

Annual Accounts

Aithris Chunntasan

2018/19

Unaudited

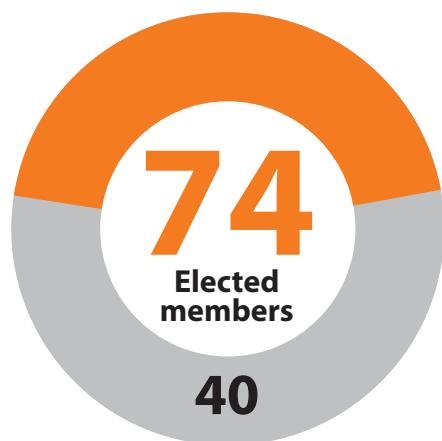
Contents

Management Commentary	2
Statement of Responsibilities for the Annual Accounts.....	15
Annual Governance Statement.....	16
Independent Auditor's Report.....	20
Remuneration Report.....	21
Comprehensive Income and Expenditure Statement.....	35
Movement in Reserves Statement 2017/18.....	37
Movement in Reserves Statement 2018/19.....	38
Balance Sheet.....	39
Cash Flow Statement.....	41
Accounting Policies and Notes to the Accounts.....	48
Housing Revenue Account Income and Expenditure Statement.....	117
Statement of Movement on the Housing Revenue Account.....	118
Notes to the Housing Revenue Account.....	119
Council Tax Income Account.....	120
Non-Domestic Rate Account.....	122
Common Good Funds Accounts.....	125
Charitable, Educational and Other Trust Funds Accounts.....	139
Group Accounts.....	145
Glossary.....	157

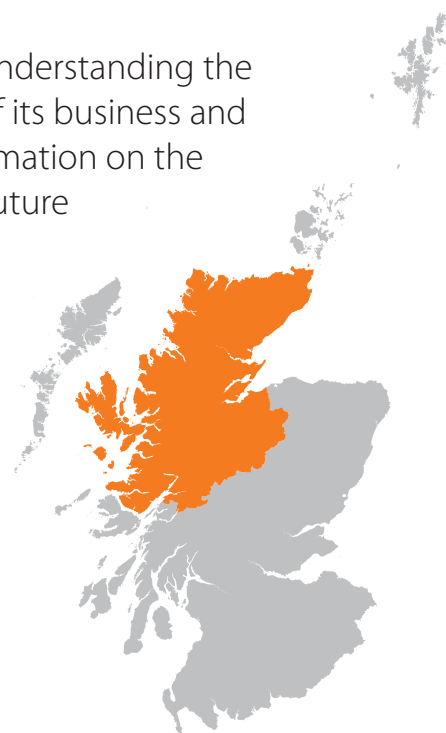
Management Commentary

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)

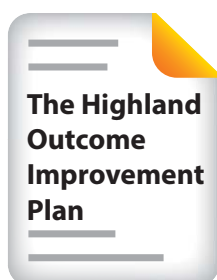
Council Services



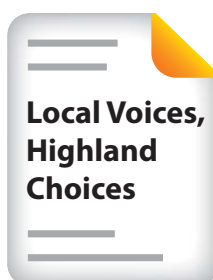
The service structures will be changing in 2019/20 to better help the Council deliver its vision and objectives

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 2018/19

'Your Voice, Your Council, Your Future'

Adoption of a new budget setting approach with over 50 engagement sessions with communities and a 2 day cross party Members seminar

3 Year Revenue Budget

A revenue budget covering 2019/20 to 2021/22 was approved in February 2019

Local Voices, Highland Choices

Refreshed Council programme with 51 commitments under 6 priority themes approved

'A Sustainable Highland'

Corporate change programme approved in February 2019

'A Connected Highland'

22 strategic improvement priorities agreed in March 2019

Newton Rooms

First Newton rooms, for STEM subjects, opened in Thurso and Lochaber

Raining's Stairs Development

Completion of award-winning affordable housing development in central Inverness

FW2040

Creation of draft masterplan for Fort William and Lochaber

Tourism Funding

Successful £1.1m bid to Rural Tourism Infrastructure Fund

High-fi

Free Wifi rolled out to 15 towns across the Highland region

New Chief Executive

Donna Manson appointed in October 2018

Schools Investment

Bun-sgoil Ghàidhlig Phort Rìgh opens

Schools Investment

Contract awarded for replacement Alness Academy in November 2018

Schools Investment

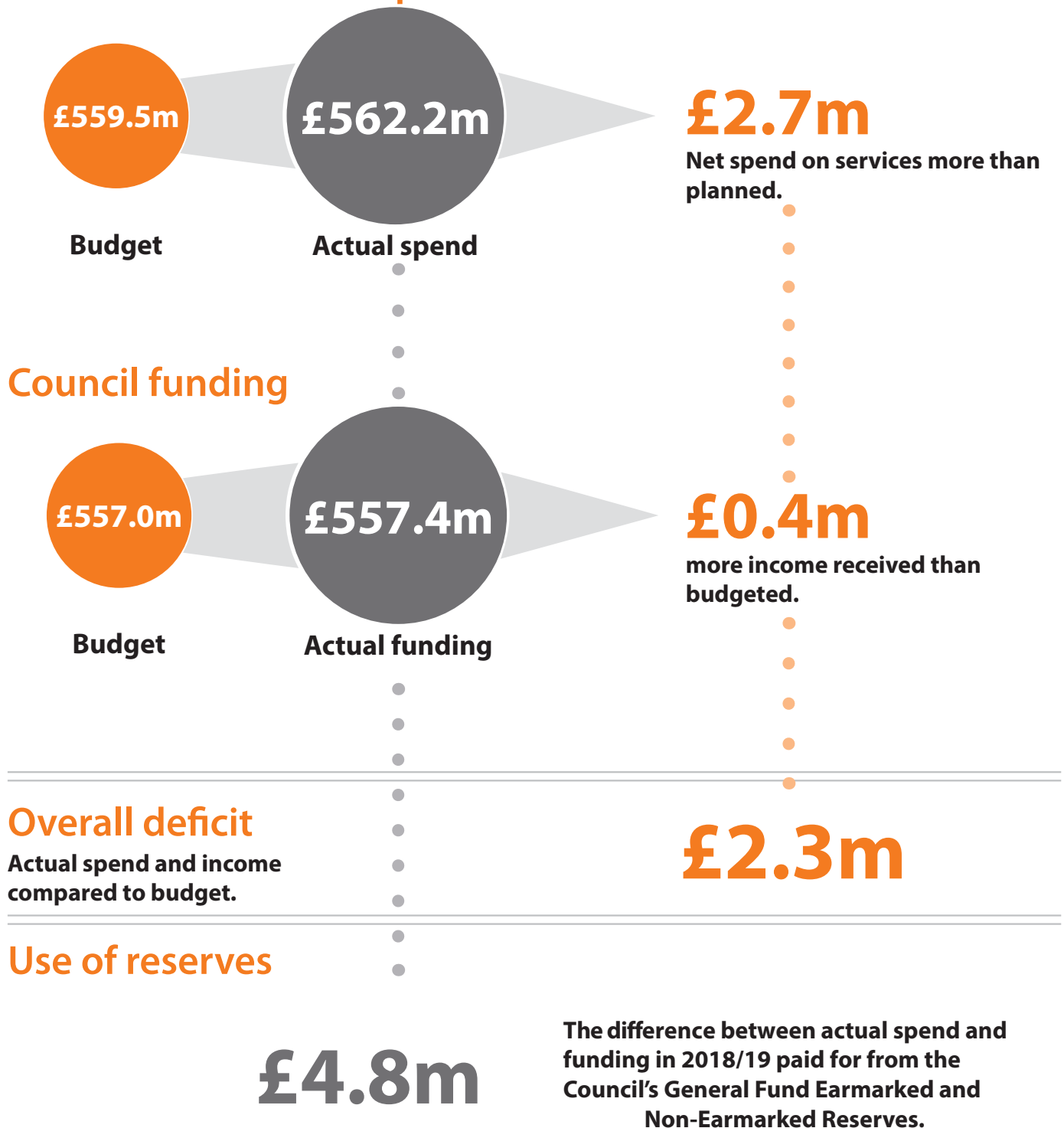
Completion of Phase 1 works at Inverness High School

General Fund Revenue Outturn 2018/19

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

It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. Note 18 to the accounts provides more detail. The expenditure and funding analysis statement in the accounts reconciles this position to the comprehensive income and expenditure statement.

General fund service spend



Commentary on the Year End Position

2018/19 was the second consecutive year in which the Council recorded an annual deficit: a deficit of £2.3m in 2018/19 compared with £1.1m in 2017/18. A review of our earmarked balances meant the impact of this deficit on our non-earmarked reserve was a reduction of £0.7m to £7.9m, the lowest level in recent memory. Overall, general fund reserves reduced by £4.8m over the year.

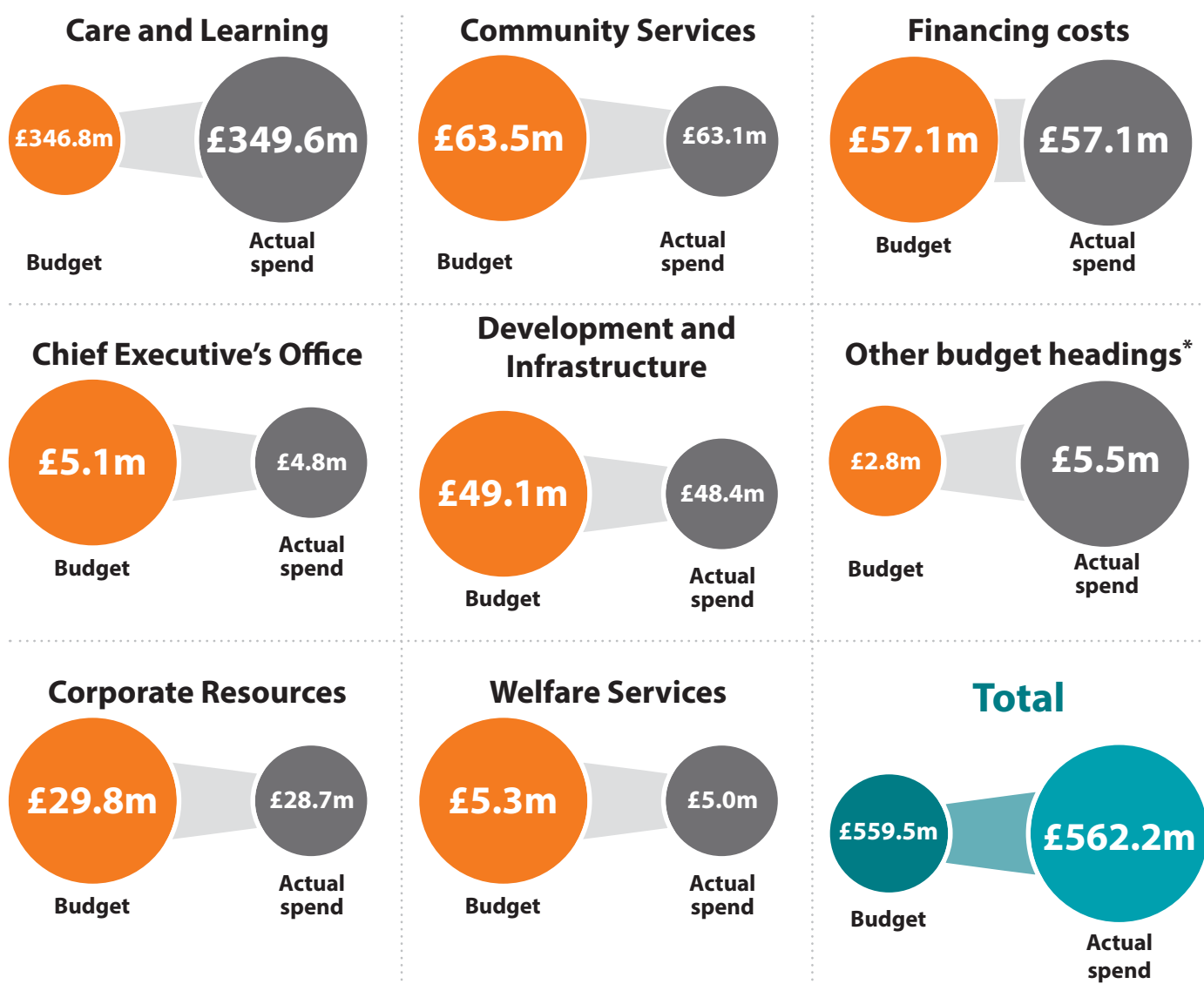
The overall position was considerably better than had been forecast in the earlier part of the year due to spending controls around recruitment and discretionary spend that were put into place during the year. These controls remain in place going into the new financial year.

The Council faced many challenges in 2018/19 - most particularly the need to deliver over £13m of savings. Whilst most were successfully delivered around £2.7m of corporate savings were not achieved and contributed to the overall deficit. Some services were not able to fully deliver their own savings but in most cases found mitigating actions.

All services except Care and Learning delivered an underspend however most services are dealing with particular budget pressures. Care and Learning had an overall overspend of £2.8m, the biggest contributory factors being overspends on looked after children, staffing overspends in special schools, and overspends on Additional Support Needs (ASN) in mainstream school settings.

Elsewhere we faced particular challenges as a result of delayed implementation of savings relating to public conveniences and car parks whilst a requirement for repairs and maintenance spend continues to put pressure on our property budgets. More detail on our 2018/19 outturn was reported to our May Corporate Resources and other strategic committee meetings.

Many areas of underspend from 2018/19 will not be recurring into future years whereas certain cost overspends will be, placing further pressure on our 2019/20 budget and beyond.

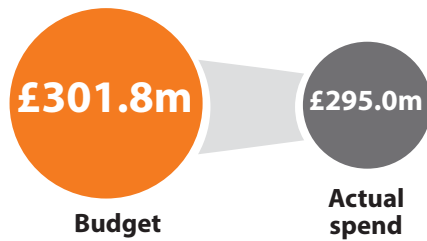


*includes NDR reliefs, joint board requisitions, unallocated savings and transfers to reserves.

Analysis of spend

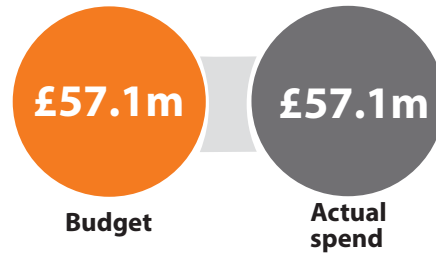
Staff costs

The cost of the Council's employees.



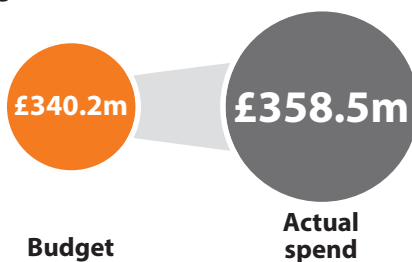
Financing costs

The cost of borrowing to finance capital investment.



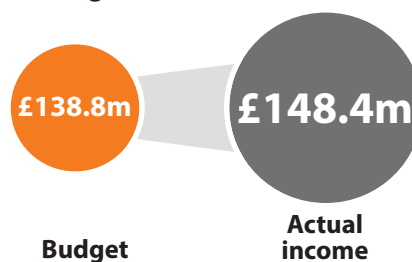
Other costs

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



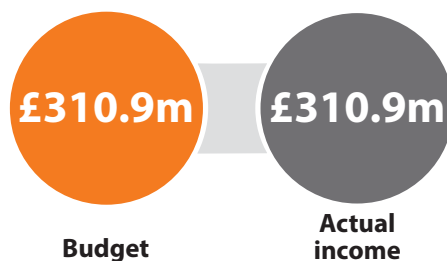
Service income

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

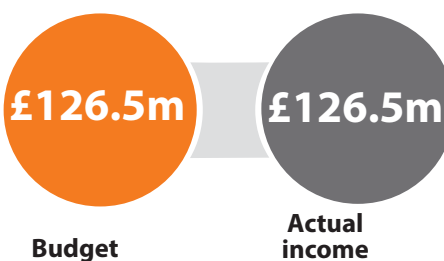


Council funding

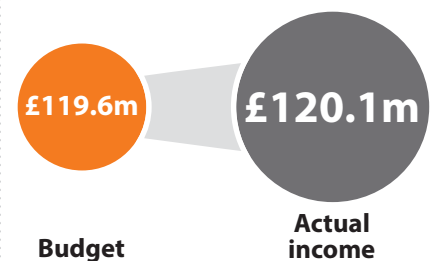
Revenue Support Grant



Non-Domestic Rates



Council Tax



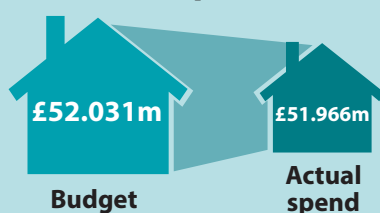
Funding direct from the Scottish Government.

Housing revenue account

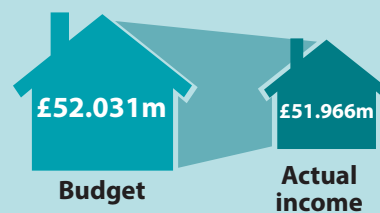


The Council owns 14,052 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated. The surplus for the year was used to fund capital expenditure.

Spend



Income



Council Reserves

The Council holds funds in a number of usable reserves:

General Fund Non-Earmarked Reserve

£7.9m

(2017/18 £8.6m)

Funds held as a general contingency.

Capital Fund

£24.9m

(2017/18 £25.0m)

To buy land for affordable housing provision.

Insurance Fund

£2.3m

(2017/18 £2.3m)

Insurance for items not covered by external insurance policies.

Capital Grants Unapplied

£8.6m

(2017/18 £9.2m)

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

General Fund Earmarked Reserve

£12.4m

(2017/18 £16.5m)

Funds held for specific purposes, more details at note 8.

Renewal and Repair Fund

£1.7m

(2017/18 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2017/18 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2017/18 £1.4m)

Capital receipts available to finance future capital expenditure

Total Useable Reserves

£66.5m

(2017/18 £72.0m)

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

1.4%

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

Use of General Fund Revenue Reserves During the Year

-£2.3m

Overall deficit in 2018/19 met from general fund non-earmarked balances

-£9.6m

Use of earmarked balances for their specified purposes and removal of those no longer needed

Net use of General Fund reserves

-£4.8m

+£1.6m

Earmarked balances no longer needed for their specific purposes and added to non-earmarked balances

+£5.5m

Increase in earmarked balances from 2018/19 service budgets, mainly developer contributions

Capital Outturn 2018/19

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.

£96.2m

Actual capital spend in 2018/19

£14.3m

Underspend due to spend not meeting the profile assumed in the capital programme

Projects with the largest capital spend in 2018/19:

Investment in school buildings

£24.9m



Investment in roads and bridges

£8.7m



Investment in sport, community and leisure facilities

£5.1m



Housing Revenue Account

£42.0m investment in housing stock in 2018/19



Funding of the Capital Programme

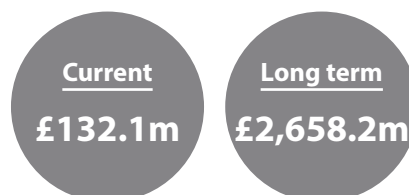
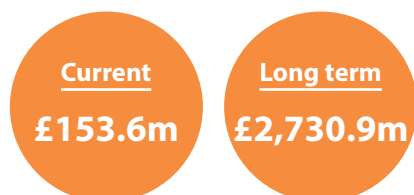
£50.3m of the 2018/19 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

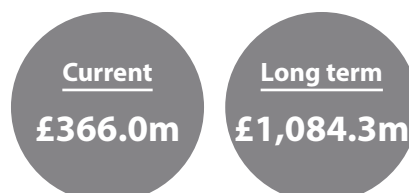
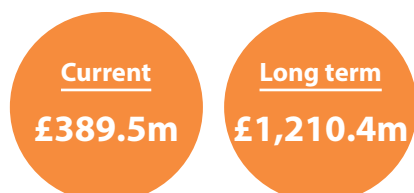
The Council's Balance Sheet shows its assets, liabilities and reserves.
More information on its component parts can be seen in the notes to the accounts.

Total Assets



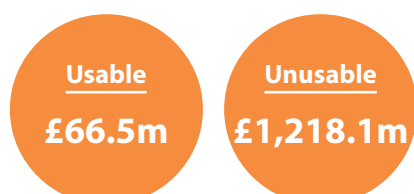
(Increase in long term assets due to capital investments and revaluations and increase in short term assets due to increase in cash and cash equivalents held)

Total Liabilities



(Increase in long term liabilities due to increase in pension liability and increase in long term borrowing. Increase in short term liability due to increase in short term borrowing and increase in capital grants in advance)

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

£884.5m



Infrastructure assets

£423.5m



Other assets

£116.4m



Other land and buildings

£1,236.3m



Vehicles, plant and equipment

£70.2m



Liabilities

Borrowing

-£986.2m



Pensions liability

-£329.5m



Finance leases

-£154.8m



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

Short term creditors
(excluding finance leases)

-£109.9m



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

Other liabilities

-£19.5m



10.16%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2017/18 9.86%)

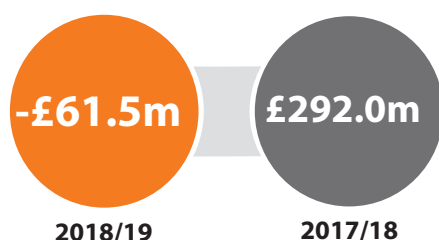
Group Accounts

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:



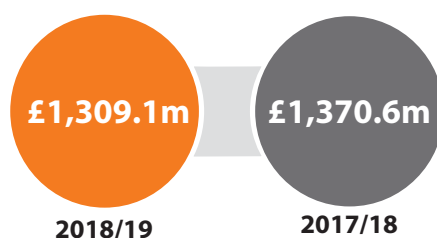
Key Group Financial Information

Total Comprehensive income and expenditure



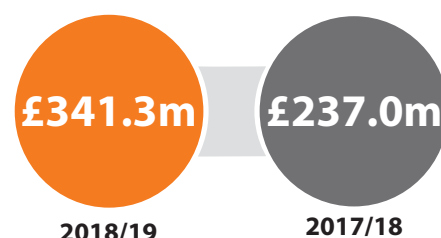
The overall change in total Group reserves calculated on an accounting basis.

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 2017/18

The latest year's Statutory Performance Indicators (SPI's) for 2017/18 demonstrate improved performance on the year. This is a positive report of improving performance overall with 78% of SPI's either improving by more than 5% or performance was maintained. This compares to 76% for the year before.

Indicators that have shown a change of:



Care and Learning

- **Libraries** Number of visits per 1,000 population increased from 13,110 to 15,160
- **Children's Services** The percentage of Looked After Children in kinship care increased from 17.7% to 19.5%
- **Culture and Leisure** The number of customers of High Life Highland increased from 6.7m to 7.5m

Corporate Resources

- **Business** Total direct spend with Highland small and medium sized enterprises increased from 33.7% to 40.9%
- **Rates** The cost of collection per chargeable property decreased from £20.29 to £17.87

Community Services

- **Waste** The net cost of waste collection decreased from £78.27 to £62.82 per premise
- **Street Lighting** The cost of electricity per street lighting unit decreased from £39.32 to £34.99
- **Parks and Open Spaces** The net cost per 1,000 population decreased from £8,583 to £7,535

Development and Infrastructure

- **Planning** The cost per planning application has decreased from £3,684 to £2,672
- **Business** The number of businesses supported by the Council and its Business Gateway service increased from 1,061 to 1,191

Indicators that have shown a change of:



Care and Learning

- **Education** Children from deprived backgrounds receiving 5+ awards at SCQF Level 6 decreased from 11% to 9%

- **Education** School Exclusion rates (per 1,000 pupils) increased from 20.4 to 22.7
- **Children's Services** The average number of Looked After Children accommodated by the Council outwith Highland increased from 27 to 34

Community Services

- **Street Lighting** Street light failures completed within 7 days decreased from 91% to 69%
- **Housing** The homelessness case duration increased from 37 to 44 weeks

Development and Infrastructure

- **Planning** The average time per planning application increased from 10.2 weeks to 11.4 weeks
- **Business** The number of Business Gateway start-ups (per 10,000 population) decreased from 12.1 to 11.0

Risks, Uncertainties and Future Developments

2019/20 Budget

Challenges in delivering some of the savings required to balance the 2019/20 budget have been identified and a number of cost pressures from 2018/19 will be recurring in 2019/20. Without mitigation of these pressures there is a risk of a further depletion of our reserves.

Reserves

With non-earmarked reserves at an historic low of 1.4% of the annual revenue budget the Council is vulnerable to unforeseen events and has limited means to effect transformational change.

Grant Funding

The level of funding for core services is forecast to continue to reduce in real terms. The Scottish Government has committed to giving a multi-year settlement for 2020/21 and beyond, without that it is difficult to plan ahead with any certainty and to link financial and workforce planning to ensure that the Council has the right skills mix to deliver priority services.

Demographic Change and Demand for Services

The changing profile of our population in terms of age, health and location will see increasing demand for certain services in certain locations whilst questioning the sustainability of others. Our partnership agreement with NHS Highland needs to be renegotiated at this time of increasing demand and cost.

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.

Capital Investment

The physical condition of our roads, schools and other assets has been declining and we are seeing increased demand for school places. Balancing our need to invest in our assets whilst doing so at an affordable level means that asset condition may well decline further.

Pay Inflation and Pension Cost Increases

Agreed 3 year pay deals for teachers and other local government staff and an increase in pension contribution rates for teachers are at a level that pushes the limits of affordability. Despite some government support for these additional costs the size of these awards means the Council needs to find more savings in order to pay them.

Changes in Senior Staff

Substantial changes in the Council's senior leadership team bring both opportunities and risk. Whilst new ideas and ways of working will be introduced a significant amount of experience has been lost. Ensuring we have the right staff, with the right skills, across all areas of the Council remains a challenge.

Waste

The introduction of a landfill ban in Scotland has the potential to bring significant extra cost in dealing with our waste. Uncertainties on how and when the ban will come into effect further complicate the picture.

Declining Satisfaction with Council Services

Overall public satisfaction with Council services sits at 63% and has been declining over the last 5 years. The financial challenges faced by the Council may see this reducing further.

Looking Ahead

As outlined on the previous page the Council is currently facing a number of significant challenges which mean that existing ways of working will not be sustainable into the future. The Council needs to adapt in order to meet those challenges and our vision of being a Sustainable, Ambitious and Connected Council aims to make us fit for the future.

Being connected with staff, partners and the general public across the Highlands is intended to help us better understand what really matters to our communities and how we can best work together to deliver our priority outcomes. It is clear that we are not able to do everything that we would want to do as we have to balance our desires against our available resources. Having priorities agreed with our communities should mean our resources are targeted where they are needed most.

The Council has approved an ambitious change programme, 'A Sustainable Highland', which aims to ensure that our services are delivered in the most cost effective way possible and any wastage is removed from our processes. Our local and corporate governance arrangements are being reviewed to ensure democratic scrutiny is appropriate and we can be responsive to that scrutiny.

Our budget for 2019/20 to 2021/22 was set around the following four key themes which will be key to the continued success of the Highland Council:

- Making the Council more Efficient
- Commercialisation and Income Generation
- Redesign and Improvement
- Flexible and Well Managed Workforce

The overall deficit and reducing reserves recorded in these accounts highlight the increasing financial pressure the Council is under. Whilst in recent years we have always managed to get by, the combined factors of cost increases, reducing core government funding, our low level of reserves and significant budget reductions already made, mean that the ongoing financial sustainability of the Council is at risk. Even with the significant changes we are looking to make we may not move fast enough to stay ahead of those pressures. Only by staff, Members, communities and partners working together can we become the sustainable, ambitious and connected Council that the Highland public deserves.

Donna Manson
Chief Executive

Margaret Davidson
Leader of the Council

Edward Foster
Head of Corporate Finance and
Commercialism

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 Head of Corporate Finance and Commercialism;
- (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 19 September 2019.

Signed on behalf of Highland Council

Margaret Davidson
Leader of the Council

The Head of Corporate Finance and Commercialism's Responsibilities

The Head of Corporate Finance and Commercialism 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 2018/19 (the Code).

In preparing the Annual Accounts, the Head of Corporate Finance and Commercialism 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 Head of Corporate Finance and Commercialism 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 2019.

Edward Foster CPFA
Head of Corporate Finance and Commercialism
20 June 2019

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 annually.

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 2019 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 November 2018. The basis of the 2018/19 Local Code is the 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 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 2017/18 Local Code were completed or were on target and where appropriate some actions have been carried forward or revised into the 2018/19 Code. There is one action from the 2017/18 Code with some slippage and this has been included in the revised Code with an updated target date for completion. This action is:

The Council is developing a Medium Term Financial Strategy to support the delivery of statutory responsibilities and delivery of the outcomes set out in the Council Programme.

A five year financial plan aligned with priorities, statutory duties, and the Council's workforce plan was not completed in 2017/18. The Council produced a one year budget in line with the Scottish Government producing one year grant figures. The Council took the decision in June 2018 to adopt a strategy leading to an agreed three year budget by February 2019 measuring value for money through statutory and local performance indicators. An amended target date of February 2019 was therefore included.

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 2018/19 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) 2018/19 to the Audit and Scrutiny Committee on 13 June 2019.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2018/19

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 2018/19 Internal Annual Report and Annual Governance Statement refers to a total of 73 audit recommendations being made and of these, 21 were classified as high grade. There are no particular themes or issues identified within the high graded recommendations. However, the findings from 2 audits, detailed below, are of concern, both of which were reported to the Audit & Scrutiny Committee on 27/03/19:

Inverness and Highland City Region Deal (CRD)

The CRD is a tripartite agreement between the Council, UK and Scottish Governments and has a funding package of £53.1m. The audit contained the opinion of limited assurance due a number of issues particularly the need to strengthen existing governance arrangements including Member scrutiny and to improve the arrangements relating to the forecasting, claiming and administration of grant funds.

An action plan has been agreed to address the areas of concern identified and this will be followed up in the normal manner to ensure that the management agreed actions are satisfactorily implemented.

Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2017/18

It is a requirement of the scheme that carbon use is reported and internally audited on an annual basis. This audit report contained the opinion of limited assurance for the fourth consecutive year. This was due to concerns about the accuracy and completeness of the information reported, and the failure to implement previously agreed management actions.

The 2018/19 year is the final year of the scheme before it is abolished and replaced by an increase in the climate change levy. The audit review of the 2018/19 compliance year will be undertaken in quarter 3 and this will include following up the 2017/18 audit's action plan to ensure that this was implemented as agreed.

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 2019.

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

Concerns in the governance arrangements relating to the Inverness and Highland City Region Deal as outlined above. As a result of the Internal Audit report, it was agreed that a report would go to the Environment, Development & Infrastructure Committee recommending a number of changes to governance. This was done on 16/05/19.

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

Donna Manson

Chief Executive

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 2018/19 the remuneration for the Leader of Highland Council is £39,655. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council in 2018/19 - 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. £29,742.

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 £443,985 for 2018/19 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 2018/19 for all councillors was £1,371,982 (2017/18: £1,360,865). The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

The Scheme of Remuneration for the Leader, Convener, Depute Council Leader and Senior Councillors was agreed by Council on 1 June 2017. The report is available at 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 2018/19

Councillors are listed in alphabetical order.

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

Where a Senior Councillor role was not held throughout 2018/19, the full year equivalent (FYE) salary for the role is shown in brackets.

2017/18	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2018/19		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
22,815	Andrew Baxter	Chair of Care, Learning and Housing Committee (2018/19 FYE: £25,576)	15/12/17	23/11/18	22,908	826	23,734
		Chair of Lochaber Committee (2018/19 FYE: £18,072) (Note 1)	23/06/17				
20,745	Helen Carmichael	Provost and Leader of Inverness and Area	19/06/17		20,857	-	20,857
27,983	Alasdair Christie	Depute Leader of the Council	18/05/17		29,742	-	29,742
38,701	Margaret Davidson	Leader of the Council	18/05/17		39,655	347	40,002
20,984	John Finlayson	Vice Chair of Care, Learning and Housing Committee (2018/19 FYE: £20,857)	01/06/17	12/12/18	22,278	3,637	25,915
		Chair of Care, Learning and Housing Committee (2018/19 FYE: £25,576)	13/12/18				
n/a	Richard Gale	Chair of Sutherland County Committee (2018/19 FYE: £18,072)	15/11/18		17,399	-	17,399
20,146	Jimmy Gray	Convener of Highland & Western Isles Valuation Joint Board (Note 2)	27/06/17		21,245	-	21,245

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2018/19

2017/18	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2018/19		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
27,838	Allan Henderson	Chair of Environment, Development and Infrastructure Committee	01/06/17		25,576	3,074	28,650
24,854	Richard Laird	Chair of Audit and Scrutiny Committee (2018/19 FYE: £25,576)	01/06/17	05/09/18	20,689	-	20,689
29,914	Bill Lobban	Convener of the Council	18/05/17		29,742	1,985	31,727
19,177	Donald MacKay	Chair of Caithness Committee (2018/19 FYE: £18,072)	16/06/17	19/05/18	17,136	1,463	18,599
n/a	Graham MacKenzie	Chair of Audit and Scrutiny Committee (2018/19 FYE: £25,576)	06/09/18		21,881	114	21,995
24,411	Alister Mackinnon	Chair of Corporate Resources Committee	01/06/17		25,576	-	25,576
22,086	Hugh Morrison	Vice Chair of Environment, Development and Infrastructure Committee	01/06/17		20,857	-	20,857
19,466	Linda Munro	Chair of Sutherland County Committee (2018/19 FYE: £18,072) (Note 3)	23/06/17	14/11/18	19,285	2,627	21,912
		Vice Chair of Care, Learning & Housing Committee (2018/19 FYE: £20,857)	25/10/18				
20,798	Matthew Reiss	Vice Chair of Corporate Resources Committee	15/12/17		20,857	2,123	22,980
		Chair of Caithness Committee (2018/19 FYE: £18,072) (Note 4)	19/05/18				

2017/18	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2018/19		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
20,302	Fiona Robertson	Chair of Ross and Cromarty Committee	19/06/17		20,857	-	20,857
20,130	Patricia Robertson	Vice Chair of Environment, Development and Infrastructure Committee	01/06/17		20,857	-	20,857
25,330	Maxine Smith	Leader of the Opposition	18/05/17		25,576	217	25,793
20,130	Kate Stephen	Vice Chair of Care, Learning and Housing Committee (2017/18 FYE: £20,857)	01/06/17	30/09/18	10,428	-	10,428
425,810	Total				453,401	16,413	469,814

Notes :

1. No additional 2018/19 remuneration received for the role of Chair of Lochaber Committee during the period 1 April 2018 to 23 November 2018 as it was held concurrently with the role of Chair of Care, Learning and Housing Committee.
2. £4,251 was recharged to Highland and Western Isles Valuation Joint Board in 2018/19 (2017/18 : £3,225).
3. No additional 2018/19 remuneration received for the role of Chair of Sutherland County Committee during the period 25 October 2018 to 14 November 2018 as it was held concurrently with the role of Vice Chair of Care, Learning and Housing Committee.
4. No additional 2018/19 remuneration received for the role of Chair of Caithness Committee during the period 19 May 2018 to 31 March 2019 as it was held concurrently with the role of Vice Chair of Corporate Resources Committee.
5. 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:

2017/18 £000		2018/19 £000
1,361	Remuneration	1,372
186	Travel and Subsistence	186
23	All Other Expenses	21
1,570	Total	1,579

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/150 sets the amount of salary for the Chief Executive of Highland Council for the year 2018/19. Salaries of Service Directors are also based on Circular CO/150.

The role of Depute Chief Executive, which until June 2019 has been allocated to one of the Directors, following a competitive selection process, attracted an additional responsibility payment. At the Highland Council meeting on 7 September 2017 it was agreed that this payment should be set at £5,000 per annum.

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 2018/19 is shown in the table on the following page.

Remuneration of Senior Employees for 2018/19

Where a post was not held throughout the whole of 2018/19, the full year equivalent salary for the role is shown in brackets.

2017/18	Senior Employee	Position	2018/19	
Total Remuneration £			Salary, Fees and Allowances £	Total Remuneration £
156,800	Steve Barron	Chief Executive (to 14/11/18) (2018/19 FYE: £147,989) (Notes 1 and 2)	94,250	94,250
n/a	Donna Manson	Chief Executive (from 19/10/18) (2018/19 FYE: £149,589)	67,556	67,556
113,454	Derek Yule	Depute Chief Executive & Director of Corporate Resources	120,762	120,762
111,371	William Alexander	Director of Care & Learning (to 31/10/18) (2018/19 FYE: £111,371) (Note 2)	64,966	64,966
n/a	Sandra Campbell	Interim Director of Care & Learning (from 15/10/18) (2018/19 FYE: £115,762)	53,524	53,524
111,371	William Gilfillan	Director of Community Services	115,762	115,762
111,371	Stuart Black	Director of Development & Infrastructure	115,762	115,762
85,912	Ian Murray	Chief Executive, High Life Highland	87,512	87,512
76,340	Stewart Fraser	Head of Corporate Governance (Note 3)	79,024	79,024
76,340	Carron McDiarmid	Head of Policy & Reform (Notes 3 and 4)	79,024	79,024
51,797	Ruth Cleland	Corporate Communications Manager (Note 3)	53,617	53,617
894,756	Total		931,759	931,759

No taxable expenses or Compensation for Loss of Office payments were made in 2018/19.
For notes to the table, refer to page 27.

Notes to table on page 26:

1. 2018/19 remuneration includes £2,168 paid to the Chief Executive in his role as Returning Officer for the Westminster Parliamentary Election in June 2017.

2017/18 remuneration includes £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.

2. The full year equivalent salary excludes the backdated 2018/19 pay award which was not agreed until after the date of retirement and not received by the Senior Employee.

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. 2018/19 salary includes £32,927 recharged to the Scottish Police Authority for a 5 month secondment from September 2018 to January 2019.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2018/19	2017/18
50,000 - 54,999	154	162
55,000 - 59,999	76	86
60,000 - 64,999	29	20
65,000 - 69,999	13	6
70,000 - 74,999	6	14
75,000 - 79,999	16	10
80,000 - 84,999	-	1
85,000 - 89,999	1	-
90,000 - 94,999	1	-
95,000 - 99,999	1	-
100,000 - 104,999	-	-
105,000 - 109,999	-	-
110,000 - 114,999	-	4
115,000 - 119,999	2	-
120,000 - 124,999	1	-
125,000 - 129,999	-	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	-	-
145,000 - 149,999	-	1

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. The 2018/19 figures include 3 employees who were members of the Highland Council Pension Fund and entitled to immediate pension on leaving the Council (2017/18: 4). The gross actuarial cost of these exit packages is £0.067m (2017/18: £0.236m) and the net savings, on an actuarial basis, are £0.289m (2017/18: £1.152m).

2017/18		Cost Band	2018/19	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
10	59,404	£0 - £20,000	17	87,979
2	57,244	£20,001 - £40,000	1	35,843
-	-	£40,001 - £60,000	2	99,279
-	-	£60,001 - £80,000	-	-
3	274,844	£80,001 - £100,000	-	-
2	242,153	£100,001 - £150,000	-	-
17	633,645	Total	20	223,101

2. Appointments**i) Councillors**

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. On 18 May 2017 the Council appointed the positions of Leader of the Council, Convener of the Council, Depute Leader of the Council and Leader of the Opposition. Most other Senior Councillors were appointed at Council on 1 June 2017. The Chairs of Area Committees are appointed at the relevant area committee, with the appointments approved at the next Council meeting.

The Senior Councillor posts held in the Council during 2018/19 were:

Leader of the Council
 Convener of the Council
 Depute Leader of the Council
 Leader of the Opposition
 Chair of Audit and Scrutiny Committee
 Chair of Corporate Resources Committee
 Chair of Care, Learning and Housing Committee
 Chair of Environment, Development and Infrastructure Committee
 Vice Chair of Corporate Resources Committee
 Vice Chair of Care, Learning and Housing Committee (2 posts)
 Vice Chair of Environment, Development and Infrastructure Committee (2 posts)
 Leader of Inverness and Area
 Chair of Caithness Committee
 Chair of Lochaber Committee
 Chair of Ross and Cromarty Committee
 Chair of Sutherland County Committee

ii) Senior Employees

The recruitment panel for Head of Service and Executive Chief Officer appointments comprises 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), Dr I Cockburn, Mr G MacKenzie and Mr D Loudon. The panel for the appointment of the Chief Executive and Chief Operating Officer

comprises the Convener, Leader, Depute Leader, 3 Strategic Chairs, Leader of the Opposition, Leader of the Scottish Conservative Group, Leader of the Labour Group and Dr I Cockburn.

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. Benefits built up to 31 March 2015 are protected and based on final pay.

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.

The 2018/19 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2018/19
On earnings up to and including £21,300	5.50%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.50%
On earnings above £35,700 and up to £47,600	9.50%
On earnings above £47,600	12.00%

2017/18 contribution tiers and rates:

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%

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 2018/19 employer's contribution rate is 19.5% of pensionable pay (2017/18: 19.5%).

For service from 1 April 2009, 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 career average pay and years of pensionable service for service from 1 April 2015 and 1/60th of final pensionable pay and years of pensionable service for service from 1 April 2009 to 31 March 2015. For service to 31 March 2009, the accrual rate guarantees a pension based on 1/80th and a lump sum based on 3/80th of final pensionable pay 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.

Where pension benefits have been transferred, 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 2019 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 22.

Pension Contributions 2017/18 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2018/19 £	Accrued Pension Benefits			
			As at 31/03/19		Difference from 31/03/18	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
4,057	Andrew Baxter	4,587	3	0	1	0
1,556	Helen Carmichael *	0	n/a	n/a	n/a	n/a
5,250	Alasdair Christie	5,798	4	0	1	0
7,652	Margaret Davidson	7,730	7	2	1	0
3,278	John Finlayson	4,266	1	0	0	0
n/a	Richard Gale	3,313	1	0	n/a	n/a
4,846	Allan Henderson	4,986	5	2	1	0
4,202	Richard Laird	3,067	3	0	0	0
5,250	Bill Lobban	5,798	3	0	1	0
3,448	Donald MacKay	3,358	2	0	0	0
n/a	Graham MacKenzie	4,126	3	0	n/a	n/a
4,684	Alister Mackinnon	4,986	3	0	1	0
3,862	Hugh Morrison	4,066	3	0	1	0
3,444	Linda Munro	3,714	4	2	1	0

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2018/19

Pension Contributions 2017/18 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2018/19 £	Accrued Pension Benefits			
			As at 31/03/19		Difference from 31/03/18	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,593	Matthew Reiss	4,066	2	0	0	0
4,094	Fiona Robertson	4,066	3	0	1	0
3,862	Patricia Robertson	4,066	1	0	0	0
4,909	Maxine Smith	4,986	3	0	1	0
3,862	Kate Stephen	2,371	2	0	0	0
71,849	Total	79,350	53	6	10	0

* 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 2019 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 26.

Pension Contributions 2017/18 £	Senior Employee	Pension Contributions 2018/19 £	Accrued Pension Benefits			
			As at 31/03/19		Difference from 31/03/18	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
28,858	Steve Barron (Note 1)	17,956	41	206	(24)	83
n/a	Donna Manson	13,173	1	0	n/a	n/a
22,124	Derek Yule	23,549	63	124	4	2
21,717	William Alexander (Note 1)	12,668	44	293	(13)	176
n/a	Sandra Campbell (Note 2)	18,722	8	0	n/a	n/a
21,717	William Gilfillan	22,574	49	85	4	3
21,717	Stuart Black	22,574	55	102	4	4
16,753	Ian Murray	17,065	46	89	2	2
14,886	Stewart Fraser	15,410	32	53	3	2
14,886	Carron McDiarmid (Note 3)	15,410	36	65	3	2
10,100	Ruth Cleland	10,455	5	0	1	0
172,758	Total	189,556	380	1,017	(16)	274

Notes :

1. Retired during 2018/19 and elected to commute pension to increase lump sum retirement grant.
2. 2018/19 pension contributions and accrued benefits as at 31/03/19 include contributions paid and benefits accrued in respect of a previous post.
3. 2018/19 pension contributions include £6,421 recharged to the Scottish Police Authority for a 5 month secondment from Sep 2018 to Jan 2019.

Margaret Davidson
Leader of the Council

Donna Manson
Chief Executive

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 43/44 and in the Movements in Reserves Statement on page 37/38.

2017/18				2018/19			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
56,566	(52,553)	4,013	Council Housing – Housing Revenue Account		56,975	(52,699)	4,276
402,961	(25,064)	377,897	Care & Learning		397,916	(30,972)	366,944
168,968	(76,349)	92,619	Community Services		167,756	(76,969)	90,787
10,580	(3,428)	7,152	Chief Executives		8,605	(2,353)	6,252
46,154	(12,906)	33,248	Corporate Resources		51,147	(8,163)	42,984
103,419	(48,153)	55,266	Development & Infrastructure		115,568	(55,761)	59,807
47,635	(43,178)	4,457	Welfare Services		44,452	(39,499)	4,953
			Joint board requisitions				
2,370	-	2,370	Highland and Western Isles Valuation Joint Board		2,484	-	2,484
91	-	91	Highland and Islands Transport Partnership		91	-	91
838,744	(261,631)	577,113	Service Totals		844,994	(266,416)	578,578
(75,906)	75,906	-	Elimination of Internal Transactions		(72,117)	72,117	-
762,838	(185,725)	577,113	Cost of Services Carried Forward		772,877	(194,299)	578,578

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2017/18				2018/19			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
762,838	(185,725)	577,113	Cost of services brought forward		772,877	(194,299)	578,578
		2,883	Losses on the disposal of non-current assets				611
		63,971	Financing and investment income and expenditure	9			54,175
		(614,884)	Taxation and non-specific grant Income	10			(618,791)
		29,083	Deficit on provision of services				14,573
		(4,010)	Surplus on revaluation of non-current assets				(36,012)
		12,298	Impairment losses on non-current assets charged to the revaluation reserve				4,153
		(322,457)	Remeasurements of the net defined benefit liability				72,755
		(314,169)	Other comprehensive (income) and expenditure				40,896
		(285,086)	Total comprehensive (income) and expenditure				55,469

MOVEMENT IN RESERVES STATEMENT 2017/18

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 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 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)	314,169	285,086
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	283,320	285,086
Transfers to/from other statutory reserves	(2,733)	-	-	4	(611)	(2,232)	9,176	3,604	(3,604)	-
Increase/(decrease) in 2017/18	(967)	-	-	4	(611)	(2,232)	9,176	5,370	279,716	285,086
Balance at 31 March 2018	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,268,047	1,340,036

MOVEMENT IN RESERVES STATEMENT 2018/19

	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 2018	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,268,047	1,340,036
Movement in reserves during 2018/19										
Total comprehensive income and expenditure	(5,954)	(8,619)	-	-	-	-	-	(14,573)	(40,896)	(55,469)
Adjustments between accounting basis and funding basis under regulations (note 7)	1,995	8,619	105	-	-	-	-	10,719	(10,719)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(3,959)	-	105	-	-	-	-	(3,854)	(51,615)	(55,469)
Transfers to/from other statutory reserves	(804)	-	(105)	5	(6)	(128)	(627)	(1,665)	1,665	-
Increase/(decrease) in 2018/19	(4,763)	-	-	5	(6)	(128)	(627)	(5,519)	(49,950)	(55,469)
Balance at 31 March 2019	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,218,097	1,284,567

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'.

31/03/18 £000		Note	31/03/19 £000
2,602,683	Property, plant and equipment	29	2,682,084
8,536	Heritage assets	34	8,558
730	Long term investments	43	820
46,216	Long term debtors (net of impairment)	35	39,449
<u>2,658,165</u>	Long term assets		<u>2,730,911</u>
954	Short term intangible assets		473
10,006	Short term investments		15,013
4,151	Inventories		4,522
55,365	Short term debtors	36/37	69,519
60,803	Cash and cash equivalents	17	63,503
880	Assets held for sale		611
<u>132,159</u>	Current assets		<u>153,641</u>
(247,795)	Short term borrowing	43	(256,466)
(108,075)	Short term creditors	38	(115,960)
(1,083)	Provisions	39	(801)
(9,005)	Capital Grant Receipts in Advance	42	(16,364)
<u>(365,958)</u>	Current liabilities		<u>(389,591)</u>
(695,078)	Long term borrowing	43	(729,722)
(389,252)	Other long term liabilities	40	(480,672)
<u>(1,084,330)</u>	Long term liabilities		<u>(1,210,394)</u>
<u>1,340,036</u>	Net assets		<u>1,284,567</u>

BALANCE SHEET (CONTINUED)

31/03/18 £000		Note	31/03/19 £000
1,407	Capital Receipts Reserve		1,407
1,673	Renewal and Repair Fund		1,678
25,004	Capital Fund		24,876
2,339	Insurance Fund		2,333
9,176	Capital Grants Unapplied		8,549
25,062	General Fund		20,299
7,328	Housing Revenue Account		7,328
<u>71,989</u>	Usable reserves	11	<u>66,470</u>
534,789	Revaluation Reserve		555,094
(230,144)	Pensions Reserve		(329,499)
998,146	Capital Adjustment Account		1,024,301
(25,141)	Financial Instruments Adjustment Account		(21,234)
(9,603)	Employee Statutory Adjustment Account		(10,565)
<u>1,268,047</u>	Unusable reserves	12	<u>1,218,097</u>
<u>1,340,036</u>	Total reserves		<u>1,284,567</u>

The unaudited Annual Accounts were issued on 20 June 2019.

Edward Foster CPFA

Head of Corporate Finance and Commercialism
20 June 2019

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.

2017/18	Note	2018/19
£000		£000
(29,083) Net surplus/(deficit) on the provision of services		(14,573)
152,930 Adjust net surplus on the provision of services for non-cash movements	13	114,934
(62,045) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	10	(61,321)
<u>61,802</u> Net cash inflow from operating activities		<u>39,040</u>
(132,701) Investing activities	15	(136,011)
92,905 Financing activities	16	99,671
<u>22,006</u> Net increase or (decrease) in cash and cash equivalents		<u>2,700</u>
38,797 Cash and cash equivalents at 1 April 2018		60,803
<u>60,803</u> Cash and cash equivalents at 31 March 2019	17	<u>63,503</u>

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Expenditure and Funding Analysis	43
2. Note to Expenditure and Funding Analysis.....	45
3. Accounting policies	48
4. Accounting Standards issued but not yet adopted	59
5. Critical judgements in applying accounting policies	59
6. Assumptions made about the future and other major sources of estimation uncertainty.....	60
7. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations.....	62
8. Movement in Reserve Statement – transfers to/from earmarked reserves.....	67
9. Comprehensive Income and Expenditure Statement – Financing and investment income and expenditure	68
10. Comprehensive Income and Expenditure Statement – Taxation and non specific grant income.....	68
11. Balance Sheet – usable reserves	69
12. Balance Sheet – unusable reserves	70
13. Cash flow statement – Adjustments for non-cash movements.....	73
14. Cash flow statement – operating activities	73
15. Cash flow statement – investing activities	74
16. Cash flow statement – financing activities	74
17. Cash flow statement – cash and cash equivalents.....	74
18. Service Income and Expenditure	74
19. Segmental Income	76
20. Expenditure & Income Analysed by Segment and Nature	77
21. Trading operations	79
22. Agency Services	79
23. External audit costs.....	80
24. Pension schemes accounted for as defined contribution schemes.....	80
25. Defined benefit pension schemes.....	81
26. Local Government Pension Scheme	88
27. Related parties	89
28. Operating Leases.....	92
29. Property, plant and equipment.....	93
30. Capital commitments	98
31. Capital expenditure and capital financing	98
32. Private finance initiatives and similar contracts	100
33. IFRS 13 Fair Value Measurement	101
34. Heritage assets	102
35. Long term debtors	102
36. Short term debtors	102
37. Debtors for Local Taxation.....	103
38. Short term creditors	103
39. Provisions.....	103
40. Long Term Liabilities	104
41. Contingent liabilities	104
42. Grant income	107
43. Financial instrument balances	108
44. Financial instrument gains and losses.....	110
45. Nature and extent of risks arising from financial instruments	112
46. Events after Reporting Period.....	116

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.

2017/18				2018/19			
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000	
(17,547)	21,560	4,013	Council Housing – Housing Revenue Account	(17,933)	22,209	4,276	
342,223	35,674	377,897	Care & Learning	349,646	17,298	366,944	
64,948	27,671	92,619	Community Services	63,083	27,704	90,787	
5,433	1,719	7,152	Chief Executives	4,805	1,447	6,252	
27,419	5,829	33,248	Corporate Resources	29,353	13,631	42,984	
49,511	5,755	55,266	Development & Infrastructure	50,919	8,888	59,807	
4,457	-	4,457	Welfare Services	4,978	(25)	4,953	
2,461	-	2,461	Joint board requisitions	2,575	-	2,575	
478,905	98,208	577,113	Cost of services carried forward	487,426	91,152	578,578	

Expenditure and Funding Analysis (continued)

2017/18				2018/19			
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
478,905	98,208	577,113	Cost of services brought forward		487,426	91,152	578,578
(480,671)	(67,359)	(548,030)	Other Income and Expenditure		(483,467)	(80,538)	(564,005)
(1,766)	30,849	29,083	Deficit/(Surplus)	2	3,959	10,614	14,573
		(33,357)	Opening General Fund and HRA Balance		(32,390)		
		(1,766)	Deficit/(surplus) on General Fund or HRA Balance in year		3,959		
		2,733	Transfers from reserves		804		
		(32,390)	Closing General Fund and HRA Balance at 31 March 2019*		(27,627)		

*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 2018/19

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	22,878	1,206	-	24,084	(1,875)	22,209
Care & Learning	29,265	7,921	515	37,701	(20,403)	17,298
Community Services	21,973	3,577	63	25,613	2,091	27,704
Chief Executives	686	758	-	1,444	3	1,447
Corporate Resources Development & Infrastructure	11,134	2,489	8	13,631	-	13,631
Welfare Services	4,421	4,096	377	8,894	(6)	8,888
	-	-	-	-	(25)	(25)
Net Cost of Services	90,357	20,047	963	111,367	(20,215)	91,152
Other Income from the Expenditure and Funding Analysis	(96,753)	6,553	(10,553)	(100,753)	20,215	(80,538)
Total Adjustments	(6,396)	26,600	(9,590)	10,614	-	10,614

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	58,372	(22,698)	35,674
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 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 26 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 2018/19 and its financial position at 31 March 2019. 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 2018/19 (The Code) and the Service reporting code of practice for local authorities 2018/19 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 – current 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 – current 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 current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Assets included in the Balance Sheet at current 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, civic regalia and museum collections.

The Council's heritage assets consist of:

- Museum collections which include various collections held at a number of museums such as Inverness Museum and Art Gallery and the Highland Folk Museum.
- Works of Art & Civic Regalia including works of art held at various locations across the Highlands as well as various pieces of Highland Provost's Regalia.
- The values for these heritage assets are based on valuations for insurance purposes. This is carried out internally; with most valuations reflecting valuation work undertaken by Sotheby's in 2013 which continues to be considered the most relevant valuation for these assets.
- The Highland Council also has a number of special collections of rare books with the Charles Fraser-Mackintosh collection and the Kirk Session Library being the largest of these collections. Due to relaxations in the Code in relation to the measurement of heritage assets, these are not recognised on the balance sheet as there is no information on the cost or value of these collections and the cost of obtaining this would outweigh the benefits to the users of the financial statements.

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.

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

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 and Contingent Liabilities

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 41 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 2019/20 Code effective from 1 April 2019. There is therefore no impact on the 2018/19 financial statements.

- Amendments to IAS 40 Investment Property: Transfers of Investment Property (clarifies guidance regarding transfers in and out of investment properties)
- Annual improvements to IFRS Standards 2014-2016 cycle
 - The improvement to IFRS 1 First-time Adoption of International Financial Reporting (deletion of short term exceptions)
 - IFRS 12 Disclosure of Interests in Other Entities (disclosure requirements of an entity's interests that are classified as held for sale, held for distribution or as discontinued operations)
 - IAS 28 Investments in Associates and Joint Ventures (clarifies the election to measure at fair value through profit and loss an investment in an associate or joint venture that is held by an entity)
- IFRIC 22 Foreign Currency Transactions and Advance Considerations (where a non-monetary asset or liability arises from either the payment or receipt of an advance consideration)
- IFRIC 23 Uncertainty over Tax Treatments (clarifies the accounting for uncertainties in income taxes)
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (alters the existing requirements in IFRS 9 regarding termination rights)

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 4, 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 2019 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 £6.573m for every year that useful lives had to be reduced.
Arrears	At 31 March 2019 the Council had a balance of sundry debtors of £15.123m. A review of balances suggested that an allowance for impairment of £4.166m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of the amount of doubtful debts would require an additional impairment to be made.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in mortality rates and expected returns on pension fund assets.	The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in Note 24.
Service Concession Arrangement (PPP1)	The Council has a contract with Community Schools (Highlands) Limited (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 2018/19 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 £25,232 in 2018/19.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2018/19

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Service Concession Arrangement (PPP2)	The Council has a contract with Alpha Schools (Highland) Limited (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 £103,600 in 2018/19.</p>
Service Concession Arrangement (Wick Campus Project)	The Council has a contract with Hub North Scotland (Wick) Limited (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 £8,887 in 2018/19.</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.

2018/19	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	70,379	26,769	-	97,148	(97,148)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(63,571)	(7,893)	-	(71,464)	71,464	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statetment	1,706	171	-	1,877	(1,877)	-
Revenue expenditure funded by capital	10,142	-	-	10,142	(10,142)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(29,497)	(7,611)	-	(37,108)	37,108	-
Repayment of Finance Lease Creditors	(6,645)	-	-	(6,645)	6,645	-
Capital expenditure charged against the General Fund and HRA balances	(1,834)	(3,891)	-	(5,725)	5,725	-
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	(1,266)	-	1,266	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,161)	(1,161)	1,161	-

2018/19	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	(3,385)	(522)	-	(3,907)	3,907	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	50,310	3,212	-	53,522	(53,522)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(25,306)	(1,616)	-	(26,922)	26,922	-
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	962	-	-	962	(962)	-
Total adjustments 2018/19	1,995	8,619	105	10,719	(10,719)	-

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)	-

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 2018/19. The decrease in General Fund of £4.763m (2017/18 - £0.967m decrease) comprises a decrease in earmarked balances of £4.126m (2017/18 - £1.834m increase) and a decrease in non-earmarked balances of £0.637m (2017/18 - £2.801m decrease).

	Balance at 31/03/17 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/18 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/19 £000
2018/19 Government Funding Received 2017/18	-	-	1,626	-	1,626	(1,626)	-	-	-
Badaguish Outdoor Centre	458	-	-	2	460	-	-	-	460
Business Loans Scotland	221	-	-	1	222	-	-	-	222
Central Energy Efficiency Fund	354	(105)	209	1	459	(459)	-	-	-
Commercial Investment Fund	-	-	-	-	-	-	100	-	100
Council Redesign	52	(78)	50	-	24	(52)	40	-	12
Developers' Contributions	2,088	(745)	857	14	2,214	(2,289)	4,912	43	4,880
Developing the Young Workforce	256	(64)	-	1	193	(123)	-	-	70
Devolved School Management	4,763	(407)	-	-	4,356	(910)	-	-	3,446
Grants and Match Funding	1,234	(116)	14	5	1,137	(669)	11	-	479
Inverness Royal Academy Gaelic Extension	154	-	-	-	154	(154)	-	-	-
IT Investment Fund	948	(100)	2,015	10	2,873	(2,482)	128	-	519
Local Elections	-	-	-	-	-	-	85	-	85
Pathfinder	1,117	(819)	48	5	351	(351)	-	-	-
Strategic Change and Development Fund	2,268	(921)	400	9	1,756	(436)	100	-	1,420
Walks to Water	125	-	-	1	126	-	-	-	126
Welfare Issues	628	(82)	-	3	549	(118)	124	-	555
Total	14,666	(3,437)	5,219	52	16,500	(9,669)	5,500	43	12,374

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

2017/18 £000		Note	2018/19 £000
(2,532)	Gains on trading operations	21	(1,859)
53,118	Interest payable and similar charges		47,837
13,755	Pensions net interest expense		6,480
(370)	Interest and investment income		(1,112)
-	Expected credit losses on financial assets		2,829
<u>63,971</u>			<u>54,175</u>

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

2017/18 £000		2018/19 £000
(314,143)	Revenue support grant	(310,870)
(115,476)	Council tax income	(120,063)
(123,220)	Non-Domestic rates	(126,537)
(62,045)	Capital grants and contributions	(61,321)
<u>(614,884)</u>		<u>(618,791)</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 2018	25,004
Transferred from General Fund	919
Transferred to Capital Adjustment account	<u>(1,047)</u>
Balance at 31 March 2019	<u>24,876</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.

(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 2018	9,176
Transferred to Capital Adjustment account	<u>(627)</u>
Balance at 31 March 2019	<u>8,549</u>

(f) Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 8 and 9.

12. Balance Sheet – unusable reserves

31/03/18 £000		31/03/19 £000
534,789	Revaluation Reserve (a)	555,094
998,146	Capital Adjustment Account (b)	1,024,301
(25,141)	Financial Instruments Adjustment Account (c)	(21,234)
(230,144)	Pensions Reserves (d)	(329,499)
(9,603)	Employee Statutory Adjustment Account (e)	(10,565)
<u>1,268,047</u>		<u>1,218,097</u>

(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.

2017/18 £000		£000	2018/19 £000
555,909	Balance at 1 April 2018		534,789
4,836	Upward revaluation of assets	36,689	
	Downward revaluation of assets not charged to the		
(826)	Surplus/Deficit on the Provision of services	(677)	
	Impairment losses not charged to the		
(12,298)	Surplus/Deficit on the Provision of services	(4,153)	
	Surplus or deficit on revaluation of non-current		
	assets not posted to the Surplus/Deficit on the		
(8,288)	Provision of services		31,859
	Difference between fair value depreciation and		
(9,298)	historical cost depreciation	(9,975)	
(3,453)	Accumulated gains on assets sold or scrapped	(941)	
(81)	Amount written off revaluation reserve	(638)	
	Amount written off to the Capital Adjustment		
(12,832)	Account		(11,554)
<u>534,789</u>	Balance at 31 March 2019		<u>555,094</u>

(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.

2017/18 £000			2018/19 £000
989,181	Balance at 1 April 2018		998,146
(5,839)	Revenue Expenditure funded from capital under statute	(10,143)	
(66,996)	Charges for depreciation on non-current assets	(71,633)	
(38,593)	Revaluation losses on Property, Plant and Equipment	(25,515)	
	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(1,877)	
(10,096)			(109,168)
(121,524)	Adjusting amounts written out of the Revaluation Reserve	11,554	
12,832	Net written out amount of the cost of non-current assets consumed in the year		11,554
	Capital Financing applied in the year		
4,101	Repayment of PPP creditors	6,645	
7,213	Use of the Capital Receipts Reserve to finance new capital expenditure	1,161	
67,884	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	71,464	
4,572	Use of the Capital Fund	1,047	
(8,176)	Use of Capital Grants Unapplied Account	619	
36,049	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	37,108	
6,014	Capital expenditure charged against the General Fund and HRA balances	5,725	
117,657			123,769
998,146	Balance at 31 March 2019		1,024,301

(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.

2017/18 £000		2018/19 £000
(27,109)	Balance at 1 April 2018	(25,141)
1,953	Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,952
15	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	1,955
(25,141)	Balance at 31 March 2019	(21,234)

(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.

2017/18 £000		2018/19 £000	£000
(520,090)	Balance at 1 April 2018	(230,144)	
83,989	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	(116,274)	
36,847	Return on plan assets	46,031	
201,621	Other experience adjustments	(2,512)	
322,457	Total remeasurements of the net defined liability	(72,755)	
(59,873)	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	(53,522)	
27,362	Employer's pension contributions and direct payments to pensioners payable in the year	26,922	
(32,511)		(26,600)	
(230,144)	Balance at 31 March 2019	(329,499)	

(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.

2017/18 £000		2018/19 £000
(9,560)	Balance at 1 April 2018	(9,603)
9,560	Settlement or cancellation of accrual made at the end of the preceding year	9,603
(9,603)	Amounts accrued at the end of the current year	(10,565)
<u>(9,603)</u>	Balance at 31 March 2019	<u>(10,565)</u>

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

2017/18 £000		2018/19 £000
	Non-cash items	
105,589	Depreciation and impairments	97,148
2,883	Loss on sale of fixed assets	716
32,511	IAS 19 transactions	26,600
(287)	Financial instruments adjustments	(1,522)
	Items on accruals basis	
430	Decrease/(increase) in inventories	(371)
(4,928)	Decrease/(increase) in debtors	(12,581)
17,611	(Decrease)/increase in creditors	5,226
(879)	(Decrease)/increase in provisions	(282)
<u>152,930</u>		<u>114,934</u>

14. Cash flow statement – operating activities

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

2017/18 £000		2018/19 £000
(288)	Interest received	(273)
39,870	Interest paid	52,842

15. Cash flow statement – investing activities

2017/18 £000		2018/19 £000
(136,199)	Purchase of property, plant and equipment	(146,320)
(9,917)	Other receipts/(payments) for investing activities	23,373
(172)	Sale/(purchase) of short term intangibles	481
7,213	Proceeds from the sale of property, plant and equipment	1,161
10,013	Sale/(purchase) of long and short-term investments	(5,007)
(3,639)	Other receipts from investing activities	(9,699)
(132,701)	Net cash flows from investing activities	(136,011)

16. Cash flow statement – financing activities

2017/18 £000		2018/19 £000
357,500	Cash receipts of short and long term borrowing	328,000
62,045	Other receipts from financing activities	61,321
(4,101)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(6,645)
(321,500)	Repayments of short and long term borrowing	(282,860)
(1,039)	Other payments for financing activities	(145)
92,905	Net cash flows from financing activities	99,671

17. Cash flow statement – cash and cash equivalents

	At 1 April 2018 £000	Cash flow £000	At 31 March 2019 £000
Temporary investments	60,600	2,903	63,503
Cash in hand	71	(1)	70
Cash at bank	132	(202)	(70)
Total cash and cash equivalents	60,803	2,700	63,503

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 2018 to 31 March 2019. 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 2018/19

	Budget £m	Actual £m	Over/(Under) £m
Care and Learning	346.814	349.646	2.832
Chief Executive's Office	5.101	4.805	(0.296)
Corporate Resources	29.754	28.695	(1.059)
Community Services	63.509	63.083	(0.426)
Development and Infrastructure	49.133	48.371	(0.762)
Welfare Services	5.291	4.979	(0.312)
Non Domestic Rates reliefs	0.671	0.657	(0.014)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2.550	2.484	(0.066)
Highland and Islands Transport Partnership	0.091	0.091	-
Financing			
Loan Charges	57.113	57.120	0.007
Interest and Investment Income	(0.330)	(0.676)	(0.346)
Unallocated Savings	(2.797)	-	2.797
Total General Fund Services	556.900	559.255	2.355
Appropriations to/from Reserves			
Repairs & Renewals Fund	0.004	0.004	-
Insurance Fund	(0.006)	(0.006)	-
Affordable Housing	2.600	2.980	0.380
Amount to be funded from Taxpayers and General Fund Balance	559.498	562.233	2.735
Funding			
Revenue Support Grant	(310.870)	(310.870)	-
Non-domestic Rates	(126.537)	(126.537)	-
Council Tax	(119.609)	(120.063)	(0.454)
Use of General Fund in the year	2.482	4.763	2.281

19. Segmental Income

Income received on a segmental basis is analysed below:

Segmental Income 2018/19

	Income from Services £000	Internal Recharges £000	Total £000
Services			
Care and Learning	30,698	(670)	30,028
Chief Executive's Office	2,353	(56)	2,297
Corporate Resources	7,540	(4,982)	2,558
Community Services	92,230	(48,208)	44,022
Development and Infrastructure	47,428	(18,201)	29,227
Welfare Services	39,499	-	39,499
Total Income analysed on a segmental basis	219,748	(72,117)	147,631

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

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.

2018/19

	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	(16,384)	(2,076)	(7,540)	(74,597)	(40,062)	(38,810)	(52,699)	72,117	(1,859)	(161,910)
Interest and investment income	(1)	-	-	(31)	-	-	-	-	(1,112)	(1,144)
Income from Council Tax	-	-	-	-	-	-	-	-	(120,063)	(120,063)
Government grants and contributions	(14,587)	(277)	(623)	(2,341)	(15,699)	(689)	-	-	(498,728)	(532,944)
Total income	(30,972)	(2,353)	(8,163)	(76,969)	(55,761)	(39,499)	(52,699)	72,117	(621,762)	(816,061)
Employee expenses	216,727	6,175	19,572	64,656	41,803	-	11,704	(34,817)	6,480	332,300
Other service expenses	151,373	1,744	19,418	78,244	61,824	44,452	18,503	(37,300)	5,404	343,662
Depreciation, amortisation and impairment	29,816	686	12,157	24,856	11,941	-	26,768	-	-	106,224
Interest payments	-	-	-	-	-	-	-	-	47,837	47,837
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	611	611
Total expenditure	397,916	8,605	51,147	167,756	115,568	44,452	56,975	(72,117)	60,332	830,634
Surplus or deficit on the provision of services	366,944	6,252	42,984	90,787	59,807	4,953	4,276	-	(561,430)	14,573

Expenditure & Income Analysed by Segment and Nature (continued)

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	-	6,594	(36,939)	13,755	325,567
Other service expenses	144,729	2,439	19,324	82,468	56,196	47,635	24,289	(38,967)	2,460	340,573
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

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 2018/19 is as follows:

Fishery, Piers and Harbours	£000
Turnover	17,119
Expenditure	(15,222)
Surplus	1,897
Less internal surplus included in service net expenditure	(28)
Less interest on revenue balances	(10)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 9)	1,859
Three year surplus	
Financial Year	£000
2016/17	652
2017/18	2,532
2018/19	1,859
	5,043

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 2018/19 the Council collected £140.723m and received £126.537m contribution from the non-domestic rates pool (2017/18 collected £130.418m and received £123.220m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2018/19 the Council paid over £35.543m and received £0.755m for providing this service. During 2017/18 the Council paid over £34.762m 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 (2017/18 - £0.143m).

23. External audit costs

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

2017/18 £000		2018/19 £000
<u>405</u>	Fees payable to Audit Scotland with regard to external audit services	<u>412</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 2018/19 the Council paid £16.350m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2017/18 were £15.768m and 17.2%. There were no contributions remaining payable at the year-end.

In 2018/19 the Council paid £0.848m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 14.9% of pensionable pay. The figures for 2017/18 were £0.850m 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	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	45,980	47,029	-	-
Past service cost (including curtailments)	138	13	-	-
	<hr/> 46,118	<hr/> 47,042	<hr/> -	<hr/> -
Financing and investment (income) and expenditure	<hr/> 12,149	<hr/> 5,072	<hr/> 1,606	<hr/> 1,408
Total post employment benefits charged to the surplus or deficit on the provision of services	58,267	52,114	1,606	1,408
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	(36,847)	(46,031)	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	(75,442)	114,660	(383)	1,614
Actuarial (gains)/losses arising on changes in demographic assumptions	(8,164)	-	-	-
Experience adjustments	<hr/> (194,001)	<hr/> -	<hr/> (7,620)	<hr/> 2,512
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	(314,454)	68,629	(8,003)	4,126

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £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	(58,267)	(52,114)	(1,606)	(1,408)
Actual amount charged against the General Fund balance for pensions in the year				
Employers contributions payable to the scheme	23,666	24,158	3,696	2,764

Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/18 £000	31/3/19 £000	31/3/18 £000	31/3/19 £000
Present value of the defined benefit obligation	(1,432,388)	(1,600,740)	(53,555)	(56,325)
Fair value of pension fund assets	1,255,799	1,327,566	-	-
Net liability arising from defined benefit obligation	(176,589)	(273,174)	(53,555)	(56,325)

Information about the defined benefit obligation

	Liability split 31/3/19		Duration Years
	£000	(%)	
Active members	790,959	49.4%	23.4
Deferred members	244,691	15.3%	22.5
Pensioner members	565,090	35.3%	11.9
Total	1,600,740	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	
	31/3/18	31/3/19	31/3/18	31/3/19
	£000	£000	£000	£000
Opening fair value of scheme assets	1,198,180	1,255,799	-	-
Interest income	30,999	33,775	-	-
Return on plan assets	36,847	46,031	-	-
Contributions by employer	23,666	24,158	3,696	2,764
Contributions by Scheme participants	7,082	7,214	-	-
Estimated benefits paid (net of transfers in)	(40,975)	(39,411)	(3,696)	(2,764)
Closing fair value of scheme assets	1,255,799	1,327,566	-	-

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	31/3/18	31/3/19	31/3/18	31/3/19
	£000	£000	£000	£000
Opening defined benefit obligation	(1,654,622)	(1,432,388)	(63,648)	(53,555)
Current service cost	(45,980)	(47,029)	-	-
Past service cost	(138)	(13)	-	-
Interest cost	(43,148)	(38,847)	(1,606)	(1,408)
Contributions by scheme participants	(7,082)	(7,214)	-	-
Actuarial gains/(losses) from changes in financial assumptions	75,442	(114,660)	383	(1,614)
Actuarial gains/(losses) from changes in demographic assumptions	8,164	-	-	-
Experience adjustments	194,001	-	7,620	(2,512)
Estimated benefits paid (net of transfers in)	40,975	39,411	-	-
Unfunded pension payments	-	-	3,696	2,764
Closing value	(1,432,388)	(1,600,740)	(53,555)	(56,325)

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:

2017/18		2018/19
2%	Cash and cash equivalents	2%
	Equity Securities:	
	By industry type	
9%	Consumer	16%
14%	Manufacturing	9%
1%	Energy and utilities	3%
11%	Financial institutions	12%
3%	Health and care	3%
10%	Information technology	5%
-	Other	2%
	Debt Securities:	
	By sector	
7%	Corporate	7%
9%	Government	8%
4%	Private Equity	5%
3%	Property Debt	3%
	Property:	
10%	UK	9%
	Other Investment Funds:	
17%	Equity (pooled funds and unitised insurance policies)	16%
<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 2018 £000		31 March 2019 £000
	Equity Instruments	
1,153,875	Quoted in an active market	1,222,143
101,924	Not quoted in an active market	105,423
<u>1,255,799</u>	Total equity instruments	<u>1,327,566</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:

	2017/18	2018/19
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	21.9	21.9
• Women	24.3	24.3
Longevity at 65 for future pensioners (years)		
• Men	23.3	23.3
• Women	26.1	26.1
Rate of inflation	2.4%	2.5%
Rate of increase in salaries	3.4%	3.5%
Rate of increase in pensions	2.4%	2.5%
Rate for discounting fund liabilities	2.7%	2.4%
Take up option to convert annual pension into retirement lump sum (pre 2009)	50.0%	50.0%
Take up option to convert annual pension into retirement lump sum (post 2009)	75.0%	75.0%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of 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%	25,979
Rate of increase in pensions (increase or decrease by 0.5%)	8%	130,666
Rate for discounting fund liabilities (increase or decrease by 0.5%)	10%	159,683

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 84.2% of the Fund's investments in active management and 15.8% 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 2020 will be approximately £23.758m.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years 2018/19 (18.1 years 2017/18).

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 Service | 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 (have applied and been accepted to participate in an LGPS fund under the terms of an 'Admission Agreement')

- | | |
|--|---|
| 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) Limited) | 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. Sight Action |
| 9. Highland & Islands Enterprise (HIE) | |

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

2018/19	Contributors	Pensioners	Deferred Pensioners
Highland Council	7,330	7,047	5,821
Scheduled Bodies	2,957	2,089	2,134
Admitted Bodies	2,312	899	1,020
Total	12,599	10,035	8,975
2017/18			
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

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 42.

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 2018/19 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 51 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 again with members.

One funeral director business, owned by a Councillor, had debts of £0.045m owed to the Council at 31st March 2019

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 Head of Corporate Finance and Commercialism, 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 £1.370m (2017/18 £1.175m) 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 2018/19 Highland Council paid NHS Highland £94.250m (2017/18 - £91.810m) for the provision of integrated adult services and NHS Highland made payment of £9.656m (2017/18 - £9.585m) 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 2018	33	6	6
31 March 2017	27	(474)	(475)

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 2018			
Highland Opportunity (Investments) Limited	2,216	46	6
Year ended 31 March 2017			
Highland Opportunity (Investments) Limited	2,179	5	4

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:

31/03/18 £000		31/03/19 £000
2,721	Not later than one year	3,072
8,064	Later than one year and not later than five years	9,047
<u>71,774</u>	Later than five years	<u>73,369</u>
<u>82,559</u>		<u>85,488</u>

Highland Council as Lessee

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

31/03/18 £000		31/03/19 £000
1,229	Not later than one year	1,155
2,243	Later than one year and not later than five years	1,881
<u>1,247</u>	Later than five years	<u>1,003</u>
<u>4,719</u>		<u>4,039</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.325m (2017/18 £3.107m).

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 2018	924,314	1,263,542	145,945	523,732	6,408	12,767	39,991	2,916,699	249,128
Additions	41,943	33,587	18,755	30,085	751	1,207	19,992	146,320	2,217
Revaluation increases recognised in the surplus/deficit of services	-	2,422	-	-	-	21	-	2,443	-
Revaluation decreases recognised in the surplus/deficit of services	-	(14,962)	-	-	-	(6,706)	-	(21,668)	-
Revaluation increases recognised in the Revaluation Reserve	-	33,134	-	-	-	412	-	33,546	-
Revaluation decreases recognised in the Revaluation Reserve	-	(5,459)	-	-	-	(587)	-	(6,046)	-
Derecognition - disposals	(877)	(390)	(1,249)	-	-	-	(401)	(2,917)	-
Derecognition – other	(7,265)	-	-	-	-	-	(64)	(7,329)	-
Reclassifications	804	5,684	-	-	-	1,432	(7,920)	-	-
Assets reclassified (to)/from Held for Sale	-	(449)	-	-	-	430	-	(19)	-
At 31 March 2019	958,919	1,317,109	163,451	553,817	7,159	8,976	51,598	3,061,029	251,345

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2018/19

	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 2018	55,931	64,799	79,105	114,164	-	9	8	314,016	13,351
Depreciation charge	18,897	21,069	15,347	16,195	-	125	-	71,633	4,051
Revaluation increases recognised in the surplus/deficit of services	-	(298)	-	-	-	(378)	-	(676)	-
Revaluation increases recognised in the Revaluation Reserve	-	(4,188)	-	-	-	(149)	-	(4,337)	-
Derecognition - disposals	(42)	(18)	(1,226)	-	-	-	-	(1,286)	-
Derecognition - other	(363)	-	-	-	-	-	-	(363)	-
Reclassifications	-	(520)	-	-	-	519	1	-	-
Assets reclassified (to)/from Held for Sale	-	(42)	-	-	-	-	-	(42)	-
At 31 March 2019	74,423	80,802	93,226	130,359	-	126	9	378,945	17,402
Net book value									
At 31 March 2019	884,496	1,236,307	70,225	423,458	7,159	8,850	51,589	2,682,084	233,943
At 31 March 2018	868,383	1,198,743	66,840	409,568	6,408	12,758	39,983	2,602,683	235,777

Comparative Movements in 2017/18

	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

The following table outlines the progress of the Council's five year rolling programme of valuations. The Council is satisfied that the carrying value not subject to revaluation would not be materially different than what would be their value if revalued in the year. As of 2017/18 the Council carries out all revaluations with an effective date of 31 March as part of a better working practice.

	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
Carried at historical cost	138,085	-	70,225	423,458	7,159	-	51,589	690,516
Valued at fair value as at:								
31 March 2019	-	79,097	-	-	-	8,850	-	87,947
31 March 2018	-	135,590	-	-	-	-	-	135,590
1 April 2016	-	87,469	-	-	-	-	-	87,469
1 April 2015	746,411	193,533	-	-	-	-	-	939,944
1 April 2014	-	740,618	-	-	-	-	-	740,618
Total cost or valuation	884,496	1,236,307	70,225	423,458	7,159	8,850	51,589	2,682,084

30. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2019, for the acquisition of property, plant and equipment, was £78.166m (31 March 2018 £65.190m). Details of the major commitments by contract or project are as follows:

Contract or Project	2018/19 £m
Alness Academy	25.534
HRA Housing - Council House New Builds	15.826
Merkinch Primary School	13.198
ICT Capital Commitments	10.721
Miscellaneous projects with an individual commitment less than £0.5m	3.929
Smithton Primary School	2.721
Smithton and Culloden FPS	2.140
Local Full Fibre Network	0.985
Window & Door Replacements - Inverness	0.931
Nairn Court House	0.805
Inverness High School	0.732
Window & Door Replacements – Ross and Cromarty	0.643
	<u>78.166</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 2018/19

2017/18 £000		2018/19 £000
1,071,349	Opening capital financing requirement	1,096,530
	Capital investment	
136,200	Property, Plant and Equipment	146,320
5,839	Revenue Expenditure funded from capital under statute	10,143
	Sources of finance	
(7,213)	Capital receipts	(1,161)
(4,572)	Capital Fund	(1,047)
8,176	Evergreen Infrastructure Fund	(619)
(67,884)	Government grants and other contributions	(71,463)
	Sums set aside from revenue	
(6,014)	- direct revenue contributions	(5,725)
(36,049)	- loans fund principal	(37,108)
824	Evergreen Infrastructure Fund Loans	4,619
(25)	House loans & NHT	(1,322)
(4,101)	Reduction in Finance Lease Creditors (PPP)	(6,645)
<u>1,096,530</u>	Closing capital financing requirement	<u>1,132,522</u>
	Explanation of movements in the year	
25,156	Increase in underlying need to borrow (supported by government financial assistance)	37,314
(25)	Decrease in underlying need to borrow (unsupported by government financial assistance)	(1,322)
<u>25,181</u>	Increase/(decrease) in capital financing requirement	<u>35,992</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 2018/19 was £3.868m (2017/18 £3.773m). 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 2019 until July 2027 amounts to £28.837m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £11.367m 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 2018/19 was £21.149m (2017/18 £20.748m). 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 £385.243m 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 £128.880m over the remaining term of the contract.

Hub North Scotland (Wick) Limited

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

Under the DBFM Project Agreement Hub North Scotland (Wick) Limited construct the facility and carry out certain maintenance obligations during the operational phase using their own funding. Hub North Scotland (Wick) Limited will recover their costs through an indexed Annual Service Charge (ASC) payable by the Council over the 25 years.

In 2018/19 the Annual Service Charge amounted to £4.630m (2017/18 £4.599m). The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £104.515m 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 £91.448m 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

2017/18 £000		2018/19 £000
(165,557)	As at 1 April 2018	(161,456)
4,101	Repaid in year	6,645
<u>(161,456)</u>	As at 31 March 2019	<u>(154,811)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2019 (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	5,989	23,263	29,252
within 2 to 5 years	24,184	88,186	112,370
within 6 to 10 years	41,445	116,900	158,345
within 11 to 15 years	40,651	103,736	144,387
within 16 to 20 years	35,753	64,080	99,833
within 21 to 25 years	6,789	5,202	11,991
	<u>154,811</u>	<u>401,367</u>	<u>556,178</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 2019 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/19 £000
Buildings – Corporate Surplus	674	674
Buildings – Held for Sale	337	337
Land – Corporate Surplus	8,176	8,176
Land – Held for Sale	274	274
	<u>9,461</u>	<u>9,461</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 2017	6,290	2,246	8,536
Revaluations	-	-	-
Balance at 31 March 2018	<u>6,290</u>	<u>2,246</u>	<u>8,536</u>
Balance at 1 April 2018	6,290	2,246	8,536
Revaluations	-	22	22
Balance at 31 March 2019	<u>6,290</u>	<u>2,268</u>	<u>8,558</u>

35. Long term debtors

31/03/18 £000		31/03/19 £000
13,740	Scottish Police Authority	13,221
6,342	Scottish Fire and Rescue Service	5,832
10,724	Landbanking fund advances	13,871
824	Evergreen Infrastructure fund advances	5,443
13,483	National Housing Trust	-
1,103	Other loans	1,082
<u>46,216</u>	Long term debtors (net of impairment)	<u>39,449</u>

36. Short term debtors

31/03/18 £000 (restated)		Note	31/03/19 £000
13,915	Central government bodies		15,499
281	Other local authorities		414
25	NHS bodies		22
12	Public corporations		9
<u>38,527</u>	Other entities and individuals		<u>48,930</u>
52,760			64,874
(10,655)	Impairment Allowance	45	(9,646)
<u>42,105</u>	Total (net of impairment)		<u>55,228</u>
(5,264)	Prepayment included in debtors		(4,999)
<u>36,841</u>	Total Financial Assets Current Debtors	43	<u>50,229</u>

Restatement in 2017/18 is to remove debtors for local taxation which are to be shown as a new note below as part of IFRS 9: Financial Instruments.

37. Debtors for Local Taxation

31/03/18				31/03/19		
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
4,686	7,231	11,917	Less than one year	4,697	7,645	12,342
5,801	1,571	7,372	One to two years	5,990	2,823	8,813
6,087	720	6,807	Three to five years	6,612	739	7,351
18,163	166	18,329	More than five years	19,021	268	19,289
34,737	9,688	44,425		36,320	11,475	47,795
(28,057)	(3,108)	(31,165)	Impairment Allowance	(28,664)	(4,840)	(33,504)
6,680	6,580	13,260	Total (net of impairment)	7,656	6,635	14,291

38. Short term creditors

31/03/18 £000		Note	31/03/19 £000
9,075	Central government bodies		10,753
336	Other local authorities		899
22,926	NHS bodies		23,259
1,111	Public corporations		-
4,724	Finance lease creditors		5,989
69,903	Other entities and individuals		75,060
108,075	Total		115,960
(6,669)	Tax and social security creditors included above		(8,549)
(4,886)	Receipts in advance included above		(6,496)
96,520	Total Financial Liabilities Current Creditors	43	100,915

39. Provisions

	Note	At 1/4/18 £000	Increase in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/3/19 £000
Short term						
Equal Pay	1	401	-	(150)	-	251
Insurance	2	79	-	(44)	-	35
Building Dilapidations	3	603	29	(50)	(67)	515
		1,083	29	(244)	(67)	801

(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.

40. Long Term Liabilities

31/03/18 £000		31/03/19 £000
230,144	Pension Liability	329,499
156,733	Finance lease creditors	148,823
2,375	Other long term creditors	2,350
<u>389,252</u>		<u>480,672</u>

41. 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 2019 is £0.150m (31 March 2018 £0.176m).

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 £0.515m 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 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.

Financial provision has not been made for this claim 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.

McCloud Judgement

When the LGPS benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government has requested leave to appeal to the Supreme Court and is expected to hear later in 2019 if this will be granted. The impact is therefore still highly uncertain, as two opposing outcomes are possible:

1. The Supreme Court overturns the previous ruling and benefits remain as they are, with the underpin only applying as had been previously allowed for in actuarial valuations.
2. The Government's request for appeal is rejected, or the Supreme Court upholds the existing judgement, and benefits accrued from 2015 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this outcome, there would likely be a retrospective increase to members' benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying the impact of outcome 2 at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full

description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The Pension Fund's actuary has adjusted GAD's estimate to better reflect the Highland Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to Highland Council is that total liabilities (ie the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.74% higher as at 31 March 2019, an increase of approximately £24m.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

European Structural Fund

In May 2019 The European Commission (EC) suspended payment of any claims against the European Structural Fund (European Social Fund) submitted by or due to be submitted from Scottish Government until issues which were identified in an EC audit in July 2018 have been resolved. As a result there is currently a perceived significant risk to local government. However at this time there is insufficient information to articulate the extent and value of this risk to The Highland Council.

42. Grant income

The Comprehensive Income and Expenditure Statement in 2018/19 includes the following grants, contributions and donations:

2017/18 £000		2018/19 £000
	Credited to Taxation and non-specific grant income	
314,143	Revenue support grant	310,870
123,220	Non-Domestic rates	126,537
62,045	Capital grants and contributions	61,321
<u>499,408</u>		<u>498,728</u>
	Credited to services	
5,839	Capital grants and contributions	10,143
42,602	Housing benefits	39,655
793	Educational Maintenance Allowance	689
	Home Energy Efficiency Programmes for Scotland: Area Based	
1,722	Schemes	2,198
1,703	Developers Contributions	4,918
2,189	European Grants and Contributions	3,477
243	Syrian Refugees	302
720	Attainment Challenge	1,018
1,074	Early Learning/Childcare	2,970
2,051	Pupil Equity Funding	4,081
4,113	Scottish Futures Trust - Wick Schools	4,371
940	Gaelic	939
31	Activity Agreement Pilots	-
1,042	Sport Scotland	1,066
487	Youth Music Initiative	-
3,157	Criminal Justice Grant	3,354
339	Family Nurse Partnership	433
940	Additional Winter Maintenance Grant	-
200	Paths for All	218
<u>569,593</u>	Total	<u>578,559</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:

2017/18 £000		2018/19 £000
	Grants Received in Advance (Capital Grants)	
4,000	Gaelic Capital Grant	4,000
350	Gairloch Regeneration Capital Grant Fund	293
-	Midmills Regeneration Capital Grant Fund	145
2,279	City Deal	74
2,376	Vacant & Derelict Land Fund	2,097
-	Nurseries 600 Hours	9,587
-	HRA Grants	48
-	Electric Vehicle Charging	63
-	Fairy Pools	50
-	Ellen Wood Footpath	7
<u>9,005</u>	Total	<u>16,364</u>

43. Financial instrument balances

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

Financial Assets

Non-Current		Current		Total		Non-Current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2018	2018	2018	2018	2018		2019	2019	2019	2019	2019
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
730	46,216	70,606	36,841	154,393	Amortised cost	820	39,449	78,516	50,229	169,014
730	46,216	70,606	36,841	154,393	Total Financial Assets	820	39,449	78,516	50,229	169,014
-	-	203	18,524	18,727	Non-financial assets	-	-	-	19,290	19,290
730	46,216	70,809	55,365	173,120	Total	820	39,449	78,516	69,519	188,304

Non-financial assets held under current investments consist of cash in hand and at the bank as shown in note 17. Non-financial assets held under current debtors consist of prepayments and debtors for local taxation as shown in notes 36/37.

Financial Liabilities										
Non-Current		Current		Total		Non-Current		Current		Total
Borrowings 31 March 2018 £000	Creditors 31 March 2018 £000	Borrowings 31 March 2018 £000	Creditors 31 March 2018 £000	31 March 2018 £000		Borrowings 31 March 2019 £000	Creditors 31 March 2019 £000	Borrowings 31 March 2019 £000	Creditors 31 March 2019 £000	31 March 2019 £000
695,078	158,883	247,795	96,520	1,198,276	Amortised cost	729,722	150,973	256,466	100,915	1,238,076
695,078	158,883	247,795	96,520	1,198,276	Total Financial Liabilities	729,722	150,973	256,466	100,915	1,238,076
-	230,369	-	11,555	241,924	Non-financial liabilities	-	329,699	-	15,045	344,744
695,078	389,252	247,795	108,075	1,440,200	Total	729,722	480,672	246,466	115,960	1,582,820

Non-financial liabilities held under non-current creditors consist of the pension liability as shown in note 40, and a prepayment. Non-financial liabilities held under current creditors consist of receipts in advance and tax and social security creditors as shown in note 38.

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.

2017/18 £000		2018/19 £000
10,324	Balance at 1 April 2018	10,724
300	Nominal value of new loans made in the year	4,556
(118)	Loans repaid in the year	(886)
-	Loans written off in the year	(1)
218	Fair value adjustment re interest uncharged in year	(522)
<u>10,724</u>	Balance at 31 March 2019	<u>13,871</u>

Loans to Inverness Airport Business Park Limited

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

2017/18 £000		2018/19 £000
677	Balance at 1 April 2018	730
53	Fair value adjustment re interest uncharged in year	90
<u>730</u>	Balance at 31 March 2019	<u>820</u>

Valuation assumptions

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

44. 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:

2017/18 Surplus or Deficit on the Provision of Services £000		2018/19 Surplus or Deficit on the Provision of Services £000
-	Net (gains)/losses on:	
-	Financial assets measured at amortised cost	2,829
-	Total (gains)/losses	<u>2,829</u>
	Interest revenue:	
(370)	Financial assets measured at amortised cost	(1,112)
(370)	Total interest revenue	<u>(1,112)</u>
66,873	Interest expense	54,317

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 2019 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

31/03/18			31/03/19	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
633,540	859,884	PWLB debt	657,136	891,122
153,296	226,982	Market long term	137,778	215,596
151,185	151,222	Temporary loans	186,568	186,592
4,852	4,852	Internal loans	4,706	4,706
156,733	156,733	PFI	148,823	148,823
2,150	2,150	Long Term Creditors	2,150	2,150
96,520	96,520	Short Term Creditors	100,915	100,915
<u>1,198,276</u>	<u>1,498,343</u>	Financial liabilities	<u>1,238,076</u>	<u>1,549,904</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

31/03/18			31/03/19	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
30,541	30,541	Call accounts	39,235	39,235
40,065	40,068	Fixed term deposits	39,281	39,282
46,216	46,216	Long term debtors	39,449	39,449
36,841	36,841	Short term debtors	50,229	50,229
730	730	Loan to Inverness Airport Business Park	820	820
<u>154,393</u>	<u>154,396</u>	Financial assets	<u>169,014</u>	<u>169,015</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.

45. Nature and extent of risks arising from financial instruments

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

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

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

Credit risk

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

The changes in the loss allowance for financial assets held at amortised cost during the year are as follows:

2017/18			Asset Class: Financial Assets Held at Amortised Cost	2018/19		
Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Total £000		Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Total £000
4,614	5,283	9,897	Opening balance as at 1 April 2018	4,994	5,661	10,655
Transfers:						
(983)	(1,461)	(2,444)	Amounts written off	(2,383)	(1,455)	(3,838)
1,363	1,839	3,202	Other changes	1,555	1,274	2,829
4,994	5,661	10,655	As at 31 March 2019	4,166	5,480	9,646

The Council has the following exposure to credit risk as at 31 March 2019:

	Credit risk rating [as used by the authority]	Gross carrying amount £000s
Simplified Approach		
Customers	27.55%	15,123
Rent	79.13%	6,925
Landbank Fund Soft Loans	0.0%	13,871
Inverness Airport Business Park Limited Soft Loan	0.0%	820
Deposits with Banks	0.0%	78,516
Total		115,255

The landbank fund soft loans are not covered by an impairment loss allowance as the Council holds securities over the land in the case of non-payment.

Inverness Airport Business Park Limited soft loan is not covered by an impairment loss allowance as has been reported to Environment, Development and Infrastructure committee, the repayment of the loan stock is not in doubt.

Deposits with banks are not covered by an impairment loss allowance as the allowance calculated was immaterial.

The Council does not offer credit terms to customers.

All trade and other payables are due to be paid on the invoice date.

Debtors

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

31/03/18 £000		31/03/19 £000
5,584	Less than three months	7,457
940	Three to six months	439
1,441	Six to twelve months	1,194
7,101	More than twelve months	6,033
<u>15,066</u>	Total	<u>15,123</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 2019, 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	598
Increase in interest receivable on variable rate investments	(392)
Impact on Income and Expenditure Account	<u>206</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>12,335</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:

31/03/2018		Liquidity risk	31/03/2019	
Amortised cost	Nominal value		Amortised cost	Nominal value
£000	£000		£000	£000
Financial Liabilities				
		Public Works Loans		
633,540	618,659	Board	657,136	642,299
153,296	149,306	Market Loans	137,778	135,806
151,185	151,000	Temporary Loans	186,568	186,000
4,852	4,852	Loans Fund Advances	4,706	4,706
156,733	156,733	PFI and similar contracts	148,823	148,823
2,150	2,150	Long term creditor	2,150	2,150
96,520	96,520	Short term creditor	100,915	100,915
<u>1,198,276</u>	<u>1,179,220</u>		<u>1,238,076</u>	<u>1,220,699</u>
Maturity				
344,315	327,699	Less than 1 year	357,381	340,488
25,955	25,955	Between 1 and 2 years	33,204	33,204
83,775	83,775	Between 2 and 5 years	75,574	75,574
129,956	129,956	Between 5 and 10 years	142,245	142,245
614,275	611,835	More than 10 years	629,672	629,188
<u>1,198,276</u>	<u>1,179,220</u>		<u>1,238,076</u>	<u>1,220,699</u>

46. Events after Reporting Period

The unaudited Annual Accounts were issued by the Head of Corporate Finance and Commercialism on 20 June 2019.

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.

2017/18		2018/19	
£000		£000	£000
	Income		
(49,109)	Dwelling rents (gross)	(49,633)	
(732)	Non-dwelling rents (gross)	(749)	
(2,712)	Other income	(2,317)	
(52,553)			(52,699)
	Expenditure		
17,039	Repairs and maintenance	17,715	
10,171	Supervision and management	9,816	
1,801	Impairment of debtors	1,875	
25,683	Depreciation and impairment of non-current assets	26,768	
1,860	Other expenditure	2,663	
56,554			58,837
4,001	Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement		6,138
12	HRA share of corporate and democratic core		12
4,013	Net (income)/expenditure from HRA services		6,150
1,176	Loss on disposal of non-current assets	171	
9,763	Interest payable and similar charges	10,385	
(510)	Amortisation of premiums and discounts	(522)	
(37)	Interest and investment income	(61)	
784	Pension net interest	389	
(8,367)	Capital Grants and contributions	(7,893)	
2,809			2,469
6,822	Deficit on HRA services		8,619

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2017/18 £000	2018/19	
	£000	£000
(7,328)	Balance on HRA at 1 April 2018	(7,328)
6,822	Deficit for the year on HRA Income and Expenditure Statement	8,619
	Adjustments between accounting basis and funding basis under statute	
(1,176)	Loss on sale of HRA non current assets	(171)
5,185	Capital expenditure funded by the HRA	3,891
10,831		3,720
	Transfer to the Capital Adjustment Account	
(25,683)	- Depreciation and impairment	(26,769)
7,820	- repayment of debt	7,611
8,367	- Capital grants and contributions	7,893
(9,496)		(11,265)
(1,845)	HRA share of contributions to the Pensions Reserve	(1,596)
510	HRA share of transfer from the Financial Instruments Adjustment Account	522
(7,328)	Balance on HRA at 31 March 2019	(7,328)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/18 £000		31/03/19 £000
2,224	Current tenants	2,262
1,127	Former tenants	1,024
<u>3,351</u>	Total	<u>3,286</u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.005m (2017/18 £1.052m) have been netted off against rental income.

3. Impairment of debtors

In 2018/19 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/18 £000		31/03/19 £000
2,209	Rent arrears	2,108
1,443	Sundry debts	481
<u>3,652</u>		<u>2,589</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/18 Number	Type of House	31/03/19 Number
252	1 apartment	251
3,527	2 apartment	3,590
5,706	3 apartment	5,750
4,064	4 apartment	4,075
351	5 apartment	357
26	6 apartment	26
-	7 apartment	-
2	8 apartment	2
1	10 apartment	1
<u>13,929</u>		<u>14,052</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.

2017/18 £000		2018/19 £000
143,950	Gross Council Tax levied and contributions in lieu	149,863
(11,982)	Council Tax Reduction Scheme	(11,933)
(15,657)	Other discounts and reductions	(16,461)
(2,195)	Write off of uncollectable debts and allowances for impairment	(2,323)
	Adjustments for prior years Council Tax and Community Charge	917
<u>1,360</u>		
<u>115,476</u>	Net Council Tax income per the Comprehensive Income and Expenditure Statement	<u>120,063</u>

Calculation of the Council Tax base 2018/19

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	48	(5)	(1)	42	200/360	24
A	19,607	(1,150)	66	(2,389)	(348)	15,786	240/360	10,524
B	23,213	(1,008)	19	(2,439)	(390)	19,395	280/360	15,085
C	23,708	(801)	11	(2,173)	(511)	20,234	320/360	17,985
D	18,763	(343)	48	(1,341)	(421)	16,706	360/360	16,706
E	18,573	(290)	(90)	(1,021)	(406)	16,766	473/360	22,029
F	9,135	(129)	(51)	(361)	(183)	8,411	585/360	13,668
G	4,426	(66)	(48)	(144)	(137)	4,031	705/360	7,894
H	331	(10)	(3)	(8)	(34)	276	882/360	676
Total	117,756	(3,797)	0	(9,881)	(2,431)	101,647	0	104,591
Council Tax Reduction								(9,672)
Contributions in lieu								160
Provision for non- collection (1.89%)								(1,797)
Council tax base								93,282

(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 2018/19 was £1,233.82.

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 applied 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 2018/19

Band A (disabled band reduction)	£685.46
Band A	£822.55
Band B	£959.64
Band C	£1,096.73
Band D	£1,233.82
Band E	£1,621.10
Band F	£2,004.96
Band G	£2,416.23
Band H	£3,022.86

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.

2017/18 £000		2018/19 £000
177,944	Gross rates levied and contributions in lieu	186,571
(37,027)	Reliefs and other deductions	(40,937)
(1,256)	Write-off of uncollectible debts and allowance for impairment	(2,168)
139,661	Net Non-Domestic Rate Income (NNDR)	143,466
(8,658)	Adjustment to previous years' national Non-Domestic rates	(2,743)
(585)	Non Domestic Rate Income Retained by Council (BRIS)	-
130,418	Contribution to Non-Domestic Rate Pool	140,723

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.

122,421	Distribution from Non-Domestic Rate Pool	126,537
585	Non-Domestic Rate Income retained by Council (BRIS)	-
214	Income from previous years BRIS	-
123,220	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	126,537

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 2018/19 was 48p Rateable Value equal to or less than £51,000 and 50.6p Rateable Value greater than £51,000.

Highland Council Rateable Values

1 April 2018			1 April 2019		
Number of units	Rateable values £000		Number of units	Rateable values £000	
2,668	66,167	Shops	2,653	66,039	
900	27,513	Public houses and hotels	908	27,949	
1,760	29,730	Offices	1,727	29,384	
2,756	46,837	Industrial subjects	2,742	48,751	
		Leisure, entertainment, caravans and			
5,179	26,856	holiday sites	5,440	27,703	
331	5,263	Garages and petrol stations	324	5,127	
		Cultural, sporting subjects, education			
1,026	24,935	and training	2,862	32,424	
1,120	15,498	Public service subjects	1,113	16,420	
2,119	115,685	Miscellaneous	2,143	125,519	
17,859	358,484	Total	19,912	379,316	

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 4 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. Public consultation on the proposed register closed on 5th June 2019. 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.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2017/18				2018/19			
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000	
1,992	(68)	1,924	Inverness	3,104	(1,149)	1,955	
15	(14)	1	Nairn	20	(15)	5	
29	(3)	26	Tain	17	-	17	
13	-	13	Dornoch	23	-	23	
6	-	6	Dingwall	26	-	26	
1	-	1	Cromarty	85	-	85	
6	-	6	Fortrose	1	-	1	
2	-	2	Invergordon	1	-	1	
2,064	(85)	1,979	Cost of services	3,277	(1,164)	2,113	
		55	Loss on Disposal of Non-current assets			-	
	(1,909)		Financing and investment income and expenditure (note 2)			(2,434)	
	(150)		Capital Grants and Contributions			(60)	
	(25)		Surplus on provision of services			(381)	
	284		Deficit/(surplus) on revaluation of available for sale financial assets			-	
	284		Other comprehensive income and expenditure			-	
	259		Total comprehensive income and expenditure			(381)	

COMMON GOOD FUNDS ANNUAL ACCOUNTS 2018/19

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

MOVEMENT IN RESERVES STATEMENT 2018/19

	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 2018	6,460	120	2,504	2,578	30,699	42,361
Movement in reserves during 2018/19						
Total Comprehensive Income and Expenditure	381	-	-	-	-	381
Adjustments between accounting and funding basis (note 1)	(696)	-	-	-	696	-
Net increase/(decrease) before transfers to other statutory reserves	(315)	-	-	-	696	381
Transfers between statutory reserves	2,504	-	(2,504)	-	-	-
Net increase/(decrease)	2,189	-	(2,504)	-	696	381
Balance at 31 March 2019	8,649	120	-	2,578	31,395	42,742

COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 March 2019

31/03/18 £000		Notes	31/03/19 £000
2,870	Heritage Assets	4	2,870
30,394	Investment Properties	4,6	31,092
12	Intangible Assets	7	11
7,859	Investments	8	7,622
41,135	Long Term Assets		41,595
1,247	Cash and cash equivalents	9	1,329
-	Inventories		5
53	Sundry debtors		13
1,300	Current Assets		1,347
(74)	Sundry creditors		(200)
(74)	Current Liabilities		(200)
1,226	Net current assets		1,147
42,361	Net assets		42,742
6,460	Revenue funds		8,649
120	Capital Receipts Reserve		120
6,580	Usable Reserves	10	8,769
2,578	Revaluation Reserve	11	2,578
30,699	Capital Adjustment Account	13	31,395
2,504	Available for Sale Reserve	12	-
35,781	Unusable Reserves		33,973
42,361	Total Reserves		42,742

CASH FLOW STATEMENT

31/03/18 £000 (restated)		Notes	31/03/19 £000
25	Net surplus/(deficit) on the provision of services		381
433	Adjust net surplus/(deficit) on the provision of services for non-cash movements	16	(4)
458	Net cash outflow from operating activities		377
(1,210)	Investing activities	17	(295)
(752)	Net increase/(decrease) in cash and cash equivalents		82
1,999	Cash and cash equivalents at 1 April 2018		1,247
1,247	Cash and cash equivalents at 31 March 2019		1,329

There has been a restatement in 2017/18 between the non-cash movement and investing activities as the non-cash movements figure had included (£1.250m) for additions to investment properties.

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

2018/19	Capital Receipts Reserve £000	Capital Adjustment Account £000	Total 2018/19 £000
Transfer of sales proceeds	-	-	-
Realised gain/(loss) in investments	-	-	-
Revaluation of investment properties	-	(357)	(357)
Capital grants and contributions	-	60	60
Capital expenditure funded from revenue	-	994	994
Depreciation and amortisation	-	(1)	(1)
	<u>-</u>	<u>696</u>	<u>696</u>
2017/18 (restated)	Capital Receipts Reserve £000	Capital Adjustment Account £000	Total 2017/18 £000
Transfer of sales proceeds	120	-	120
Realised gain/(loss) in investments	-	-	-
Revaluation of investment properties	-	(749)	(749)
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>120</u>	<u>325</u>	<u>445</u>

Restatement of note in 2017/18 to reflect adjustment between accounting and funding basis in the Movement in Reserves Statement.

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

2017/18 £000		2018/19 £000
(407)	Interest and investment income and expenditure	(788)
(2,476)	Rental income	(2,468)
225	Property costs	252
749	(Surplus)/deficit on revaluation of investment properties	357
-	(Gains)/losses on valuation of financial assets	(379)
-	(Gains)/ losses on derecognition of financial assets	592
<u>(1,909)</u>		<u>(2,434)</u>

3. Operating leases

Common Good Fund as lessor

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

2017/18 £000		2018/19 £000
<u>2,476</u>	Lease income received in year	<u>2,468</u>

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

31/03/18 £000		31/03/19 £000
2,104	Within one year	2,211
7,292	Later than one year and not later than five years	7,327
<u>77,163</u>	Later than five years	<u>77,690</u>
<u>86,559</u>		<u>87,228</u>

4. Non-current assets

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

Movements in 2018/19

	Investment Properties £000	Heritage Assets £000	Total £000
Gross book value			
As at 1 April 2018	30,394	2,870	33,264
Additions	1,055	-	1,055
Revaluations	(357)	-	(357)
As at 31 March 2019	<u>31,092</u>	<u>2,870</u>	<u>33,962</u>
Net book value			
As at 31 March 2019	<u>31,092</u>	<u>2,870</u>	<u>33,962</u>
As at 31 March 2018	<u>30,394</u>	<u>2,870</u>	<u>33,264</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 2019. 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 £0.066m 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 £0.286m in rental income.

6. Investment property

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

31/03/18 £000	Investment Property at Fair Value	31/03/19 £000
	Common Good Fund	
22,127	Inverness	22,478
7,429	Nairn	7,545
266	Tain	317
170	Dornoch	332
186	Dingwall	187
106	Fortrose	123
55	Cromarty	56
55	Invergordon	54
<u>30,394</u>		<u>31,092</u>

7. Intangible assets

2017/18		2018/19
£000		£000
13	Fishing Licence – Tain	12
(1)	As at 1 April 2018	(1)
	Amortisation	
12	As at 31 March 2019	11

8. Long Term Investments

31/03/18			31/03/19	
Cost	Valuation		Cost	Valuation
£000	£000		£000	£000
4,874	7,379	Inverness - Managed portfolio	4,836	7,117
480	480	Nairn – Managed portfolio	494	505
5,354	7,859		5,330	7,622

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

31/03/18			31/03/19	
Units Held			Units Held	
Cost	Valuation		Cost	Valuation
£000	£000		£000	£000
2,442	4,935	Equities	2,568	4,841
2,188	2,204	Bonds	2,103	2,111
165	165	Cash	165	165
79	75	Property	-	-
4,874	7,379	Total	4,836	7,117

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

31/03/18			31/03/19	
Units Held			Units Held	
Cost	Valuation		Cost	Valuation
£000	£000		£000	£000
195	195	Equities	365	373
65	65	Bonds	84	85
220	220	Cash	28	28
-	-	Property	17	19
480	480	Total	494	505

9. Cash and cash equivalents

31/03/18		31/03/19
£000		£000
1,247	Balance with Highland Council Loans Fund	1,328
-	Cash in Hand	1
1,247	Total	1,329

10. Usable Reserves**Common Good Funds**

Revenue Funds	Balance at 1/04/18 £000	Movement 2018/19 £000	Balance at 31/03/19 £000
Inverness	4,921	2,149	7,070
Nairn	547	76	623
Tain	231	(10)	221
Dornoch	243	36	279
Dingwall	220	(1)	219
Fortrose	198	(68)	130
Cromarty	28	5	33
Invergordon	72	2	74
Total	6,460	2,189	8,649

Included within the above totals are the unrealised gains related to the Investment portfolios that were transferred from the Available for Sale Asset Reserve to the Revenue Reserve in 2018/19 as required by IFRS 9: Financial Instruments which are not available for use. These totals are:

	Balance at 1/04/18 £000	Movement 2018/19 £000	Balance at 31/03/19 £000
Inverness	-	2,281	2,281
Nairn	-	11	11
Total	-	2,292	2,292

Capital Receipts Reserve	Balance at 01/04/2018 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2019 £000
Tain	120	-	120
	120	-	120

11. Unusable Reserves**Revaluation Reserve**

Fund	Balance at 31/03/18 and 31/03/19 £000
Inverness	2,063
Nairn	60
Tain	94
Dornoch	22
Fortrose	254
Invergordon	85
Total	2,578

12. Available for Sale Reserve

2017/18 £000		2018/19 £000
2,788	Balance at 1 April 2018	2,504
(33)	Revaluation of investments	-
(251)	Accumulated gains on assets sold	-
-	Transfer to revenue reserves	(2,504)
<u>2,504</u>	Balance at 31 March 2019	<u>-</u>

The balance held in the Available for Sale Reserve was transferred to the Revenue Reserves in 2018/19 as required by IFRS 9: Financial Instruments.

13. Capital Adjustment Account

Fund	Balance at 1/04/18 £000	Revaluations 2018/19 £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/19 £000
Inverness	22,127	(703)	60	994	-	22,478
Nairn	7,429	116	-	-	-	7,545
Tain	570	50	-	-	(1)	619
Dornoch	170	162	-	-	-	332
Dingwall	186	2	-	-	-	188
Fortrose	106	17	-	-	-	123
Cromarty	55	1	-	-	-	56
Invergordon	56	(2)	-	-	-	54
Total	<u>30,699</u>	<u>(357)</u>	<u>60</u>	<u>994</u>	<u>(1)</u>	<u>31,395</u>

14. Financial Instrument balances

Categories of Financial Instruments

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

Financial Assets

Non-Current		Current		Total		Non-Current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2018	2018	2018	2018	2018		2019	2019	2019	2019	2019
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
7,859	-	-	-	7,859	Fair value through profit or loss	7,622	-	-	-	7,622
-	-	1,247	53	1,300	Amortised cost	-	-	1,328	13	1,341
7,859	-	1,247	53	9,159	Total Financial Assets	7,622	-	1,328	13	8,963
-	-	-	-	-	Non-financial assets	-	-	1	-	1
7,859	-	1,247	53	9,159	Total	7,622	-	1,329	13	8,964

Non-financial assets held under current investments consist of cash in hand as shown in note 9.

Financial Liabilities

Non-Current		Current		Total		Non-Current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2018	2018	2018	2018	2018		2019	2019	2019	2019	2019
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	-	-	74	74	Amortised cost	-	-	-	200	200
-	-	-	74	74	Total Financial Liabilities	-	-	-	200	200

15. Financial Instruments 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:

2017/18		2018/19
Surplus or Deficit on the Provision of Services £000		Surplus or Deficit on the Provision of Services £000
	Net (gains)/losses on:	
	Financial assets measured at fair value through profit or loss	(379)
-	Total (gains)/losses	(379)
	Interest revenue:	
(407)	Financial assets measured at amortised cost	(788)
(407)	Total interest revenue	(788)

Fair Values of Financial Assets

Some of the Common Good's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31/03/18 £000	31/03/19 £000
Fair Value through Profit and Loss				
Investment portfolios held with Adam and Co	Level 1	Unadjusted quoted prices in active markets for identical investments	7,859	7,622
Total			7,859	7,622

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

Credit Risk

The investment portfolios are not covered by the impairment loss allowance requirements. Their maximum exposure to credit risk is their carrying amount and any changes in the fair value of the portfolios are attributable to changes in the credit risk.

16. Cashflow statement – Adjustments for non-cash movements

2017/18 £000 (restated)		2018/19 £000
	Non-cash items	
1	Depreciation and impairments	1
389	Revaluation of investments	(166)
55	Loss on sale of asset	-
	Items on accruals basis	
217	(Increase)/decrease in debtors	40
(229)	Increase/(decrease) in creditors	126
-	(Increase)/decrease in inventories	(5)
<u>433</u>		<u>(4)</u>

17. Cashflow statement – investing activities

2017/18 £000 (restated)		2018/19 £000
120	Proceeds of sale of assets	-
(480)	Purchase of long term investments	-
400	Proceeds from long term investments	760
(1,250)	Purchase of Investment Properties	(1,055)
<u>(1,210)</u>		<u>(295)</u>

18. 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 £2.38m of contracted works still to be undertaken over the next 2 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.

Inverness Common Good has a further two legally committed projects with estimated contracted works still to be undertaken of £0.01m at Cavell Gardens and £0.051m at the Victorian Market, Academy St Entrance.

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 2019

2017/18				2018/19		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(143)	(14)	(41)	Receipts	(43)	(17)	(225)
32	6	114	Payments	36	28	263
<u>(111)</u>	<u>(8)</u>	<u>73</u>	(Surplus)/deficit for the year	<u>(7)</u>	<u>11</u>	<u>38</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2018		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	16	1,333
1,392	720	766
2,252	736	2,099
1,888	368	1,096
364	368	1,003
2,252	736	2,099

Non current assets

Investments

Current assets

Debtor - Highland Council Loans Fund

Net assets

Capital funds

Revenue funds

Total funds

31 March 2019		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	16	1,347
1,399	709	727
2,259	725	2,074
1,904	446	1,109
355	279	965
2,259	725	2,074

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 Regulator Regulations.

At 31 March 2019 the balances and investments held are as follows:

Fund Balance £000	31 March 2018		Charity	Scottish Charity Number	Fund Balance £000	31 March 2019	
	Investments at cost £000	Investments at valuation £000				Investments at cost £000	Investments at valuation £000
165	1	3	Highland Charities Trust	SC044714	154	1	3
2,087	859	2,318	Highland Council Charitable Trusts	SC025079	2,105	859	2,326
<u>2,252</u>	<u>860</u>	<u>2,321</u>	Total Charitable Trusts		<u>2,259</u>	<u>860</u>	<u>2,329</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 2019 the balances and investments held are as follows:

31 March 2018				31 March 2019			
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	20	1	-	
29	-	-	Howard Doris fund – Plockton High School	29	-	-	
299	15	749	Inverness Royal Academy Educational Trust	296	15	760	
131	-	-	Manson Bequest – Keiss	111	-	-	
130	-	-	Manson Bequest – Nairn and Ardclach	130	-	-	
13	-	-	Miss B G Angus Executory	12	-	-	
113	-	-	Other Educational Trusts	127	-	-	
736	16	749	Total Educational Trusts	725	16	760	

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 2018				31 March 2019			
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000	
789	839	1,429	Inverness Burial Grounds Fund	719	789	1,387	
565	494	864	Inverness Benevolent Funds	616	558	888	
64	-	-	Social Work Amenity Funds	58	-	-	
155	-	-	Inverness – Other Trust Funds	156	-	-	
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-	
139	-	-	Caithness Trust Funds	139	-	-	
116	-	-	Lochaber Trust Funds	123	-	-	
94	-	-	Nairn Trust Funds	87	-	-	
146	-	-	Ross and Cromarty Trust Funds	145	-	-	
2	-	-	Skye and Lochalsh Trust Funds	2	-	-	
22	-	-	Sutherland Trust Funds	22	-	-	
<u>2,099</u>	<u>1,333</u>	<u>2,293</u>	Total other trust funds	<u>2,074</u>	<u>1,347</u>	<u>2,275</u>	

GROUP ACCOUNTS

2017/18				2018/19		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
56,566	(52,553)	4,013	HRA	56,975	(52,699)	4,276
418,128	(37,950)	380,178	Care & Learning	415,718	(45,950)	369,768
170,029	(77,410)	92,619	Community Services	168,758	(78,031)	90,727
10,453	(3,428)	7,025	Chief Executives	9,498	(3,280)	6,218
46,130	(12,906)	33,224	Corporate Development	51,029	(8,163)	42,866
105,412	(48,327)	57,085	Development & Infrastructure	118,731	(57,021)	61,710
47,592	(43,178)	4,414	Welfare Services	44,452	(39,499)	4,953
			Joint Board Requisitions:			
2,370	-	2,370	Highlands and Western Isles Valuation Joint Board	2,484	-	2,484
91	-	91	Highland and Islands Transport Partnership	91	-	91
			Other Income and Expenditure			
409	-	409	Operating results associates	356	-	356
857,180	(275,752)	581,428	Service Totals	868,092	(284,643)	583,449
(75,906)	75,906	-	Elimination of Internal Transactions	(72,117)	72,117	-
781,274	(199,846)	581,428	Cost of Services	795,975	(212,526)	583,449
		2,883	Other operating expenditure			611
		62,424	Financing and investment income and expenditure			52,374
		(615,034)	Taxation and non-specific grant income			(618,851)
		31,701	Deficit on provision of services			17,583
		(4,010)	(Surplus) or deficit on revaluation of non-current assets			(36,012)
		12,298	Impairment losses on non-current assets charged to the revaluation reserve			4,153
		284	(Surplus)/deficit on revaluation of available for sale financial assets			-
		(332,239)	Remeasurements of the net defined liability			75,729
		(323,667)	Other comprehensive income and expenditure			43,870
		(291,966)	Total Comprehensive Income and Expenditure			61,453

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)	314,169	285,086
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	283,320	285,086
Transfers to/from other statutory reserves	(2,733)	-	-	4	(611)	(2,232)	9,176	3,604	(3,604)	-
Increase/(decrease) in 2017/18	(967)	-	-	4	(611)	(2,232)	9,176	5,370	279,716	285,086
Balance at 31 March 2018	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,268,047	1,340,036

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2018/19

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 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	285,086	4,145	2,735	291,966
Net increase/(decrease) before transfers to earmarked and other statutory reserves	285,086	4,145	2,735	291,966
Increase/(decrease) in 2017/18	285,086	4,145	2,735	291,966
Balance at 31 March 2018 carried forward	1,340,036	34,597	(4,088)	1,370,545

GROUP MOVEMENT IN RESERVES STATEMENT 2018/19

	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 2018	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,268,047	1,340,036
Movement in reserves during 2018/19										
Total comprehensive income and expenditure	(5,954)	(8,619)	-	-	-	-	-	(14,573)	(40,896)	(55,469)
Adjustments between accounting basis and funding basis under regulations (note 7)	1,995	8,619	105	-	-	-	-	10,719	(10,719)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(3,959)	-	105	-	-	-	-	(3,854)	(51,615)	(55,469)
Transfers to/from other statutory reserves	(804)	-	(105)	5	(6)	(128)	(627)	(1,665)	1,665	-
Increase/(decrease) in 2018/19	(4,763)	-	-	5	(6)	(128)	(627)	(5,520)	(49,949)	(55,469)
Balance at 31 March 2019	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,218,097	1,284,567

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2018/19

GROUP 2018/19	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 2018 brought forward	1,340,036	34,597	(4,088)	1,370,545
Movement in reserves during 2018/19				
Total Comprehensive Expenditure and Income	(55,469)	(5,129)	(855)	(61,453)
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(55,469)	(5,129)	(855)	(61,453)
Increase/(decrease) in 2018/19	(55,469)	(5,129)	(855)	(61,453)
Balance at 31 March 2019 carried forward	1,284,567	29,468	(4,943)	1,309,092

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.

31/03/18 £000		31/03/19 £000
2,632,602	Property, plant & equipment	2,712,358
10,659	Heritage Assets	10,681
8,589	Long term investments	8,442
(4,088)	Investments in associates and joint ventures	(4,943)
46,216	Long term debtors (net of impairment)	39,449
<u>2,693,978</u>	Long term assets	<u>2,765,987</u>
954	Short term intangibles	473
10,006	Short term investments	15,013
4,262	Inventories	4,647
56,799	Short term debtors	70,794
60,822	Cash and cash equivalents	63,523
880	Assets held for sale	611
<u>133,723</u>	Current assets	<u>155,061</u>
(247,652)	Short term borrowing	(256,222)
(108,274)	Short term creditors	(116,337)
(1,083)	Provisions	(801)
(9,005)	Capital Grants Receipts in Advance	(16,364)
<u>(366,014)</u>	Current liabilities	<u>(389,724)</u>
(695,078)	Long term borrowing	(729,722)
(396,064)	Other long term liabilities	(492,510)
<u>(1,091,142)</u>	Long term liabilities	<u>(1,222,232)</u>
<u>1,370,545</u>	Net assets	<u>1,309,092</u>

GROUP BALANCE SHEET (CONTINUED)

31/03/18 £000		31/03/19 £000	31/03/19 £000
1,407	Capital Receipts Reserve	1,407	
9,176	Capital Grants Unapplied Account	8,549	
1,673	Renewal and Repair Fund	1,678	
25,004	Capital Fund	24,876	
2,339	Insurance Fund	2,333	
25,062	General Fund	20,299	
7,328	Housing Revenue Account	7,328	
71,989	Usable reserves		66,470
534,789	Revaluation Reserve	555,094	
998,146	Capital Adjustment Account	1,024,301	
(25,141)	Financial Instruments Adjustment Account	(21,234)	
(236,956)	Pensions Reserve	(341,337)	
(9,603)	Employee Statutory Adjustment Account	(10,565)	
1,261,235	Unusable reserves		1,206,259
37,321	Share of group and associate reserves		36,363
1,370,545	Total reserves		1,309,092

The unaudited Annual Accounts were issued on 20 June 2019.

Edward Foster CPFA

Head of Corporate Finance and Commercialism
20 June 2019

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.

2017/18		2018/19
£000		£000
(31,701)	Net (deficit)/surplus on the provision of services	(17,583)
155,553	Adjust net (deficit)/surplus on provision of services for non-cash movements	117,945
<u>(62,045)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(61,321)</u>
61,807	Net cash inflow from operating activities	39,041
(132,701)	Investing activities	(136,011)
<u>92,905</u>	Financing activities	<u>99,671</u>
22,011	Net increase or decrease in cash and cash equivalents	2,701
<u>38,811</u>	Cash and cash equivalents at 1 April 2018	<u>60,822</u>
<u>60,822</u>	Cash and cash equivalents at 31 March 2019	<u>63,523</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 48-58.

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 £24.525m. 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– a charitable company limited by guarantee. Highland Council is the sole member with its liability limited to £1. The company delivers a range of community learning and leisure services on behalf of The Highland Council. It has charitable status and has one wholly owned subsidiary High Life Highland (Trading) CIC whose principal aim is to generate funds to be used by the charity in pursuit of its charitable objectives.

Results for the year	(Surplus)/deficit on provision of services £000	Net assets/liabilities £000
High Life Highland	2,842	(10,372)
Inverness Common Good	4	31,612
Nairn Common Good Fund	(192)	8,228
	<u>2,654</u>	<u>29,468</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 2018/19 were as follows:

Results for the year		Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		405	(5,706)
Highland and Islands Transport Partnership		86	(1,009)
		<u>491</u>	<u>(6,715)</u>
Group share		Deficit on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		324	(4,565)
Highland and Islands Transport Partnership		32	(378)
		<u>356</u>	<u>(4,943)</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 Head of Corporate Finance and Commercialism on 20 June 2019.

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.

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

Financial Asset: a right to future economic benefits controlled by the authority.

Financial Instrument: contracts that give rise to a financial asset of one entity and a financial liability of another entity.

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

Financial Liability: an obligation to transfer economic benefits controlled by the authority.

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.

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.

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).

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 .

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.