,878	43,186
-	22,038	Financial assets carried at contract amounts	-	19,298
45,417	64,961	Total included in Debtors	49,878	62,484
-	42,784	Cash and Cash equivalents	-	30,320
		Borrowing		
726,971	44,592	Financial liabilities at amortised cost	711,235	118,309
726,971	44,592	Total Borrowing	711,235	118,309
		Other long term liabilities		
121,970	-	PFI and finance lease liabilities	118,225	-
420,219	-	Other long term liabilities	315,177	-
542,189	-	Total other long term liabilities	433,402	-
		Creditors		
-	94,091	Financial liabilities at contract amount	-	107,379
-	94,091	Total creditors	-	107,379

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.

2014/15 £000		2015/16 £000
9,852	Balance at 1 April 2015	10,883
881	Prior year adjustment – loans made 2014/15 incorrectly classified	-
10,733		10,883
1,856	Nominal value of new loans made in the year	1,222
(1,254)	Loans repaid in the year	(719)
-	Loans written off in the year	(100)
(452)	Fair value adjustment re interest uncharged in year	21
10,883	Balance at 31 March 2016	11,307

Landbank loans advanced were understated by £881k in 2013/14 and gross expenditure in Housing Services was overstated by the same amount.

Loans to Inverness Airport Business Park

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

2014/15 £000		2015/16 £000
1,061	Balance at 1 April 2015	1,118
57	Fair value adjustment re interest uncharged in year	57
-	Future interest foregone	(551)
<u>1,118</u>	Balance at 31 March 2016	<u>624</u>

Valuation assumptions

The interest rate at which the fair value of soft loans has been calculated is 4.87%

46. 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 2016	Financial liabilities	Financial assets	
	Liabilities	Loans and	Total
	£000	receivables	£000
Interest payable and similar charges	(60,418)	-	(60,418)
Interest and investment income	-	449	449
Net gain/(loss) for year	(60,418)	449	(59,969)

Year to 31 March 2015	Financial liabilities	Financial assets	
	Liabilities	Loans and	Total
	£000	receivables	£000
Interest payable and similar charges	(62,690)	-	(62,690)
Interest and investment income	-	384	384
Net gain/(loss) for year	(62,690)	384	(62,306)

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.

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.

47. 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 £15m of its surplus balances to one institution for a maximum period of 364 days.

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:

31/03/15		31/03/16
£000		£000
5,632	Less than three months	6,613
819	Three to six months	1,104
1,322	Six to twelve months	995
5,237	More than twelve months	6,248
<u>13,010</u>	Total	<u>14,960</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 2015, 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	1,011
Increase in interest receivable on variable rate investments	(411)
Impact on Income and Expenditure Account	<u>600</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>9,134</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:

2014/15			2015/16	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Loans outstanding				
628,235	628,131	Public Works Loans Board	612,567	612,459
120,980	117,306	Market long term	119,940	116,306
15,782	15,750	Temporary loans	89,815	89,750
6,567	6,567	Internal loans	7,200	7,200
<u>771,564</u>	<u>767,754</u>	Total	<u>829,522</u>	<u>825,715</u>
Maturity				
44,592	43,267	Less than 1 year	118,287	116,950
750	750	Between 1 and 2 years	22,500	22,500
77,126	77,126	Between 2 and 5 years	64,779	64,779
77,767	77,766	Between 5 and 10 years	92,642	92,642
571,329	568,845	More than 10 years	531,314	528,844
<u>771,564</u>	<u>767,754</u>		<u>829,522</u>	<u>825,715</u>

48. Events after Reporting Period

The unaudited Annual Accounts were issued by the Director of Finance on 29 June 2016 and the audited Annual Accounts were authorised for issue on 30 September 2016. 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 2016 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.

2014/15		2015/16	
£000		£000	£000
	Income		
(46,223)	Dwelling rents (gross)	(47,322)	
(786)	Non-dwelling rents (gross)	(771)	
(1,174)	Other income	(1,658)	
(48,183)			(49,751)
	Expenditure		
16,792	Repairs and maintenance	15,553	
9,681	Supervision and management	10,714	
15,311	Depreciation and impairment of non-current assets	9,052	
1,337	Other expenditure	1,685	
43,121			37,004
(5,062)	Net income from HRA services as included in Council Comprehensive Income and Expenditure Statement		(12,747)
343	HRA share of corporate and democratic core	132	
62	HRA share of non-distributed costs	400	532
405			
(4,657)	Net income from HRA services		(12,215)
599	Loss on disposal of non-current assets	620	
9,698	Interest payable and similar charges	10,141	
(516)	Amortisation of premiums and discounts	(532)	
(45)	Interest and investment income	(61)	
1,056	Pension net interest	847	
(10,387)	Capital Grants and contributions	(9,849)	
405			1,166
(4,252)	Surplus on HRA services		(11,049)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2014/15		2015/16	
£000		£000	£000
(7,328)	Balance on HRA at 1 April 2015		(7,328)
(4,252)	Surplus for the year on HRA Income and Expenditure Statement		(11,049)
	Adjustments between accounting basis and funding basis under statute		
(599)	Gain on sale of HRA non current assets	(620)	
4,198	Capital expenditure funded by the HRA	4,754	
(14)	Movement in employee benefits accrual	(1)	
3,585			4,133
	Transfer to the Capital Adjustment Account		
(15,311)	- Depreciation and impairment	(9,052)	
7,034	- repayment of debt	7,405	
10,386	- Capital grants and contributions	9,849	
2,109			8,202
(1,958)	HRA share of contributions to the Pensions Reserve		(2,142)
516	HRA share of transfer from the Financial Instruments Adjustment Account		532
	- HRA contribution to Capital Fund		324
(7,328)	Balance on HRA at 31 March 2016		(7,328)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/15 £000		31/03/16 £000
1,490	Current tenants	1,679
838	Former tenants	1,181
<u>2,328</u>	Total	<u>2,860</u>

2. Uncollectable rent voids

Uncollectable rent voids of £0.938m (2014/15 £0.935m) have been netted off against rental income

3. Impairment of debtors

In 2015/16 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/15 £000		31/03/16 £000
1,607	Rent arrears	1,987
647	Sundry debts	950
<u>2,254</u>		<u>2,937</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/15 Number	Type of House	31/03/16 Number
243	1 apartment	252
3,389	2 apartment	3,427
5,614	3 apartment	5,684
4,136	4 apartment	4,148
354	5 apartment	360
25	6 apartment	25
-	7 apartment	1
2	8 apartment	2
1	10 apartment	1
<u>13,764</u>		<u>13,900</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.

2014/15 £000		2015/16 £000
130,001	Gross Council Tax levied and contributions in lieu	131,682
(12,033)	Council Tax Reduction Scheme	(11,675)
(14,601)	Other discounts and reductions	(14,924)
(2,982)	Write off of uncollectable debts and allowances for impairment	(3,084)
	Adjustments for prior years Council Tax and	
1,241	Community Charge	2,359
101,626	Net Council Tax income per the Comprehensive Income and Expenditure Statement	104,358

Calculation of the Council Tax base 2015/16

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	41	(4)	(1)	36	5/9	20
A	19,634	(1,085)	67	(2,347)	(339)	15,930	6/9	10,620
B	23,042	(911)	35	(2,310)	(384)	19,472	7/9	15,145
C	23,150	(658)	(18)	(1,997)	(522)	19,955	8/9	17,738
D	18,160	(380)	55	(1,222)	(431)	16,182	9/9	16,182
E	17,869	(259)	(94)	(918)	(400)	16,198	11/9	19,798
F	8,739	(107)	(41)	(323)	(185)	8,083	13/9	11,675
G	4,238	(40)	(43)	(131)	(137)	3,887	15/9	6,478
H	322	(10)	(2)	(5)	(35)	270	18/9	540
Total	115,154	(3,450)	-	(9,257)	(2,434)	100,013	-	98,196
						Council Tax Reduction Contributions in lieu Provision for non- collection (2.89%)		(10,038) 160 (2,552)
						Council tax base		85,766

(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 2015/16 was £1,163.00.

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 2015/16

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

2014/15 £000		2015/16 £000
148,428	Gross rates levied and contributions in lieu	152,572
(31,123)	Reliefs and other deductions	(32,104)
(84)	Payment of interest	-
(1,154)	Write-off of uncollectible debts and allowance for impairment	(1,302)
116,067	Net Non-Domestic Rate Income	119,166
(4,254)	Adjustment to previous years' national Non-Domestic rates	(1,562)
-	Non Domestic Rate Income Retained by Council (BRIS)	(210)
111,813	Contribution to Non-Domestic Rate Pool	117,394

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.

124,210	Distribution from Non-Domestic Rate Pool	127,403
1	Non-Domestic Rate Income retained by Council (BRIS)	210
124,211	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	127,613

Net Rateable Value Calculation

The amount paid for 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 2015/16 was 48.0p Rateable Value equal to or less than £35,000 and 49.3p Rateable Value greater than £35,000.

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

Highland Council Rateable Values

1 April 2014			1 April 2015		
Number of units	Rateable values £000		Number of units	Rateable values £000	
2,649	66,666	Shops	2,655	66,914	
893	19,488	Public houses and hotels	899	19,406	
1,786	28,021	Offices	1,754	27,690	
2,709	40,866	Industrial subjects	2,694	40,875	
		Leisure, entertainment, caravans and holiday sites			
4,880	20,517		5,009	20,617	
349	4,559	Garages and petrol stations	342	4,560	
		Cultural, sporting subjects, education and training			
1,033	22,567		1,033	22,633	
1,146	14,434	Public service subjects	1,136	14,453	
2,057	90,172	Miscellaneous	2,074	92,993	
17,502	307,290	Total	17,596	310,141	

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.

As from 1 April 2015, IFRS13 – Fair Value Measurement, was adopted as part of the CIPFA Accounting Code of Practice. As a result, additional disclosures regarding the valuation of investment properties are required and 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, at the Highland Council meeting of 16 May 2016 Members agreed to the creation of a temporary post of Common Good Funds Officer to develop a corporate approach to Community Empowerment legislation.

MOVEMENT IN RESERVES STATEMENT 2014/15

	Revenue Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2014	7,491	4,125	1,886	28,674	42,176
Movement in reserves during 2014/15					
Surplus on provision of services	1,050	-	-	-	1,050
Other Comprehensive Income and Expenditure	-	(491)	692	-	201
Total Comprehensive Income and Expenditure	1,050	(491)	692	-	1,251
Adjustments between accounting and funding basis (note 1)	(777)	-	-	777	-
Net increase/(decrease)	273	(491)	692	777	1,251
Balance at 31 March 2015 carried forward	7,764	3,634	2,578	29,451	43,427

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					
Deficit on provision of services	(518)	-	-	-	(518)
Other Comprehensive Income and Expenditure	-	(1,729)	-	-	(1,729)
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	6,825	1,905	2,578	29,872	41,180

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2014/15 (restated)				2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
2,923	(140)	2,783	Inverness	1,770	(101)	1,669
4	(16)	(12)	Nairn	10	(27)	(17)
66	(7)	59	Tain	46	(12)	34
27	-	27	Dornoch	15	(3)	12
-	-	-	Dingwall	2	-	2
-	-	-	Cromarty	2	-	2
-	-	-	Fortrose	2	-	2
<u>3,020</u>	<u>(163)</u>	2,857	Cost of services	<u>1,847</u>	<u>(143)</u>	<u>1,704</u>
	(3,732)		Financing and investment income and expenditure (note 2)			(489)
	<u>(175)</u>		Capital Grants and Contributions			<u>(697)</u>
	(1,050)		Deficit/(Surplus) on provision of services			518
	(692)		Surplus on revaluation of heritage assets			-
	<u>491</u>		Deficit on revaluation of available for sale financial assets			<u>1,729</u>
	(201)		Other comprehensive income and expenditure			<u>1,729</u>
	<u>(1,251)</u>		Total comprehensive income and expenditure			<u>2,247</u>

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 MARCH 2016**

31/03/15 £000		Notes	31/03/16 £000
193	Property, Plant and Equipment	4	184
2,579	Heritage Assets	4	2,845
29,242	Investment Properties	4,6	29,395
16	Intangible Assets	7	15
9,860	Investments	8	7,208
<u>41,890</u>	Long Term Assets		<u>39,647</u>
1,900	Cash and cash equivalents	9	1,399
-	Sundry debtors		317
<u>1,900</u>	Current Assets		<u>1,716</u>
<u>(363)</u>	Sundry creditors		<u>(183)</u>
<u>(363)</u>	Current Liabilities		<u>(183)</u>
1,537	Net current assets		1,533
<u><u>43,427</u></u>	Net assets		<u><u>41,180</u></u>
<u>7,764</u>	Revenue funds		<u>6,825</u>
<u>7,764</u>	Usable Reserves	10	<u>6,825</u>
2,578	Revaluation Reserve	11	2,578
29,451	Capital Adjustment Account	12	29,872
<u>3,634</u>	Available for Sale Reserve	13	<u>1,905</u>
<u>35,663</u>	Unusable Reserves		<u>34,355</u>
<u><u>43,427</u></u>	Total Reserves		<u><u>41,180</u></u>

CASH FLOW STATEMENT

31/03/15 £000		Notes	31/03/16 £000
1,050	Net surplus/(deficit) on the provision of services		(518)
(1,913)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	15	(2,501)
(863)	Net cash outflow from operating activities		(3,019)
2,000	Investing activities	16	2,518
1,137	Net increase/(decrease) in cash and cash equivalents		(501)
763	Cash and cash equivalents at 1 April 2015		1,900
1,900	Cash and cash equivalents at 31 March 2016		1,399

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

2015/16	Available for Sale Asset Reserves	Capital Adjustment Account	Total 2015/16
	£000	£000	£000
Accumulated gains on assets sold	(1,378)	-	(1,378)
Upward revaluation of investments	(351)	-	(351)
Realised gain 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)
	<u>(1,729)</u>	<u>421</u>	<u>(1,308)</u>
 2014/15	 Available for Sale Asset Reserves	 Capital Adjustment Account	 Total 2014/15
	£000	£000	£000
Accumulated gains on assets sold	(1,215)	-	(1,215)
Revaluation of investments	724	-	724
Revaluation of investment properties	-	198	198
Capital grants and contributions	-	175	175
Capital expenditure funded from revenue	-	414	414
Depreciation and amortisation	-	(10)	(10)
	<u>(491)</u>	<u>777</u>	<u>286</u>

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

2014/15 (restated)		2015/16
£000		£000
(1,514)	Interest and investment income and expenditure	(1,619)
(2,420)	Rental income	(2,178)
401	Property costs	248
(208)	(Surplus)/deficit on revaluation of investment properties	3,060
9	(Surplus)/deficit on revaluation of intangible asset	-
<u>(3,732)</u>		<u>(489)</u>

3. Operating leases

Common Good Fund as lessor

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

2014/15 £000		2015/16 £000
<u>2,059</u>	Lease income received in year	<u>2,178</u>

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

31/03/15 £000		31/03/16 £000
1,958	Within one year	1,749
3,080	Later than one year and not later than five years	6,212
<u>62,725</u>	Later than five years	<u>73,361</u>
<u>67,763</u>		<u>81,322</u>

4. Non-current assets

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

Movements in 2015/16

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 31 March 2015	29,242	2,579	220	32,041
Additions	3,213	266	-	3,479
Revaluations	(3,060)	-	-	(3,060)
As at 31 March 2016	<u>29,395</u>	<u>2,845</u>	<u>220</u>	<u>32,460</u>
Accumulated Depreciation				
As at 31 March 2015	-	-	27	27
Depreciation charge	-	-	9	9
As at 31 March 2016	<u>-</u>	<u>-</u>	<u>36</u>	<u>36</u>
Net book value				
As at 31 March 2016	<u>29,395</u>	<u>2,845</u>	<u>184</u>	<u>32,424</u>
As at 31 March 2015	<u>29,242</u>	<u>2,579</u>	<u>193</u>	<u>32,014</u>

Investment Properties – Fair Value Measurement

Valuation Techniques used to Determine Fair Values for Investment Properties

- Greg Youngson (MRICS), Acting Property Manager, Development and Infrastructure Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31 March 2016. 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 £0.062m 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 £0.303m in rental income.

During 2015/16 the Common Good Fund made contributions to Highland Council for the following projects –

- £0.100m towards the Inverness Castle North Tower Viewing Platform; and
- £0.061m towards Inverness City Arts.

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:

31/03/15 £000	Investment Property at Fair Value	31/03/16 £000
	Common Good Fund	
22,115	Inverness	21,669
6,475	Nairn	6,879
258	Tain	266
-	Dornoch	155
150	Dingwall	165
106	Fortrose	112
44	Cromarty	53
94	Invergordon	96
<u>29,242</u>		<u>29,395</u>

7. Intangible assets

2014/15 £000		2015/16 £000
	Fishing Licence - Tain	
26	As at 1 April 2015	16
(9)	Revaluation	-
(1)	Amortisation	(1)
<u>16</u>	As at 31 March 2016	<u>15</u>

8. Long Term Investments

31/03/15			31/03/16	
Cost £000	Valuation £000		Cost £000	Valuation £000
6,219	9,854	Inverness - Managed portfolio	5,303	7,208
6	6	Nairn	-	-
<u>6,225</u>	<u>9,860</u>		<u>5,303</u>	<u>7,208</u>

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

31/03/15 Units Held			31/03/16 Units Held	
Cost £000	Value £000		Cost £000	Value £000
4,193	7,722	Equities	2,731	4,599
1,917	2,023	Bonds	2,153	2,190
109	109	Cash	419	419
<u>6,219</u>	<u>9,854</u>	Total	<u>5,303</u>	<u>7,208</u>

9. Cash and cash equivalents

31/03/15 £000		31/03/16 £000
<u>1,900</u>	Balance with Highland Council Loans Fund	<u>1,399</u>

10. Usable Reserves**Common Good Funds**

Fund	Balance at 1/04/15 £000	Movement 2015/16 £000	Balance at 31/03/16 £000
Inverness	6,381	(883)	5,498
Nairn	356	57	413
Tain	401	(164)	237
Dornoch	214	10	224
Dingwall	156	28	184
Fortrose	173	10	183
Cromarty	21	(1)	20
Invergordon	62	4	66
Total	<u>7,764</u>	<u>(939)</u>	<u>6,825</u>

11. Unusable Reserves**Revaluation Reserve**Balance at 31/03/15 and 31/03/16
£000

Inverness	2,063
Nairn	60
Tain	94
Dornoch	22
Fortrose	254
Invergordon	85
Total	<u>2,578</u>

12. Capital Adjustment Account

Fund	Balance at 1/04/15 £000	Revaluations 2015/16 £000	Realised Gain on Investments £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/16 £000
Inverness	22,117	(3,662)	-	573	2,640	-	21,668
Nairn	6,475	404	12	-	-	-	6,891
Tain	466	9	-	124	142	(10)	731
Dornoch	-	155	-	-	-	-	155
Dingwall	150	15	-	-	-	-	165
Fortrose	106	6	-	-	-	-	112
Cromarty	43	10	-	-	-	-	53
Invergordon	94	3	-	-	-	-	97
Total	<u>29,451</u>	<u>(3,060)</u>	<u>12</u>	<u>697</u>	<u>2,782</u>	<u>(10)</u>	<u>29,872</u>

13. Available for Sale Reserve

2014/15		2015/16
£		£
4,125	Balance at 1 April 2015	3,634
724	Revaluation of investments	(351)
(1,215)	Accumulated gains on assets sold	(1,378)
<u>3,634</u>	Balance at 31 March 2016	<u>1,905</u>

14. Financial Instrument balances

Categories of Financial Instruments

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

31/03/15			31/03/16		
Long Term	Current		Long Term	Current	
£000	£000		£000	£000	
9,860	-	Investments	7,208	-	
-	1,900	Cash	-	1,399	
-	-	Debtors	-	317	
-	363	Creditors	-	183	

15. Cashflow statement – Adjustments for non-cash movements

2014/15		2015/16
£000		£000
	Non-cash items	
10	Depreciation and impairments	10
(2,228)	Revaluation of investments	(2,014)
	Items on accruals basis	
34	(Increase)/decrease in debtors	(317)
271	Increase/(decrease) in creditors	(180)
<u>(1,913)</u>		<u>(2,501)</u>

16. Cashflow statement – investing activities

<u>2,000</u>	Proceeds from long term investments	<u>2,518</u>
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17. Capital Commitments

Renovation works continue at Inverness Town House, with a further £2.5m 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.

18. Events after the Balance Sheet date

As a result of its recent performance, the future of the Tain Common Good Mussel fishery was considered by Ross and Cromarty Area Committee on 27 April 2016, where it was agreed that the fishing rights be leased to a third party operator. This is likely to earn approximately £0.010m per annum for the Common Good Fund. It was also recommended the fishing boat, licence and ancillary equipment be sold. However, Members further decided at their next meeting on 3 August 2016 that the fishing boat, licence and ancillary equipment be moved to Helmsdale Harbour until local interest was gauged, with the position being reviewed in 2018.

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 2016

2014/15				2015/16		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(336)	(19)	(178)	Receipts	(97)	(12)	(70)
50	5	189	Payments	39	5	32
<u>(286)</u>	<u>(14)</u>	<u>11</u>	(Surplus)/deficit for the year	<u>(58)</u>	<u>(7)</u>	<u>(38)</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2015		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
100	-	-
867	17	1,142
<hr/>		
1,200	696	780
<hr/>		
2,167	713	1,922
<hr/>		
1,898	368	903
269	345	1,019
<hr/>		
2,167	713	1,922
<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 2016		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
150	-	-
859	16	1,200
<hr/>		
1,258	703	819
<hr/>		
2,267	719	2,019
<hr/>		
1,995	367	962
272	352	1,057
<hr/>		
2,267	719	2,019
<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 2016 the balances and investments held are as follows:

Fund Balance £000	31 March 2015		Charity	Scottish Charity Number	Fund Balance £000	31 March 2016	
	Investments at cost £000	Investments at valuation £000				Investments at cost £000	Investments at valuation £000
193	5	9	Highland Charities Trust	044714	185	-	3
1,974	962	2,403	Highland Council Charitable Trusts	025079	2,082	959	2,304
2,167	967	2,412	Total Charitable Trusts		2,267	959	2,307

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 2016 the balances and investments held are as follows:

31 March 2015				31 March 2016			
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	-	-	
274	16	391	Inverness Royal Academy Educational Trust	280	15	365	
134	-	-	Manson Bequest – Keiss	134	-	-	
128	-	-	Manson Bequest – Nairn and Ardcloch	128	-	-	
14	-	-	Miss B G Angus Executory	13	-	-	
113	-	-	Other Educational Trusts	114	-	-	
713	17	391	Total Educational Trusts	719	16	365	

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 2015				31 March 2016			
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000	
715	691	1,277	Inverness Burial Grounds Fund	753	746	1,221	
491	449	750	Inverness Benevolent Funds	552	454	732	
64	-	-	Social Work Amenity Funds	53		-	
151	-	-	Inverness – Other Trust Funds	154	-	-	
7	2	4	Badenoch and Strathspey Trust Funds	7	-	-	
160	-	-	Caithness Trust Funds	147	-	-	
118	-	1	Lochaber Trust Funds	99	-	-	
81	-	-	Nairn Trust Funds	81	-	-	
108	-	-	Ross and Cromarty Trust Funds	145	-	-	
2	-	-	Skye and Lochalsh Trust Funds	2	-	-	
25	-	-	Sutherland Trust Funds	26	-	-	
<u>1,922</u>	<u>1,142</u>	<u>2,032</u>	Total other trust funds	<u>2,019</u>	<u>1,200</u>	<u>1,953</u>	

GROUP ACCOUNTS

GROUP ACCOUNTS**GROUP MOVEMENT IN RESERVES STATEMENT 2014/15**

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 2014 brought forward	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670
Movement in reserves during 2014/15									
Surplus/(deficit) on provision of services	5,882	4,252	-	-	-	-	10,134	-	10,134
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	96,159	96,159
Total Comprehensive Expenditure and income	5,882	4,252	-	-	-	-	10,134	96,159	106,293
Adjustments between accounting basis and funding basis under regulations	(2,196)	(4,252)	317	-	-	-	(6,131)	6,131	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,686	-	317	-	-	-	4,003	102,290	106,293
Transfers (to)/from other statutory reserves	(1,786)	-	-	42	375	(1,072)	(2,441)	2,441	-
Increase/(decrease) in 2014/15	1,900	-	317	42	375	(1,072)	1,562	104,731	106,293
Balance at 31 March 2015 carried forward	42,240	7,328	2,202	1,711	2,784	30,631	86,896	902,067	988,963

GROUP 2014/15	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 2014 brought forward	882,670	38,114	(4,075)	916,709
Movement in reserves during 2014/15				
Surplus/(deficit) on provision of services	10,134	691	(327)	10,498
Other Comprehensive Expenditure and Income	96,159	(1,109)	(371)	94,679
Total Comprehensive Expenditure and Income	106,293	(418)	(698)	105,177
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	106,293	(418)	(698)	105,177
Transfers (to)/from other statutory reserves	-	-	-	-
Increase/(decrease) in 2014/15	106,293	(418)	(698)	105,177
Balance at 31 March 2015 carried forward	988,963	37,696	(4,773)	1,021,886

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									
Surplus/(deficit) on provision of services	(23,497)	11,049	-	-	-	-	(12,448)	-	(12,448)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	247,661	247,661
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

GROUP 2015/16	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	(4,773)	1,021,886
Movement in reserves during 2015/16				
Surplus/(deficit) on provision of services	(12,448)	(3,778)	(294)	(16,520)
Other Comprehensive Expenditure and Income	247,661	2,588	838	251,087
Total Comprehensive Expenditure and income	235,213	(1,190)	544	234,567
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	235,213	(1,190)	544	234,567
Transfers (to)/from other statutory reserves	-	-	-	-
Increase/(decrease) in 2015/16	235,213	(1,190)	544	234,567
Balance at 31 March 2016 carried forward	1,224,176	36,506	(4,229)	1,256,453

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Gross Expenditure £000	2014/15 Gross Income £000	Net Expenditure £000		Gross Expenditure £000	2015/16 Gross Income £000	Net Expenditure £000
282,121	(10,551)	271,570	Education Services	265,562	(9,772)	255,790
88,072	(79,755)	8,317	Housing Services	69,748	(61,904)	7,844
43,121	(48,183)	(5,062)	Council Housing - Housing Revenue Account	37,004	(49,751)	(12,747)
38,047	(10,892)	27,155	Cultural and Related Services	46,815	(10,762)	36,053
74,557	(30,021)	44,536	Environmental Services	59,638	(23,993)	35,645
81,131	(38,064)	43,067	Roads and Transport Services	84,535	(37,589)	46,946
18,553	(10,959)	7,594	Planning and Development Services	24,465	(11,814)	12,651
151,253	(13,467)	137,786	Social Work Services	159,185	(13,370)	145,815
19,744	(17,135)	2,609	Central Services to the Public	26,535	(7,672)	18,863
			Joint Board Requisitions:			
2,258	-	2,258	Highlands and Western Isles Valuation Joint Board	2,329	-	2,329
91	-	91	Highland and Islands Transport Partnership	91	-	91
10,450	(70)	10,380	Corporate and Democratic Core	8,388	(68)	8,320
3,615	-	3,615	Non Distributed Costs	7,409	-	7,409
327	-	327	Operating results associates	294	-	294
813,340	259,097	554,243	Cost of Services	791,998	(226,695)	565,303
		1,388	Other operating expenditure			3,951
		58,018	Financing and investment income and expenditure			60,045
		(624,147)	Taxation and non-specific grant income			(612,779)
		(10,498)	Deficit/(Surplus) on provision of services			16,520
		(91,539)	Deficit on revaluation of non-current assets			(114,792)
		-	Other recognised gains			(98)
		(3,140)	Remeasurements of the net defined liability			(136,197)
		(94,679)	Other comprehensive income and expenditure			(251,087)
		(105,177)	Total Comprehensive Income and Expenditure			(234,567)

GROUP BALANCE SHEET

31/03/15 £000 (restated)		31/03/16 £000
2,264,115	Property, plant & equipment	2,483,119
10,660	Heritage Assets	10,659
10,978	Long term investments	7,832
(4,773)	Investments in associates and joint ventures	(4,229)
45,417	Long term debtors (net of impairment)	49,878
<u>2,326,397</u>	Long term assets	<u>2,547,259</u>
632	Short term intangibles	731
22,038	Short term investments	19,298
3,338	Inventories	4,091
43,483	Short term debtors	43,978
42,800	Cash and cash equivalents	30,712
3,914	Assets held for sale	1,210
<u>116,205</u>	Current assets	<u>100,020</u>
(43,719)	Short term borrowing	(117,780)
(94,408)	Short term creditors	(107,318)
(1,363)	Provisions	(4,078)
(8,024)	Capital Grants Receipts in Advance	(13,276)
<u>(147,514)</u>	Current liabilities	<u>(242,452)</u>
(726,972)	Long term borrowing	(711,235)
(546,230)	Other long term liabilities	(437,139)
<u>(1,273,202)</u>	Long term liabilities	<u>(1,148,374)</u>
<u>1,021,886</u>	Net assets	<u>1,256,453</u>

GROUP BALANCE SHEET (CONTINUED)

31/03/15		31/03/16	31/03/16
£000		£000	£000
2,202	Capital Receipts Reserve	2,407	
1,711	Renewal and Repair Fund	1,670	
30,631	Capital Fund	30,550	
2,784	Insurance Fund	2,706	
42,240	General Fund	30,410	
7,328	Housing Revenue Account	7,328	75,071
<u>86,896</u>	Usable reserves		
438,165	Revaluation Reserve	545,550	
922,107	Capital Adjustment Account	952,287	
(31,052)	Financial Instruments Adjustment Account	(29,028)	
(418,069)	Pensions Reserve	(313,027)	
(9,084)	Employee Statutory Adjustment Account	(6,677)	1,149,105
<u>902,067</u>	Unusable reserves		
32,923	Share of group and associate reserves		32,277
<u>1,021,886</u>	Total reserves		<u>1,256,453</u>

The unaudited Annual Accounts were issued on 29 June 2016 and the audited Annual Accounts were authorised for issue on 29 September 2016.

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

Director of Finance

29 September 2016

GROUP CASH FLOW STATEMENT

2014/15		2015/16
£000		£000
10,498	Net (deficit)/surplus on the provision of services	(16,520)
102,991	Adjust net (deficit)/surplus on provision of services for non-cash movements	134,826
(66,060)	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	(49,520)
47,429	Net cash inflow from operating activities	68,786
(133,214)	Investing activities	(185,425)
87,060	Financing activities	104,551
1,275	Net increase or decrease in cash and cash equivalents	(12,088)
41,525	Cash and cash equivalents at 1 April 2015	42,800
42,800	Cash and cash equivalents at 31 March 2016	30,712

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

The group accounting policies are those specified for the single entity financial statements.

The accounting policies of all group members are materially the same as those of the single entity.

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 financial statements in the group accounts are prepared in accordance with the accounting policies set out in the accounting policies starting on page 45.

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 £32.277m. 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	(1,192)	(1,994)
Inverness Common Good	1,669	31,135
Nairn Common Good Fund	(17)	7,364
	<u>460</u>	<u>36,505</u>

Associates

Highland Council has interests in associates as follows:

- Highland and Western Isles Valuation Joint Board – 80%
- Highlands and Islands Transport Partnership – 27.3%

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 2015/16 were as follows:

Results for the year		Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		342	(5,053)
Highland and Islands Transport Partnership		73	(682)
		<u>415</u>	<u>(5,735)</u>

Group share		Deficit on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		274	(4,042)
Highland and Islands Transport Partnership		20	(186)
		<u>294</u>	<u>(4,228)</u>

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 2016 and the audited accounts were authorised for issue on 30 September 2016. 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 2016 the financial statements have been adjusted in all material respects.