

Annual Accounts

Aithris Chunntasan

2017/18

Unaudited

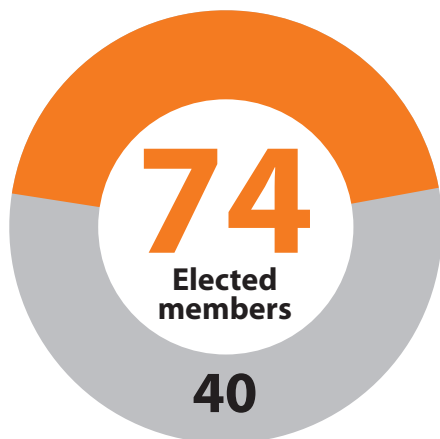
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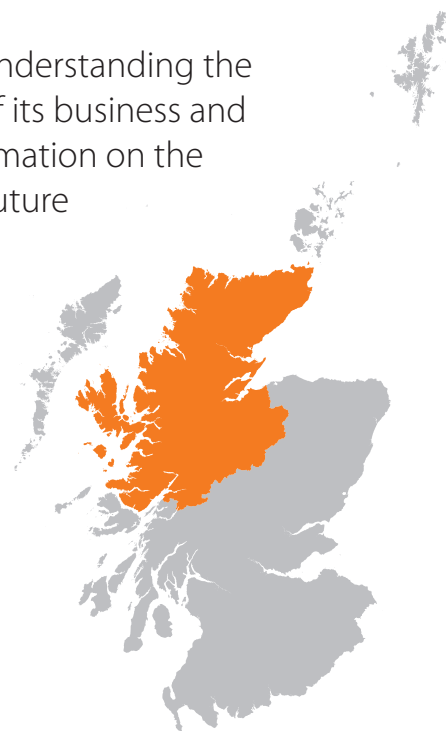
Management Commentary

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

About The Highland Council



**Coalition Administration of Independent,
Liberal Democrat, and Labour.**



235,180
Population (mid 2017)

Council Services

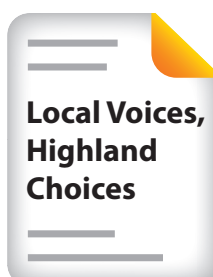


Council Priorities

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 2017/18

Council elections

May elections saw 31 new Councillors voted in and a majority Independent, Liberal Democrat and Labour administration formed.



Schools investment

Significant investment across the schools estate and the opening of the new Wick Community Campus at the start of the year.

Modern Apprentices

Continued investment in our workforce with over 85 modern apprentices now employed.

Chromebooks

The first pupils have received their own personal Chromebook, provided by the Council, as part of the ICT in Learning strategy.



Office rationalisation

Repurposing buildings in Fort William has seen the opening of the new Charles Kennedy offices, shared with other public sector partners, and the first tenants moving into the affordable housing in the former Tweeddale offices.

Commission on Highland democracy

Report published on the public's view of local democracy and how it can be improved.

Digital connectivity

£4.7m of UK Government funding secured to provide full fibre networks in Inverness, Fort William, Wick and Thurso.

Local Voices, Highland Choices

A new Council programme approved.



New capital programme

A programme of £482m of planned investment in our assets over the next 5 years was approved in March 2018.

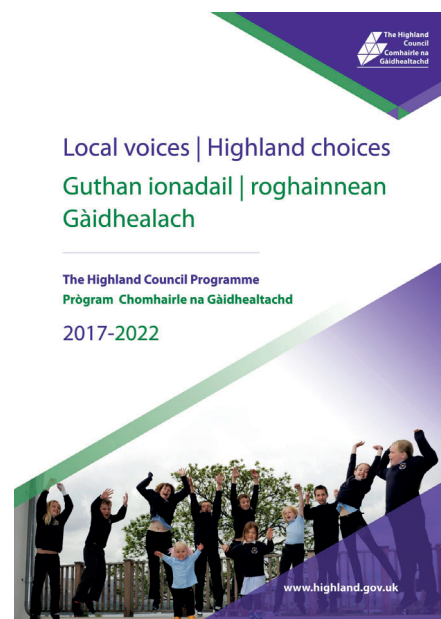
West Link

Opening of the West Link road and new sports facilities at Canal Parks.



City-Region Deal

Agreement to part fund new mid-market housing projects throughout the Highlands.

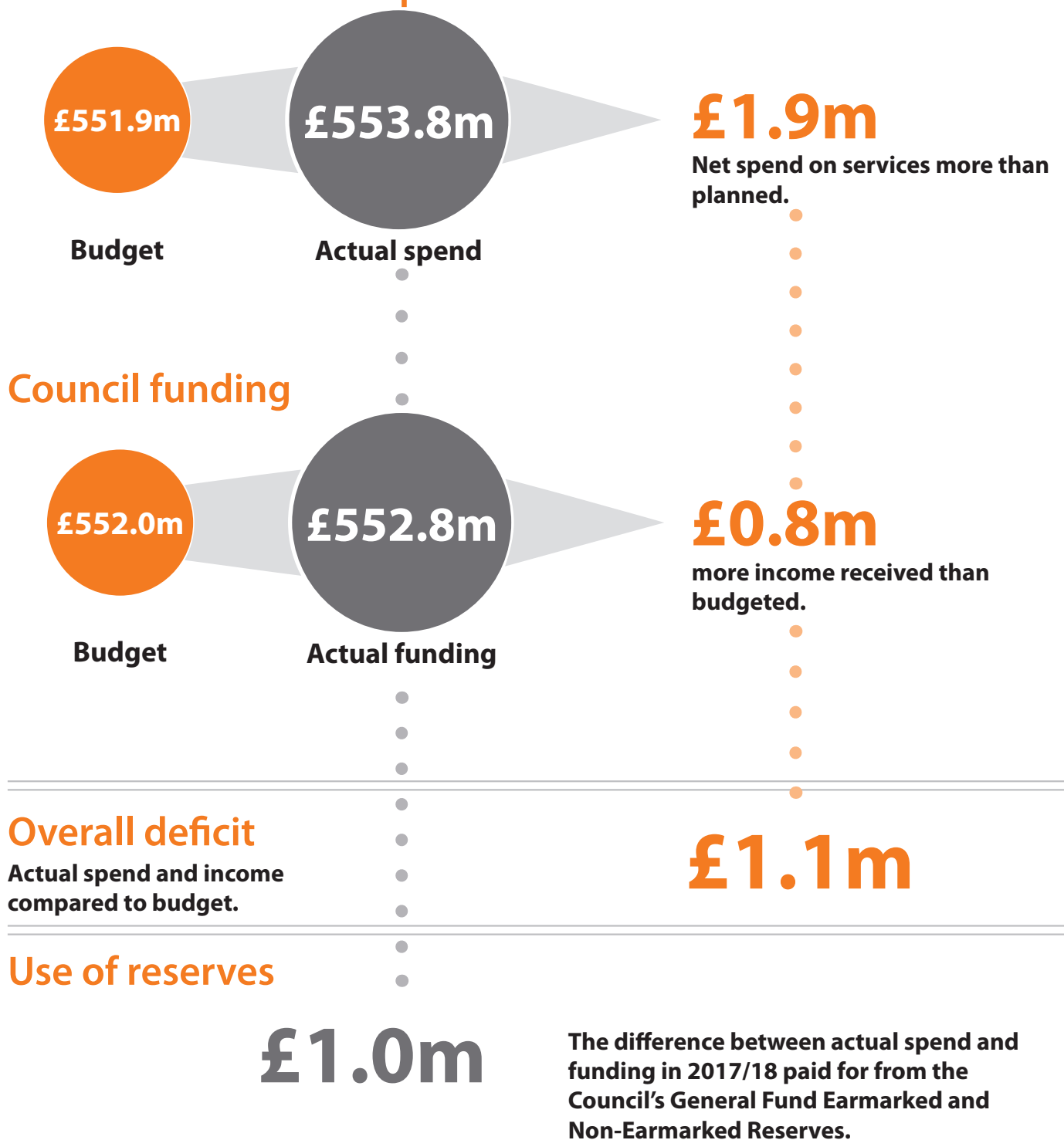


General Fund Revenue Outturn 2017/18

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1st April to 31st March.

It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. Note 8 to the accounts provides more detail. The expenditure and funding analysis statement in the accounts reconciles this position to the comprehensive income and expenditure statement.

General fund service spend



Commentary on year end position

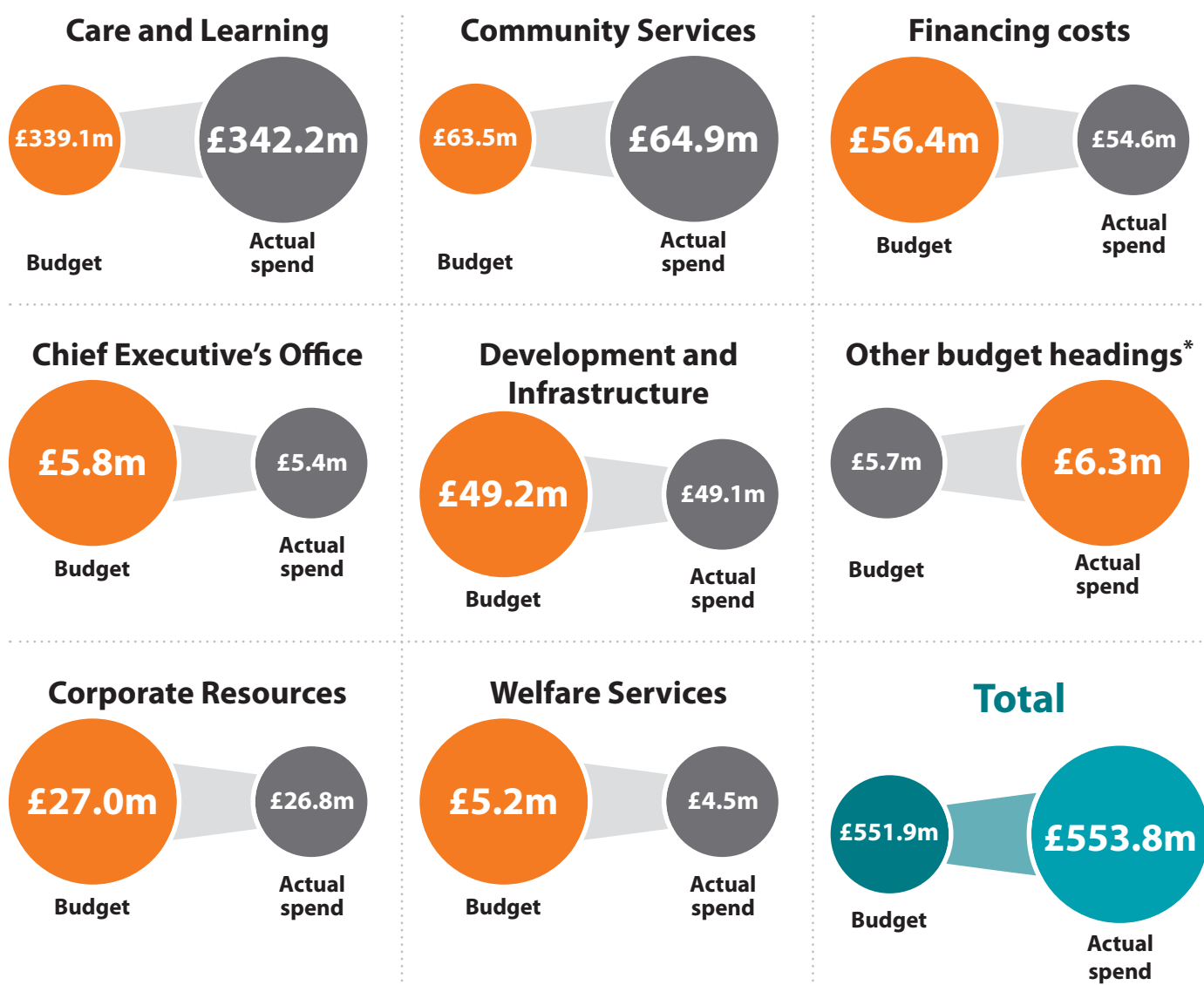
2017/18 was the first time in a number of years the Council has recorded an annual deficit which further illustrates the increasing difficulty all local authorities face in balancing their budgets in an environment of rising costs and flat or falling government funding.

A number of challenges faced the Council in 2017/18, most particularly the need to deliver over £15m of savings. For the most part these were successfully delivered but some services were not able to fully deliver all savings and £0.5m of savings were not able to be allocated and contributed to the deficit.

All services are facing their own budget issues with most able to manage any areas of overspend with compensatory underspends elsewhere. Two services faced particular challenges; Care and Learning had an overall overspend of £3.1m, the biggest contributory factor being an overspend of £3.4m on looked after children; and Community Services faced a particular pressure as a result of the harsh winter, an overspend on winter maintenance of £1.7m accounting for the entirety of their £1.4m overspend.

More detail on our 17/18 outturn was reported to our May Corporate Resources and other strategic committee meetings.

Some mitigation to these overspends was delivered from net underspends in other services as well as an underspend of £1.8m against our loans charges budget. Many areas of underspend will not be recurring into future years whereas certain cost overspends will be, placing further pressure on our 2018/19 budget and beyond.

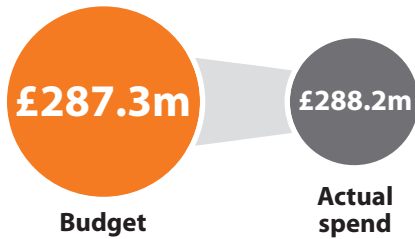


*includes NDR reliefs, joint board requisitions, welfare services, unallocated savings and transfers to reserves

Analysis of spend

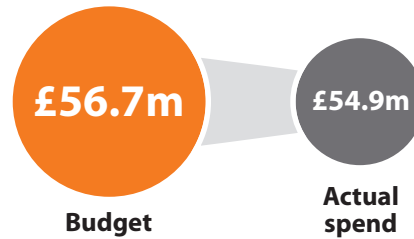
Staff costs

The cost of the Council's employees.



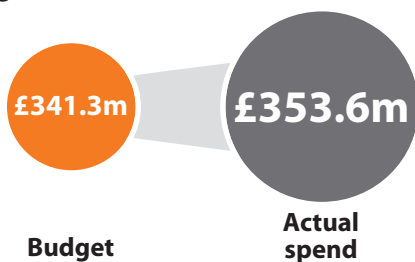
Financing costs

The cost of borrowing to finance capital investment.



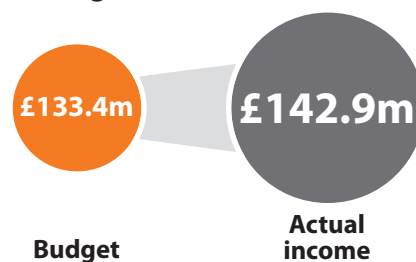
Other costs

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



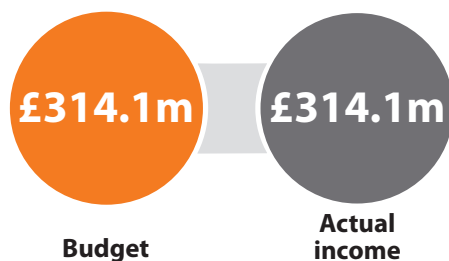
Service income

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



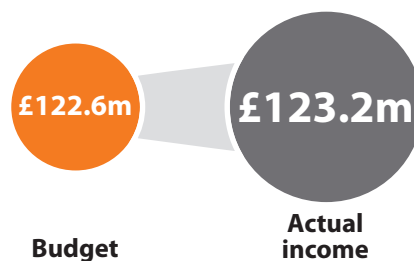
Council funding

Revenue Support Grant

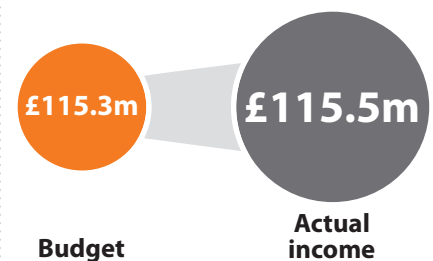


Funding direct from the Scottish Government.

Non-Domestic Rates



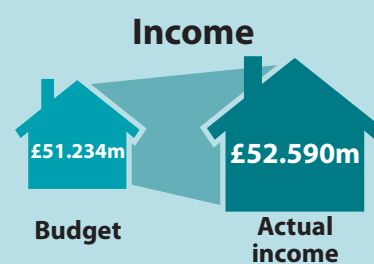
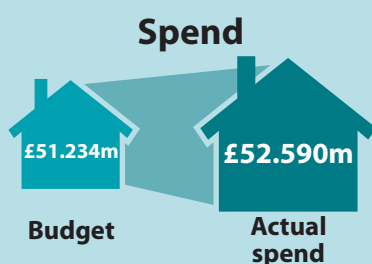
Council Tax



Housing revenue account



The Council owns 13,929 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

£8.6m

(2016/17 £11.4m)

Funds held as a general contingency.

Capital Fund

£25.0m

(2016/17 £27.2m)

To buy land for affordable housing provision.

Insurance Fund

£2.3m

(2016/17 £3.0m)

Insurance for items not covered by external insurance policies.

Capital Grants Unapplied

£10.0m

(2016/17 £0m)

Funds to support and accelerate the delivery of housing in the Highland area.

General Fund Earmarked Reserve

£16.5m

(2016/17 £14.6m)

Funds held for specific purposes, more details at note 8. Figure includes the £1.6m early receipt of 2018/19 Government funding.

Renewal and Repair Fund

£1.7m

(2016/17 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2016/17 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2016/17 £1.4m)

Capital receipts available to finance future capital expenditure.

Total Useable Reserves

£72.8m

(2016/17 £66.6m)

See notes 8 and 11 in the accounts for more details on these reserves.

1.6%

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

Use of useable revenue reserves during the year

-£1.1m

Overall deficit in 2017/18,
met from general fund
non-earmarked balances

-£3.4m

Use of earmarked balances for
their specified purposes

**Net use of General Fund
reserves**

-£1.0m

+£1.6m

Early receipt of 2018/19
Government funding added to
earmarked balances

+£1.9m

Increase in earmarked balances
from 2017/18 service budgets,
mainly developer contributions

Capital Outturn 2017/18

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.

£88.3m Net capital spend in 2017/18 (excluding HRA).

£66.8m Capital expenditure originally planned for 2017/18 but now superseded by the new programme.

£7.4m Overspend on capital projects delivered in the year.

Projects with the largest net capital spend in 2017/18:

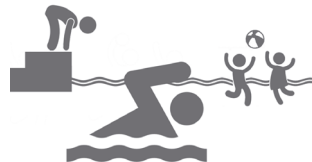
Investment in school buildings

£23.1m



Investment in
sport, community and
leisure facilities

£7.6m



Investment in roads
and bridges

£16.3m



Housing Revenue Account

£38.1m investment in
housing stock in 2017/18



Funding of the Capital Programme

£49.4m of the 2017/18
capital spend was funded by
borrowing. More information
on borrowing, treasury
management and loans fund
liabilities can be found in the
Council's annual report and
strategy statement:

**[www.highland.gov.uk/
treasury](http://www.highland.gov.uk/treasury)**

Assets and Liabilities

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

Total Assets



(Increase in short term assets due to increase in cash and cash equivalents held)

Total Liabilities



(Decrease in long term liabilities due to decrease in pension liability and decrease in long term borrowing. Increase in short term liability due to increase in short term borrowing)

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

£868.4m



Infrastructure assets

£409.6m



Other assets

£118.5m



Other land and buildings

£1,198.7m



Vehicles, plant and equipment

£66.8m



Liabilities

Borrowing

-£942.9m



Pensions liability

-£247.9m



Finance leases

-£161.5m



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

Short term creditors

-£103.3m



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

Other liabilities

-£12.5m



9.86%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2016/17 10.13%).

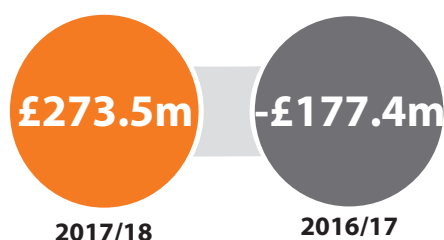
Group Accounts

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:



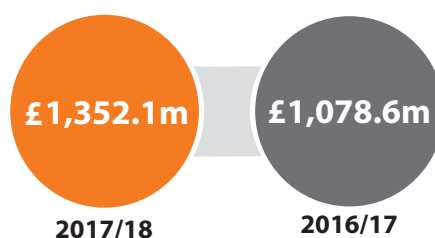
Key Group Financial Information

Total Comprehensive income and expenditure



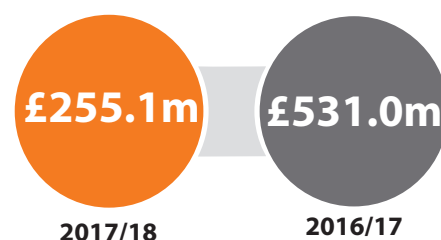
The overall change in total Group reserves calculated on an accounting basis.

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 full Council. 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
- Local & National Statutory Performance Indicators (including benchmarking)
- Citizen's Panel Performance and Attitudes Survey.

Visit: www.highland.gov.uk/performance

Local and National Statutory Performance Indicators 2016/17

The latest year's Statutory Performance Indicators (SPI's) for 2016/17 demonstrate improved performance on the year. This is a positive report of improving performance overall with 76% of either SPI's improving by more than 5% or performance was maintained. This compares to 75% for the year before.

Indicators that have shown a change of:



Care and Learning

- **Libraries** Number of visits per 1,000 population increased from 10,661 to 13,110.
- **Social Care** The proportion of adults (18+) who use direct payments for their care increased from 5.3% to 8.3%.

Corporate Resources

- **Council Tax** Council Tax collection costs decreased from £10.68 to £8.83.
- **Equalities** The Gender pay gap decreased from 8.6% to 7.2%.
- **Business** Total direct spend with Highland small and medium sized enterprises increased from 25.7% to 30.1%.

Community Services

- **Street cleaning costs** The cost of street cleaning per 1,000 population has decreased from £11,418 to £9,192.

- **Waste costs** The net cost of waste collection per premises has decreased from £94.44 to £78.27.
- **Housing** The average time to complete emergency repairs (hours) has decreased from 7.9 to 6.9.

Development and Infrastructure

- **Business** The number of Business Gateway start-ups per 10,000 population increased from 10.76 to 12.14.
- **Planning Costs** The cost per planning application has decreased from £4,286.54 to £3,683.53.

Indicators that have shown a change of:



Care and Learning

- **Education** Teachers sickness absence (average working days lost) increased from 6.1 to 6.9 days.
- **Education** Scottish Credit & Qualifications Framework

(SCQF) Level 5 attainment by children from deprived backgrounds decreased from 34% to 27%.

- **Social Care costs** Adult Home Care costs per hour for people aged 65+ increased from £32.66 to £36.09.
- **Children's Services** Time taken (months) between a child being accommodated and permanency being achieved has increased from 9.7 months to 16.7 months.

Community Services

- **Roads cost** The cost of road maintenance per km increased from £6,200.86 to £8,584.22.
- **Homelessness** Households in temporary accommodation increased from 541 to 658.

Corporate Resources

- **Creditors** The unit cost of creditors invoiced increased from £1.30 to £1.57.
- **Rates** The cost of Non Domestic Rates collection per chargeable property increased from £17.75 to £20.29.

Risks, Uncertainties and Future Developments

2018/19 budget

Savings of £11.7m require to be delivered and the Council also agreed to increase Council Tax by 3%. Already challenges have been identified in delivering some of the savings, risking a further depletion of our reserves unless alternative savings can be found.

Demographic change and demand for services

The changing profile of our population in terms of age and location will see increasing demand for certain services in certain locations whilst questioning the sustainability of others.

Geopolitical factors

Around 80% of our funding comes from the Scottish Government. Brexit and other wider macroeconomic and political issues mean great uncertainty over the state of public sector finances and a potential impact on this funding source.

Asset condition

The physical condition of our roads, schools and other assets has been declining. Despite significant historic and planned investment that condition may well decline further.

Reserves

With non-earmarked reserves at an historic low of 1.6% of the annual revenue budget the Council is vulnerable to unforeseen events and has limited means to effect transformational change.

Pay

Current pay negotiations suggest that local government is facing upward pressure for higher pay settlements. Without Scottish Government support these will be unaffordable without impacting severely on services and employment opportunities.

Grant Funding

The level of funding for core services is forecast to continue to reduce in real terms. The current situation whereby the Council receives a single year grant allocation means that it is difficult to plan ahead with any certainty.

Changes in senior staff

The planned retirements of the Chief Executive and Director of Care and Learning will require a period of transition at a time when strong leadership is required.

Satisfaction with Council Services

Overall public satisfaction with Council services sits at 73% and has been declining over the last 5 years. The financial challenges faced by the Council may see this reducing further.

Workforce

The Council's workforce is ageing with 43% of staff over the age of 50. Projections show that 43,000 jobs will need to be filled in the Highland region by 2027 at a time when the working age population is expected to fall by over 4%.

Looking Ahead

The Scottish government's 5 year financial strategy announced in May 2018 suggests difficult times lie ahead for local government finances. The national government's priority areas of health, early years, educational attainment, further education and policing would suggest that funding for core local government services will, at best, remain at their current level in cash terms over the coming period. At worst we could see sizeable reductions in the grant settlement we receive from government.

In recent years the Council has had to make significant savings in order to balance its budget and a significant level of further savings will be required. Our strategy for setting a budget covering at least the next 3 year period to 2022 with a continued focus on redesign will look to ensure the Council delivers services as efficiently as possible and identifies further means of income generation. Those measures alone will not close our budget gap and elected members will have to make difficult decisions to stop or reduce services. The impact of those service reductions on all local residents will need to be clearly articulated and justified.

The Council will need to link financial and workforce planning to ensure that the Council has the right skills mix to deliver priority services. Our workforce planning priority themes are transition, future workforce, leadership and management and flexible workforce. Considered planning of our workforce will help ensure the continued engagement and motivation of our staff, minimise any costs of redundancy or retirement, and result in better outcomes for our residents.

The overall deficit recorded in these accounts for 2017/18 highlights the increasing challenge the Council faces. Despite our strong record of financial management and budgetary control the perfect storm of reducing government funding, our low level of reserves and significant budget reductions already made mean that the ongoing financial sustainability of the Council will be put at risk unless significant change is made.

Steve Barron
Chief Executive
20th September 2018

Margaret Davidson
Leader of the Council
20th September 2018

Derek Yule
Depute Chief Executive/
Director of Corporate Resources
20th September 2018

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 Depute Chief Executive & Director of Corporate Resources;
- (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 20 September 2018.

Signed on behalf of Highland Council

Margaret Davidson

Leader of the Council
20 September 2018

The Depute Chief Executive & Director of Corporate Resource's Responsibilities

The Depute Chief Executive & Director of Corporate Resources 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 2017/18 (the Code).

In preparing this Annual Accounts, the Depute Chief Executive & Director of Corporate Resources 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 Depute Chief Executive & Director of Corporate Resources 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 2018.

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

Depute Chief Executive & Director of Corporate Resources
15 June 2018

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

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

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

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

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

The Purpose of the governance framework

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

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

The governance framework has been in place for the year ended 31 March 2018 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code of Corporate Governance was agreed by Council in October 2017. The basis of the 2017/18 Local Code is the new Framework and Guidance issued by CIPFA and SOLACE which identifies seven core principles, each with a number of sub-principles. The core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the authority's capacity including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2017/18

The progress in delivering the actions set out in the Code is monitored quarterly through the Council's Performance Management System. The majority of actions within the 2016/17 Local Code were completed or are on target and where appropriate some actions have been carried forward or revised into the 2017/18 Code. There are a small number of actions with some 'slippage' and these have also been included in the revised Code. These actions include:

- Measuring value for money through statutory and local performance indicators;
- Delivery of budget reductions and savings;
- The use of the organisation's shared values as a guidance for decision making.

However, the on-going actions required from the Council Re-design, Workforce and Finance Planning, and Community Empowerment Act will continue to be part of the Code to ensure the Council remains focussed on these key issues and continues to manage its financial and resource challenges.

Review of Effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Head of Corporate Governance 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 Head of Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

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

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the 2017/18 Local Code during this year has not identified any control weaknesses in these arrangements.

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

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

The Corporate Audit Manager's responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report and Annual Governance Statement (AGS) 2017/18 to the Audit and Scrutiny Committee on 14 June 2018.

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

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2017/18

The 2017/18 Internal Annual Report and Annual Governance Statement refers to a total of 72 audit recommendations being made and of these, 38 were classified as high grade. There are no particular themes or issues identified within the high graded recommendations.

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 2018.

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

Significant Governance Issues

Update on significant governance issues previously reported:

The 2016/17 AGS referred to 3 high grade actions being addressed by management but were taking longer to implement than originally planned. Both actions relating to Inverness Old Town Arts and Inverness City Arts Group have now been closed following the advice of the Council's External Legal Advisors. The final action is in respect of Ben Wyvis Primary School and the rollout of tablets and software to area based Clerk of Works. This has been delayed due to the wider issue relating to the ICT rollout. As this particular action is not a significant governance issue it will not be reported in future years.

No further significant governance issues were identified from the 2017/18 Internal Audit work undertaken.

Inverness and Nairn Common Good Funds

- No significant weaknesses were identified.

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Transport Partnership

- No significant weaknesses were identified.

High Life Highland

- No significant weaknesses were identified.

Margaret Davidson

Leader of the Council
20 September 2018

Steve Barron

Chief Executive
20 September 2018

INDEPENDENT AUDITOR'S REPORT

REMUNERATION REPORT

Highland Council Remuneration Report

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

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

1. Remuneration Arrangements

i) Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of councillors, for the purposes of remuneration arrangements, as either the Leader 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.

The framework for councillor pay arose from the work of the Scottish Local Authorities Remuneration Committee (SLARC) which was established under the Local Governance (Scotland) Act 2004 to advise Scottish Ministers on the payment by local authorities of councillor remuneration, pensions and expenses.

The salary that is to be paid to the Leader of the Council is set out in the regulations. For 2017/18 the remuneration for the Leader of Highland Council is £39,418 to 4 May 2017, the date of the 2017 local government election, and £39,497 from 5 May 2017. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council in 2017/18 - and set out the maximum salary that can be paid to a Senior Councillor and to the Civic Head as 75% of the Leader's salary i.e. £29,565 to 4 May 2017 and £29,624 from 5 May 2017.

The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have, excluding the Leader and the Civic Head. The total amount payable by the Council for remuneration of all of its Senior Councillors cannot exceed £442,140 for 2017/18 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 2017/18 for all councillors was £1,360,865 (2016/17: £1,489,547). 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.

Following the local government election on 4 May 2017, revised governance arrangements and a revised Scheme of Remuneration for the Leader, Convener, Depute Council Leader and Senior Councillors were agreed by Council on 1 June 2017. The report is at the following link: https://www.highland.gov.uk/meetings/meeting/3835/highland_council There was a minor amendment to the agreed Scheme of Remuneration as a result of a Council decision on 14 December 2017.

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

Remuneration of Senior Councillors and Conveners and Vice-Conveners of Joint Boards for 2017/18

There were a number of changes in Senior Councillors during 2017/18 as a result of the local government election and formation of the new Council in May 2017 and revised governance arrangements agreed by Council on 1 June 2017. The revised governance arrangements included changes to the pay levels for some Senior Councillor positions. These are reflected in the table below.

The salary listed in the table below 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. The 2017/18 full year equivalent salary for the role is shown in brackets.

Councillors are listed in alphabetical order.

2016/17	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2017/18		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Andrew Baxter	Vice Chair of Corporate Resources Committee (£20,774)	01/06/17	14/12/17	21,519	1,296	22,815
		Chair of Care, Learning and Housing Committee (formerly People Committee) (Note 1) (£25,474)	15/12/17				
23,411	Isabelle Campbell	Vice Chair of Education, Children and Adult Services Committee (£20,774)	25/06/15	04/05/17	17,289	605	17,894
25,474	Helen Carmichael	Provost and Leader of Inverness and Area ((i) to 04/05/17: £25,474 (ii) from 19/06/17: £20,774)	25/06/15	04/05/17	20,745		20,745
			19/06/17				
n/a	Alasdair Christie	Depute Leader of the Council (£29,624)	18/05/17		27,983		27,983
		Chair of People Committee (£0) (Note 3)	01/06/17	14/12/17			

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2016/17	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2017/18		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
20,774	Ian Cockburn	Chair of Licensing Committee (and Chair of Licensing Board) (£20,774)	11/06/15	04/05/17	17,289		17,289
39,418	Margaret Davidson	Leader of the Council ((i) to 04/05/17: £39,418 (ii) from 18/05/17: £39,497)	11/06/15	04/05/17	38,701		38,701
			18/05/17				
26,960	William Fernie	Chair of Resources Committee (£25,474)	11/06/15	04/05/17	2,397		2,397
n/a	John Finlayson	Vice Chair of Care, Learning and Housing Committee (formerly People Committee) (Note 1) (£20,774)	01/06/17		18,540	2,444	20,984
25,474	Hamish Fraser	Chair of Communities and Partnerships Committee (£25,474)	21/01/16	04/05/17	2,397		2,397
21,118	Ken Gowans	Convener of Highland & Western Isles Valuation Joint Board (£21,118) (Note 4a)	17/09/15	04/05/17	17,321		17,321
n/a	James Gray	Convener of Highland & Western Isles Valuation Joint Board (£21,160) (Note 4b)	27/06/17		20,146		20,146
24,570	Richard Greene	Vice Chair of Community Services Committee (£20,774)	25/06/15	04/05/17	1,955		1,955

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2016/17	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2017/18		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
28,041	Allan Henderson	Chair of Community Services Committee (£25,474)	11/06/15	04/05/17	24,854	2,984	27,838
		Chair of Environment, Development and Infrastructure Committee (formerly Places Committee) (Note 2) (£25,474)	01/06/17				
25,474	Richard Laird	Chair of Audit and Scrutiny Committee (£25,474)	11/06/15	04/05/17	24,854		24,854
			01/06/17				
n/a	Bill Lobban	Convener of the Council (£29,624)	18/05/17		27,983	1,931	29,914
n/a	Donald MacKay	Chair of Caithness Committee (£18,000)	16/06/17		17,773	1,404	19,177
20,774	Alister Mackinnon	Vice Chair of Resources Committee (£20,774)	25/06/15	04/05/17	24,411		24,411
		Chair of Corporate Resources Committee (£25,474)	01/06/17				
29,565	Isobel McCallum	Convener of the Council (£29,565)	11/06/15	04/05/17	2,782		2,782
25,474	Andrew Millar	Chair of Education, Children and Adult Services Committee (£25,474)	11/06/15	04/05/17	2,397		2,397
n/a	Hugh Morrison	Vice Chair of Environment, Development and Infrastructure Committee (formerly Places Committee) (Note 2) (£20,774)	01/06/17		20,130	1,956	22,086

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2016/17	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2017/18		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Linda Munro	Chair of Sutherland County Committee (£18,000)	23/06/17		17,752	1,714	19,466
20,909	Graham Phillips	Vice Chair of Audit and Scrutiny Committee (£20,774)	11/06/15	04/05/17	1,955		1,955
23,354	Matthew Reiss	Vice Chair of Planning, Development and Infrastructure Committee (£20,774)	25/06/15	04/05/17	18,426	2,372	20,798
		Vice Chair of Corporate Resources Committee (£20,774)	15/12/17				
29,565	Alasdair Rhind	Depute Leader of the Council (£29,565)	25/06/15	04/05/17	11,339		11,339
20,774	Fiona Robertson	Vice Chair of Education, Children and Adult Services Committee (£20,774)	25/06/15	04/05/17	20,302		20,302
		Chair of Ross and Cromarty Committee (£20,774)	19/06/17				
n/a	Patricia Robertson	Vice Chair of Environment, Development and Infrastructure Committee (formerly Places Committee) (Note 2) (£20,774)	01/06/17		20,130		20,130
21,048	Graham Ross	Vice Chair of Communities and Partnerships Committee (£20,774)	10/03/16	04/05/17	17,289		17,289

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2016/17	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2017/18		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
28,537	Audrey Sinclair	Chair of Planning, Development and Infrastructure Committee (£25,474)	11/06/15	04/05/17	2,397		2,397
25,474	Maxine Smith	Leader of the Opposition (£25,474)	11/06/15	04/05/17	25,175	155	25,330
			18/05/17				
n/a	Kate Stephen	Vice Chair of Care, Learning and Housing Committee (formerly People Committee) (Note 1) (£20,774)	01/06/17		20,130		20,130
506,188	Total				506,361	16,861	523,222

Notes :

1. The "People Committee", which was set up under the new governance arrangements agreed by Council on 1 June 2017, was renamed the "Care, Learning and Housing Committee" by Council on 8 March 2018.
2. The "Places Committee", which was set up under the new governance arrangements agreed by Council on 1 June 2017, was renamed the "Environment, Development and Infrastructure Committee" by Council on 7 September 2017.
3. No additional remuneration received for the role of Chair of the People Committee as it was held as a combined Senior Councillor role with the role of Depute Leader of the Council.
4. Recharges to Highland and Western Isles Valuation Joint Board :
 - (a) £394 was recharged to Highland and Western Isles Valuation Joint Board in 2017/18 (2016/17: £4,225)
 - (b) £3,225 was recharged to Highland and Western Isles Valuation Joint Board in 2017/18 (2016/17 : £0)

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

Members' Allowances and Expenses

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

2016/17 £000		2017/18 £000
1,490	Remuneration	1,361
228	Travel and Subsistence	186
34	All Other Expenses	23
1,752	Total	1,570

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/149 sets the amount of salary for the Chief Executive of Highland Council for the year 2017/18. 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 role of Depute Chief Executive, which is allocated (in a competitive selection process) to one of the Directors, attracts an additional responsibility payment. At the Highland Council meeting on 7 September 2017 it was agreed that this payment should be reduced from the previous level of 10% of the Director's salary to an annual payment of £5,000.

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.

Remuneration for Senior Employees for 2017/18 is shown in the table on the following page.

Remuneration of Senior Employees for 2017/18

Where a post was not held throughout the whole of 2017/18, the full year equivalent salary for the role is shown in brackets.

2016/17 (restated) (Note 1)	Senior Employee	Position	2017/18	
Total Remuneration £			Salary, Fees and Allowances £	Total Remuneration £
146,517	Steve Barron	Chief Executive (Notes 1 and 2)	147,989	147,989
121,294	Michelle Morris	Depute Chief Executive & Director of Corporate Development (to 15/10/17) (£122,508)	61,583	61,583
110,268	Derek Yule	Director of Finance (to 30/09/17) (£111,371) Director of Corporate Resources (01/10/17 to 31/10/17) (£111,371) Depute Chief Executive & Director of Corporate Resources (from 01/11/17) (£116,371)	113,454	113,454
110,268	William Alexander	Director of Care & Learning	111,371	111,371
110,268	William Gilfillan	Director of Community Services	111,371	111,371
110,268	Stuart Black	Director of Development & Infrastructure	111,371	111,371
85,062	Ian Murray	Chief Executive, High Life Highland	85,912	85,912
n/a	Stewart Fraser	Head of Corporate Governance (Notes 3 and 4)	76,340	76,340
75,585	Carron McDiarmid	Head of Policy & Reform (Note 3)	76,340	76,340
49,795	Ruth Cleland	Corporate Communications Manager (Note 3)	51,797	51,797
919,325	Total		947,528	947,528

No taxable expenses or Compensation for Loss of Office payments were made in 2017/18. For notes to the table, refer to page 28.

Notes to table on page 27:

1. 2016/17 remuneration restated to exclude £13,418 paid to the Chief Executive in his roles as Returning Officer and Regional Returning Officer for the Scottish Parliamentary Election in May 2016 and £6,098 in his role as Counting Officer for the European Referendum in June 2016.
2. 2017/18 remuneration excludes £273 paid to the Chief Executive in his roles as Returning Officer and Regional Returning Officer for the Scottish Parliamentary Election in May 2016, £2,033 in his role as Counting Officer for the European Referendum in June 2016 and £6,505 in his role as Returning Officer for the Westminster Parliamentary Election in June 2017.
3. 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.
4. The Head of Corporate Governance post is a politically restricted post following the service restructuring which took place during 2017/18.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2017/18	2016/17
50,000 - 54,999	162	191
55,000 - 59,999	86	68
60,000 - 64,999	20	20
65,000 - 69,999	6	13
70,000 - 74,999	14	10
75,000 - 79,999	10	11
80,000 - 84,999	1	3
85,000 - 89,999	-	2
90,000 - 94,999	-	2
95,000 - 99,999	-	2
100,000 - 104,999	-	-
105,000 - 109,999	-	-
110,000 - 114,999	4	4
115,000 - 119,999	-	-
120,000 - 124,999	-	1
125,000 - 129,999	-	1
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	-	-
145,000 - 149,999	1	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. The 2017/18 figures include 4 employees who were members of the Highland Council Pension Fund and entitled to immediate pension on leaving the Council (2016/17: 24). The gross actuarial cost of these exit packages is £0.236m (2016/17: £0.713m) and the net savings, on an actuarial basis, are £1.152m (2016/17: £3.806m).

2016/17		Cost Band	2017/18	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
42	456,600	£0 - £20,000	10	59,404
24	621,095	£20,001 - £40,000	2	57,244
9	432,848	£40,001 - £60,000	-	-
3	211,735	£60,001 - £80,000	-	-
1	99,035	£80,001 - £100,000	3	274,844
5	638,263	£100,001 - £150,000	2	242,153
1	156,920	£150,001 - £200,000	-	-
3	679,342	£200,001 - £250,000	-	-
1	250,857	£250,001 - £300,000	-	-
89	3,546,695	Total	17	633,645

The 2016/17 figures include 23 employees who left under the Employee Early Release Scheme (EERS), the terms of which were agreed by members at the Council Meeting of 15 December 2016. The scheme was open for applications from 5 to 20 January 2017. Applications recommended for approval by Service Directors were agreed by Members at the Council meeting of 16 February 2017.

2. Appointments**i) Councillors**

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. Following the local government election and the formation of the new council in May 2017, the positions of Leader of the Council, Convener of the Council, Depute Leader of the Council and Leader of the Opposition were appointed on 18 May 2017. Revised governance arrangements were agreed by Council on 1 June 2017, at which point most of the remaining Senior Councillors were appointed. The Chairs of Area Committees were appointed at the first Area Committee meeting following the election, with the appointments approved at the next Council meeting.

The Senior Councillor posts held in the Council during 2017/18 were:

From 1 April 2017 to 4 May 2017

Leader of the Council
 Convener of the Council – Civic Head
 Depute Leader of the Council
 Leader of the Opposition
 Chair of Audit and Scrutiny Committee
 Chair of Communities and Partnerships Committee
 Chair of Community Services Committee
 Chair of Education, Children and Adult Services Committee
 Chair of Planning, Development and Infrastructure Committee
 Chair of Resources Committee
 Vice Chair of Audit and Scrutiny Committee
 Vice Chair of Communities and Partnerships Committee

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Vice Chair of Community Services Committee
Vice Chair of Education, Children and Adult Services Committee (2 posts)
Vice Chair of Planning, Development and Infrastructure Committee
Vice Chair of Resources Committee
Chair of Licensing Committee and Board
Leader of Inverness and Area

May/June 2017 Appointments

Leader of the Council (from 18 May 2017)
Convener of the Council – Civic Head (from 18 May 2017)
Depute Leader of the Council (from 18 May 2017) *
Leader of the Opposition (from 18 May 2017)
Chair of Audit and Scrutiny Committee (from 1 June 2017)
Chair of Corporate Resources Committee (from 1 June 2017)
Chair of People Committee/Care, Learning and Housing Committee (committee name amended by Council on 8 March 2018) (from 1 June 2017) *
Chair of Places Committee/Environment, Development and Infrastructure Committee (committee name amended by Council on 7 September 2017) (from 1 June 2017)
Vice Chair of Corporate Resources Committee (from 1 June 2017)
Vice Chair of People Committee/Care, Learning and Housing Committee (committee name amended by Council on 8 March 2018) (from 1 June 2017) (2 posts)
Vice Chair of Places Committee/Environment, Development and Infrastructure Committee (committee name amended by Council on 7 September 2017) (from 1 June 2017) (2 posts)
Leader of Inverness and Area (from 19 June 2017)
Chair of Caithness Committee (from 16 June 2017)
Chair of Ross and Cromarty Committee (from 19 June 2017)
Chair of Sutherland County Committee (from 23 June 2017)

* Combined role of Depute Leader of the Council and Chair of People Committee from 1 June 2017 to 14 December 2017

ii) Senior Employees

Following the formation of the new council in May 2017, the Head of Service Appointments Panel comprised the Chair and Vice Chair of Corporate Resources Committee, the Chair and Vice-Chair of the relevant Strategic Committee (or the Leader and Depute Leader of the Council where the Chief Executive's Office or Corporate Resources Service is involved), Ms M Smith, Mr G MacKenzie and Mr P Saggars.

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 linked to the State Pension Age.

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.

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The 2017/18 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2017/18
On earnings up to and including £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	12.00%

2016/17 contribution tiers and rates:

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

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

The 2017/18 employer's contribution rate is 19.5% of pensionable pay (2016/17: 19%).

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

The value of the accrued benefits for active members of the pension scheme 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 in the following tables relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current appointment.

Senior Councillor Pension Benefits

The pension entitlements for Senior Councillors for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

Councillors are listed in alphabetical order.

For responsibilities of each Senior Councillor, refer to the table on page 21.

Pension Contributions 2016/17 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2017/18 £	Accrued Pension Benefits			
			As at 31/03/18		Difference from 31/03/17	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
n/a	Andrew Baxter	4,057	2	0	1	0
3,944	Isabelle Campbell	3,434	4	1	0	0
4,836	Helen Carmichael *	1,556	4	27	0	25
n/a	Alasdair Christie	5,250	4	0	1	0
0	Ian Cockburn	2,715	0	0	0	0
7,483	Margaret Davidson	7,652	6	2	1	0
4,836	William Fernie *	881	3	22	-1	21
n/a	John Finlayson	3,278	0	0	0	0
4,836	Hamish Fraser *	881	1	9	-1	9
4,009	Ken Gowans	3,446	2	0	0	0
4,836	Allan Henderson	4,846	4	1	1	0
4,836	Richard Laird	4,202	2	0	1	0
n/a	Bill Lobban	5,250	2	0	1	0
n/a	Donald MacKay	3,448	2	0	0	0

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Pension Contributions 2016/17 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2017/18 £	Accrued Pension Benefits			
			As at 31/03/18		Difference from 31/03/17	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,944	Alistair Mackinnon	4,684	2	0	1	0
5,613	Isobel McCallum *	1,023	4	2	0	0
4,836	Andrew Millar *	881	3	21	-1	19
n/a	Hugh Morrison	3,862	2	0	0	0
n/a	Linda Munro	3,444	4	1	0	0
3,944	Graham Phillips *	719	3	0	1	0
3,944	Matthew Reiss	3,593	2	0	0	0
5,613	Alasdair Rhind	2,416	4	1	0	0
3,944	Fiona Robertson	4,094	3	0	1	0
n/a	Patricia Robertson	3,862	1	0	0	0
3,926	Graham Ross	3,434	2	0	0	0
4,836	Audrey Sinclair *	881	2	0	1	0
4,836	Maxine Smith	4,909	3	0	1	0
n/a	Kate Stephen	3,862	2	0	0	0
85,052	Total	92,560	73	87	8	74

* Ceased active membership of the pension scheme during 2017/18 and received immediate payment of benefits

Senior Employee Pension Benefits

The pension entitlements of Senior Employees for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

For the position(s) held by each Senior Employee, refer to the table on page 27.

Pension Contributions 2016/17 £	Senior Employee	Pension Contributions 2017/18 £	Accrued Pension Benefits			
			As at 31/03/18		Difference from 31/03/17	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
27,838	Steve Barron	28,858	65	123	4	1
23,046	Michelle Morris	12,009	43	75	1	0
20,951	Derek Yule	22,124	59	122	4	3
20,951	William Alexander	21,717	57	118	3	1
20,951	William Gilfillan	21,717	45	81	3	1
20,951	Stuart Black	21,717	51	98	3	1
16,162	Ian Murray	16,753	43	87	2	1
n/a	Stewart Fraser	14,886	29	51	2	1
14,361	Carron McDiarmid	14,886	33	63	2	1
9,461	Ruth Cleland	10,100	4	0	1	0
174,672	Total	184,767	429	818	25	10

Margaret Davidson
Leader of the Council
20 September 2018

Steve Barron
Chief Executive
20 September 2018

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulation; which may differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis on page 44/45 and in the Movements in Reserves Statement on page 38/39.

2016/17 (restated)				2017/18			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
49,429	(50,547)	(1,118)	Council Housing – Housing Revenue Account		56,566	(52,553)	4,013
373,219	(19,961)	353,258	Care & Learning		402,961	(25,064)	377,897
161,498	(72,014)	89,484	Community Services		168,968	(76,349)	92,619
10,556	(4,017)	6,539	Chief Executives		10,580	(3,428)	7,152
51,886	(15,694)	36,192	Corporate Resources		46,154	(12,906)	33,248
98,286	(47,369)	50,917	Development & Infrastructure		103,419	(48,153)	55,266
53,022	(50,315)	2,707	Welfare Services		47,635	(43,178)	4,457
			Joint board requisitions				
2,404	-	2,404	Highland and Western Isles Valuation Joint Board		2,370	-	2,370
91	-	91	Highland and Islands Transport Partnership		91	-	91
800,391	(259,917)	540,474	Service Totals		838,744	(261,631)	577,113
(77,082)	77,082	-	Elimination of Internal Transactions		(75,906)	75,906	-
723,309	(182,835)	540,474	Cost of Services Carried Forward		762,838	(185,725)	577,113

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2016/17 (restated)			2017/18				
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
723,309	(182,835)	540,474	Cost of services brought forward		762,838	(185,725)	577,113
		1,650	Losses on the disposal of non-current assets				2,883
		58,592	Financing and investment income and expenditure	9			63,971
		(592,919)	Taxation and non-specific grant Income	10			(614,884)
		7,797	Deficit on provision of services				29,083
		(25,782)	Surplus on revaluation of non-current assets				(4,010)
		477	Impairment losses on non-current assets charged to the revaluation reserve				12,298
		186,734	Remeasurements of the net defined benefit liability				(304,676)
		161,429	Other comprehensive (income) and expenditure				(296,388)
		169,226	Total comprehensive (income) and expenditure				(267,305)

2016/17 comparatives for Gross Income and Expenditure were restated following a review to the Council's management structure which resulted in the previous directorates of Corporate Development and Finance being combined to form Corporate Resources. There were also some movements of functions and their budgets between the other directorates which resulted in the following changes to net expenditure: Care & Learning, £50.603m decrease; Community Services, £10.024m increase; Chief Executives, £0.920m increase; Development & Infrastructure, £40.579m increase; Corporate Resources, £0.920m decrease. Furthermore, a review of internal income and expenditure identified internal transactions which were eliminated by decreasing Gross Income and Expenditure by a total of £25.808m. The presentation of internal transactions was also amended as a result of LASAAC guidance which supports that internal transactions may be included in service headings within the CIES with a line for elimination of internal transactions on the face of the CIES.

MOVEMENT IN RESERVES STATEMENT 2016/17

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

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

MOVEMENT IN RESERVES STATEMENT 2017/18

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2017	26,029	7,328	1,407	1,669	2,950	27,236	-	66,619	988,331	1,054,950
Movement in reserves during 2017/18										
Total comprehensive income and expenditure	(22,261)	(6,822)	-	-	-	-	-	(29,083)	296,388	267,305
Adjustments between accounting basis and funding basis under regulations (note 7)	24,027	6,822	-	-	-	-	-	30,849	(30,849)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	1,766	-	-	-	-	-	-	1,766	265,539	267,305
Transfers to/from other statutory reserves	(2,733)	-	-	4	(611)	(2,232)	10,000	4,428	(4,428)	-
Increase/(decrease) in 2017/18	(967)	-	-	4	(611)	(2,232)	10,000	6,194	261,111	267,305
Balance at 31 March 2018	25,062	7,328	1,407	1,673	2,339	25,004	10,000	72,813	1,249,442	1,322,255

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, i.e. 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'.

31/03/17 £000		Note	31/03/18 £000
2,590,142	Property, plant and equipment	29	2,602,683
8,536	Heritage assets	34	8,536
677	Long term investments	42	730
49,926	Long term debtors (net of impairment)	35	50,069
<u>2,649,281</u>	Long term assets		<u>2,662,018</u>
782	Short term intangible assets		954
20,019	Short term investments	42	10,006
4,581	Inventories		4,151
43,130	Short term debtors	36	51,512
38,797	Cash and cash equivalents	17	60,803
1,194	Assets held for sale		880
<u>108,503</u>	Current assets		<u>128,306</u>
(144,546)	Short term borrowing	42	(247,795)
(105,048)	Short term creditors	37	(108,075)
(1,962)	Provisions	38	(1,083)
(19,039)	Capital Grant Receipts in Advance	41	(9,005)
<u>(270,595)</u>	Current liabilities		<u>(365,958)</u>
(748,542)	Long term borrowing	42	(695,078)
(683,697)	Other long term liabilities	39	(407,033)
<u>(1,432,239)</u>	Long term liabilities		<u>(1,102,111)</u>
<u>1,054,950</u>	Net assets		<u>1,322,255</u>

BALANCE SHEET (CONTINUED)

31/03/17 £000		Note	31/03/18 £000
1,407	Capital Receipts Reserve		1,407
1,669	Renewal and Repair Fund		1,673
27,236	Capital Fund		25,004
2,950	Insurance Fund		2,339
-	Capital Grants Unapplied		10,000
26,029	General Fund		25,062
7,328	Housing Revenue Account		7,328
<u>66,619</u>	Usable reserves	11	<u>72,813</u>
555,909	Revaluation Reserve		534,789
(520,090)	Pensions Reserve		(247,925)
989,181	Capital Adjustment Account		997,322
(27,109)	Financial Instruments Adjustment Account		(25,141)
(9,560)	Employee Statutory Adjustment Account		(9,603)
<u>988,331</u>	Unusable reserves	12	<u>1,249,442</u>
<u>1,054,950</u>	Total reserves		<u>1,322,255</u>

The unaudited Annual Accounts were issued on 15 June 2018.

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

Depute Chief Executive & Director of Corporate Resources

15 June 2018

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.

2016/17		Note	2017/18
£000			£000
(7,797)	Net surplus/(deficit) on the provision of services		(29,083)
86,015	Adjust net surplus on the provision of services for non-cash movements	13	152,930
(46,257)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	10	(62,045)
<u>31,961</u>	Net cash inflow from operating activities		<u>61,802</u>
(129,638)	Investing activities	15	(132,701)
106,154	Financing activities	16	92,905
<u>8,477</u>	Net increase or decrease in cash and cash equivalents		<u>22,006</u>
30,320	Cash and cash equivalents at 1 April 2017		38,797
<u><u>38,797</u></u>	Cash and cash equivalents at 31 March 2018	17	<u><u>60,803</u></u>

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

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1. Expenditure and Funding Analysis

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

2016/17 (restated)				2017/18		
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
(18,923)	17,805	(1,118)	Council Housing – Housing Revenue Account	(17,547)	21,560	4,013
337,221	16,037	353,258	Care & Learning	342,223	35,674	377,897
68,968	20,516	89,484	Community Services	64,948	27,671	92,619
6,008	531	6,539	Chief Executives	5,433	1,719	7,152
30,008	6,184	36,192	Corporate Resources	27,419	5,829	33,248
47,324	3,593	50,917	Development & Infrastructure	49,511	5,755	55,266
2,687	20	2,707	Welfare Services	4,457	-	4,457
2,495	-	2,495	Joint board requisitions	2,461	-	2,461
475,788	64,686	540,474	Cost of services carried forward	478,905	98,208	577,113

Expenditure and Funding Analysis (continued)

2016/17				2017/18			
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Note	Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
475,788	64,686	540,474	Cost of services brought forward		478,905	98,208	577,113
(472,306)	(60,371)	(532,677)	Other Income and Expenditure		(480,671)	(67,359)	(548,030)
3,482	4,315	7,797	Deficit/(Surplus)	2	(1,766)	30,849	29,083
		(37,738)	Opening General Fund and HRA Balance		(33,357)		
		3,482	Deficit/(surplus) on General Fund or HRA Balance in year		(1,766)		
		899	Transfers from reserves		2,733		
		(33,357)	Closing General Fund and HRA Balance at 31 March 2018*		(32,390)		

*For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

2. Note to Expenditure and Funding Analysis

Adjustments between Funding & Accounting Basis 2017-18

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Differences	Total Statutory Adjustments	Other (non statutory) Adjustments	Total Adjustments
	£000	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	20,499	1,061	-	21,560	-	21,560
Care & Learning	50,904	7,360	108	58,283	(22,698)	35,585
Community Services	20,876	3,268	(48)	24,096	3,575	27,671
Chief Executives	970	702	47	1,719	-	1,719
Corporate Resources	3,328	2,540	(39)	5,829	-	5,829
Development & Infrastructure	2,023	3,757	(25)	5,755	-	5,755
Net Cost of Services	98,600	18,688	43	117,331	(19,123)	98,208
Other Income from the Expenditure and Funding Analysis	(94,236)	13,823	(6,069)	(86,482)	19,123	(67,359)
Total Adjustments	4,364	32,511	(6,026)	30,849	-	30,849

**Adjustments between Funding & Accounting Basis 2016-17
(restated)**

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Differences	Total Statutory Adjustments	Other (non statutory) Adjustments	Total Adjustments
	£000	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	17,426	379	-	17,805	-	17,805
Care & Learning	26,850	3,075	2,969	32,894	(16,857)	16,037
Community Services	17,719	1,241	(49)	18,911	1,605	20,516
Chief Executives	256	178	97	531	-	531
Corporate Resources	2,839	3,516	(171)	6,184	-	6,184
Development & Infrastructure	2,837	772	(16)	3,593	-	3,593
Welfare Services	-	20	-	20	-	20
Net Cost of Services	67,927	9,181	2,830	79,938	(15,252)	64,686
Other Income from the Expenditure and Funding Analysis	(80,934)	11,148	(5,837)	(75,623)	15,252	(60,371)
Total Adjustments	(13,007)	20,329	(3,007)	4,315	-	4,315

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustments

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

- For services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.
- Note 25 provides further explanations of IAS 19 entries.

Other Differences

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

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

3. 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 2017/18 and its financial position at 31 March 2018. 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 2017/18 (The Code) and the Service reporting code of practice for local authorities 2017/18 supported by International Financial Reporting Standards (IFRS).

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

Accruals of income and expenditure

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

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Expenses in relation to services received (including those rendered by officers of the Council) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates) income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

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

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

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

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

Cash and cash equivalents

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

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

Accounting for the costs of the Carbon Reduction Commitment Scheme

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

Charges to revenue for non-current assets

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

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

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

Employee benefits

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

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner during the year and not the amount calculated according to the relevant accounting standards. Appropriations are made in the Movements in Reserves Statement to and from the Pension Reserve to remove the notional charges for pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Retirement benefits

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

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

Employees of the Council are admitted to The Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit Career Average Revalued Earnings (CARE) 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 Corporate Resources expenditure.
- Net interest on the defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

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

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

Contributions paid to the Highland Council Pension Fund

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers and former NHS employees) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

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

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

Financial Instruments

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

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

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

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

Financial assets

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

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Capital Grants in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Any unused grants are earmarked within the General Fund to finance the expenditure when it arises.

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

Interests in companies and other entities

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

Inventories

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

Operating Leases

The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, generally meaning that rentals are charged when they become payable.

The Council as Lessor

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

Property, plant and equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped together.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £3.0m and over will be considered for componentisation.

- Of those assets, for the purpose of determining a “significant” component of an asset, components with a value of 20% in relation to the overall value of the asset or over £0.5m will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment

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

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal.

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

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

Heritage assets

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

The museum collections owned by the Council are curated by museum staff at two principal museum facilities; The Highland Folk Museum, Newtonmore and Inverness Museum and Art Gallery. Museum collections and works of art and civic regalia are reported on the Balance Sheet at insurance valuation, and are updated annually.

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

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

Intangible assets

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

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

Private Finance Initiative (PFI) and Similar Contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non current PFI assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 40 to the accounts.

Reserves

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

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

Value Added Tax (VAT)

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

4. Accounting Standards issued but not yet adopted

The following accounting standards will be adopted within the 2018/19 Code effective from 1 April 2018. There is therefore no impact on the 2017/18 financial statements.

- IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: recognition and measurement
- IFRS 15 Revenue from Contracts and Customers including amendments to IFRS 15 Clarifications to IFRS 15 which replaces IAS 18 Revenue and IAS 11 Construction Contracts
- Amendments to IFRS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The other narrow scope amendments and IFRIC included in the consultation on the 2018/19 code listed below

- IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-16 Cycle, and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

were not adopted by the EU in time for inclusion in the 2018/19 code and therefore have been rolled forward into the development programme for the 2019/20 code.

Amendments to the following accounting standard not yet endorsed but anticipated to be adopted in the 2019/20 code, will have an impact on the accounts, however will be largely presentational.

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

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

5. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 3, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events (see Note 6). 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.

6. 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 2018 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 £6.422m for every year that useful lives had to be reduced.
Arrears	At 31 March 2018 the Council had a balance of sundry debtors of £15.471m. A review of balances suggested that an allowance for impairment of £4.994m 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 25.
Service Concession Arrangement (PPP1)	The Council has a contract with Community Schools (Highlands) Ltd (the "contractor") to provide Operational Facilities which requires the contractor to provide 4 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at January in each year.	The indexation adjustment includes an efficiency factor which for 2017/18 resulted in indexation being applied to approximately 83% of the Unitary Charge. If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £24,273 in 2017/18.

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Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 £101,504 in 2017/18.</p>
Service Concession Arrangement (Wick Campus Project)	The Council has a contract with Hub North Scotland (Wick) Ltd (the "contractor") to provide an Operational Facility which is a campus including Primary School, High School and Community Facilities. The contract regulates price revisions over the period of the service arrangements. The Annual Service Payment is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at February each year.	<p>The indexation adjustment applies to 18% of the Annual Service Payment as per the terms of the Project Agreement.</p> <p>If RPI should have increased by 1% more than it actually did the full year Annual Service Payment would have increased by a further £8,578 in 2017/18.</p>
Fair Value Measurements	<p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value.</p>	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.</p>

7. 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.

2017/18	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	79,906	25,683	-	105,589	(105,589)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(59,517)	(8,367)	-	(67,884)	67,884	-
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	8,920	1,176	-	10,096	(10,096)	-
Revenue expenditure funded by capital	5,839	-	-	5,839	(5,839)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(28,229)	(7,820)	-	(36,049)	36,049	-
Repayment of Finance Lease Creditors	(4,101)	-	-	(4,101)	4,101	-
Capital expenditure charged against the General Fund and HRA balances	(829)	(5,185)	-	(6,014)	6,014	-
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	(7,213)	-	7,213	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(7,213)	(7,213)	7,213	-

2017/18	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	(1,458)	(510)	-	(1,968)	1,968	-
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	56,468	3,405	-	59,873	(59,873)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(25,802)	(1,560)	-	(27,362)	27,362	-
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	43	-	-	43	(43)	-
Total adjustments 2017/18	24,027	6,822	-	30,849	(30,849)	-

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

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

8. 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 2017/18. The decrease in General Fund of £0.967m (2016/17 - £4.381m decrease) comprises an increase in earmarked balances of £1.834m (2016/17 - £4.091m decrease) and decrease in non-earmarked balances of £2.801m (2016/17 - £0.290m decrease) .

	Balance at 31/03/16 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/17 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/18 £000
2018/19 Government Funding Received 2017/18	-	-	-	-	-	-	1,626	-	1,626
Badaguish Outdoor Centre	456	-	-	2	458	-	-	2	460
Business Loans Scotland	-	-	221	-	221	-	-	1	222
Business Rates Incentivisation Scheme	377	(377)	-	-	-	-	-	-	-
Central Energy Efficiency Fund	365	(186)	174	1	354	(105)	209	1	459
Citizens Advice Bureaux Transitional	102	(102)	-	-	-	-	-	-	-
Council Redesign	150	(98)	-	-	52	(78)	50	-	24
Developers' Contributions	2,111	(835)	800	12	2,088	(745)	857	14	2,214
Developing the Young Workforce	398	(144)	-	2	256	(64)	-	1	193
Devolved School Management	3,613	-	1,150	-	4,763	(407)	-	-	4,356
Discretionary Housing Payments	10	(10)	-	-	-	-	-	-	-
Grants and Match Funding	1,115	(377)	493	3	1,234	(116)	14	5	1,137
Inverness Royal Academy Gaelic Extension	153	-	-	1	154	-	-	-	154
IT Investment Fund	1,513	(647)	78	4	948	(100)	2,015	10	2,873
Pathfinder	1,839	(729)	-	7	1,117	(819)	48	5	351
Strategic Change and Development Fund	2,408	(300)	150	10	2,268	(921)	400	9	1,756
Voluntary Redundancy Scheme	3,366	(3,366)	-	-	-	-	-	-	-
Walks to Water	125	-	-	-	125	-	-	1	126
Welfare Issues	656	(31)	-	3	628	(82)	-	3	549
Total	18,757	(7,202)	3,066	45	14,666	(3,437)	5,219	52	16,500

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

2016/17 £000		Note	2017/18 £000
(652)	Gains on trading operations	21	(2,532)
48,534	Interest payable and similar charges		53,118
11,119	Pensions net interest expense		13,755
(409)	Interest and investment income		(370)
<u>58,592</u>			<u>63,971</u>

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

2016/17 £000		2017/18 £000
(313,049)	Revenue support grant	(314,143)
(105,560)	Council tax income	(115,476)
(128,053)	Non-Domestic rates	(123,220)
(46,257)	Capital grants and contributions	(62,045)
<u>(592,919)</u>		<u>(614,884)</u>

11. Balance Sheet – usable reserves

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

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

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

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

The movements in the Capital Fund are detailed below.

	Total £000
Balance at 31 March 2017	27,236
Transferred from General Fund	3,340
Transferred to Capital Adjustment account	(4,572)
Transfers between Reserves	(1,000)
Balance at 31 March 2018	<u>25,004</u>

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

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 7 and 8.

(e) The Council operates an Evergreen Housing Infrastructure Fund to support and accelerate the delivery of housing in the Highland Council area. The balance of this fund is held in the Capital Grants Unapplied account.

The movements in the Capital Grants Unapplied account are detailed below.

	Total £000
Balance at 31 March 2017	-
Transferred to Capital Adjustment account	9,000
Transfers between Reserves	1,000
Balance at 31 March 2018	<u>10,000</u>

12. Balance Sheet – unusable reserves

31/03/17 £000		31/03/18 £000
555,909	Revaluation Reserve (a)	534,789
989,181	Capital Adjustment Account (b)	997,322
(27,109)	Financial Instruments Adjustment Account (c)	(25,141)
(520,090)	Pensions Reserves (d)	(247,925)
(9,560)	Employee Statutory Adjustment Account (e)	(9,603)
998,331		1,249,422

(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.

2016/17 £000		£000	2017/18 £000
545,550	Balance at 1 April 2017		555,909
28,628	Upward revaluation of assets	4,836	
(2,846)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services	(826)	
(477)	Impairment losses not charged to the Surplus/Deficit on the Provision of services	(12,298)	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		(8,288)
25,305	Difference between fair value depreciation and historical cost depreciation	(9,298)	
(9,646)	Accumulated gains on assets sold or scrapped	(3,453)	
(2,338)	- Amount written off revaluation reserve	(81)	
(2,962)	Historic Balance Adjustment	-	
(14,946)	Amount written off to the Capital Adjustment Account		(12,832)
555,909	Balance at 31 March 2018		534,789

(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 7 provides details of the source of all the transactions posted to the account, apart from any involving other reserves.

2016/17 £000			2017/18 £000
952,287	Balance at 1 April 2017		989,181
(6,742)	Revenue Expenditure funded from capital under statute	(5,839)	
(63,855)	Charges for depreciation on non-current assets	(66,996)	
(10,743)	Revaluation losses on Property, Plant and Equipment	(38,593)	
	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the		
(6,497)	Comprehensive Income and Expenditure Statement	(10,096)	
(87,837)			(121,524)
14,946	Adjusting amounts written out of the Revaluation Reserve	12,832	
14,946	Net written out amount of the cost of non-current assets consumed in the year		12,832
Capital Financing applied in the year			
3,971	Repayment of PPP creditors	4,101	
5,848	Use of the Capital Receipts Reserve to finance new capital expenditure	7,213	
52,999	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	67,884	
3,970	Use of the Capital Fund	4,572	
-	Use of Capital Grants Unapplied Account	(9,000)	
37,250	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	36,049	
5,747	Capital expenditure charged against the General Fund and HRA balances	6,014	
109,785			116,833
989,181	Balance at 31 March 2018		997,322

(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.

2016/17 £000		2017/18 £000
(29,028)	Balance at 1 April 2017	(27,109)
1,904	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	1,953
15	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	15
-	Proportion of equivalent interest rate calculation on soft loans	-
(27,109)	Balance at 31 March 2018	(25,141)

(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.

2016/17 £000		2017/18 £000	£000
(313,027)	Balance at 1 April 2017		(520,090)
(343,301)	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	83,989	
164,249	Return on plan assets	19,066	
(7,682)	Other experience adjustments	201,621	
(186,734)	Total remeasurements of the net defined liability		304,676
(45,092)	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	(59,873)	
24,763	Employer's pension contributions and direct payments to pensioners payable in the year	27,362	
(20,329)			(32,511)
(520,090)	Balance at 31 March 2018		(247,925)

(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.

2016/17 £000		2017/18 £000
(6,677)	Balance at 1 April 2017	(9,560)
6,677	Settlement or cancellation of accrual made at the end of the preceding year	9,560
(9,560)	Amounts accrued at the end of the current year	(9,603)
(9,560)	Balance at 31 March 2018	(9,603)

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

2016/17 £000		2017/18 £000
	Non-cash items	
74,598	Depreciation and impairments	105,589
1,650	Loss on sale of fixed assets	2,883
20,329	IAS 19 transactions	32,511
(357)	Financial instruments adjustments	(287)
	Items on accruals basis	
(617)	Decrease/(increase) in inventories	430
(698)	Decrease/(increase) in debtors	(4,928)
(6,774)	(Decrease)/increase in creditors	17,611
(2,116)	(Decrease)/increase in provisions	(879)
86,015		152,930

14. Cash flow statement – operating activities

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

2016/17 £000		2017/18 £000
(386)	Interest received	(288)
48,091	Interest paid	39,870

15. Cash flow statement – investing activities

2016/17 £000		2017/18 £000
(144,253)	Purchase of property, plant and equipment	(136,199)
4,974	Other payments for investing activities	(9,917)
(51)	Purchase of short term intangibles	(172)
4,848	Proceeds from the sale of property, plant and equipment	7,213
(721)	Sale/(purchase) of long and short-term investments	10,013
5,565	Other receipts from investing activities	(3,639)
(129,638)	Net cash flows from investing activities	(132,701)

16. Cash flow statement – financing activities

2016/17 £000		2017/18 £000
295,950	Cash receipts of short and long term borrowing	357,500
46,257	Other receipts from financing activities	62,045
(3,971)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(4,101)
(230,750)	Repayments of short and long term borrowing	(321,500)
(1,332)	Other payments for financing activities	(1,039)
106,154	Net cash flows from financing activities	92,905

17. Cash flow statement – cash and cash equivalents

	At 1 April 2017 £000	Cash flow £000	At 31 March 2018 £000
Temporary investments	43,542	17,058	60,600
Cash in hand	64	7	71
Cash at bank	(4,809)	4,941	132
Total cash and cash equivalents	38,797	22,006	60,803

18. Service Income and Expenditure

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

- No charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

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

Revenue Outturn Position – General Fund

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1 April 2017 to 31 March 2018. 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 2017/18

	Budget £m	Actual £m	Over/(Under) £m
Care and Learning	339.082	342.223	3.141
Chief Executive's Office	5.801	5.433	(0.368)
Corporate Resources	27.047	26.752	(0.295)
Community Services	63.542	64.948	1.406
Development and Infrastructure	49.190	49.057	(0.133)
Welfare Services	5.182	4.457	(0.725)
Non Domestic Rates reliefs	0.701	0.667	(0.034)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2.550	2.370	(0.180)
Highland and Islands Transport Partnership	0.091	0.091	-
Financing			
Loan Charges	56.744	54.953	(1.791)
Interest and Investment Income	(0.330)	(0.333)	(0.003)
Unallocated Savings	(0.507)	-	0.507
Total General Fund Services	549.093	550.618	1.525
Appropriations to/from Reserves			
Repairs & Renewals Fund	0.005	0.005	-
Insurance Fund	(0.611)	(0.611)	-
Affordable Housing	3.440	3.794	0.354
Amount to be funded from Taxpayers and General Fund Balance	551.927	553.806	1.879
Funding			
Revenue Support Grant	(314.143)	(314.143)	-
Non-domestic Rates	(122.621)	(123.220)	(0.599)
Council Tax	(115.238)	(115.476)	(0.238)
Use of General Fund in the year	(0.075)	0.967	1.042

19. Segmental Income

Income received on a segmental basis is analysed below:

Segmental Income 2017/18

	Income from Services £000	Internal Recharges £000	Total £000
Services			
Care and Learning	24,228	-	24,228
Chief Executive's Office	3,313	-	3,313
Corporate Resources	12,894	(8,529)	4,365
Community Services	91,380	(49,136)	42,244
Development and Infrastructure	43,338	(18,240)	25,098
Welfare Services	43,177	-	43,177
Total Income analysed on a segmental basis	218,330	(75,905)	142,425

Segmental Income 2016/17

	Income from Services £000	Internal Recharges £000	Total £000
Services			
Care and Learning	19,362	-	19,362
Chief Executive's Office	3,273	(15)	3,258
Corporate Resources	15,693	(10,007)	5,686
Community Services	84,810	(48,577)	36,233
Development and Infrastructure	40,806	(18,482)	22,324
Welfare Services	50,315	-	50,315
Total Income analysed on a segmental basis	214,259	(77,081)	137,178

20. Expenditure & Income Analysed by Segment and Nature

The Council's expenditure and income is analysed as follows. These figures include statutory adjustments as per the analysis in note 2 to the accounts.

2017/18

	Care & Learning £000	Chief Executive £000	Corporate Resources £000	Community Services £000	Development & Infrastructure £000	Welfare Services £000	HRA £000	Elimination of Internal Transactions £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(14,211)	(3,237)	(12,892)	(74,681)	(32,703)	(42,422)	(52,553)	75,906	(2,532)	(159,325)
Interest and investment income	(1)	-	-	(26)	-	-	-	-	(369)	(396)
Income from Council Tax	-	-	-	-	-	-	-	-	(115,476)	(115,476)
Government grants and contributions	(10,852)	(191)	(14)	(1,642)	(15,450)	(756)	-	-	(499,408)	(528,313)
Total income	(25,064)	(3,428)	(12,906)	(76,349)	(48,153)	(43,178)	(52,553)	75,906	(617,785)	(803,510)
Employee expenses	206,226	7,056	23,489	64,820	40,566	-	10,183	(36,939)	13,755	329,156
Other service expenses	144,729	2,439	19,324	82,468	56,196	47,635	20,700	(38,967)	2,460	336,984
Depreciation, amortisation and impairment	52,006	1,085	3,341	21,680	6,657	-	25,683	-	-	110,452
Interest payments	-	-	-	-	-	-	-	-	53,118	53,118
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	2,883	2,883
Total expenditure	402,961	10,580	46,154	168,968	103,419	47,635	56,566	(75,906)	72,216	832,593
Surplus or deficit on the provision of services	377,897	7,152	33,248	92,619	55,266	4,457	4,013	-	(545,569)	29,083

Expenditure & Income Analysed by Segment and Nature (continued)

2016/17

	Care & Learning £000	Chief Executive £000	Corporate Resources £000	Community Services £000	Development & Infrastructure £000	Welfare Services £000	HRA £000	Elimination of Internal Transactions £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(13,340)	(3,076)	(15,653)	(71,550)	(34,840)	(49,513)	(50,547)	77,082	(652)	(162,089)
Interest and investment income	(1)	-	-	(79)	-	-	-	-	(409)	(489)
Income from Council Tax	-	-	-	-	-	-	-	-	(105,560)	(105,560)
Government grants and contributions	(6,620)	(941)	(41)	(385)	(12,529)	(802)	-	-	(487,359)	(508,677)
Total income	(19,961)	(4,017)	(15,694)	(72,014)	(47,369)	(50,315)	(50,547)	77,082	(593,980)	(776,815)
Employee expenses	200,179	6,869	26,365	59,972	34,427	20	8,927	(34,093)	11,119	313,785
Other service expenses	145,434	2,686	22,681	82,999	55,674	53,002	18,245	(42,989)	2,495	340,227
Depreciation, amortisation and impairment	27,606	1,001	2,840	18,527	8,185	-	22,257	-	-	80,416
Interest payments	-	-	-	-	-	-	-	-	48,534	48,534
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	1,650	1,650
Total expenditure	373,219	10,556	51,886	161,498	98,286	53,022	49,429	(77,082)	63,798	784,612
Surplus or deficit on the provision of services	353,258	6,539	36,192	89,484	50,917	2,707	(1,118)	-	(530,182)	7,797

21. 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 2017/18 is as follows:

Fishery, Piers and Harbours	£000
Turnover	15,449
Expenditure	(12,865)
Surplus	2,584
Less internal surplus included in service net expenditure	(42)
Less interest on revenue balances	(10)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 9)	2,532
Three year surplus	
Financial Year	£000
2015/16	1,113
2016/17	652
2017/18	2,532
	4,297

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

22. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2017/18 the Council collected £130.418m and received £123.220m contribution from the non-domestic rates pool (2016/17 collected £126.703m and received £128.053m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2017/18 the Council paid over £34.762m and received £0.755m for providing this service. During 2016/17 the Council paid over £34.040m and received £0.755m for providing this service.

Payments totalling £0.143m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2016/17 - £0.143m).

23. External audit costs

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

2016/17 £000		2017/18 £000
	Fees payable to Audit Scotland with regard to external audit services	
<u>403</u>		<u>405</u>

No fees were payable to Audit Scotland, or the appointed auditor Grant Thornton LLP in respect of any other services in either year.

24. 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 2017/18 the Council paid £15.768m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2016/17 were £15.902m and 17.2%. There were no contributions remaining payable at the year-end.

In 2017/18 the Council paid £0.850m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 14.9% of pensionable pay. The figures for 2016/17 were £0.927m and 14.9%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' and NHS schemes. These costs are accounted for on a defined benefit basis and are included in the information presented in Note 25.

25. 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 career average earnings 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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	31,564	45,980	-	-
Past service cost (including curtailments)	2,317	138	92	-
	33,881	46,118	92	
Financing and investment (income) and expenditure	9,377	12,149	1,742	1,606
Total post employment benefits charged to the surplus or deficit on the provision of services	43,258	58,267	1,834	1,606
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	(164,249)	(19,066)	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	337,500	(75,442)	5,801	(383)
Actuarial (gains)/losses arising on changes in demographic assumptions	-	(8,164)	-	-
Experience adjustments	-	(194,001)	7,682	(7,620)
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	173,251	(296,673)	13,483	(8,003)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Movement in reserves statement				
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(43,258)	(58,267)	(1,834)	(1,606)
Actual amount charged against the General Fund balance for pensions in the year				
Employers contributions payable to the scheme	21,902	23,666	2,861	3,696

Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/17 £000	31/3/18 £000	31/3/17 £000	31/3/18 £000
Present value of the defined benefit obligation	(1,654,622)	(1,432,388)	(63,648)	(53,555)
Fair value of pension fund assets	1,198,180	1,238,018	-	-
Net liability arising from defined benefit obligation	(456,442)	(194,370)	(63,648)	(53,555)

Information about the defined benefit obligation

	Liability split 31/3/18		Duration Years
	£000	(%)	
Active members	652,934	45.6%	23.4
Deferred members	218,777	15.3%	22.5
Pensioner members	560,677	39.1%	11.9
Total	1,432,388	100.0%	18.1

The durations are weighted averages as at the last formal valuation date 31 March 2017.

Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/17	31/3/18	31/3/17	31/3/18
	£000	£000	£000	£000
Opening fair value of scheme assets	1,006,776	1,198,180	-	-
Interest income	35,075	30,999	-	-
Return on plan assets	164,249	19,066	-	-
Contributions by employer	21,902	23,666	2,861	3,696
Contributions by Scheme participants	6,708	7,082	-	-
Estimated benefits paid (net of transfers in)	(36,530)	(40,975)	(2,861)	(3,696)
Closing fair value of scheme assets	1,198,180	1,238,018	-	-

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	31/3/17	31/3/18	31/3/17	31/3/18
	£000	£000	£000	£000
Opening defined benefit obligation	(1,268,611)	(1,654,622)	(51,192)	(63,648)
Current service cost	(31,564)	(45,980)	-	-
Past service cost	(2,317)	(138)	(92)	-
Interest cost	(44,452)	(43,148)	(1,742)	(1,606)
Contributions by scheme participants	(6,708)	(7,082)	-	-
Actuarial gains/(losses) from changes in financial assumptions	(337,500)	75,442	(5,801)	383
Actuarial gains/(losses) from changes in demographic assumptions	-	8,164	-	-
Experience adjustments	-	194,001	(7,682)	7,620
Estimated benefits paid (net of transfers in)	36,530	40,975	-	-
Unfunded pension payments	-	-	2,861	3,696
Closing value	(1,654,622)	(1,432,388)	(63,648)	(53,555)

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:

2016/17		2017/18
2%	Cash and cash equivalents	2%
	Equity Securities:	
	By industry type	
9%	Consumer	9%
12%	Manufacturing	14%
3%	Energy and utilities	1%
11%	Financial institutions	11%
3%	Health and care	3%
6%	Information technology	10%
2%	Other	-
	Debt Securities:	
	By sector	
6%	Corporate	7%
11%	Government	9%
4%	Private Equity	4%
2%	Property Debt	3%
	Property:	
11%	UK	10%
	Other Investment Funds:	
18%	Equity (pooled funds and unitised insurance policies)	17%
<u>100%</u>	Total	<u>100%</u>

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

Fair value of pension fund assets		
31 March 2017 £000		31 March 2018 £000
	Equity Instruments	
1,006,712	Quoted in an active market	1,040,184
<u>191,468</u>	Not quoted in an active market	<u>197,834</u>
<u>1,198,180</u>	Total equity instruments	<u>1,238,018</u>

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2017.

The significant assumptions used by the actuary have been:

	2016/17	2017/18
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	22.5	21.9
• Women	24.1	24.3
Longevity at 65 for future pensioners (years)		
• Men	24.7	23.3
• Women	26.8	26.1
Rate of inflation	2.4%	2.4%
Rate of increase in salaries	4.4%	3.4%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting fund liabilities	2.6%	2.7%
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 that used in the previous period.

	Impact on the Defined Benefit Obligation in the Fund	
	Approximate % decrease/increase to Employer Liability	Approximate monetary amount (£000)
Rate of increase in salaries (increase or decrease by 0.5%)	2%	23,514
Rate of increase in pensions (increase or decrease by 0.5%)	8%	112,068
Rate for discounting fund liabilities (increase or decrease by 0.5%)	9%	137,736

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 2020.

The actuaries have estimated that employer contributions for the year to 31 March 2019 will be approximately £23.168m.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years 2017/18 (17.8 years 2016/17).

26. Local Government Pension Scheme

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

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

Scheduled Bodies

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

Admitted Bodies

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

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

2017/18	Contributors	Pensioners	Deferred Pensioners
Highland Council	7,424	6,793	5,774
Scheduled Bodies	2,942	1,991	2,091
Admitted Bodies	2,320	793	940
Total	12,686	9,577	8,805
2016/17			
Highland Council	7,080	6,599	5,956
Scheduled Bodies	2,886	1,900	2,089
Admitted Bodies	2,402	687	944
Total	12,368	9,186	8,989

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 <http://www.highlandpensionfund.org/> or from Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

27. 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 41.

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 2017/18 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 56 out of 73 responses were received, and it has been assumed that a nil response has meant there are no related party transactions. This issue will be raised with members.

One funeral director business, owned by a Councillor, had debts of £0.041m owed to the Council at 31st March 2018.

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 Depute Chief Executive & Director of Corporate Resources, 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 £1.175m (2016/17 £1.180m) 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 2017/18 Highland Council paid NHS Highland £91.810m (2016/17 - £91.662m) for the provision of integrated adult services and NHS Highland made payment of £9.585m (2016/17 - £9.274m) to Highland Council in respect of integrated children's services.

Entities controlled or significantly influenced by the Council

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

High Life Highland

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

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

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

Highland Opportunity Limited (HOL)

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

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

Financial Year End	Net Assets £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
31 March 2017	27	(474)	(475)
31 March 2016	502	(162)	(165)

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

Company	Nature of business
Highland Opportunity (Investments) Limited	Investment

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 2017			
Highland Opportunity (Investments) Limited	2,179	5	4
Year ended 31 March 2016			
Highland Opportunity (Investments) Limited	2,175	(58)	(59)
Ness Horizons Ltd *	(54)	(35)	(35)

*Closing Accounts

Pathfinder North and Swan

The provision of Wide Area Network (WAN) service to the Highland Council has been through partnership arrangements with other Local Authorities. The Highland Council is the lead partner in the Local Authority partnership arrangements acting on behalf of Argyll & Bute Council, Orkney Islands Council, Moray Council, Angus Council and Comhairle nan Eilean Siar.

These partnership arrangements cover the SWAN contractual arrangements with Capita Business Services Ltd, the WAN service provider, as these have now fully replaced the original Pathfinder North contract.

hub North Scotland Ltd

As a participant in hub North Scotland Ltd, the Highland Council has a nominal shareholding in that company.

28. Operating Leases

Highland Council as Lessor

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

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

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

31/03/17 £000		31/03/18 £000
2,429	Not later than one year	2,721
7,256	Later than one year and not later than five years	8,064
<u>73,091</u>	Later than five years	<u>71,774</u>
<u>82,776</u>		<u>82,559</u>

Highland Council as Lessee

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

31/03/17 £000		31/03/18 £000
2,257	Not later than one year	1,388
2,690	Later than one year and not later than five years	2,923
<u>1,496</u>	Later than five years	<u>1,320</u>
<u>6,443</u>		<u>5,631</u>

The total future minimum sublease payments expected to be received under non-cancellable subleases at the Balance Sheet date is £0.028m.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £3.107m (2016/17 £3.583m).

29. 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 2017	899,248	1,180,149	131,257	494,336	5,100	12,147	121,116	2,843,353	246,762
Additions	38,065	28,443	15,595	29,396	1,308	2,714	20,679	136,200	800
Revaluation increases recognised in the surplus/deficit of services	-	450	-	-	-	129	-	579	-
Revaluation decreases recognised in the surplus/deficit of services	-	(18,931)	-	-	-	(11,009)	-	(29,940)	-
Revaluation increases recognised in the Revaluation Reserve	-	3,937	-	-	-	817	-	4,754	1,458
Revaluation decreases recognised in the Revaluation Reserve	-	(12,060)	-	-	-	(5,127)	-	(17,187)	-
Derecognition - disposals	(6,124)	(134)	(919)	-	-	-	-	(7,177)	-
Derecognition – other	(7,265)	(2,812)	-	-	-	(35)	-	(10,112)	-
Reclassifications	390	88,421	-	-	-	12,993	(101,804)	-	108
Assets reclassified (to)/from Held for Sale	-	(3,921)	-	-	-	138	-	(3,783)	-
Other Movements	-	-	12	-	-	-	-	12	-
At 31 March 2018	924,314	1,263,542	145,945	523,732	6,408	12,767	39,991	2,916,699	249,128

	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 2017	38,343	49,553	66,422	98,865	-	20	8	253,211	9,338
Depreciation charge	18,024	20,114	13,550	15,299	-	9	-	66,996	4,013
Revaluation increases recognised in the surplus/deficit of services	-	(340)	-	-	-	(6)	-	(346)	-
Revaluation increases recognised in the Revaluation Reserve	-	(3,305)	-	-	-	(850)	-	(4,155)	-
Derecognition - disposals	(194)	(5)	(879)	-	-	-	-	(1,078)	-
Derecognition - other	(242)	(232)	-	-	-	-	-	(474)	-
Reclassifications	-	(839)	-	-	-	839	-	-	-
Assets reclassified (to)/from Held for Sale	-	(147)	-	-	-	(3)	-	(150)	-
Other Movements	-	-	12	-	-	-	-	12	-
At 31 March 2018	55,931	64,799	79,105	114,164	-	9	8	314,016	13,351
Net book value									
At 31 March 2018	868,383	1,198,743	66,840	409,568	6,408	12,758	39,983	2,602,683	235,777
At 31 March 2017	860,905	1,130,596	64,835	395,471	5,100	12,127	121,108	2,590,142	237,424

Comparative Movements in 2016/17

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

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

30. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2018, for the acquisition of property, plant and equipment, was £65.189m (31 March 2017 £122.316m). Details of the major commitments by contract or project are as follows:

Contract or Project	2017/18 £m
HRA Housing - Council House New Builds	22.921
ICT Capital Commitments	21.546
Inverness High School	6.730
Legacy – Lifecycle Costs	4.750
Miscellaneous projects with an individual commitment less than £0.5m	4.130
Fort William Offices	1.075
Smithton Primary School	0.850
Window & Door Replacements - Inverness	0.722
Gas Heating Upgrades - Inverness City and Area	0.716
Former Ft William Primary School - Phase II Offices	0.622
Lochaber Installation of Biomass Heating	0.620
Culloden Academy Rewire	0.508
	<u>65.189</u>

31. 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.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2017/18

2016/17 £000 (restated)		2017/18 £000
980,481	Opening capital financing requirement	1,071,349
	Capital investment	
192,772	Property, Plant and Equipment	136,200
6,742	Revenue Expenditure funded from capital under statute	5,839
	Sources of finance	
(5,848)	Capital receipts	(7,213)
(3,970)	Capital Fund	(4,572)
-	Evergreen Infrastructure Fund	9,000
(52,999)	Government grants and other contributions	(67,884)
	Sums set aside from revenue	
(5,747)	- direct revenue contributions	(6,014)
(37,250)	- loans fund principal	(36,049)
1,139	House loans & NHT	(24)
(3,971)	Reduction in Finance Lease Creditors (PPP)	(4,101)
<u>1,071,349</u>	Closing capital financing requirement	<u>1,096,530</u>
	Explanation of movements in the year	
44,449	Increase in underlying need to borrow (supported by government financial assistance)	25,156
(1,139)	Increase in underlying need to borrow (unsupported by government financial assistance)	24
47,558	Assets acquired under PFI contracts	-
<u>90,868</u>	Increase/(decrease) in capital financing requirement	<u>25,181</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	√	√

32. Private finance initiatives and similar contracts

Community Schools (Highlands) Ltd

The Council signed a PFI Project Agreement with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this project in 2017/18 was £3.773m (2016/17 £3.711m). 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 2018 until July 2027 amounts to £32.236m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £12.916m 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 2017/18 was £20.748m (2016/17 £20.467m). 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 £401.832m. at current prices. The Council receives Revenue Support of £7.160m pa from the Scottish Government towards these costs. This support is estimated to amount to £136.040m over the remaining term of the contract.

The Council received Notification of a Change in Control, dated 30th April 2018, on the Council's Public Private Partnership 2 project advising that Infrastructure Investment Holdings Limited has agreed to sell its 100% shareholding in Alpha Schools (Highland) Holding Limited (the holding company) to Ash Holdco 1 Limited an entity wholly owned by funds managed by Equitex Investment Management Limited. Following completion of the sale both Alpha Schools (Highland) Holding Limited (the holding company) and Alpha Schools (Highland) Ltd (the contractor) shall be wholly owned , directly and indirectly respectively, by Ash Holdco 1 Limited.

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 19 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.

In 2017/18 (the first full year of the project) the Annual Service Charge amounted to £4.599m. The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £108.650m at current prices.

During the 25 year term of the Project Agreement the Council will receive financial support of £4.069m pa from the Scottish Government towards the funding of the Annual Service Charge. This support is estimated to amount to £95.516m over the remaining contract term.

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 29.

Liabilities arising from PFI and similar contracts

2016/17 £000		2017/18 £000
(121,970)	As at 1 April 2017	(165,557)
(47,558)	Additions in Year	-
3,971	Repaid in year	4,101
<u>(165,557)</u>	As at 31 March 2018	<u>(161,456)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2018 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due	Repayment of liability £000	Interest and service charges £000	Total £000
within one year	4,724	28,060	32,784
within 2 to 5 years	21,696	112,990	134,686
within 6 to 10 years	34,196	139,589	173,785
within 11 to 15 years	37,213	127,463	164,676
within 16 to 20 years	46,051	101,379	147,430
within 21 to 25 years	17,576	15,929	33,505
	<u>161,456</u>	<u>525,410</u>	<u>686,866</u>

33. 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 2018 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/18 £000
Buildings – Corporate Surplus	483	483
Buildings – Held for Sale	468	468
Land – Corporate Surplus	12,275	12,275
Land – Held for Sale	412	412
	<u>13,638</u>	<u>13,638</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 6 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 value 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).

34. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2016	6,290	2,246	8,536
Revaluations	-	-	-
Balance at 31 March 2017	6,290	2,246	8,536
Revaluations	-	-	-
Balance at 31 March 2018	6,290	2,246	8,536

35. Long term debtors

31/03/17 £000		31/03/18 £000
14,290	Police Scotland	13,740
6,849	Scottish Fire and Rescue Service	6,342
10,324	Landbanking fund advances	10,724
-	Evergreen Infrastructure fund advances	824
17,336	National Housing Trust	17,336
1,127	Other loans	1,103
49,926	Long term debtors (net of impairment)	50,069

36. Short term debtors

31/03/17 £000		31/03/18 £000
17,745	Central government bodies	20,495
416	Other local authorities	281
7	NHS bodies	25
13	Public corporations	12
62,632	Other entities and individuals	69,411
80,813		90,224
(37,683)	Provision for impairment	(38,712)
43,130	Total (net of impairment)	51,512

37. Short term creditors

31/03/17 £000		31/03/18 £000
7,980	Central government bodies	9,075
168	Other local authorities	336
22,852	NHS bodies	22,926
1,052	Public corporations	1,111
4,101	Finance lease creditors	4,724
68,895	Other entities and individuals	69,903
<u>105,048</u>	Total	<u>108,075</u>

38. Provisions

	Note	At 1/04/17 £000	Increase in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/03/18 £000
Short term		£000	£000	£000	£000	£000
Equal Pay	1	977	-	(576)	-	401
Insurance	2	389	-	(310)	-	79
Building Dilapidations	3	596	7	-	-	603
		<u>1,962</u>	<u>7</u>	<u>(886)</u>	<u>-</u>	<u>1,083</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.
- (2) Provision made for outstanding insurance claims.
- (3) Provision made for repairs on leased buildings where dilapidations may have occurred.

39. Long Term Liabilities

31/03/17 £000		31/03/18 £000
520,090	Pension Liability	247,925
161,457	Finance lease creditors	156,733
2,150	Other long term creditors	2,375
<u>683,697</u>		<u>407,033</u>

40. 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 2018 is £0.176m (31 March 2017 £0.201m).

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.

Holiday pay

As a result of Case Law relating to a European Directive, Local Authorities have to amend their traditional calculation of holiday pay. The Council is currently discussing the position with the trade unions and may have a liability relating to backdated payments of this nature. At this stage the absolute potential value of those back payments cannot be estimated with any certainty

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 £0.603m has been made for these costs, but other buildings exist for which the cost of repairs could not be reliably estimated.

Contractual challenges

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

A second contractor has initiated formal contractual dispute proceedings against the Council in respect of a contested claim totalling approximately £1.600m in respect of issues with the dry recycle contract.

The same contractor has also initiated proceedings for more than £9m against the Council in relation to the Inverness flood defences work impacting on their business.

A contractor on school construction projects has raised claims against the Council for additional costs incurred. The Council is investigating the validity of these claims.

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

Highland Council Pension Fund

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

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

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

ICT Transformation

The Council has been made aware of a number of potential financial liabilities, resulting from the delayed ICT Transformation activities, that will require to be considered and discussed with the Council's ICT provider before any liability on the Council can be established and quantified.

41. Grant income

The Comprehensive Income and Expenditure Statement in 2017/18 includes the following grants, contributions and donations:

2016/17 £000		2017/18 £000
	Credited to Taxation and non-specific grant income	
313,049	Revenue support grant	314,143
128,053	Non-Domestic rates	123,220
46,257	Capital grants and contributions	62,045
<u>487,359</u>		<u>499,408</u>
	Credited to services	
6,742	Capital grants and contributions	5,839
50,399	Housing benefits	43,386
843	Educational Maintenance Allowance	793
	Home Energy Efficiency Programmes for Scotland: Area Based	
4,806	Schemes	1,722
252	Smarter Choices	-
817	Developers Contributions	1,703
1,048	European Grants and Contributions	2,189
287	Syrian Refugees	243
424	Attainment Challenge	720
-	Early Learn/Childcare	1,074
-	Pupil Equity Funding	2,051
676	Scottish Futures Trust - Wick Schools	4,113
940	Gaelic	940
242	Activity agreement Pilots	31
-	Sport Scotland	1,042
543	Youth Music Initiative	487
3,121	Criminal Justice Grant	3,157
207	Community Sentences	-
188	Family Nurse Partnership	339
-	Additional Winter Maintenance Grant	940
-	Paths for All	200
<u>558,894</u>	Total	<u>570,377</u>

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows:

2016/17 £000		2017/18 £000
	Grants Received in Advance (Capital Grants)	
4,000	Gaelic Capital Grant	4,000
507	Ardgay Regeneration Capital Grant Fund	350
1,777	City Deal	2,279
3,092	Vacant & Derelict Land Fund	2,376
9,000	Evergreen Infrastructure Fund	-
216	Broadford Primary School	-
150	Sleat Primary School	-
297	HRA Grants	-
<u>19,039</u>	Total	<u>9,005</u>

42. Financial instrument balances

Categories of Financial Instruments

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

31/03/17 (restated)			31/03/18	
Long term £000	Current £000		Long term £000	Current £000
Investments				
677	-	Loans and receivables	730	-
677	-	Total investments	730	-
Debtors				
49,926	41,712	Loans and receivables	50,069	46,248
-	20,019	Financial assets carried at contract amounts	-	10,006
49,926	61,731	Total included in Debtors	50,069	56,254
-	38,797	Cash and Cash equivalents	-	60,803
Borrowing				
748,542	144,546	Financial liabilities at amortised cost	695,078	247,795
748,542	144,546	Total Borrowing	695,078	247,795
Other long term liabilities				
161,457	-	PFI and finance lease liabilities	156,733	-
2,150	-	Other long term liabilities	2,375	-
163,607	-	Total other long term liabilities	159,108	-
Creditors				
-	96,953	Financial liabilities at contract amount	-	96,925
-	96,953	Total creditors	-	96,925

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.

2016/17 £000		2017/18 £000
11,307	Balance at 1 April 2017	10,324
69	Nominal value of new loans made in the year	300
(1,338)	Loans repaid in the year	(118)
-	Loans written off in the year	-
286	Fair value adjustment re interest uncharged in year	218
10,324	Balance at 31 March 2018	10,724

Loans to Inverness Airport Business Park

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

2016/17 £000		2017/18 £000
624	Balance at 1 April 2017	677
53	Fair value adjustment re interest uncharged in year	53
<u>677</u>	Balance at 31 March 2018	<u>730</u>

Valuation assumptions

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

43. 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 2018	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(66,873)	-	(66,873)
Interest and investment income	-	370	370
Net gain/(loss) for year	(66,873)	370	(66,503)

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

Fair values of assets and liabilities carried at amortised cost

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

Methods and assumptions in valuation techniques

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

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation which ignores any motivation other than securing a fair price.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2018 using bid prices where applicable.

The calculations are made using the follow assumptions:

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

The fair values are as follows:

Fair value of liabilities carried at amortised cost

31/03/17			31/03/18	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
618,847	1,009,969	PWLB debt	633,540	859,884
153,241	231,122	Market long term	153,296	226,982
115,110	115,080	Temporary loans	151,185	151,222
5,890	5,890	Internal loans	4,852	4,852
<u>893,088</u>	<u>1,362,061</u>	Financial liabilities	<u>942,873</u>	<u>1,242,940</u>

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

Fair value of assets carried at amortised cost

31/03/17			31/03/18	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
43,542	43,546	Call accounts	30,541	30,541
20,019	20,036	Fixed term deposits	30,059	30,062
50,886	50,886	Long term debtors	50,069	50,069
39,277	39,277	Short term debtors	46,653	46,653
<u>153,724</u>	<u>153,745</u>	Financial assets	<u>157,322</u>	<u>157,325</u>

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

- 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

Credit risk

2016/17 (restated) Historical experience of non- payment adjusted for market conditions			2017/18 Historical experience of non- payment adjusted for market conditions		
£000	%	Bad Debt Provision £000		£000	Bad Debt Provision £000
58,816			Deposits with Banks	70,809	
19,287	(23.923)	(4,614)	Customers	20,465	(24.403)
<u>78,103</u>		<u>(4,614)</u>	Total	<u>91,274</u>	<u>(4,994)</u>

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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:

31/03/17		31/03/18
£000		£000
6,624	Less than three months	5,806
1,052	Three to six months	940
1,266	Six to twelve months	1,441
6,632	More than twelve months	7,101
<u>15,574</u>	Total	<u>15,288</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 2018, 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	1,937
Increase in interest receivable on variable rate investments	(305)
Impact on Income and Expenditure Account	<u>1,632</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>10,444</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:

2016/17			2017/18	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Loans outstanding				
618,847	618,659	Public Works Loans Board	633,540	618,659
153,241	149,306	Market long term	153,296	149,306
115,110	115,000	Temporary loans	151,185	151,000
5,890	5,890	Internal loans	4,852	4,852
<u>893,088</u>	<u>888,855</u>	Total	<u>942,873</u>	<u>923,817</u>
Maturity				
145,168	143,391	Less than 1 year	247,795	231,179
52,826	52,826	Between 1 and 2 years	20,900	20,900
56,281	56,280	Between 2 and 5 years	67,134	67,134
112,514	112,514	Between 5 and 10 years	95,760	95,760
526,299	523,844	More than 10 years	511,284	508,844
<u>893,088</u>	<u>888,855</u>		<u>942,873</u>	<u>923,817</u>

45. Events after Reporting Period

The unaudited Annual Accounts were issued by the Depute Chief Executive & Director of Corporate Resources on 15 June 2018.

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.

2016/17		2017/18	
£000		£000	£000
	Income		
(48,475)	Dwelling rents (gross)	(49,109)	
(776)	Non-dwelling rents (gross)	(732)	
(1,296)	Other income	(2,712)	
(50,547)			(52,553)
	Expenditure		
15,456	Repairs and maintenance	17,039	
8,927	Supervision and management	10,171	
1,221	Impairment of debtors	1,801	
22,257	Depreciation and impairment of non-current assets	25,683	
1,519	Other expenditure	1,860	
49,380			56,554
(1,167)	Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement		4,001
49	HRA share of corporate and democratic core		12
(1,118)	Net (income)/expenditure from HRA services		4,013
1,195	Loss on disposal of non-current assets	1,176	
10,349	Interest payable and similar charges	9,763	
(524)	Amortisation of premiums and discounts	(510)	
(56)	Interest and investment income	(37)	
620	Pension net interest	784	
(9,938)	Capital Grants and contributions	(8,367)	
1,646			2,809
528	Deficit on HRA services		6,822

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2016/17 £000	2017/18	
	£000	£000
(7,328)	Balance on HRA at 1 April 2017	(7,328)
528	Deficit for the year on HRA Income and Expenditure Statement	6,822
	Adjustments between accounting basis and funding basis under statute	
(1,195)	Loss on sale of HRA non current assets	(1,176)
4,828	Capital expenditure funded by the HRA	5,185
3,633		10,831
	Transfer to the Capital Adjustment Account	
(22,257)	- Depreciation and impairment	(25,683)
8,630	- repayment of debt	7,820
9,942	- Capital grants and contributions	8,367
(3,685)		(9,496)
(1,000)	HRA share of contributions to the Pensions Reserve	(1,845)
524	HRA share of transfer from the Financial Instruments Adjustment Account	510
<u>(7,328)</u>	Balance on HRA at 31 March 2018	<u>(7,328)</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/17 £000		31/03/18 £000
1,705	Current tenants	2,224
1,312	Former tenants	1,127
<u>3,017</u>	Total	<u>3,351</u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.052m (2016/17 £0.878m) have been netted off against rental income

3. Impairment of debtors

In 2017/18 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/17 £000		31/03/18 £000
2,123	Rent arrears	2,209
1,288	Sundry debts	1,443
<u>3,411</u>		<u>3,652</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/17 Number	Type of House	31/03/18 Number
248	1 apartment	252
3,494	2 apartment	3,527
5,715	3 apartment	5,706
4,117	4 apartment	4,064
354	5 apartment	351
26	6 apartment	26
-	7 apartment	-
2	8 apartment	2
1	10 apartment	1
<u>13,957</u>		<u>13,929</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.

2016/17 £000		2017/18 £000
133,000	Gross Council Tax levied and contributions in lieu	143,950
(11,374)	Council Tax Reduction Scheme	(11,982)
(15,088)	Other discounts and reductions	(15,657)
(3,091)	Write off of uncollectable debts and allowances for impairment	(2,195)
2,113	Adjustments for prior years Council Tax and Community Charge	1,360
105,560	Net Council Tax income per the Comprehensive Income and Expenditure Statement	115,476

Calculation of the Council Tax base 2017/18

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	43	(5)	(1)	37	5/9	21
A	19,620	(1,114)	61	(2,387)	(86)	16,094	6/9	10,729
B	23,155	(1,005)	35	(2,401)	(83)	19,701	7/9	15,323
C	23,572	(754)	(3)	(2,124)	(86)	20,605	8/9	18,316
D	18,607	(362)	37	(1,310)	(56)	16,916	9/9	16,916
E	18,328	(290)	(84)	(990)	(42)	16,922	11/9	20,682
F	8,983	(115)	(35)	(346)	(24)	8,463	13/9	12,224
G	4,373	(64)	(52)	(142)	(8)	4,107	15/9	6,845
H	329	(9)	(2)	(7)	(0)	311	18/9	622
Total	116,967	(3,713)	0	(9,712)	(386)	103,156	0	101,678
Council Tax Reduction								(10,002)
Contributions in lieu								159
Provision for non- collection (2.89%)								(1,736)
Council tax base								90,099

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

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. The band D charge for 2017/18 was £1,197.89.

From 1 April 2017 the Scottish Government changed the basis on which properties are assessed for Council Tax and this increased the charge for Council Tax properties that are banded E to H. The Highland Council had no discretion in this matter and must apply these increases to the Council Tax charges from 1 April 2017. Householders living in properties in Bands A-D are not affected by this increase.

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 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 2017/18

Band A (disabled band reduction)	£665.49
Band A	£798.59
Band B	£931.69
Band C	£1,064.79
Band D	£1,197.89
Band E	£1,573.89
Band F	£1,946.57
Band G	£2,345.87
Band H	£2,934.83

NON-DOMESTIC RATE ACCOUNT

The Non-Domestic Rate (NDR) 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.

2016/17 £000		2017/18 £000
159,443	Gross rates levied and contributions in lieu	177,944
(30,481)	Reliefs and other deductions	(37,027)
(1,256)	Write-off of uncollectible debts and allowance for impairment	(1,256)
127,706	Net Non-Domestic Rate Income (NNDR)	139,661
(605)	Adjustment to previous years' national Non-Domestic rates	(8,658)
(371)	Non Domestic Rate Income Retained by Council (BRIS)	(585)
126,730	Contribution to Non-Domestic Rate Pool	130,418

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

127,682	Distribution from Non-Domestic Rate Pool	122,421
371	Non-Domestic Rate Income retained by Council (BRIS)	585
-	Income from previous years BRIS	214
128,053	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	123,220

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 2017/18 was 46.6p Rateable Value equal to or less than £51,000 and 49.2p Rateable Value greater than £51,000.

Highland Council Rateable Values

1 April 2016			1 April 2017	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,652	67,071	Shops	2,668	66,167
894	19,378	Public houses and hotels	900	27,513
1,758	27,810	Offices	1,760	29,730
2,738	41,962	Industrial subjects	2,756	46,837
5,059	20,709	Leisure, entertainment, caravans and holiday sites	5,179	26,856
336	4,554	Garages and petrol stations	331	5,263
1,033	24,387	Cultural, sporting subjects, education and training	1,026	24,935
1,134	14,632	Public service subjects	1,120	15,498
2,108	96,020	Miscellaneous	2,119	115,685
17,712	316,523	Total	17,859	358,484

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 3 to the financial statements. In addition the Common Good fund has investment properties which are those used solely to earn rentals and for capital appreciation.

Investment property values are determined by applying IFRS13 – Fair Value Measurement. Disclosures regarding the valuation of investment properties are detailed in Note 6 to the accounts. Investment properties are not depreciated but are revalued annually. Gains and losses on revaluation are recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment applies to gains and losses on disposal.

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016/17				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
1,742	(80)	1,662	Inverness	1,992	(68)	1,924
4	(16)	(12)	Nairn	15	(14)	1
30	(1)	29	Tain	29	(3)	26
12	-	12	Dornoch	13	-	13
7	-	7	Dingwall	6	-	6
-	-	-	Cromarty	1	-	1
3	-	3	Fortrose	6	-	6
-	-	-	Invergordon	2	-	2
1,798	(97)	1,701	Cost of services	2,064	(85)	1,979
			Loss on Disposal of Non-current assets			55
		(1,992)	Financing and investment income and expenditure (note 2)			(1,909)
		<u>(266)</u>	Capital Grants and Contributions			<u>(150)</u>
		(557)	Surplus on provision of services			(25)
		(883)	Deficit/(surplus) on revaluation of available for sale financial assets			<u>284</u>
		(883)	Other comprehensive income and expenditure			284
		<u>(1,440)</u>	Total comprehensive income and expenditure			<u>259</u>

MOVEMENT IN RESERVES STATEMENT 2016/17

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

MOVEMENT IN RESERVES STATEMENT 2017/18

	Revenue Reserves	Capital Receipts Reserve	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2017	6,880	-	2,788	2,578	30,374	42,620
Movement in reserves during 2017/18						
Total Comprehensive Income and Expenditure	25	-	(284)	-	-	(259)
Adjustments between accounting and funding basis (note 1)	(445)	120	-	-	325	-
Net increase/(decrease)	(420)	120	(284)	-	325	(259)
Balance at 31 March 2018	6,460	120	2,504	2,578	30,699	42,361

COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 March 2018

31/03/17 £000		Notes	31/03/18 £000
175	Property, Plant and Equipment	4	-
2,870	Heritage Assets	4	2,870
29,893	Investment Properties	4,6	30,394
13	Intangible Assets	7	12
7,702	Investments	8	7,859
40,653	Long Term Assets		41,135
1,999	Cash and cash equivalents	9	1,247
270	Sundry debtors		53
2,269	Current Assets		1,300
(302)	Sundry creditors		(74)
(302)	Current Liabilities		(74)
1,967	Net current assets		1,226
42,620	Net assets		42,361
6,880	Revenue funds		6,460
-	Capital Receipts Reserve		120
6,880	Usable Reserves	10	6,580
2,578	Revaluation Reserve	11	2,578
30,374	Capital Adjustment Account	12	30,699
2,788	Available for Sale Reserve	13	2,504
35,740	Unusable Reserves		35,781
42,620	Total Reserves		42,361

CASH FLOW STATEMENT

31/03/17 £000		Notes	31/03/18 £000
557	Net surplus/(deficit) on the provision of services		25
(757)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	15	(816)
(200)	Net cash outflow from operating activities		(791)
800	Investing activities	16	39
600	Net increase/(decrease) in cash and cash equivalents		(752)
1,399	Cash and cash equivalents at 1 April 2017		1,999
1,999	Cash and cash equivalents at 31 March 2018		1,247

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

2017/18	Available for Sale Asset Reserves £000	Capital Adjustment Account £000	Total 2017/18 £000
Accumulated gains on assets sold	(251)	-	(251)
Revaluation of investments	33	-	33
Realised gain/(loss) in investments	-	-	-
Revaluation of investment properties	-	(748)	(748)
Capital grants and contributions	-	150	150
Capital expenditure funded from revenue	-	1,100	1,100
Depreciation and amortisation	-	(1)	(1)
Disposal of PPE	-	(175)	(175)
	<u>284</u>	<u>326</u>	<u>42</u>
2016/17	Available for Sale Asset Reserves £000	Capital Adjustment Account £000	Total 2016/17 £000
Accumulated gains on assets sold	(230)	-	(230)
Revaluation of investments	1,113	-	1,113
Realised gain/(loss) in investments	-	(12)	(12)
Revaluation of investment properties	-	(481)	(481)
Capital grants and contributions	-	266	266
Capital expenditure funded from revenue	-	739	739
Depreciation and amortisation	-	(10)	(10)
	<u>883</u>	<u>502</u>	<u>1,385</u>

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

2016/17 £000		2017/18 £000
(454)	Interest and investment income and expenditure	(407)
(2,333)	Rental income	(2,477)
314	Property costs	225
481	(Surplus)/deficit on revaluation of investment properties	749
<u>(1,992)</u>		<u>(1,910)</u>

3. Operating leases

Common Good Fund as lessor

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

2016/17 £000		2017/18 £000
<u>2,333</u>	Lease income received in year	<u>2,477</u>

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

31/03/2017 £000		31/03/2018 £000
1,783	Within one year	2,104
6,356	Later than one year and not later than five years	7,292
<u>73,772</u>	Later than five years	<u>77,163</u>
<u>81,911</u>		<u>86,559</u>

4. Non-current assets

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

Movements in 2017/18

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 1 April 2017	29,893	2,870	220	32,983
Additions	1,250	-	-	1,250
Revaluations	(749)	-	-	(749)
Disposals	-	-	(220)	(220)
As at 31 March 2018	<u>30,394</u>	<u>2,870</u>	<u>-</u>	<u>33,264</u>
Accumulated Depreciation				
As at 1 April 2017	-	-	45	45
Depreciation charge	-	-	-	-
Accumulated Depreciation written out on disposal			(45)	(45)
As at 31 March 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value				
As at 31 March 2018	<u>30,394</u>	<u>2,870</u>	<u>-</u>	<u>33,264</u>
As at 31 March 2017	<u>29,893</u>	<u>2,870</u>	<u>175</u>	<u>32,938</u>

Investment Properties – Fair Value Measurement

Valuation Techniques used to Determine Fair Values for Investment Properties

- Kenny Forbes (MRICS), Property Manager, Development and Infrastructure Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31 March 2018. However, the valuation of Inverness Town House was 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 £0.081m 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 £0.292m in rental income.

During 2017/18 the Common Good Fund made a contribution of £0.027m to Highland Council in respect of Inverness City Arts project.

6. Investment property

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

COMMON GOOD FUNDS ANNUAL ACCOUNTS 2017/18

31/03/17 £000	Investment Property at Fair Value	31/03/18 £000
	Common Good Fund	
22,097	Inverness	22,127
6,934	Nairn	7,429
266	Tain	267
170	Dornoch	170
165	Dingwall	186
112	Fortrose	106
53	Cromarty	55
96	Invergordon	55
<u>29,893</u>		<u>30,394</u>

7. Intangible assets

2016/17 £000		2017/18 £000
	Fishing Licence – Tain	
14	As at 1 April 2017	13
(1)	Amortisation	(1)
<u>13</u>	As at 31 March 2018	<u>12</u>

8. Long Term Investments

31/03/17		31/03/18
Cost £000	Valuation £000	Cost £000
4,913	7,702	4,874
-	-	480
	Inverness - Managed portfolio	
	Nairn – Managed portfolio	

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

31/03/17		31/03/18
Cost £000	Units Held Value £000	Cost £000
2,618	5,323	2,442
2,074	2,158	2,189
221	221	165
-	-	79
<u>4,913</u>	<u>7,702</u>	<u>4,875</u>
	Equities	
	Bonds	
	Cash	
	Property	
	Total	

9. Cash and cash equivalents

31/03/17 £000		31/03/18 £000
<u>1,999</u>	Balance with Highland Council Loans Fund	<u>1,247</u>

10. Usable Reserves**Common Good Funds**

Revenue Funds	Balance at 1/04/17 £000	Movement 2017/18 £000	Balance at 31/03/18 £000
Inverness	5,495	(574)	4,921
Nairn	414	133	547
Tain	250	(19)	230
Dornoch	234	9	243
Dingwall	200	20	220
Fortrose	192	6	198
Cromarty	25	3	29
Invergordon	70	2	72
Total	<u>6,880</u>	<u>(420)</u>	<u>6,460</u>

Capital Receipts Reserve	Balance at 01/04/2017 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2018 £000
Tain	-	120	120
	-	120	120

11. Unusable Reserves

Revaluation Reserve Fund	Balance at 31/03/17 and 31/03/18 £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 1/04/17 £000	Revaluations 2017/18 £000	Realised Gain on Investments £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Disposal of Non- current asset £000	Balance at 31/03/18 £000
Inverness	22,097	(1,220)	-	150	1,100	-		22,127
Nairn	6,934	495	-	-	-	-		7,429
Tain	746	1	-	-	-	(1)	(175)	571
Dornoch	170	-	-	-	-	-		170
Dingwall	165	21	-	-	-	-		186
Fortrose	112	(6)	-	-	-	-		106
Cromarty	53	2	-	-	-	-		55
Invergordon	97	(41)	-	-	-	-		55
Total	30,374	(748)	-	150	1,100	(1)	(175)	30,699

13. Available for Sale Reserve

2016/17 £000		2017/18 £000
1,905	Balance at 1 April 2017	2,788
1,113	Revaluation of investments	(33)
(230)	Accumulated gains on assets sold	(251)
<u>2,788</u>	Balance at 31 March 2018	<u>2,504</u>

14. Financial Instrument balances

Categories of Financial Instruments

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

31/03/17			31/03/18	
Long Term £000	Current £000		Long Term £000	Current £000
7,702	-	Investments	7,859	-
-	1,999	Cash	-	1,247
-	270	Debtors	-	53
-	302	Creditors	-	74

15. Cashflow statement – Adjustments for non-cash movements

2016/17 £000		2017/18 £000
	Non-cash items	
10	Depreciation and impairments	1
(933)	Revaluation of investments	(861)
-	Loss on sale of asset	55
	Items on accruals basis	
47	(Increase)/decrease in debtors	217
119	Increase/(decrease) in creditors	(228)
<u>(757)</u>		<u>(816)</u>

16. Cashflow statement – investing activities

2016/17 £000		2017/18 £000
-	Proceeds of sale of assets	119
-	Purchase of long term investments	(480)
800	Proceeds from long term investments	400
<u>800</u>		<u>39</u>

17. Capital Commitments

Renovation works continue at Inverness Town House, Phase 1 and Phase 2 of these works have now been completed. Phase 3 of the project remains ongoing with an estimated further £3.3m of contracted works still to be undertaken over the next 3 years.

As in previous years this will require to be funded from the liquidation of long term investments, which will significantly reduce the existing Fund balance and reduce scope for supporting new projects in the foreseeable future.

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

ACCOUNTING POLICIES

The Trust Fund accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 3 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 2018

2016/17				2017/18		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(56)	(14)	(82)	Receipts	(143)	(14)	(41)
33	6	63	Payments	32	6	114
<u>(23)</u>	<u>(8)</u>	<u>(19)</u>	(Surplus)/deficit for the year	<u>(111)</u>	<u>(8)</u>	<u>73</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2017		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
110	-	-
860	16	1,215
<hr/>		
1,281	712	838
<hr/>		
2,251	728	2,053
<hr/>		
1,973	368	978
278	360	1,075
<hr/>		
2,251	728	2,053
<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 2018		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
-	-	-
860	16	1,333
<hr/>		
1,392	720	766
<hr/>		
2,252	736	2,099
<hr/>		
1,888	368	1,096
364	368	1,003
<hr/>		
2,252	736	2,099
<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 2018 the balances and investments held are as follows:

Fund Balance £000	31 March 2017		Charity	Scottish Charity Number	Fund Balance £000	31 March 2018	
	Investments at cost £000	Investments at valuation £000				Investments at cost £000	Investments at valuation £000
176	1	3	Highland Charities Trust	044714	165	1	3
2,075	959	1,929	Highland Council Charitable Trusts	025079	2,087	859	2,318
<u>2,251</u>	<u>960</u>	<u>1,932</u>	Total Charitable Trusts		<u>2,252</u>	<u>860</u>	<u>2,321</u>

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 2018 the balances and investments held are as follows:

31 March 2017				31 March 2018			
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	-	-	
288	15	717	Inverness Royal Academy Educational Trust	299	15	749	
134	-	-	Manson Bequest – Keiss	131	-	-	
130	-	-	Manson Bequest – Nairn and Ardclach	130	-	-	
13	-	-	Miss B G Angus Executory	13	-	-	
113	-	-	Other Educational Trusts	113	-	-	
728	16	717	Total Educational Trusts	720	16	749	

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 2017				31 March 2018			
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000	
793	763	1,447	Inverness Burial Grounds Fund	789	839	1,429	
531	452	856	Inverness Benevolent Funds	565	494	864	
52	-	-	Social Work Amenity Funds	64	-	-	
155	-	-	Inverness – Other Trust Funds	155	-	-	
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-	
146	-	-	Caithness Trust Funds	139	-	-	
109	-	-	Lochaber Trust Funds	116	-	-	
90	-	-	Nairn Trust Funds	94	-	-	
146	-	-	Ross and Cromarty Trust Funds	146	-	-	
2	-	-	Skye and Lochalsh Trust Funds	2	-	-	
22	-	-	Sutherland Trust Funds	22	-	-	
<u>2,053</u>	<u>1,215</u>	<u>2,303</u>	Total other trust funds	<u>2,099</u>	<u>1,333</u>	<u>2,293</u>	

GROUP ACCOUNTS

	2016/17 (restated)			2017/18	
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Net Expenditure £000
49,429	(50,547)	(1,118)	HRA	56,566	4,013
386,195	(32,120)	354,075	Care & Learning	418,131	380,271
162,559	(73,075)	89,484	Community Services	170,029	92,619
10,451	(4,017)	6,434	Chief Executives	10,453	7,025
52,313	(16,141)	36,172	Corporate Development	46,130	33,224
99,785	(47,337)	52,448	Development & Infrastructure	105,412	57,085
52,987	(50,315)	2,672	Welfare Services	47,592	4,414
			Joint Board Requisitions:		
2,404	-	2,404	Highlands and Western Isles Valuation Joint Board	2,370	2,370
91	-	91	Highland and Islands Transport Partnership	91	91
			Other Income and Expenditure		
253	-	253	Operating results associates	409	409
816,467	(273,552)	542,915	Service Totals	857,183	581,521
(73,576)	73,576	-	Elimination of Internal Transactions	(75,906)	-
742,891	(199,976)	542,915	Cost of Services	781,277	581,521
		1,650	Other operating expenditure		2,883
		56,972	Financing and investment income and expenditure		62,424
		(593,129)	Taxation and non-specific grant income		(615,034)
		8,408	Deficit on provision of services		31,794
		(25,782)	(Surplus) or deficit on revaluation of non-current assets		(4,010)
		477	Impairment losses on non-current assets charged to the revaluation reserve		12,298
		(833)	(Surplus)/deficit on revaluation of available for sale financial assets		284
		195,195	Remeasurements of the net defined liability		(313,880)
		169,007	Other comprehensive income and expenditure		(305,308)
		177,415	Total Comprehensive Income and Expenditure		(273,514)

GROUP MOVEMENT IN RESERVES STATEMENT 2016/17

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

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2016/17

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

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

GROUP MOVEMENT IN RESERVES STATEMENT 2017/18

HIGHLAND COUNCIL	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2017	26,029	7,328	1,407	1,669	2,950	27,236	-	66,619	988,331	1,054,950
Movement in reserves during 2017/18										
Total comprehensive income and expenditure	(22,261)	(6,822)	-	-	-	-	-	(29,083)	296,388	267,305
Adjustments between accounting basis and funding basis under regulations (note 7)	24,027	6,822	-	-	-	-	-	30,849	(30,849)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	1,766	-	-	-	-	-	-	1,766	265,539	267,305
Transfers to/from other statutory reserves	(2,733)	-	-	4	(611)	(2,232)	10,000	4,428	(4,428)	-
Increase/(decrease) in 2017/18	(967)	-	-	4	(611)	(2,232)	10,000	6,194	261,111	267,305
Balance at 31 March 2018	25,062	7,328	1,407	1,673	2,339	25,004	10,000	72,813	1,249,442	1,322,255

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2016/17

GROUP 2017/18	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 2017 brought forward	1,054,950	30,452	(6,823)	1,078,579
Movement in reserves during 2017/18				
Total Comprehensive Expenditure and Income	267,305	3,663	2,546	273,514
Net increase/(decrease) before transfers to earmarked and other statutory reserves	267,305	3,663	2,546	273,514
Increase/(decrease) in 2017/18	267,305	3,663	2,546	273,514
Balance at 31 March 2018 carried forward	1,322,255	34,115	(4,277)	1,352,093

GROUP BALANCE SHEET

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

31/03/17 £000		31/03/18 £000
2,619,608	Property, plant & equipment	2,632,602
10,659	Heritage Assets	10,659
8,379	Long term investments	8,589
(6,823)	Investments in associates and joint ventures	(4,277)
49,926	Long term debtors (net of impairment)	50,069
<u>2,681,749</u>	Long term assets	<u>2,697,642</u>
782	Short term intangibles	954
20,019	Short term investments	10,006
4,687	Inventories	4,252
44,014	Short term debtors	52,925
38,811	Cash and cash equivalents	60,822
1,194	Assets held for sale	880
<u>109,507</u>	Current assets	<u>129,839</u>
(143,498)	Short term borrowing	(247,652)
(105,067)	Short term creditors	(108,336)
(1,962)	Provisions	(1,083)
(19,039)	Capital Grants Receipts in Advance	(9,005)
<u>(269,566)</u>	Current liabilities	<u>(366,076)</u>
(748,542)	Long term borrowing	(695,078)
(694,569)	Other long term liabilities	(414,234)
<u>(1,443,111)</u>	Long term liabilities	<u>(1,109,312)</u>
<u>1,078,579</u>	Net assets	<u>1,352,093</u>

GROUP BALANCE SHEET (CONTINUED)

31/03/17 £000 (Restated)		31/03/18 £000	31/03/18 £000
1,407	Capital Receipts Reserve	1,407	
-	Capital Grants Unapplied Account	10,000	
1,669	Renewal and Repair Fund	1,673	
27,236	Capital Fund	25,004	
2,950	Insurance Fund	2,339	
26,029	General Fund	25,062	
7,328	Housing Revenue Account	7,328	
66,619	Usable reserves		72,813
555,909	Revaluation Reserve	534,789	
989,181	Capital Adjustment Account	997,322	
(27,109)	Financial Instruments Adjustment Account	(25,141)	
(530,962)	Pensions Reserve	(255,126)	
(9,560)	Employee Statutory Adjustment Account	(9,603)	
977,459	Unusable reserves		1,242,241
34,501	Share of group and associate reserves		37,039
1,078,579	Total reserves		1,352,093

The unaudited Annual Accounts were issued on 15 June 2018.

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

Depute Chief Executive & Director of Corporate Resources
15 June 2018

GROUP CASH FLOW STATEMENT

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

2016/17		2017/18
£000		£000
(7,525)	Net (deficit)/surplus on the provision of services	(31,794)
85,365	Adjust net (deficit)/surplus on provision of services for non-cash movements	155,646
<u>(46,257)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(62,045)</u>
31,583	Net cash inflow from operating activities	61,807
(129,638)	Investing activities	(132,701)
<u>106,154</u>	Financing activities	<u>92,905</u>
8,099	Net increase or decrease in cash and cash equivalents	22,011
<u>30,712</u>	Cash and cash equivalents at 1 April 2017	<u>38,811</u>
<u>38,811</u>	Cash and cash equivalents at 31 March 2018	<u>60,822</u>

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

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 49 to 59.

2. Interest in other entities

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

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

3. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 4), the effect on the group balance sheet is an increase in net assets and reserves of £29.838m. 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.

Previously the surplus/deficit on revaluation of available for sale financial assets for Inverness Common Good was shown in the CIES under financing and investment income and expenditure as part of the deficit on provision of services. This has been corrected to be shown as part of the other comprehensive income and expenditure in 2017/18 and has resulted in a restatement of the deficit on provision of services in the 2016/17 CIES from £7.525m to £8.408m.

Results for the year	(Surplus)/deficit on provision of services £000	Net assets/liabilities £000
High Life Highland	2,387	(5,537)
Inverness Common Good	543	31,616
Nairn Common Good Fund	(628)	8,036
	<u>2,302</u>	<u>34,115</u>

Associates

Highland Council has interests in associates as follows:

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

The 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 2017/18 were as follows:

Results for the year		Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		461	(4,992)
Highland and Islands Transport Partnership		108	(756)
		<u>569</u>	<u>(5,748)</u>
Group share		Deficit on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		369	(3,993)
Highland and Islands Transport Partnership		41	(284)
		<u>410</u>	<u>(4,277)</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 Depute Chief Executive & Director of Corporate Resources on 15 June 2018.

GLOSSARY OF TERMS

GLOSSARY OF TERMS

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

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

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

Business Rates Incentivisation Scheme (BRIS): a scheme which allow Councils to retain a percentage of Non Domestic Rates (NDR) income, designed to encourage growth of businesses.

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

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

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

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

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

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

Capital Grants Unapplied: The Capital Grants Unapplied Account holds the grants and contributions received towards capital expenditure for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund

acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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