

# Annual Accounts

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## Aithris Chunntasan

2020/21

Unaudited



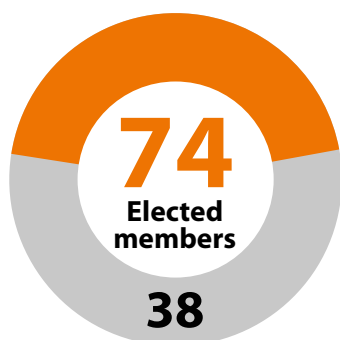
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# Management Commentary

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

## About The Highland Council



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



**235,830**  
Population (mid 2019)

## 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.

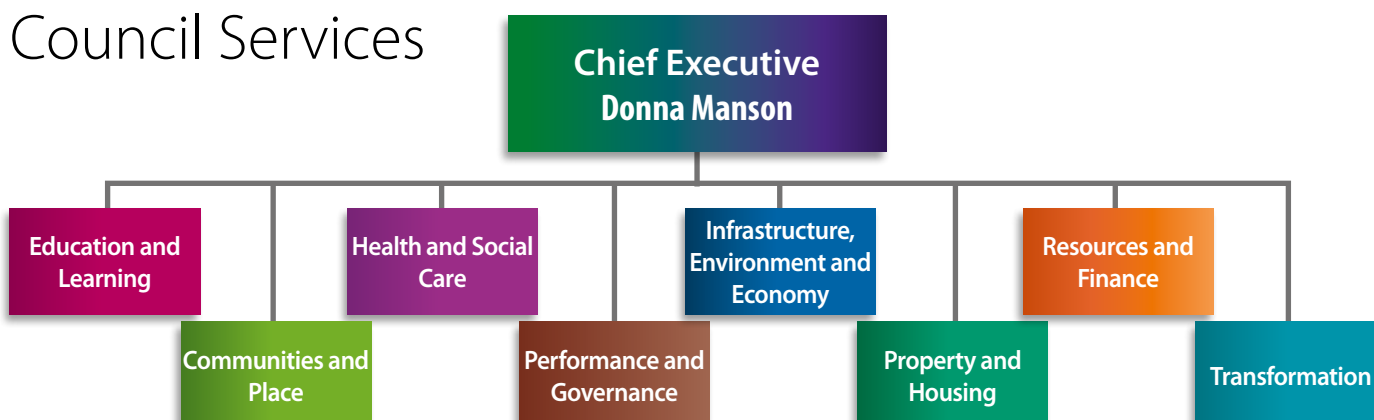


How the Council measures and sets targets for its political, strategic and improvement priorities.



[www.highland.gov.uk/our-priorities](http://www.highland.gov.uk/our-priorities)

## Council Services



A revised management structure was agreed by Council on the 13<sup>th</sup> May 2021 which contains a Depute Chief Executive role with responsibility for recovery, transformation, commercialisation, organisational change, futures and digital innovation, data and analysis, and change and innovation. The responsibilities of the Executive Chief Officer - Transformation will be subsumed into this role.

# COVID-19 and Recovery

## The Impact of COVID-19

Financial year 2020/21 was unlike any other ever before experienced yet the Council's staff and communities have responded heroically to help us through the COVID-19 pandemic.

Our sincere thanks are extended to all staff, from those working on the front line in our communities and in our schools, to those working behind the scenes supporting the Council, businesses and communities.

The past year has shown that the Council is an agile organisation, capable of responding effectively to a fast-changing operating context. Many new services were put in

place in direct response to the pandemic, often at the request of the Scottish Government or NHS. Those services ranged from Humanitarian assistance to the delivery of business support grants, from welfare support to vaccination centres, and to virtual learning and to childcare hubs for some of our most vulnerable children and young people. Resources were moved to wherever they were needed most, whilst many of the Council's core "business as usual" functions continued to be delivered alongside. Staff and Members have shown they are flexible, responsive and care deeply about the communities they serve and effective relationships have been strengthened with our key

resilience partners, particularly NHS Highland.

Exactly what will happen in the future with regard to COVID-19 is still highly uncertain. Whilst the vaccination rollout appears to be progressing smoothly the prevalence of variants of the virus appears to be increasing and there remain fears of a third wave of the virus. Whilst we remain hopeful of a positive recovery from COVID-19 there may still be many ups and downs across the coming months. Over the past year the Council has strongly demonstrated its social, operational and financial resilience and that resilience will stand us in good stead for whatever the future may bring.

## Governance arrangements and Recovery during 2020/21

On the 18<sup>th</sup> March 2020 emergency powers were invoked by the Chief Executive in order to allow timely decisions to be taken in response to COVID-19.

An Officer Gold group for decision making was established with the recommendations of that group first passed through an Elected Member Gold group for political oversight. All decisions taken under emergency powers were published on the Council's website and separately communicated to all elected members. The final meetings of the Officer and Member Gold groups took place on the 9<sup>th</sup> June 2020, following which more normal governance arrangements resumed with

the full Council meeting of 25<sup>th</sup> June. All formal Council and Committee meetings recommenced with a phased introduction beginning from early June.

The June Council meeting also saw the approval of the Council's Recovery Action Plan and the formal establishment of the Recovery Board to oversee and ensure delivery of the Plan (the Recovery Board met in shadow form from the 7<sup>th</sup> May to the 11<sup>th</sup> June). The Recovery Action Plan was intended to address ongoing response activities and mitigate the short, medium and long term impacts of the coronavirus pandemic. The Plan was the main focus of the Council's activity during 2020/21 and contained the following 11 key priorities:

1. Restoring Political Governance
2. Lockdown Agility incl. Schools Reopening
3. Supporting the Recovery of the Highland Economy
4. Financial Recovery Strategy
5. Community Empowerment
6. Workforce Planning & Development
7. Service Re-Design
8. IT Transformation
9. Digital Transformation
10. Leadership, Culture & Performance
11. Asset Management

The approval of the Health and Prosperity Strategy alongside the 2021/22 budget in March 2021 supersedes and continues to build on the Recovery Action Plan.

# 2020-21 the year in review

## COVID-19 business grants

£132m of grant payments made to over 9,000 Highland businesses.

## COVID-19 welfare payments

Around 4,700 Highland pupils and their families benefited from multiple free school meal vouchers and hardship payments.

## New schools

Completion of new Alness Academy and Merkinch Primary, funding secured for new Nairn Academy and Broadford Primary.



## Visitor management plan

Approval of plan to meet the growth in visitors to the Highlands including 24 new infrastructure projects.



## Fuel support fund

Creation of £0.27m fund to support households experiencing fuel insecurity.

## Education attainment

Significant improvement in SQA attainment results in S4, S5 and S6 in August 2020 with 49.5% of S4 students achieving five or more National 5 awards.

## Wick PSO

Funding secured to bring back scheduled air services at Wick John O'Groats Airport.

## Highland Indicative Regional Spatial Strategy

Bold new thirty-year vision for how the Highland region can grow and prosper, whilst also supporting the delivery of national priorities and outcomes.

## Caithness Mental Wellbeing Pathfinder Project

Launch of collaborative community, Council and partner project to improve mental health and wellbeing.

## Community asset transfers

11 assets transferred into community ownership during the year.

## 5 year strategic housing plan

Approved plan to deliver up to 500 new affordable homes each year to 2026.

## Renewable energy

Programme to install Solar PV units at 33 sites across Council estate - generating a total of over 2.3MW of energy and reducing carbon emissions.



# Commentary on the 2020/21 year end position

Supported by significant amounts of COVID-19 funding from the Scottish Government the 2020/21 financial outturn was positive with an annual surplus of £20.3m recorded. This surplus was added to the general fund non-earmarked reserve, which ended the year at £43.4m. A reserve at this level exceeds the agreed target of £24.7m and the Council is considering investment of the excess, mindful of the difficult medium-term financial outlook.

Overall, general fund reserves increased by £70.4m over the year, the largest element being a £33.3m increase in earmarked reserves to £53.6m. Earmarked reserves cover planned and committed spend and reflect specific COVID-19 funding planned to be spent in 2021/22, developer contributions, the

£9.8m 'Phase 1' investment fund due to be spent in 2021/22, Crown Estate Funding and a number of other items as seen in note 9 to the accounts.

The overall position improved dramatically over the course of the year as government funding was confirmed, service income less impacted by COVID-19 than anticipated, COVID-19 response costs being lower than expected and the effect of enhanced spending controls.

Two services delivered an overspend in the year- with covid factors underpinning those overspends. The two services showing an overspend were: Infrastructure and Environment due to additional school transport costs, the loss of car park, harbour and ferry income, and additional cost incurred in respect of roads winter maintenance; and Property and Housing due to

additional school cleaning and facilities management costs, lost income from school meals, and reduced cost recharges to capital projects.

Those service overspends were however more than offset by general COVID-19 funding the Council retained centrally. £24.8m of general COVID-19 funding was not allocated to services and leads to the significant underspend seen against the 'other budget headings' budget category on the following page.

The table below gives a summary by category of government revenue funding received in 2020/21 or receivable in 2021/22. In addition to this funding the Council has administered over £150m of grant funding to businesses on behalf of Government.

COVID-19 funding category	2020/21 £m	2021/22 £m	Total £m
Schools & Learning	12.1	4.0	16.1
Free School Meals & Welfare	9.5	3.1	12.6
Business & Welfare Grants Admin	1.0	0.2	1.2
Other - Specified	4.1	1.4	5.5
Other - General	30.7	12.0	42.7
<b>Total Revenue Grant Funding</b>	<b>57.5</b>	<b>20.7</b>	<b>78.2</b>

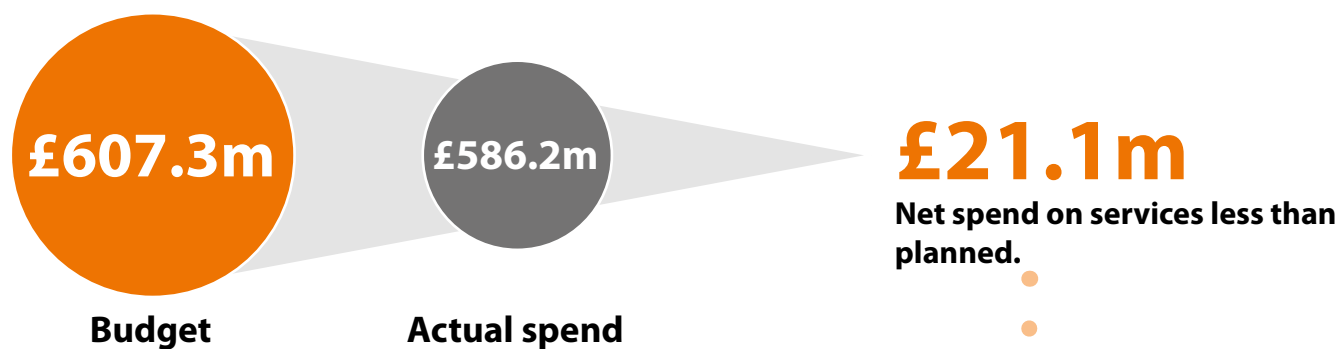
More detail on our 2020/21 outturn, including full details of Government funding, is included in our June 2021 financial outturn report to Council.

# General Fund Revenue Outturn 2020/21

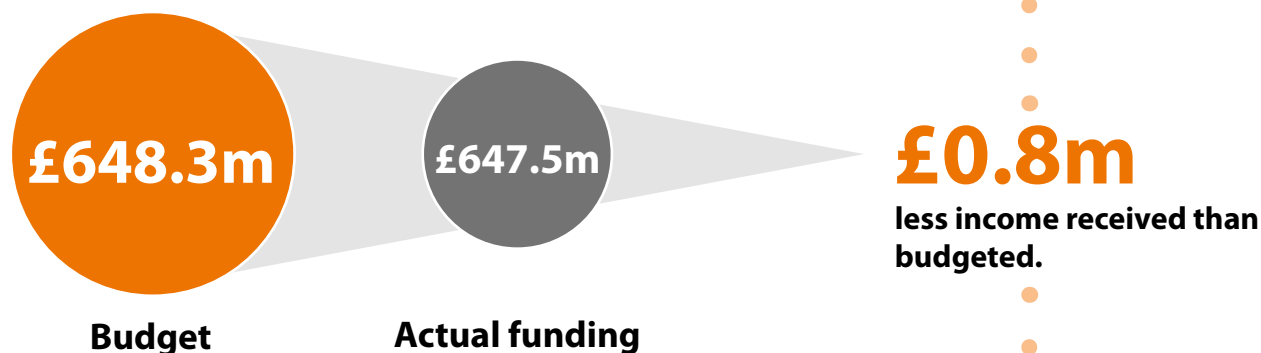
The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021.

It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. Note 19 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



## Council funding



## Overall surplus

Actual spend and income compared to budget.

**£20.3m**

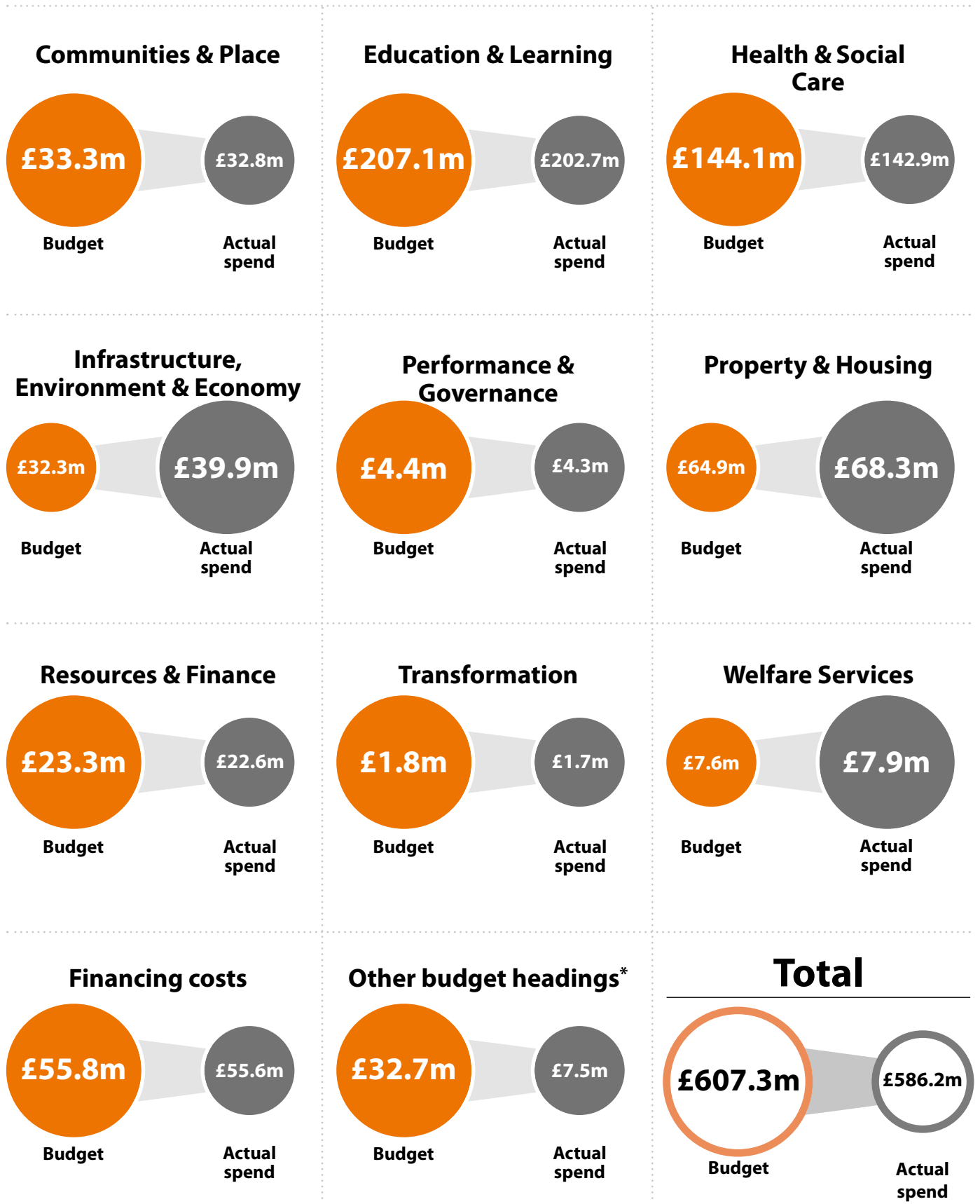
## Overall increase in reserves

**£61.3m**

The difference between actual spend and funding in 2020/21 paid back into the Council's General Fund Earmarked and Non-Earmarked Reserves.



# Year end position

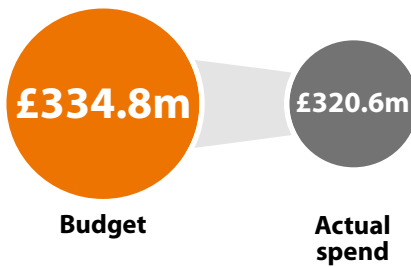


\*includes NDR reliefs, Joint Board requisitions, unallocated budget and transfers to reserves. (Net unallocated budget, rather than savings, in 20/21)

## Analysis of spend

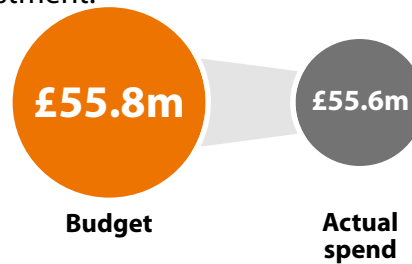
### Staff costs

The cost of the Council's employees.



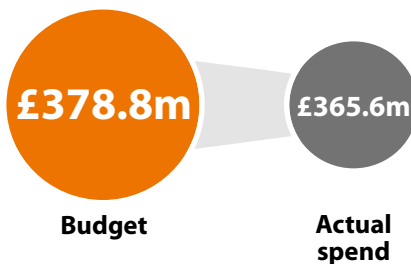
### Financing costs

The cost of borrowing to finance capital investment.



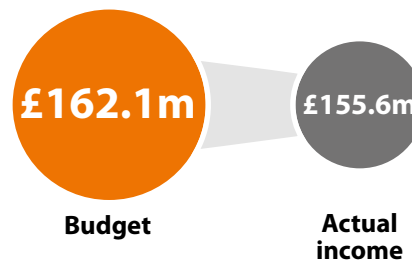
### Other costs

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



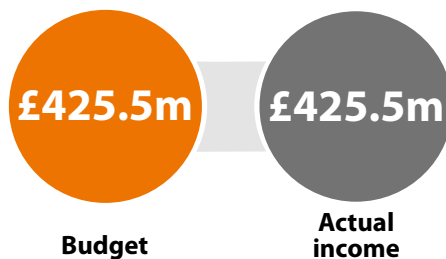
### Service income

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

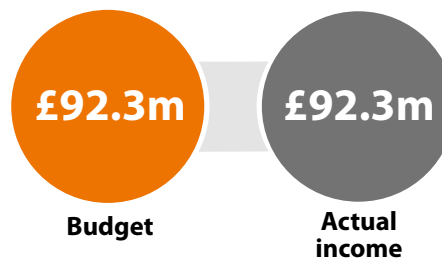


## Council funding

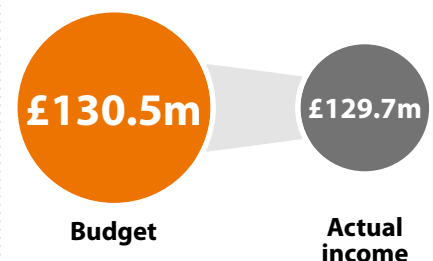
### Revenue Support Grant



### Non-Domestic Rates



### Council Tax



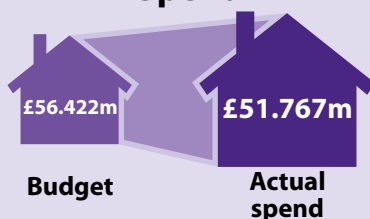
Funding direct from the Scottish Government.

## Housing revenue account

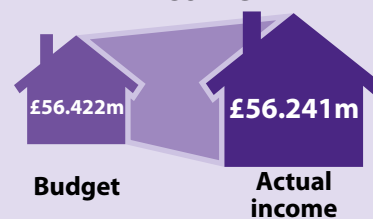


The Council owns 14,315 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated. The surplus for the year was added to reserves and will be used in 2021/22 to catch up on the backlog of housing repairs.

### Spend



### Income



# Council Reserves

The Council holds funds in a number of usable reserves:

## General Fund Non-Earmarked Reserve

**£43.4m**

(2019/20 £15.4m)

Funds held as a general contingency.

## Capital Fund

**£22.1m**

(2019/20 £23.8m)

To buy land for affordable housing provision (£20.7m, 19/20 £22.4m). Capital receipts available to finance future capital investment (£1.4m, 19/20 £1.4m)

## Insurance Fund

**£1.7m**

(2019/20 £1.9m)

Insurance for items not covered by external insurance policies.

## Capital Grants Unapplied

**£11.2m**

(2019/20 £5.2m)

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

## Renewal and Repair Fund

**£2.2m**

(2019/20 £1.7m)

For specific types of repair and maintenance work.

## General Fund Earmarked Reserve

**£53.6m**

(2019/20 £20.3m)

Funds held for specific purposes, including unspent Government COVID-19 funding, more details at note 9.

## HRA Reserve

**£11.8m**

(2019/20 £7.3m)

For spending on the Council's housing stock.

## Total Useable Reserves

**£146.0m**

(2019/20 £75.6m)

**See notes 8, 9 and 12 in the accounts for more details on these reserves.**

**7.1%**

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

# Increase in General Fund Reserves during the year

**+£7.8m**

Agreed contributions to non-earmarked reserve.

**-£7.7m**

Use of earmarked balances for their specified purposes.

**+£20.2m**

Service underspends and excess income in 2020/21 added into the general fund non-earmarked reserve.

**+£41.0m**

Increase in earmarked balances for specified additional funding streams received including COVID-19, developer contributions and 2020/21 service budgets.

**Net increase in General Fund reserves**

**+£61.3m**

## Capital Outturn 2020/21

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.

**£76.6m** Gross capital spend in 2020/21.

**£31.9m** Project specific capital income in 2020/21

**£44.7m** Net capital spend in 2020/21

**£9.2m** Underspend due to spend not meeting the profile assumed in the capital programme.

### Projects with the largest capital spend in 2020/21:

#### Investment in school buildings

**£28.8m (gross)**



#### Investment in vehicles and plant

**£2.8m (gross)**



#### Investment in roads and bridges

**£11.4m (gross)**



#### Housing Revenue Account

**£48.8m gross** investment in housing stock in 2020/21



### Funding of the Capital Programme

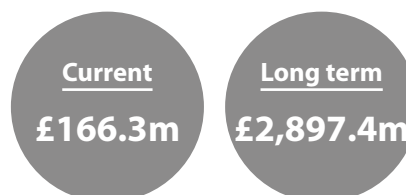
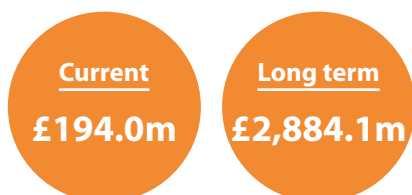
**£19.7m** of the 2020/21 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Councils annual treasury report and strategy statement:

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

# Assets and Liabilities

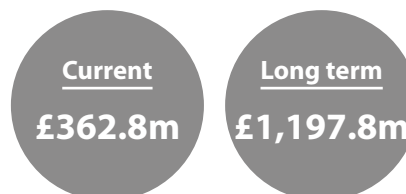
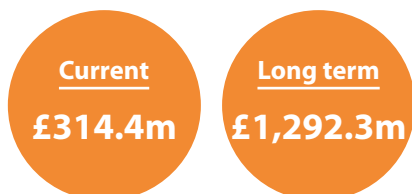
The Council's Balance Sheet shows its assets, liabilities and reserves.  
More information on its component parts can be seen in the notes to the accounts.

## Total Assets



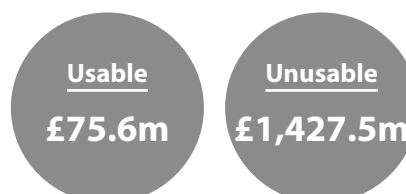
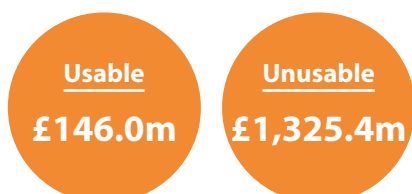
(Decrease in long term assets due to revaluations and increase in short term assets due to increase in cash and cash equivalents held)

## Total Liabilities



(Increase in long term liabilities due to decrease in pensions liability. Decrease in short term liability due to decrease in short term borrowing)

## Total Reserves



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

# Details of Assets and Liabilities

## Long term assets

Council houses

**£744.6m**



Infrastructure assets

**£437.4m**



Other assets

**£200.8m**



Other land and buildings

**£1,439.0m**



Vehicles, plant and equipment

**£62.3m**



## Liabilities

Borrowing

**-£972.6m**



Pensions liability

**-£336.5m**



Finance leases

**-£143.4m**



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

Short term creditors  
(excluding finance leases)

**-£127.1m**



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

Other liabilities

**-£27.1m**



**9.48%**

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2019/20 10.28%).

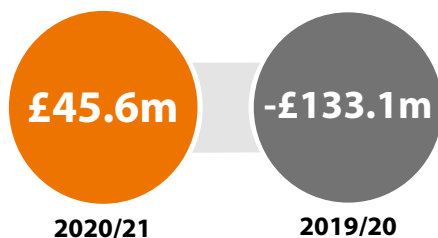
# Group Accounts

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:



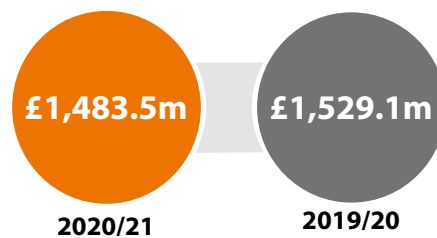
## Key Group Financial Information

### Total Comprehensive income and expenditure



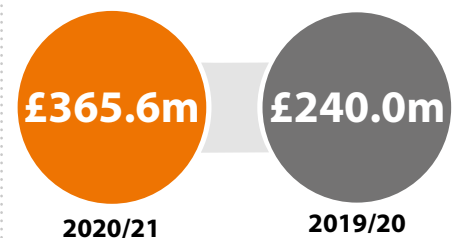
The overall change in total Group reserves calculated on an accounting basis.

### 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:

**Ambitious**

**Sustainable**

**Connected**

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).

Visit: [www.highland.gov.uk/performance](http://www.highland.gov.uk/performance)

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## Council Performance

Through the Council's new Corporate Plan performance is now reported against stretch targets set by Members the majority of which related to improving the Council's position in the Local Government Benchmarking Framework (LGBF).

The Council has also reviewed its approach to Service Planning strengthening the connections to delivering the Corporate Plan along with Directorate improvement priorities. Further work has also been progressed with Service planning to make better use of analysis of performance data and business intelligence to inform improvement planning.

As reported to Council in March 2021 progress was as follows for the Council's 99 SPIs where performance against target for 2019/20 could be calculated:

- 71 (72%) are on target or performance is within an agreed performance threshold; and for
- 28 (28%) there is no significant progress in improving performance.

The Council also focused on 27 indicators that The Council considers to be Key Performance Indicators (KPIs). 21 of these are from the LGBF, and 6 are locally defined indicators. For 2019/20 outcomes there were 18 (67%) of these indicators performing on target or within their performance threshold and for 9 (33%) there is "no significant progress" in improving performance.



## Indicators where local performance has increased by 10% or more between 2018/19 and 2019/20 are:

Areas which show local improvement by 10% or more between 2018/19 and 2019/20 are:



### Children's Services

- The average number of Looked After Children accommodated by the Council out with Highland decreased from 39 to 30.
- The percentage of Looked After Children in kinship care increased from 18.4% to 20.5%.
- The number of persistent young offenders with 5+ referrals decreased from 14 to 6.
- Offence based referrals to Scottish Children's Reporter Administration decreased from 523 to 388.
- Attainment (5+ awards at SCQF Level 6) by all children increased from 30% to 35% (CHN5).
- Attainment (5+ awards at SCQF Level 6) by children from deprived backgrounds increased from 12% to 15% (CHN7).

- Attainment - overall average total tariff scores by pupils from deprivation quintile 3 (pupils living in the 20% of communities ranked in the third most deprived tier across Scotland) increased from 580 to 703 points (CHN12c).
- School exclusion rate per 1,000 looked after children decreased from 243.9 (2016-17) to 189.3 (2018-19; CHN20b).

### Cultural and Leisure Services

- Library visits per 1,000 population (in person and virtual) increased from 13,879 to 15,884.
- Library virtual visits per 1,000 population increased from 4,470 to 6,533.
- Cost per visit to libraries decreased from £1.52 to £1.33 (C&L2a).

### Road Services

- The cost of maintenance per street lighting unit decreased from £14.82 to £12.67.
- Street lighting failures completed in 7 days increased from 62% to 69%.

- Street lighting energy consumption decreased from 13,734,725 kWh to 11,878,227 kWh.

### Housing Services

- The average time taken to re-let homes decreased from 36.8 days to 31.9 days (SHR35).
- The average duration of a homelessness case decreased from 48 weeks to 43 weeks.

### Corporate Services

- The cost of the Council's ICT Services (excluding curriculum) as a proportion of its budget decreased from 2.31% to 1.49%.
- The cost per payslip produced per Council employee decreased from £2.72 to £2.35.
- The cost of the Council's Procurement Section as a proportion of its budget decreased from 0.121% to 0.104%.

Indicators where local performance has decreased by 10% or more between 2018/19 and 2019/20 are:



### Children's Services

- The cost per school meal provided increased from £3.50 to £3.99.
- The average time between decision for permanence via

adoption to matching decision increased from 8.4 months to 18.9 months.

### Cultural and Leisure Services

- The cost per museum visit increased from £1.43 to £1.67 (C&L3a).

### Environmental Services

- High risk private water supplies inspected and sampled decreased from 84% to 71%.

### Housing

- Households in temporary accommodation increased from 560 to 625.
- The average time homeless families spent in temporary accommodation increased from 225 days to 272 days.
- The average time to complete medical adaptations to houses increased from 34.8 days to 40.0 days (SHR23).

# Risks, Uncertainties and Future Developments

As stated earlier in this management commentary the level of uncertainty brought about by COVID-19 is significant and that uncertainty could impact on every aspect of the Council's operations and finances. The Council provides a quarterly update on its risk register to the Audit and Scrutiny committee. The risks below are considered the most significant at this time:

<b>Short-Term Financial sustainability</b>	The budget set in March 2021 requires the delivery of £10.5m of savings in 2021/22 to deliver a balanced budget. The Council also agreed to hold a core non-earmarked reserve of £24.7m to cover financial risks.
<b>Medium-term financial planning</b>	The Council medium-term financial planning is underway but this is incredibly challenging to do with any accuracy due to significant uncertainties about future income levels from Government, locally raised income and changing demographics. It is anticipated that on average new annual revenue savings of £15m will need to be found each year.
<b>Staff health and wellbeing</b>	The COVID-19 crisis has brought increased risk to both the physical and mental health of our staff. Our workforce planning is encompassing wellbeing issues as well as ensuring we have flexible, skilled staff focussed on delivering Council priorities.
<b>Best Value Assurance Report</b>	The Council needs to continue to implement actions from its BVAR Improvement Plan, covering areas such as financial planning, delivering change, engaging with staff, service planning, performance review, benchmarking and self-assessment, leadership development and Member training and development.
<b>Demand for services</b>	The response required to the pandemic has led to increased demand for certain services along with new demand for additional services. Already demographic factors are placing pressures on adult services and the impact of COVID-19 may continue to be felt across a wide range of health, social care and welfare services.
<b>Wider economic factors</b>	The negative economic impact of COVID-19 has already been demonstrated and is expected to continue over the medium term. A weakened local economy will likely result in lower levels of income for the Council alongside increased demands on our expenditure.
<b>Brexit</b>	Whilst Brexit has now happened the impacts may emerge over a much longer period of time. Those impacts may be on our funding, our costs, our staffing and our local economy. The loss of EU funding will reduce the economic and social programmes of the Council and there is real uncertainty over any UK government replacement scheme.
<b>Capital investment</b>	We know that our assets require a significant level of investment to be brought up to an appropriate standard. Our ability to invest in our roads, schools, infrastructure and property will be constrained by our budget challenges.
<b>Waste</b>	The introduction of a landfill ban in Scotland has the potential to bring significant extra cost in dealing with our waste. The Council is developing its long-term strategy for waste management.
<b>Climate Change</b>	Climate change presents long term challenges both to the Council and to Highland communities. The Council must adapt and build resilience in itself and its communities to address vulnerabilities to the potential effects of climate change.

# Looking Ahead

At the 2020/21 financial year end the Council finds itself in a complex, challenging and somewhat contradictory scenario. Whilst the impact of COVID-19 across the Council, its staff, services and communities has been significant the financial impact has hitherto been mitigated by additional funding received from Government and robust internal financial control.

Our 2020/21 year end position sees our general fund earmarked and non-earmarked reserves sitting at a combined £97m which gives us a significant opportunity for one-off investment in the Council and the recovery from COVID-19.

The positive position must however be tempered by the medium-term outlook with an anticipated requirement to make new revenue budget savings in the region of £15m every year. Investing those one-off funds to help offset that medium-term financial challenge is the optimum solution.

As part of its approved budget for 2021/22 and beyond the Council has £9.8m of planned investment in the three 'Phase 1' recovery themes of Visitor management strategy, Economic prosperity fund, and Place based investment and ward discretionary budgets.

Further opportunities for £10m of 'Phase 2' investment are being considered by Council in June 2021 and encompass Roads and Infrastructure Investment; Environment and Climate Change; Communities; Amenities; and Investing in our people and assets.

The Council also has an approved Improvement and Transformation Programme with nine key projects to help deliver medium term financial sustainability. The following nine projects, funded by the £2.25m annual Change Fund are expected to deliver forecasted cashable benefits of £18.7m:

1. Economy
2. Asset Rationalisation & New Ways of Working
3. Service Redesign
4. Digital Transformation
5. Social Care
6. Climate Change
7. Waste
8. Roads & Transport
9. Procurement and Contracts Management

As part of the Council's recovery we also need to keep sight of areas in which we already knew we needed to make improvements, as identified in through our Best Value Assurance Report and the Improvement Plan we developed in response. All of these elements need to work together to help the Council continue its improvement journey so we are best placed to continue delivering high quality services to our Highland communities over the years ahead.

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**Donna Manson**  
Chief Executive

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**Margaret Davidson**  
Leader of the Council

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**Liz Denovan**  
Executive Chief Officer  
Resources and Finance

**Ambitious**

**Sustainable**

**Connected**

## 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 Executive Chief Officer for Resources and Finance;
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- (iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- (iv) Approve the Annual Accounts for signature.

Signed on behalf of Highland Council

**Margaret Davidson**  
Leader of the Council

### The Executive Chief Officer for Resources and Finance's Responsibilities

The Executive Chief Officer for Resources and Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

In preparing the Annual Accounts, the Executive Chief Officer for Resources and Finance has:-

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

The Executive Chief Officer for Resources and Finance has also:-

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2021.

**Liz Denovan CPFA**  
Executive Chief Officer for Resources and Finance  
30 June 2021

## **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 2021 and up to the date of approval of the Annual Accounts.

### **The governance framework**

The Local Code of Corporate Governance was reviewed and agreed by Council in September 2020. The basis of the 2020/21 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. With the exception of the commitment to develop fully the Council's approach to participatory budgeting all actions identified in the 2019/20 Code have either been completed or are on target.

### **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 . The Code of Corporate Governance 2020/21 was approved by the Audit & Scrutiny Committee on 24/09/20. The Code contains a total of 249 actions and review identified that these are shown as complete or on target except for 8 actions which have some slippage. However, these are not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

The 2019/20 Annual Governance Statement (AGS) referred to the emergency governance arrangements put in place in March 2020 as a result of the COVID-19 outbreak. This included suspending a number of formal meetings of the Council and its Committees unless there was an urgent business requirement for these to take place for a number of weeks.

The Council's Scheme of Delegation to Officers provides for the Chief Executive to exercise the Council's powers in emergency situations, in consultation with appropriate Officials and/ or Members. A Member Gold COVID-19 Group was established and met at least twice a week with the first meeting on 19/03/20. In the interests of transparency, a decision log recording those matters determined under the emergency governance arrangements was published on the Council's website. An Officer Gold COVID-19 group was established which met three times a week.

During this period, on 08/05/20, a "COVID-19 Good Governance Instruction Note" was adopted by the COVID-19 Officer Gold Group with the aim of ensuring effective governance around decision making and that the appropriate evidentiary records were maintained. The report to Council also referred to the resumption of Council policies and services to their pre-COVID-19 arrangements and return to the normal governance arrangements.

The Council moved quickly to identify and support remote meetings of Members. In May 2020 formal meetings resumed and in June 2020 the full Council meeting was conducted remotely via Microsoft Teams.

A formal report, setting out all of the decisions taken under emergency governance arrangements and seeking homologation was considered and approved at the meeting of the Full Council on 25/06/20. The report to Council also referred to the resumption of Council policies and services to their pre-COVID-19 arrangements and return to the normal governance arrangements. At the meeting Council also agreed the establishment and terms of reference of a Recovery Board and the details of the Recovery Plan. Fortnightly Member briefings were established with written briefings also provided where required. These arrangements continued with the second national lockdown on 05/01/21.

## THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

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 (Chief Audit Executive) responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report and AGS 2020/21 to the Audit and Scrutiny Committee on 17/06/21.

The impact of COVID-19 has affected the Internal Audit Service in that insufficient work could be undertaken during the year in order to provide the annual audit opinion. CIPFA has recognised this risk and issued limitation of scope guidance on 19/11/20. The suggested wording from the guidance has been used and the following limitation will appear within the Internal Audit Annual Report.

The results of the work carried out by Internal Audit, taken together with other sources of assurance, are not sufficient to support an annual opinion on the overall adequacy and effectiveness of the Council’s framework of control. The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect of governance and risk management is presented in the annual report but this does not result in an opinion on the aspect of control. The Chief Audit Executive (CAE) has concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s framework of governance and risk management.

This limitation of scope has arisen due to the impact of COVID-19 which resulted in the majority of audit activities being paused whilst the Council was operating in response to the pandemic. Also, some members of staff were redeployed to support COVID-19 activities. As a result, a reduced audit plan was approved by the Audit & Scrutiny Committee on 24/09/20. This was further impacted by delays in commencing a number of planned audits as a result of the second lockdown in January 2021 and key staff being involved in preparation of the 2021/22 budget. To avoid similar limitations in future the CAE has/ will undertake the following actions:

- The 2021/22 audit plan has been prepared to ensure sufficient coverage of control systems. This will be presented for approval by the Audit & Scrutiny Committee on 17/06/21.
- Ensure early identification of any issues with commencing planned audits and take the appropriate action to ensure these take place as planned. Any issues will be addressed with the Council’s Executive Leadership Team and reported to the Audit & Scrutiny Committee if necessary.
- Recruitment to a vacant post within the section will be undertaken shortly in order to increase the available audit resources.

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 results of the annual survey of the effectiveness of the Audit & Scrutiny was reported to the Committee on 26/11/20. The main findings identified were in respect of additional training and making the most of support and advice from officers. The appropriate action is being taken to address these. However, these improvements do not impact upon the view that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

**Significant Governance Issues**

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



## REMUNERATION REPORT

### Highland Council Remuneration Report

All information disclosed in sections 1 and 3 below will be audited by Grant Thornton UK LLP. The other sections of the Remuneration Report will be reviewed by Grant Thornton UK 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 2020/21 the remuneration for the Leader of Highland Council is £41,662. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council in 2020/21 - and set out the maximum salary that can be paid to a Senior Councillor and to the Civic Head as £31,248, equivalent to 75% of the Leader's salary.

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 (excluding the Leader and Civic Head) cannot exceed £466,455 for 2020/21 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 Council complied with these requirements in 2020/21.

The total remuneration in 2020/21 for all councillors was £1,436,185 (2019/20: £1,408,559). 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 current Scheme of Remuneration for the Leader, Convener, Depute Council Leader and Senior Councillors was agreed by Council on 12 March 2020, with some provisions backdated to 9 December 2019 when council agreed a revised committee structure. This scheme replaces the previous scheme which was agreed by Council on 1 June 2017 and updated as a result of a Council decision on 14 December 2017. The report setting out the current Scheme of Remuneration is available at [https://www.highland.gov.uk/meetings/meeting/4254/highland\\_council](https://www.highland.gov.uk/meetings/meeting/4254/highland_council) (item 18).

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 2020/21**

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 2020/21, the full year equivalent (FYE) salary for the role is shown in brackets.

2019/20	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2020/21		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
17,900	Gordon Adam	Chair of Dingwall, Black Isle and Seaforth Committee (Note 2)	13/03/20		18,987	439	19,426
18,578	Andrew Baxter	Chair of Lochaber Committee (Note 2)	23/06/17		18,987		18,987
n/a	Raymond Bremner	Leader of the Opposition (2020/21 FYE: £26,871)	01/10/20		22,362		22,362
21,466	Helen Carmichael	Provost and Chair of City of Inverness Area Committee (Notes 2 and 3)	19/06/17		21,913		21,913
30,575	Alasdair Christie	Depute Leader of the Council	18/05/17		31,248		31,248
21,899	Ian Cockburn	Joint Leader of the Opposition (2020/21 FYE: £22,362) (Note 4)	09/05/19	30/09/20	20,108	625	20,733
40,945	Margaret Davidson	Leader of the Council	18/05/17		41,662	15	41,677
30,590	John Finlayson	Chair of Education Committee	09/12/19		26,871	155	27,026
18,578	Richard Gale	Chair of Sutherland County Committee (Note 2)	15/11/18		18,987		18,987

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

2019/20	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2020/21		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
21,840	Jimmy Gray	Convener of Highland and Western Isles Valuation Joint Board (Note 5)	27/06/17		22,663		22,663
		Chair of Corporate Resources Committee (2020/21 FYE: £26,871)	04/03/21				
28,771	Allan Henderson	Chair of Communities and Place Committee	09/12/19		26,871		26,871
32,393	Bill Lobban	Convener of the Council	18/05/17		31,248	467	31,715
26,406	Graham MacKenzie	Chair of Audit and Scrutiny Committee	06/09/18		26,871	114	26,985
26,292	Alister Mackinnon	Chair of Corporate Resources Committee (2020/21 FYE: £26,871)	01/06/17	31/01/21	25,368	74	25,442
24,428	Linda Munro	Chair of Health, Social Care and Wellbeing Committee	09/12/19		26,871		26,871
23,015	Matthew Reiss	Chair of Caithness Committee (2020/21 FYE: £18,987) (Note 2)	19/05/18	05/07/20	18,152	95	18,247
21,295	Fiona Robertson	Chair of Easter Ross Area Committee (Note 2)	13/03/20		18,987	195	19,182
22,954	Patricia Robertson	Chair of Economy and Infrastructure Committee	09/12/19		26,871		26,871

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

2019/20	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2020/21		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Nicola Sinclair	Chair of Caithness Committee (2020/21 FYE: £18,987) (Note 2)	06/07/20		18,689		18,689
22,518	Maxine Smith	Joint Leader of the Opposition (2020/21 FYE: £22,362) (Note 4)	09/05/19	30/09/20	20,108	178	20,286
20,221	Ben Thompson	Chair of Housing & Property Committee	09/12/19		26,871		26,871
25,128	2019/20 remuneration for former Senior Councillors				n/a		n/a
<b>495,792</b>	<b>Total</b>				<b>510,695</b>	<b>2,357</b>	<b>513,052</b>

Notes :

1. Where more than one Senior Councillor role is held at the same time, the salary in respect of the highest remunerated role is payable.
2. Senior Councillors include Chairs of Area Committees comprising two or more wards.
3. Post formerly known as Provost and Leader of Inverness and Area.
4. From 9 May 2019 to 30 September 2020 the two Joint Leaders of the Opposition each received remuneration equal to a councillor salary plus 50% of the difference between a councillor salary and the agreed salary for the Leader of the Opposition.
5. £4,123 was recharged to Highland and Western Isles Valuation Joint Board in 2020/21 (2019/20: £4,370). This recharge represents the difference between the Convener salary and a councillor salary for the period 1 April 2020 to 3 March 2021. There is no recharge in respect of the period from 4 March 2021 when Councillor Gray was appointed Chair of Corporate Resources Committee as the senior councillor salary for this role exceeds the Convener salary and there are therefore no additional costs to be recharged to the Joint Board.
6. 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:

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
1,409	Remuneration	1,436
161	Travel and Subsistence	4
21	All Other Expenses	23
<u><b>1,591</b></u>	<b>Total</b>	<u><b>1,463</b></u>

**ii) Senior Employees**

The salary of the Chief Executive is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) of Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Highland Council for the year 2020/21. Salaries of Executive Chief Officers and are also based on Circular CO/150.

The Highland Council meeting of 7 September 2017 agreed to appoint a Director to the additional role of Depute Chief Executive, with an additional responsibility payment of £5,000 per annum. This role has been vacant since June 2019, with the exception of temporary appointments during 2020/21 to address issues relating to the COVID-19 pandemic. On 13 May 2021, Council agreed, as part of a wider senior management restructure, that there should be a separate Depute Chief Executive post, the salary for which should be based on Circular CO/150.

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 2020/21 is shown in the table on the following page.

**Remuneration of Senior Employees for 2020/21**

Where a post was not held throughout the whole of 2020/21, the full year equivalent salary for the role is shown in brackets.

2019/20	Senior Employee	Position	2020/21	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
169,559	Donna Manson	Chief Executive (Note 1)	160,909	160,909
89,099	Carron McDiarmid	Executive Chief Officer - Communities and Place and Depute Chief Executive (Operations) (from 01/04/20 to 31/07/20) (2020/21 FYE : £98,932) (Note 2)	95,599	95,599
		Executive Chief Officer - Communities and Place (from 01/08/20) (2020/21 FYE : £93,932)		
37,851	Nicky Grant	Head of Education and Chief Education Officer (to 03/09/20) (2020/21 FYE : £83,829) (Note 3)	89,638	89,638
		Interim Executive Chief Officer - Education and Learning (from 04/09/20) (2020/21 FYE : £93,932)		
47,118	Lesley Weber	Executive Chief Officer – Health and Social Care (to 31/08/20) (2020/21 FYE : £93,932)	39,138	39,138
n/a	Fiona Malcolm	Interim Executive Chief Officer – Health and Social Care (from 01/09/20 to 10/01/21) (2020/21 FYE : £93,932)	33,836	33,836
n/a	Fiona Duncan	Executive Chief Officer – Health and Social Care (from 11/01/21) (2020/21 FYE : £93,932)	20,958	20,958
44,127	Malcolm MacLeod	Executive Chief Officer – Infrastructure and Environment	93,932	93,932

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

2019/20	Senior Employee	Position	2020/21	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
56,385	Kate Lackie	Executive Chief Officer - Performance and Governance and Depute Chief Executive (Governance) (from 01/04/20 to 31/07/20) (2020/21 FYE : £98,932) (Note 2)	95,599	95,599
		Executive Chief Officer - Performance and Governance (from 01/08/20) (2020/21 FYE : £93,932)		
14,675	Mark Rodgers	Executive Chief Officer – Property and Housing	93,932	93,932
57,856	Liz Denovan	Executive Chief Officer - Resources and Finance	93,932	93,932
78,939	Allan Gunn	Interim Chief Officer, Resources & Transformation (to 31/01/21) (2020/21 FYE : £93,932)	93,932	93,932
		Interim Executive Chief Officer – Transformation (from 01/02/21) (2020/21 FYE : £93,932)		
80,062	Karen Ralston	Head of Children’s Services and Chief Social Work Officer (to 31/12/20) (2020/21 FYE : £83,829) (Notes 3 and 4)	64,365	64,365
55,219	Ruth Rountree Provan	Corporate Communications and Resilience Manager (2020/21 FYE : £56,875) (Notes 3 and 5)	67,780	67,780
50,719	Steve Walsh	Chief Executive, High Life Highland	92,841	92,841
31,059	Derek Yule	Depute Chief Executive and Director of Corporate Resources (to 30/06/19)	n/a	n/a

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

2019/20	Senior Employee	Position	2020/21	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
19,872	Sandra Campbell	Interim Director of Care and Learning (to 31/05/19)	n/a	n/a
117,892	William Gilfillan	Director of Community Services (to 07/06/19) (Note 6)	n/a	n/a
100,047	Stuart Black	Director of Development and Infrastructure (to 30/09/19) ----- Executive Chief Officer - Transformation and Economy (from 01/10/19 to 02/02/20)	n/a	n/a
9,408	Ed Foster	Head of Corporate Finance and Interim Section 95 Officer (from 01/07/19 to 12/08/19) (Note 3)	n/a	n/a
31,068	Stewart Fraser	Head of Corporate Governance (to 18 August 2019) (Notes 3 and 7)	n/a	n/a
45,443	James Vance	Head of Education and Chief Education Officer (to 11/10/19) (Note 3)	n/a	n/a
37,557	Ian Murray	Chief Executive, High Life Highland (to 31/08/19)	n/a	n/a
<b>1,173,955</b>	<b>Total</b>		<b>1,136,391</b>	<b>1,136,391</b>

No payments of taxable expenses or Compensation for Loss of Office payments to Senior Employees were made in 2020/21.  
For notes to the table, refer to page 32.



THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

Notes to table on pages 29-31:

1. 2020/21 remuneration includes £2,209 paid to the Chief Executive in her role as Returning Officer for the Westminster Parliamentary Election in December 2019. (2019/20 : £8,853 for the European Election in May 2019 and £6,629 for the Westminster Parliamentary Election in December 2019.)
2. 2020/21 remuneration includes Depute Chief Executive payment of £1,667 for the period 1 April to 31 July 2020 during which temporary acting-up arrangements were in place to address issues relating to the COVID-19 pandemic.
3. Included as Senior Employees as posts are politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989.
4. 2020/21 remuneration includes acting-up allowance of £1,493 for the period 15 June to 31 August 2020.
5. 2020/21 remuneration includes acting-up allowance of £10,905 for the period 1 April to 31 August 2020.
6. 2019/20 remuneration includes £95,701 compensation for loss of office.
7. As a result of the senior management restructure, the Head of Corporate Governance post ceased to report directly to the Chief Executive from 19 August 2019 so no longer meets the definition of "politically restricted by reason of section 2 (1) (a) (b) or (c) of the Local Government & Housing Act 1989".
8. The position of Interim Executive Chief Officer - Education and Learning was held on a consultancy basis by Paul Senior from 24 April to 28 August 2020. An executive search agency was used in the recruitment process and all payments to Mr Senior were made via this agency. The total amount paid to the agency, to cover 76.5 days worked by Mr Senior during this period plus National Insurance contributions and agency fees, was £71,604.

**General Disclosure by Pay Band**

Remuneration Bands £	Number of Employees	
	2020/21	2019/20
50,000 - 54,999	321	254
55,000 - 59,999	157	143
60,000 - 64,999	76	95
65,000 - 69,999	47	36
70,000 - 74,999	13	10
75,000 - 79,999	12	12
80,000 - 84,999	16	15
85,000 - 89,999	4	5
90,000 - 94,999	4	-
95,000 - 99,999	2	1
100,000 - 104,999	-	1
105,000 - 109,999	-	-
110,000 - 114,999	1	-
115,000 - 119,999	-	1
120,000 - 124,999	-	-
125,000 - 129,999	-	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	-	-
145,000 - 149,999	-	-
150,000 - 154,999	-	1
155,000 - 159,999	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 2020/21 figures include zero employees who were members of the Highland Council Pension Fund and entitled to immediate pension on leaving the Council (2019/20: 3). The gross actuarial cost of these exit packages is £nil (2019/20: £0.482m) and the net savings, on an actuarial basis, are £nil (2019/20: £1.763m).

2019/20		Cost Band	2020/21	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
3	11,946	£0 - £20,000	2	86,095
-	-	£20,001 - £40,000		
-	-	£40,001 - £60,000		
-	-	£60,001 - £80,000		
-	-	£80,001 - £100,000		
-	-	£100,001 - £150,000	-	-
-	-	£150,001 - £200,000	-	-
-	-	£200,001 - £250,000	-	-
-	-	£250,001 - £300,000	-	-
-	-	£300,001 - £350,000	-	-
-	-	£350,001 - £400,000	-	-
-	-	£400,001 - £450,000	-	-
1	475,529	£450,001 - £500,000	-	-
<b>4</b>	<b>487,475</b>	<b>Total</b>	<b>2</b>	<b>86,095</b>

## **2. Appointments**

### **i) Councillors**

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. The Leader of the Council, Convener of the Council, Depute Leader of the Council and Leader of the Opposition were appointed by Council on 18 May 2017 with further Senior Councillor appointments on 1 June 2017. Following the 2019 governance review, Chairs of the new strategic committees were appointed by Council on 9 December 2019. 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 2020/21 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 Communities and Place Committee  
Chair of Corporate Resources Committee  
Chair of Education Committee  
Chair of Economy and Infrastructure Committee  
Chair of Health, Social Care and Wellbeing Committee  
Chair of Housing and Property Committee  
Leader of Inverness and Area  
Chair of Black Isle, Dingwall and Seaforth Committee  
Chair of Caithness Committee  
Chair of Easter Ross Area Committee  
Chair of Lochaber Committee  
Chair of Sutherland County Committee

### **ii) Senior Employees**

The panel for the appointment of Executive Chief Officer level and above for permanent vacancies during 2020/21 comprised the Convener, Leader, Depute Leader, 3 Strategic Committee Chairs, Leader of the Opposition, Leader of the Scottish Conservative Group, Leader of the Labour Group and one additional member of the Opposition.

In March 2020, two Executive Chief Officers were appointed to act up into shared deputising roles for the Chief Executive for the period April to July 2020, to address issues relating to the COVID-19 pandemic. Each received a pro rata payment of £5,000 per annum.

## **3. Pension Benefits – Councillors and Senior Employees**

Pension benefits for councillors and senior employees are generally provided through the Local Government Pension Scheme (LGPS). The 2020/21 remuneration report also includes a senior employee whose pension benefits are provided through the Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015.

### **i) 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 2020/21 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2020/21
On earnings up to and including £22,200	5.50%
On earnings above £22,200 and up to £27,100	7.25%
On earnings above £27,100 and up to £37,200	8.50%
On earnings above £37,200 and up to £49,600	9.50%
On earnings above £49,600	12.00%

2019/20 contribution tiers and rates:

Pensionable pay	Contribution rate 2019/20
On earnings up to and including £21,800	5.50%
On earnings above £21,800 and up to £26,700	7.25%
On earnings above £26,700 and up to £36,600	8.50%
On earnings above £36,600 and up to £48,800	9.50%
On earnings above £48,800	12.00%

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

The 2020/21 employer's contribution rate is 19.5% of pensionable pay (2019/20: 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.

## ii) Scottish Teachers' Superannuation Scheme

The Scottish Teachers' Superannuation Scheme closed to new members on 31 March 2015. Benefits in the scheme are worked out on a final salary basis and members receive a pension based on their reckonable service and final pensionable pay.

The scheme is administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Further details of the scheme are available at <https://pensions.gov.scot/teachers/about-teachers-pensions/scottish-teachers-superannuation-scheme>.

**iii) Scottish Teachers' Pension Scheme 2015**

Members of the Scottish Teachers' Superannuation Scheme automatically joined this scheme on 1 April 2015 unless they had protection. Benefits are worked out on a Career Average Revalued Earnings (CARE) basis using earnings in each year and revaluing them to take account of inflation. The normal retirement age is the member's State Pension age.

The scheme is administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Further details of the scheme are available at <https://pensions.gov.scot/teachers/about-teachers-pensions/scottish-teachers-pension-scheme-2015>.

**Senior Councillor Pension Benefits**

The pension entitlements for the year to 31 March 2021 for those Senior Councillors who are active members of the Local Government Pension Scheme are shown in the table below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Councillors are listed in alphabetical order.

For responsibilities of each Senior Councillor, refer to the table on pages 25-27.

Pension Contributions 2019/20 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2020/21 £	Accrued Pension Benefits			
			As at 31/03/21		Difference from 31/03/20 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,399	Gordon Adam	3,689	1	0	0	0
3,614	Andrew Baxter	3,696	3	0	0	0
n/a	Raymond Bremner	4,208	1	0	0	0
5,949	Alasdair Christie	6,082	6	0	1	0
4,097	Ian Cockburn	3,987	2	0	0	0
7,931	Margaret Davidson	8,110	9	2	1	0
5,115	John Finlayson	5,230	2	0	1	0
3,676	Richard Gale	3,696	1	0	0	0
5,115	Allan Henderson	5,230	6	2	1	0
5,949	Bill Lobban	6,082	4	0	1	0
5,115	Graham MacKenzie	5,230	4	0	1	0
5,115	Alister Mackinnon	5,084	4	0	1	0
4,388	Linda Munro	5,230	5	2	1	0
4,044	Matthew Reiss (Note 2)	1,228	3	0	0	0

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

Pension Contributions 2019/20 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2020/21 £	Accrued Pension Benefits			
			As at 31/03/21		Difference from 31/03/20 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
4,172	Fiona Robertson	3,714	4	0	0	0
4,388	Patricia Robertson	5,230	2	0	1	0
n/a	Nicola Sinclair	3,620	1	0	0	0
4,417	Maxine Smith	3,987	4	0	0	0
3,792	Ben Thompson	5,230	3	0	1	0
3,995	2019/20 pension contributions for former Senior Councillors	n/a	n/a	n/a	n/a	n/a
<b>84,271</b>	<b>Total</b>	<b>88,563</b>	<b>65</b>	<b>6</b>	<b>10</b>	<b>0</b>

Notes :

1. The figures in the "Difference from 31/03/20" columns represent the difference between the unrounded pension benefits as at 31 March 2021 and the unrounded pension benefits as at 31 March 2020, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2021 and as at 31 March 2020 results in a marginally higher or lower difference.
2. Opted out of pension scheme during 2020/21.

**Senior Employee Pension Benefits**

The pension entitlements of Senior Employees for the year to 31 March 2021 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 pages 29-31.

Pension Contributions 2019/20 £	Senior Employee	Pension Contributions 2020/21 £	Accrued Pension Benefits			
			As at 31/03/21		Difference from 31/03/20 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
30,045	Donna Manson	30,946	15	0	3	0
17,374	Carron McDiarmid	18,642	46	78	4	5
16,213	Nicky Grant (Note 2)	20,617	19	38	3	7
9,188	Lesley Weber (Note 3)	7,632	1	0	0	0
n/a	Fiona Malcolm	16,265	19	14	n/a	n/a
n/a	Fiona Duncan	4,087	0	0	n/a	n/a
16,796	Malcolm MacLeod	18,317	34	45	4	4
15,632	Kate Lackie	18,642	23	19	4	3
2,862	Mark Rodgers	18,317	2	0	2	0
11,282	Liz Denovan (Note 4)	18,317	37	60	36	60
17,526	Allan Gunn	18,317	40	62	3	3
15,612	Karen Ralston (Note 5)	12,551	25	164	(15)	92
10,768	Ruth Rountree Provan	13,217	8	0	2	0
16,349	Steve Walsh	18,104	8	0	2	0
90,112	2019/20 pension contributions for former Senior Employees	n/a	n/a	n/a	n/a	n/a
<b>269,759</b>	<b>Total</b>	<b>233,971</b>	<b>277</b>	<b>480</b>	<b>48</b>	<b>174</b>



Notes :

1. The figures in the "Difference from 31/03/20" columns represent the difference between the unrounded pension benefits as at 31 March 2021 and the unrounded pension benefits as at 31 March 2020, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2021 and as at 31 March 2020 results in a marginally higher or lower difference.
2. Member of the Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015. Accrued pension benefits information provided by Scottish Public Pensions Agency.
3. Accrued benefits represent the amounts as at the leaving date of 31 August 2020. As membership of the pension scheme was less than two years, there was a full refund of employee contributions and no further pension benefits are due.
4. Transfer in of previous membership received during 2020/21.
5. Retired during 2020/21 and elected to commute pension to increase lump sum retirement grant.

**Margaret Davidson**  
Leader of the Council

**Donna Manson**  
Chief Executive

**INDEPENDENT AUDITOR'S REPORT**

**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, 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 51/52 and in the Movements in Reserves Statement on page 45/46.

2019/20 (restated)				2020/21		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
46,954	(55,020)	(8,066)	Council Housing – Housing Revenue Account	46,370	(55,037)	(8,667)
58,671	(13,078)	45,593	Communities & Place	49,591	(12,024)	37,567
253,306	(25,630)	227,676	Education & Learning	258,977	(34,717)	224,260
162,870	(15,904)	146,966	Health & Social Care	166,966	(16,372)	150,594
97,187	(40,021)	57,166	Infrastructure, Environment & Economy	102,288	(35,804)	66,484
6,261	(1,439)	4,822	Performance & Governance	6,306	(1,306)	5,000
92,863	(16,406)	76,457	Property & Housing	88,960	(13,428)	75,532
32,309	(2,234)	30,075	Resources & Finance	34,044	(2,315)	31,729
2,325	(399)	1,926	Transformation	1,873	(20)	1,853
42,852	(37,597)	5,255	Welfare Services	47,138	(39,381)	7,757
			Joint board requisitions			
2,694	-	2,694	Highland and Western Isles Valuation Joint Board	2,984	-	2,984
91	-	91	Highland and Islands Transport Partnership	91	-	91
<b>798,383</b>	<b>(207,728)</b>	<b>590,655</b>	<b>Cost of Services Carried Forward</b>	<b>805,588</b>	<b>(210,404)</b>	<b>595,184</b>

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)**

2019/20					2020/21		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
798,383	(207,728)	590,655	<b>Cost of services brought forward</b>		805,588	(210,404)	595,184
		5,090	Losses on the disposal of non-current assets				1,769
		58,503	Financing and investment income and expenditure	10			54,592
		(648,555)	Taxation and non-specific grant Income	11			(717,634)
		<b>5,693</b>	<b>Deficit/(Surplus) on provision of services</b>				<b>(66,089)</b>
		(39,571)	Surplus on revaluation of non-current assets				(34,082)
		44,471	Impairment losses on non-current assets charged to the revaluation reserve				49,644
		(142,198)	Remeasurements of the net defined benefit liability				82,309
		<b>(137,298)</b>	<b>Other comprehensive (income) and expenditure</b>				<b>97,871</b>
		<b>(131,605)</b>	<b>Total comprehensive (income) and expenditure</b>				<b>31,782</b>

Prior year figures have been restated to reflect the Council's current reporting structure. See note 3 for details.

**MOVEMENT IN RESERVES STATEMENT 2019/20**

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	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2020</b>	<b>20,299</b>	<b>7,328</b>	<b>1,678</b>	<b>2,333</b>	<b>26,283</b>	<b>8,549</b>	<b>66,470</b>	<b>1,305,059</b>	<b>1,371,529</b>
<b>Movement in reserves during 2019/2020</b>									
<b>Total comprehensive income and expenditure</b>	(10,981)	5,288	-	-	-	-	<b>(5,693)</b>	137,298	<b>131,605</b>
Adjustments to usable reserves permitted by accounting standards	10,708	-	-	-	-	-	<b>10,708</b>	(10,708)	-
Adjustments between accounting basis and funding basis under regulations (note 8)	10,777	(5,288)	-	-	711	-	<b>6,200</b>	(6,200)	-
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	10,504	-	-	-	711	-	<b>11,215</b>	120,390	<b>131,605</b>
Transfers to/from other statutory reserves	4,903	-	-	(421)	(3,232)	(3,352)	<b>(2,102)</b>	2,102	-
<b>Increase/(decrease) in 2019/20</b>	<b>15,407</b>	<b>-</b>	<b>-</b>	<b>(421)</b>	<b>(3,232)</b>	<b>(3,352)</b>	<b>9,113</b>	<b>122,492</b>	<b>131,605</b>
<b>Balance at 31 March 2020</b>	<b>35,706</b>	<b>7,328</b>	<b>1,678</b>	<b>1,912</b>	<b>23,762</b>	<b>5,197</b>	<b>75,583</b>	<b>1,427,551</b>	<b>1,503,134</b>

**MOVEMENT IN RESERVES STATEMENT 2020/21**

	General Fund £000	Housing Revenue Account £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2020</b>	<b>35,706</b>	<b>7,328</b>	<b>1,678</b>	<b>1,912</b>	<b>23,762</b>	<b>5,197</b>	<b>75,583</b>	<b>1,427,551</b>	<b>1,503,134</b>
<b>Movement in reserves during 2020/21</b>									
<b>Total comprehensive income and expenditure</b>	49,056	17,033	-	-	-	-	<b>66,089</b>	(97,871)	<b>(31,782)</b>
Adjustments to usable reserves permitted by accounting standards	9,761	-	-	-	-	-	<b>9,761</b>	(9,761)	-
Adjustments between accounting basis and funding basis under regulations (note 8)	2,850	(12,559)	-	-	343	-	<b>(9,366)</b>	9,366	-
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	<b>61,667</b>	<b>4,474</b>	<b>-</b>	<b>-</b>	<b>343</b>	<b>-</b>	<b>66,484</b>	<b>(98,266)</b>	<b>(31,782)</b>
Transfers to/from other statutory reserves	(404)	-	503	(202)	(1,982)	6,028	<b>3,943</b>	(3,943)	-
<b>Increase/(decrease) in 2020/21</b>	<b>61,263</b>	<b>4,474</b>	<b>503</b>	<b>(202)</b>	<b>(1,982)</b>	<b>6,028</b>	<b>70,427</b>	<b>(102,209)</b>	<b>(31,782)</b>
<b>Balance at 31 March 2021</b>	<b>96,969</b>	<b>11,802</b>	<b>2,181</b>	<b>1,710</b>	<b>22,123</b>	<b>11,225</b>	<b>146,010</b>	<b>1,325,342</b>	<b>1,471,352</b>

**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 Fund 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'.

31/03/20 £000		Note	31/03/21 £000
2,830,841	Property, plant and equipment	30	2,837,361
7,058	Heritage assets	35	7,058
398	Long term investments	44	-
59,082	Long term debtors (net of impairment)	36	39,670
<u>2,897,379</u>	<b>Long term assets</b>		<u>2,884,089</u>
4,666	Inventories		5,004
68,455	Short term debtors	37/38	75,341
91,528	Cash and cash equivalents	18	112,631
1,627	Assets held for sale		1,034
<u>166,276</u>	<b>Current assets</b>		<u>194,010</u>
(217,601)	Short term borrowing	44	(155,938)
(115,652)	Short term creditors	39	(133,610)
(726)	Provisions	40	(683)
(28,791)	Capital Grant Receipts in Advance	43	(24,165)
<u>(362,770)</u>	<b>Current liabilities</b>		<u>(314,396)</u>
(822,964)	Long term borrowing	44	(816,630)
(374,787)	Other long term liabilities	41	(475,721)
<u>(1,197,751)</u>	<b>Long term liabilities</b>		<u>(1,292,351)</u>
<u><b>1,503,134</b></u>	<b>Net assets</b>		<u><b>1,471,352</b></u>



**BALANCE SHEET (CONTINUED)**

31/03/20 £000		Note	31/03/21 £000
75,583	<b>Usable reserves</b>	12	146,010
1,427,551	<b>Unusable reserves</b>	13	1,325,342
<u><b>1,503,134</b></u>	<b>Total reserves</b>		<u><b>1,471,352</b></u>

The unaudited annual accounts were issued on 30 June 2021.

**Liz Denovan CPFA**  
Executive Chief Officer for Resources and Finance  
30 June 2021

**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.

2019/20		Note	2020/21
£000			
(5,693)	Net surplus/(deficit) on the provision of services		66,089
114,885	Adjust net surplus on the provision of services for non-cash movements	14	135,673
(73,132)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14	(130,815)
<u>36,060</u>	Net cash inflow from operating activities		<u>70,947</u>
(142,935)	Investing activities	16	(106,742)
134,900	Financing activities	17	56,898
<u>28,025</u>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<u>21,103</u>
63,503	Cash and cash equivalents at 1 April 2020		91,528
<u>91,528</u>	<b>Cash and cash equivalents at 31 March 2021</b>	18	<u>112,631</u>

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## 1. Expenditure and Funding Analysis

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

2019/20 (restated)			2020/21		
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
(20,050)	11,984	(8,066)	(25,135)	16,468	(8,667)
32,856	12,737	45,593	32,775	4,792	37,567
203,353	24,323	227,676	202,757	21,503	224,260
141,387	5,579	146,966	142,898	7,696	150,594
25,334	31,832	57,166	40,236	26,248	66,484
3,884	938	4,822	4,352	648	5,000
69,802	6,655	76,457	71,797	3,735	75,532
23,278	6,797	30,075	23,259	8,470	31,729
1,716	210	1,926	1,712	141	1,853
5,305	(50)	5,255	7,891	(134)	7,757
2,785	-	2,785	3,075	-	3,075
489,650	101,005	<b>590,655</b>	505,617	89,567	<b>595,184</b>

**Expenditure and Funding Analysis (continued)**

2019/20				2020/21		
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
489,650	101,005	<b>590,655</b>	<b>Cost of services brought forward</b>	505,617	89,567	<b>595,184</b>
(500,154)	(84,808)	(584,962)	Other Income and Expenditure	(571,758)	(89,515)	(661,273)
<hr/>				<hr/>		
(10,504)	16,197	5,693	<b>Deficit/(Surplus)</b>	2 (66,141)	52	(66,089)
		(27,627)	Opening General Fund and HRA Balance	(43,034)		
		(10,504)	Deficit/(surplus) on General Fund or HRA Balance in year	(66,161)		
		(4,903)	Transfers (from)/to reserves	404		
		<hr/>	<b>Closing General Fund and HRA Balance at 31 March 2021*</b>	<hr/>		
		<b>(43,034)</b>		<b>(108,771)</b>		

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

Prior year figures have been restated to reflect the Council's current reporting structure. See note 3 for details.

**2. Note to Expenditure and Funding Analysis**

**Adjustments between Funding & Accounting Basis 2020/21**

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	16,782	1,112	-	17,894	(1,426)	16,468
Communities & Place	2,236	2,248	366	4,850	(58)	4,792
Education & Learning	32,057	4,902	4,155	41,114	(19,611)	21,503
Health & Social Care	4,972	2,318	497	7,787	(91)	7,696
Infrastructure, Environment & Economy	20,673	2,489	332	23,494	2,754	26,248
Performance & Governance	1	620	38	659	(11)	648
Property & Housing	1,179	2,669	-	3,848	(113)	3,735
Resources & Finance	6,757	1,795	62	8,614	(144)	8,470
Transformation	-	151	(10)	141	-	141
Welfare Services	-	-	-	-	(134)	(134)
<b>Net Cost of Services</b>	<b>84,657</b>	<b>18,304</b>	<b>5,440</b>	<b>108,401</b>	<b>(18,834)</b>	<b>89,567</b>
Other Income from the Expenditure and Funding Analysis	(106,526)	5,569	(7,392)	(108,349)	18,834	(89,515)
<b>Total Adjustments</b>	<b>(21,869)</b>	<b>23,873</b>	<b>(1,952)</b>	<b>52</b>	<b>-</b>	<b>52</b>

Other (non statutory) Adjustments are items which are included in service outturns but are reported under Financing and Investment Income and Expenditure in the CIES. These comprise: PPP Unitary Charge - (£19.464m), Harbours Trading Income and Expenditure - £2.868m, Expected Credit Losses on Financial Assets – (£2.238m).

**Adjustments between Funding & Accounting Basis 2019/20**

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	12,248	1,670	-	13,918	(1,934)	11,984
Communities & Place	9,465	3,457	-	12,922	(185)	12,737
Education & Learning	38,851	7,509	(2,470)	43,890	(19,567)	24,323
Health & Social Care	2,080	3,499	-	5,579	-	5,579
Infrastructure, Environment & Economy	25,529	3,767	265	29,561	2,271	31,832
Performance & Governance	1	930	8	939	(1)	938
Property & Housing	3,054	3,927	-	6,981	(326)	6,655
Resources & Finance	6,583	20	194	6,797	-	6,797
Transformation	-	210	-	210	-	210
Welfare Services	-	-	-	-	(50)	(50)
<b>Net Cost of Services</b>	<b>97,811</b>	<b>24,989</b>	<b>(2,003)</b>	<b>120,797</b>	<b>(19,792)</b>	<b>101,005</b>
Other Income from the Expenditure and Funding Analysis	(105,225)	8,572	(7,947)	(104,600)	19,792	(84,808)
<b>Total Adjustments</b>	<b>(7,414)</b>	<b>33,561</b>	<b>(9,950)</b>	<b>16,197</b>	<b>-</b>	<b>16,197</b>

Other (non statutory) Adjustments are items which are included in service outturns but are reported under Financing and Investment Income and Expenditure in the CIES. These comprise: PPP Unitary Charge - (£19.490m), Harbours Trading Income and Expenditure - £2.596m, Expected Credit Losses on Financial Assets – (£2.898m).

### **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. Prior Year Restatement

The 2019/20 figures in the Comprehensive Income & Expenditure Statement have been restated as follows in accordance with the Council's new reporting structure which took effect during the 2020/21 financial year. The impact of the restatement is set out below. The effect on overall gross income and expenditure was nil.

	2019/20 as Reported			2019/20 Restated			Restatement		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Care & Learning	420,441	(41,333)	379,108	-	-	-	(420,441)	41,333	(379,108)
Community Services	117,295	(16,025)	101,270	-	-	-	(117,295)	16,025	(101,270)
Chief Executives	10,105	(1,919)	8,186	-	-	-	(10,105)	1,919	(8,186)
Corporate Resources	36,111	(2,785)	33,326	-	-	-	(36,111)	2,785	(33,326)
Development & Infrastructure	121,840	(53,049)	68,791	-	-	-	(121,840)	53,049	(68,791)
Communities & Place	-	-	-	58,671	(13,078)	45,593	58,671	(13,078)	45,593
Education & Learning	-	-	-	253,306	(25,630)	227,676	253,306	(25,630)	227,676
Health & Social Care	-	-	-	162,870	(15,904)	146,966	162,870	(15,904)	146,966
Infrastructure, Environment & Economy	-	-	-	97,187	(40,021)	57,166	97,187	(40,021)	57,166
Performance & Governance	-	-	-	6,261	(1,439)	4,822	6,261	(1,439)	4,822
Property & Housing	-	-	-	92,863	(16,406)	76,457	92,863	(16,406)	76,457
Resources & Finance	-	-	-	32,309	(2,234)	30,075	32,309	(2,234)	30,075
Transformation	-	-	-	2,325	(399)	1,926	2,325	(399)	1,926
<b>Total</b>	<b>705,792</b>	<b>(115,111)</b>	<b>590,681</b>	<b>705,792</b>	<b>(115,111)</b>	<b>590,681</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### **4. 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 2020/21 and its financial position at 31 March 2021. 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 2020/21 (The Code) 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.

### **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, salaries 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

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.

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.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL) - not applicable to the Council for 2019/20; and
- fair value through other comprehensive income (FVOCI) - not applicable to the Council for 2019/20.

#### *Financial Assets Measured at Amortised Cost*

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost on a lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

#### Fair Value Levels

As per IFRS 13 Fair Value is calculated using the appropriate level in the fair value hierarchy below.:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices. Where this is not possible, level 2 inputs are considered.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments. Where this is not possible, level 3 inputs are considered.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

#### **Soft Loans**

The Council has made loans to organisations mainly to provide for affordable housing (soft loans). When these are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal.

#### **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**

Where the Council has a material interest in subsidiaries, associates or joint ventures the Council will prepare Group Accounts in compliance with the Code. An interest is where the Council has either ownership of share capital or has rights to benefit from the capital of the entity. An interest also covers situations where the Council has the right to benefit from surpluses, a liability to contribute to losses, or an obligation to contribute to debts or expenses in the winding up of an entity. In assessing whether the interest is material or not an assessment will be made as to the influence and control which the Council exerts over the entity, not solely the financial interest or ownership.

### **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 – historical cost
- Operational leased assets – market value
- 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 as at 31 March sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, and as a minimum at least once every five years. These revaluations are carried out by in-house valuers and are overseen by Kenny Forbes (MRICS), Property Manager, Development and Infrastructure Service.

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.
- 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 Fund, 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 Comprehensive Income and Expenditure Statement 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.

### **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'cost of services' in the Comprehensive Income and Expenditure Statement. These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

### **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 42 to the accounts.

### **Reserves**

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

net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in Note 13.

**Value Added Tax (VAT)**

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

## **5. Accounting Standards issued but not yet adopted**

The following accounting standards will be adopted within the 2021/22 Code effective from 1 April 2021. There is therefore no impact on the 2020/21 financial statements.

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by The Code:

- IFRS 16 Leases will require local authorities that are lessees to recognise these leases on their balance sheets as right-of-use assets along with the corresponding lease liabilities, except for low value and short- term leases. As a result of the current COVID-19 response CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022.

## **6. 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 7). 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.
- The Council is deemed to control the services provided under the Public Private Partnership arrangements that it has for the PPP1, PPP2 and Wick Campus Projects, and also to control the residual value of the schools at the end of the agreement. The accounting policies for PPP schemes and similar contracts have been applied to the arrangement and the schools (net value £293.728m) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

## 7. 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 2020 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 £6.826m for every year that useful lives had to be reduced.
COVID-19 Impact on Valuations	<p>The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value.</p> <p>The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Annual Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market.</p>	<p>Any significant change in market valuations would require categories of asset (in particular Other Land and Building and Surplus Property) to be revalued and would therefore impact on the asset valuations on the Council balance Sheet.</p> <p>The risk of movement is uncertain and an upwards or downwards revaluation in future years is possible. It is estimated a change in value of 10% in the Other Land and Building asset category would adjust the total value of plant, property and equipment by £143.897m</p>
Arrears	At 31 March 2021 the Council had a balance of sundry debtors of £11.469m. A review of balances suggested that an allowance for impairment of £3.061m 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. An increase of 1% on impairment would require an additional £0.115m of an allowance.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in mortality rates and expected returns on pension fund assets.	The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in Note 25.
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. 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>

**8. 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.



2020/21	General Fund	Housing Revenue Account	Capital Fund	<b>Total usable reserves</b>	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Charges for depreciation and impairment of non-current assets	61,854	16,782	-	78,636	(78,636)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(60,308)	(22,084)	-	(82,392)	82,392	-
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	1,737	1,477	-	3,214	(3,214)	-
Revenue expenditure funded by capital	12,274	-	-	12,274	(12,274)	-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Statutory provision for repayment of debt	(29,903)	(9,610)	-	(39,513)	39,513	-
Repayment of Finance Lease Creditors	(5,434)	-	-	(5,434)	5,434	-
Capital expenditure charged against the General Fund and HRA balances	(2,404)	-	-	(2,404)	2,404	-
<b>Adjustments involving the Capital Fund</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,445)	-	1,445	-	-	-
Use of the capital fund to finance new capital expenditure	-	-	(1,102)	(1,102)	1,102	-

2020/21	General Fund	Housing Revenue Account	Capital Fund	<b>Total usable reserves</b>	Movement in unusable reserves	Total reserves
	£000	£000	£000	<b>£000</b>	£000	£000
<b>Adjustments involving the Financial Instruments Adjustment Account</b>						
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	(1,390)	(569)	-	(1,959)	1,959	-
<b>Adjustments involving the Pensions Reserve</b>						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	49,577	3,194	-	52,771	(52,771)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(27,149)	(1,749)	-	(28,898)	28,898	-
<b>Adjustments involving the Employee Statutory Adjustment Account</b>						
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	5,441	-	-	5,441	(5,441)	-
<b>Total adjustments 2020/21</b>	<b>2,850</b>	<b>(12,559)</b>	<b>343</b>	<b>(9,366)</b>	<b>9,366</b>	<b>-</b>

<b>2019/20</b>	General Fund	Housing Revenue Account	Capital Fund	<b>Total usable reserves</b>	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Charges for depreciation and impairment of non-current assets	77,409	15,642	-	93,051	(93,051)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(71,219)	(13,136)	-	(84,355)	84,355	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statetment	3,879	3,211	-	7,090	(7,090)	-
Revenue expenditure funded by capital	12,512	-	-	12,512	(12,512)	-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Statutory provision for repayment of debt	(30,311)	(9,244)	-	(39,555)	39,555	-
Repayment of Finance Lease Creditors	(5,989)	-	-	(5,989)	5,989	-
Capital expenditure charged against the General Fund and HRA balances	(1,469)	(3,395)	-	(4,864)	4,864	-
<b>Adjustments involving the Capital Fund</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,000)	-	2,000	-	-	-
Use of the capital fund to finance new capital expenditure	-	-	(1,289)	(1,289)	1,289	-

2019/20	General Fund £000	Housing Revenue Account £000	Capital Fund £000	<b>Total usable reserves £000</b>	Movement in unusable reserves £000	Total reserves £000
<b>Adjustments involving the Financial Instruments Adjustment Account</b>						
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	(1,412)	(546)	-	(1,958)	1,958	-
<b>Adjustments involving the Pensions Reserve</b>						
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	57,680	3,863	-	61,543	(61,543)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(26,299)	(1,683)	-	(27,982)	27,982	-
<b>Adjustments involving the Employee Statutory Adjustment Account</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,004)	-	-	(2,004)	2,004	-
<b>Total adjustments 2019/20</b>	<b>10,777</b>	<b>(5,288)</b>	<b>711</b>	<b>6,200</b>	<b>(6,200)</b>	<b>-</b>

**9. 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. The increase in General Fund of £61.263m (2019/20- £15.407m increase) comprises an increase in earmarked balances of £33.307m (2019/20 - £7.881m increase) and an increase in non-earmarked balances of £27.956m (2019/20 - £7.526m increase).

	<b>Balance at 31/03/19</b>	Transfers out	Transfers in	Interest on balances	<b>Balance at 31/03/20</b>	Transfers out	Transfers in	Interest on balances	<b>Balance at 31/03/21</b>
	<b>£000</b>	£000	£000	£000	<b>£000</b>	£000	£000	£000	<b>£000</b>
Badaguish Outdoor Centre	460	-	-	-	460	-	-	-	460
Business Rates Incentivisation Scheme (BRIS)	-	-	1,095	-	1,095	(1,095)	-	-	-
Business Loans Scotland	222	(222)	-	-	-	-	-	-	-
Change Fund	-	(1,183)	2,500	-	1,317	-	1,103	-	2,420
Commercial Investment Fund	100	(11)	-	-	89	-	-	-	89
Council Redesign	12	(12)	-	-	-	-	-	-	-
COVID-19	-	-	185	-	185	-	17,682	-	17,867
Developers' Contributions	4,880	(1,458)	3,044	81	6,547	(1,578)	1,987	66	7,022
Developing the Young Workforce	70	-	-	-	70	-	-	-	70
Devolved School Management	3,446	(557)	-	-	2,889	(2,889)	3,119	-	3,119
Elections	85	-	85	-	170	-	585	-	755
Grants and Match Funding	479	(70)	1,746	-	2,155	(443)	418	-	2,130
IT Investment Fund	519	-	-	-	519	-	725	-	1,244
Phase 1 Investment Fund	-	-	-	-	-	-	9,810	-	9,810
Salix Recycling Fund	-	(630)	2,000	-	1,370	(1,584)	1,109	-	895
Scottish Crown Estate	-	-	1,292	-	1,292	-	1,743	-	3,035
Skye Airstrip	-	-	187	-	187	-	-	-	187
Staffing Conditions and Development Fund *	1,420	-	-	-	1,420	-	2,032	-	3,452
Walks to Water	126	-	-	-	126	(50)	-	-	76
Welfare Issues	555	(275)	84	-	364	(58)	625	-	931
<b>Total</b>	<b>12,374</b>	<b>(4,418)</b>	<b>12,218</b>	<b>81</b>	<b>20,255</b>	<b>(7,697)</b>	<b>40,938</b>	<b>66</b>	<b>53,562</b>

\* Previously Strategic Change and Development Fund

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

2019/20 £000		Note	2020/21 £000
(1,409)	Gains on trading operations	22	(1,467)
49,790	Interest payable and similar charges		49,717
8,469	Pensions net interest expense		5,503
(1,244)	Interest and investment income		(1,400)
<u>2,897</u>	Expected credit losses on financial assets		<u>2,239</u>
<u>58,503</u>			<u>54,592</u>

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

2019/20 £000		2020/21 £000
(306,184)	Revenue support grant	(425,505)
(124,870)	Council tax income	(129,714)
(145,658)	Non-Domestic rates	(92,297)
<u>(71,843)</u>	Capital grants and contributions	<u>(70,118)</u>
<u>(648,555)</u>		<u>(717,634)</u>

**12. Balance Sheet – usable reserves**

31/03/20 £000		31/03/21 £000
1,678	Renewal and Repair Fund (a)	2,181
23,762	Capital Fund (b)	22,123
1,912	Insurance Fund (c)	1,710
5,197	Capital Grants Unapplied (d)	11,225
35,706	General Fund (e)	96,969
7,328	Housing Revenue Account (e)	11,802
<b><u>75,583</u></b>		<b><u>146,010</u></b>

(a) 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

(b) The Council operates a Capital fund to hold capital receipts available to finance capital expenditure in future years and for a Landbanking initiative relating to the provision of affordable social housing throughout the Highlands. In 2019/20 the capital receipts reserve was disclosed separately (£1.407m).

The movements in the Capital Fund are detailed below.

	Landbanking Initiative £000	Capital Receipts £000	Total £000
Balance at 31 March 2020	<b>22,355</b>	<b>1,407</b>	<b>23,762</b>
Transferred to General Fund	637	(343)	294
Transferred to Capital Adjustment account	(2,276)	343	(1,933)
<b>Balance at 31 March 2021</b>	<b><u>20,716</u></b>	<b><u>1,407</u></b>	<b><u>22,123</u></b>

(c) 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.

(d) 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.

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	Total £000
Balance at 31 March 2020	<b>5,197</b>
Transferred to General Fund	(190)
Transferred to Capital Adjustment account	<u>6,218</u>
<b>Balance at 31 March 2021</b>	<b><u>11,225</u></b>

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



**13. Balance Sheet – unusable reserves**

31/03/20 £000		31/03/21 £000
584,234	Revaluation Reserve (a)	558,393
1,101,441	Capital Adjustment Account (b)	1,134,739
(19,275)	Financial Instruments Adjustment Account (c)	(17,318)
(230,288)	Pensions Reserves (d)	(336,470)
(8,561)	Employee Statutory Adjustment Account (e)	(14,002)
<u>1,427,551</u>		<u>1,325,342</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.

2019/20 £000		£000	2020/21 £000
602,102	Balance at 1 April 2020		584,234
41,987	Upward revaluation of assets	37,912	
(2,416)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services	(3,830)	
(44,471)	Impairment losses not charged to the Surplus/Deficit on the Provision of services	(49,644)	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		(15,562)
(4,900)			
(10,708)	Difference between fair value depreciation and historical cost depreciation		(9,761)
(752)	Accumulated gains on assets sold or scrapped	(475)	
(1,508)	Amount written off revaluation reserve	(43)	
(2,260)	Amount written off to the Capital Adjustment Account		(518)
<u>584,234</u>	<b>Balance at 31 March 2021</b>		<u>558,393</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 8 provides details of the source of all the transactions posted to the account, apart from any involving other reserves.

2019/20 £000		2020/21 £000
1,073,681	Balance at 1 April 2020	1,101,441
(12,512)	Revenue Expenditure funded from capital under statute	(12,274)
(60,840)	Charges for depreciation on non-current assets	(61,114)
(32,212)	Revaluation losses on Property, Plant and Equipment	(17,521)
	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(3,214)
<u>(7,090)</u>		<u>(94,123)</u>
(112,654)	Adjusting amounts written out of the Revaluation Reserve	
<u>2,260</u>		<u>518</u>
2,260	Net written out amount of the cost of non-current assets consumed in the year	518
	<b>Capital Financing applied in the year</b>	
5,989	Repayment of PPP creditors	5,434
1,289	Use of the Capital Fund to finance new capital expenditure	1,102
84,355	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	82,392
1,086	Use of the Capital Fund	2,276
1,015	Use of Capital Grants Unapplied Account	(6,218)
39,556	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	39,513
4,864	Capital expenditure charged against the General Fund and HRA balances	2,404
<u>138,154</u>		<u>126,903</u>
<u><b>1,101,441</b></u>	<b>Balance at 31 March 2021</b>	<u><b>1,137,739</b></u>

## (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.

2019/20 £000		2020/21 £000
(21,234)	Balance at 1 April 2020	(19,275)
1,952	Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,952
7	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	7
<u>(19,275)</u>	<b>Balance at 31 March 2021</b>	<u>(17,318)</u>

## (d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2019/20 £000		2020/21 £000	£000
(338,925)	Balance at 1 April 2020		(230,288)
214,989	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	(353,907)	
(83,442)	Return on plan assets	311,547	
10,651	Other experience adjustments	(39,949)	
<u>142,198</u>	<b>Total remeasurements of the net defined liability</b>		(82,309)
(61,543)	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	(52,771)	
<u>27,982</u>	Employer's pension contributions and direct payments to pensioners payable in the year	<u>28,898</u>	
<u>(33,561)</u>			<u>(23,873)</u>
<u>(230,288)</u>	<b>Balance at 31 March 2021</b>		<u>(366,470)</u>

(e) Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

2019/20 £000		2020/21 £000
(10,565)	Balance at 1 April 2020	(8,561)
10,565	Settlement or cancellation of accrual made at the end of the preceding year	8,561
(8,561)	Amounts accrued at the end of the current year	(14,002)
<u><b>(8,561)</b></u>	<b>Balance at 31 March 2021</b>	<u><b>(14,002)</b></u>

**14. Cash flow statement – Adjustments to surplus/deficit on the provision of services**

2019/20 £000		2020/21 £000
	<b>Non-cash items</b>	
71,548	Depreciation	70,875
32,210	Impairments	17,522
7,090	Net book value of assets sold	3,214
33,561	IAS 19 transactions	23,873
56	Financial instruments adjustments	426
	<b>Items on accruals basis</b>	
(143)	Decrease/(increase) in inventories	(338)
(12,423)	Decrease/(increase) in debtors	459
(16,940)	(Decrease)/increase in creditors	19,889
(74)	(Decrease)/increase In provisions	(44)
<u><b>114,885</b></u>		<u><b>135,673</b></u>
	<b>Items in investing &amp; financing activities</b>	
£000		£000
(71,843)	Capital grants credited to surplus/deficit on provision of services	(129,713)
(1,289)	Proceeds from sale of assets	(1,102)
<u><b>(73,132)</b></u>		<u><b>(130,815)</b></u>

**15. Cash flow statement – operating activities**

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

2019/20 £000		2020/21 £000
(414)	Interest received	(1,448)
66,299	Interest paid	50,327

**16. Cash flow statement – investing activities**

2019/20 £000		2020/21 £000
(167,634)	Purchase of property, plant and equipment	(113,099)
7,469	Other (payments)/receipts for investing activities	(10,135)
473	Sale of short term intangibles	-
1,289	Proceeds from the sale of property, plant and equipment	1,102
15,013	(Purchase)/sale of long and short-term investments	-
454	Other (payments)/receipts from investing activities	15,390
<b>(142,935)</b>	<b>Net cash flows from investing activities</b>	<b>(106,742)</b>

**17. Cash flow statement – financing activities**

2019/20 £000		2020/21 £000
440,719	Cash receipts of short and long term borrowing	215,880
71,843	Other receipts from financing activities	129,714
(5,989)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(5,434)
(372,285)	Repayments of short and long term borrowing	(284,933)
612	Other payments for financing activities	1,671
<b>134,900</b>	<b>Net cash flows from financing activities</b>	<b>56,898</b>

**18. Cash flow statement – cash and cash equivalents**

	At 1 April 2020 £000	Cash flow £000	At 31 March 2021 £000
Temporary investments	91,049	21,571	112,620
Cash in hand	72	1	73
Cash at bank	407	(469)	(62)
<b>Total cash and cash equivalents</b>	<b>91,528</b>	<b>21,103</b>	<b>112,631</b>

### **19. 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 2020 to 31 March 2021. 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 2020/21**

	Budget £000	Actual £000	Over/(Under) £000
Communities & Place	33,268	32,775	(493)
Education & Learning	207,127	202,757	(4,370)
Health & Social Care	144,061	142,898	(1,163)
Infrastructure, Environment & Economy	32,326	39,872	7,546
Performance & Governance	4,458	4,352	(106)
Property & Housing	64,883	68,265	3,382
Resources & Finance	23,280	22,601	(679)
Transformation	1,784	1,712	(72)
Welfare Services	7,564	7,891	327
Non Domestic Rates reliefs	671	658	(13)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2,984	2,984	-
Highland and Islands Transport Partnership	91	91	-
Financing			
Loan Charges	56,175	56,403	228
Interest and Investment Income	(330)	(767)	(437)
Unallocated Budget	26,094	-	(26,094)
Unallocated Savings	(339)	-	339
<b>Total General Fund Services</b>	<b>604,097</b>	<b>582,492</b>	<b>(21,605)</b>
Appropriations to/from Reserves			
Repairs & Renewals Fund	503	503	-
Insurance Fund	(202)	(202)	-
Affordable Housing	2,900	3,459	559
<b>Amount to be funded from Taxpayers and General Fund Balance</b>	<b>607,298</b>	<b>586,252</b>	<b>(21,046)</b>
<b>Funding</b>			
Revenue Support Grant	(425,505)	(425,505)	-
Non-domestic Rates	(92,297)	(92,297)	-
Council Tax	(130,535)	(129,713)	822
<b>Increase in General Fund in the year</b>	<b>(41,039)</b>	<b>(61,263)</b>	<b>(20,224)</b>

Budget figures are provided for information purposes only and are not subject to audit.

## 20. Segmental Income

Income received on a segmental basis is analysed below:

### Segmental Income 2020/21

	Income from Services £000	Internal Recharges £000	Total Income from External Customers/Service Users £000	Adjustments £000	Gross Income £000
<b>Services</b>					
HRA	55,037	-	55,037	-	55,037
Communities & Place	47,518	(35,507)	12,011	13	12,024
Education & Learning	33,444	-	33,444	1,273	34,717
Health & Social Care	16,371	-	16,371	1	16,372
Infrastructure, Environment & Economy	59,854	(20,448)	39,406	(3,602)	35,804
Performance & Governance	1,395	(89)	1,306	-	1,306
Property & Housing	20,828	(9,794)	11,034	2,394	13,428
Resources & Finance	5,893	(3,614)	2,279	36	2,315
Transformation	20	-	20	-	20
Welfare Services	39,381	-	39,381	-	39,381
<b>Total Income analysed on a segmental basis</b>	<b>279,741</b>	<b>(69,452)</b>	<b>210,289</b>	<b>115</b>	<b>210,404</b>

### Segmental Income 2019/20

	Income from Services £000	Internal Recharges £000	Total Income from External Customers/Service Users £000	Adjustments £000	Gross Income £000
<b>Services</b>					
HRA	55,020	-	55,020	-	55,020
Communities & Place	47,696	(34,618)	13,078	-	13,078
Education & Learning	25,209	(377)	24,832	798	25,630
Health & Social Care	15,884	-	15,884	20	15,904
Infrastructure, Environment & Economy	69,563	(21,161)	48,402	(8,381)	40,021
Performance & Governance	1,798	(359)	1,439	-	1,439
Property & Housing	23,618	(11,765)	11,853	4,553	16,406
Resources & Finance	6,521	(4,333)	2,188	46	2,234
Transformation	399	-	399	-	399
Welfare Services	37,597	-	37,597	-	37,597
<b>Total Income analysed on a segmental basis</b>	<b>283,305</b>	<b>(72,613)</b>	<b>210,692</b>	<b>(2,964)</b>	<b>207,728</b>

Adjustments: Infrastructure, Environment & Economy – Trading Income included in note 22 – (£12,737,000- 2021); (£16,316,000 – 1920). Property & Housing – Landbanking income (£578,000 - 2021); (£840,000 – 1920). Capital Grants credited to services £12,274,000 - 2021; £12,512,000 – 1920.



## 21. 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.

### 2020/21

	Communities & Place £000	Education & Learning £000	Health & Social Care £000	Infrastructure, Environment & Economy £000	Performance & Governance £000	Property & Housing £000	Resources & Finance £000	Transformation £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	<b>Total £000</b>
Fees, charges and other service income	(10,799)	(2,670)	(10,832)	(21,369)	(1,306)	(7,440)	(2,192)	(20)	(37,353)	(55,037)	(12,737)	<b>(161,755)</b>
Interest and investment income	(30)	-	(1)	-	-	(1)	-	-	-	-	(1,410)	<b>(1,442)</b>
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(129,714)	<b>(129,714)</b>
Government grants and contributions	(1,195)	(32,047)	(5,539)	(14,435)	-	(5,987)	(123)	-	(2,028)	-	(587,920)	<b>(649,274)</b>
<b>Total income</b>	<b>(12,024)</b>	<b>(34,717)</b>	<b>(16,372)</b>	<b>(35,804)</b>	<b>(1,306)</b>	<b>(13,428)</b>	<b>(2,315)</b>	<b>(20)</b>	<b>(39,381)</b>	<b>(55,037)</b>	<b>(731,781)</b>	<b>(942,185)</b>
Employee expenses	28,559	203,089	37,073	26,352	5,949	23,487	16,188	1,819	-	11,910	776	<b>355,202</b>
Other service expenses	18,714	22,555	124,921	43,905	356	62,453	10,979	54	47,138	17,678	19,985	<b>368,738</b>
Depreciation, amortisation and impairment	2,318	33,333	4,972	32,031	1	3,020	6,877	-	-	16,782	1,336	<b>100,670</b>
Interest payments	-	-	-	-	-	-	-	-	-	-	49,717	<b>49,717</b>
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	-	-	1,769	<b>1,769</b>
<b>Total expenditure</b>	<b>49,591</b>	<b>258,977</b>	<b>166,966</b>	<b>102,288</b>	<b>6,306</b>	<b>88,960</b>	<b>34,044</b>	<b>1,873</b>	<b>47,138</b>	<b>46,370</b>	<b>73,583</b>	<b>876,096</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>37,567</b>	<b>224,260</b>	<b>150,594</b>	<b>66,484</b>	<b>5,000</b>	<b>75,532</b>	<b>31,729</b>	<b>1,853</b>	<b>7,757</b>	<b>(8,667)</b>	<b>(658,198)</b>	<b>(66,089)</b>

**Expenditure & Income Analysed by Segment and Nature (continued)**

**2019/20 (restated)**

	Communities & Place £000	Education & Learning £000	Health & Social Care £000	Infrastructure, Environment & Economy £000	Performance & Governance £000	Property & Housing £000	Resources & Finance £000	Transformation £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	<b>Total £000</b>
Fees, charges and other service income	(12,623)	(4,086)	(11,362)	(26,034)	(1,439)	(8,465)	(2,188)	(399)	(36,901)	(55,020)	(16,316)	<b>(174,833)</b>
Interest and investment income	(30)	-	(1)	-	-	(1)	-	-	-	-	(1,254)	<b>(1,286)</b>
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(129,870)	<b>(129,870)</b>
Government grants and contributions	(425)	(21,544)	(4,541)	(13,987)	-	(7,940)	(46)	-	(696)	-	(523,685)	<b>(572,864)</b>
<b>Total income</b>	<b>(13,078)</b>	<b>(25,630)</b>	<b>(15,904)</b>	<b>(40,021)</b>	<b>(1,439)</b>	<b>(16,406)</b>	<b>(2,234)</b>	<b>(399)</b>	<b>(37,597)</b>	<b>(55,020)</b>	<b>(666,125)</b>	<b>(873,853)</b>
Employee expenses	30,180	191,880	35,576	26,000	5,886	29,646	15,503	2,015	-	7,639	846	<b>345,171</b>
Other service expenses	19,025	20,969	125,195	37,088	374	56,449	10,151	310	42,852	23,673	27,139	<b>363,225</b>
Depreciation, amortisation and impairment	9,466	40,457	2,099	34,099	1	6,768	6,655	-	-	15,642	1,083	<b>116,270</b>
Interest payments	-	-	-	-	-	-	-	-	-	-	49,790	<b>49,790</b>
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	-	-	5,090	<b>5,090</b>
<b>Total expenditure</b>	<b>58,671</b>	<b>253,306</b>	<b>162,870</b>	<b>97,187</b>	<b>6,261</b>	<b>92,863</b>	<b>32,309</b>	<b>2,325</b>	<b>42,852</b>	<b>46,954</b>	<b>83,948</b>	<b>879,546</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>45,593</b>	<b>227,676</b>	<b>146,966</b>	<b>57,166</b>	<b>4,822</b>	<b>76,457</b>	<b>30,075</b>	<b>1,926</b>	<b>5,255</b>	<b>(8,066)</b>	<b>(582,177)</b>	<b>5,693</b>

**22. 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 2020/21 is as follows:

Fishery, Piers and Harbours	£000
Turnover	12,747
Expenditure	<u>(11,251)</u>
Surplus	1,496
Less internal surplus included in service net expenditure	(19)
Less interest on revenue balances	(10)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 10)	<u><u>1,467</u></u>
Three year surplus	
Financial Year	£000
2018/19	1,859
2019/20	1,409
2020/21	<u>1,467</u>
	<u><u>4,735</u></u>

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

**23. Agency Services**

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2020/21 the Council collected £96.434m and received £92.297m contribution from the non-domestic rates pool (2019/20 collected £134.804m and received £143.240m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2020/21 the Council paid over £36.739m and received £0.768m for providing this service. During 2019/20 the Council paid over £36.409m and received £0.755m for providing this service.

Payments totalling £0.150m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2019/20 - £0.145m).

The Council issued COVID-19 related grants and payments on behalf of the Scottish Government during 20/21 to the value of £137.899m. No COVID-19 grants were paid out during 2019/20.

**24. External audit costs**

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

2019/20 £000		2020/21 £000
<u>433</u>	Fees payable to Audit Scotland with regard to external audit services	<u>445</u>

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

**25. 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 2020/21 the Council paid £24.458m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23% of pensionable pay. The figures for 2019/20 were £21.700m and 23.0%. There were no contributions remaining payable at the year-end.

In 2020/21 the Council paid £1.50m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 20.9% of pensionable pay. The figures for 2019/20 were £1.14m and 20.9%. 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 26.

## **26. 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		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20 £000	Council 2020/21 £000	2019/20 £000	Group 2020/21 £000	Council and Group 2019/20 £000	2020/21 £000
<b>Comprehensive Income and Expenditure Statement</b>						
<b>Cost of services</b>						
Current service cost	55,767	47,268	61,973	52,250	-	-
Past service cost (including curtailments)	(2,693)	-	(2,985)	-	-	-
	53,074	47,268	58,988	52,250	-	-
Financing and investment (income) and expenditure	7,150	4,401	7,495	4,647	1,319	1,102
<b>Total post employment benefits charged to the surplus or deficit on the provision of services</b>	<b>60,224</b>	<b>51,669</b>	<b>66,483</b>	<b>56,897</b>	<b>1,319</b>	<b>1,102</b>
<b>Other post employment benefits charged to the comprehensive income and expenditure statement</b>						
Remeasurement of the net defined benefit liability comprising:						

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	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20 £000	Council 2020/21 £000	2019/20 £000	Group 2020/21 £000	Council and Group 2019/20 £000	2020/21 £000
Return on plan assets excluding the amount included in the net interest expense	83,442	(311,547)	86,643	(317,669)	-	
Actuarial (gains)/losses arising on changes in financial assumptions	(156,425)	355,927	(164,362)	376,261	(1,744)	4,148
Actuarial (gains)/losses arising on changes in demographic assumptions	(55,131)	(6,119)	(57,009)	(5,724)	(1,689)	(49)
Experience adjustments	(8,646)	38,917	(9,019)	41,187	(2,005)	1,032
<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(136,760)</b>	<b>77,178</b>	<b>(143,747)</b>	<b>94,055</b>	<b>(5,438)</b>	<b>5,131</b>

	Local Government Pension Scheme Council		Local Government Pension Scheme Group		Discretionary Benefits Arrangements Council and Group	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
<b>Movement in reserves statement</b>						
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(60,224)	(51,669)	(66,483)	(56,897)	(1,319)	(1,102)
<b>Actual amount charged against the General Fund balance for pensions in the year</b>						
Employers contributions payable to the scheme	25,123	26,083	28,257	29,092	2,859	2,815

The above group figures on pages 93-95 include the following amounts for associates which are not consolidated into the pension liability: Return on Plan Assets (£3.007m) (2019/20 £0.869m), Actuarial Gains/Losses on changing financial assumptions £3.311m (2019/20 (£2.088m)) Actuarial Gains/Losses on changing demographic assumptions (£0.121m) (2019/20 nil) Experience Adjustments £0.141m (2019/20 (£0.980m)).

In accordance with the equity basis of accounting, associates are not consolidated on a line by line basis, therefore associate pension liabilities are not consolidated with Council and Subsidiary pension liabilities within the 'Other long term liabilities' line item on the Group Balance Sheet. Associate pension liabilities are reflected within the Group's share of associate net liabilities within the 'Liabilities in Associates' line item on the Group Balance Sheet.



**Pension assets and liabilities recognised in the Balance Sheet**

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	Council		Group		Council and Group	
	31/03/20 £000	31/03/21 £000	31/03/20 £000	31/03/21 £000	31/03/20 £000	31/03/21 £000
Present value of the defined benefit obligation	(1,450,016)	(1,830,070)	(1,496,642)	(1,917,508)	(49,347)	(52,765)
Fair value of pension fund assets	1,269,075	1,546,365	1,305,971	1,604,653	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>(180,941)</b>	<b>(283,705)</b>	<b>(190,671)</b>	<b>(312,855)</b>	<b>(49,347)</b>	<b>(52,765)</b>

**Information about the defined benefit obligation**

	Liability split 31/03/20		Liability split 31/03/21	
	£000	(%)	£000	(%)
Active members	766,694	51.2	856,222	46.8
Deferred members	215,870	14.4	312,100	17.1
Pensioner members	514,060	34.4	661,748	36.1
<b>Total</b>	<b>1,496,624</b>	<b>100</b>	<b>1,830,070</b>	<b>100</b>

The durations are weighted averages as at the last formal valuation date 31 March 2020.

**Reconciliation of the movements in the fair value of scheme assets**

	Local Government Pension Scheme Council		Local Government Pension Scheme Group		Discretionary Benefits Arrangements	
	31/03/20 £000	31/03/21 £000	31/03/20 £000	31/03/21 £000	31/03/20 £000	31/03/21 £000
Opening fair value of scheme assets	1,327,566	1,269,075	1,362,085	1,305,971	-	-
Interest income	31,780	29,014	32,690	29,899	-	-
Return on plan assets	(83,442)	311,547	(85,774)	320,676	-	-
Contributions by employer	25,123	26,083	28,257	29,092	2,859	2,815
Contributions by Scheme participants	7,576	7,940	8,526	8,875	-	-
Experience adjustments	-	(49,781)	-	(41,610)	-	-
Estimated benefits paid (net of transfers in)	(39,528)	(47,513)	(39,813)	(48,250)	(2,859)	(2,815)
<b>Closing fair value of scheme assets</b>	<b>1,269,075</b>	<b>1,546,365</b>	<b>1,305,971</b>	<b>1,604,653</b>	<b>-</b>	<b>-</b>

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

	<b>Funded Liabilities: Local Government Pension Scheme Council</b>		<b>Funded Liabilities: Local Government Pension Scheme Group</b>		<b>Unfunded Liabilities: Discretionary Benefits Council and Group</b>	
	<b>31/03/20 £000</b>	<b>31/03/21 £000</b>	<b>31/03/20 £000</b>	<b>31/03/21 £000</b>	<b>31/03/20 £000</b>	<b>31/03/21 £000</b>
Opening defined benefit obligation	(1,610,166)	(1,450,016)	(1,656,960)	(1,496,642)	(56,325)	(49,347)
Current service cost	(55,767)	(47,268)	(61,973)	(52,250)	-	-
Past service cost	2,693	-	2,985	-	-	-
Interest cost	(38,930)	(33,415)	(40,185)	(34,546)	(1,319)	(1,102)
Contributions by scheme participants	(7,576)	(7,940)	(8,526)	(8,875)	-	-
Actuarial gains/(losses) from changes in financial assumptions	156,425	(355,927)	162,274	(379,572)	1,744	(4,148)
Actuarial gains/(losses) from changes in demographic assumptions	55,131	6,119	57,009	5,724	1,689	49
Experience adjustments	8,646	10,864	8,921	423	2,005	(1,032)
Estimated benefits paid (net of transfers in)	39,528	47,513	39,813	48,250	-	-
Unfunded pension payments	-	-	-	-	2,859	2,815
<b>Closing value</b>	<b>(1,450,016)</b>	<b>(1,830,070)</b>	<b>(1,496,642)</b>	<b>(1,917,508)</b>	<b>(49,347)</b>	<b>(52,765)</b>

**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:

2019/20		2020/21
6%	<b>Cash and cash equivalents</b>	7%
	<b>Equity Securities:</b>	
	By industry type	
16%	Consumer	18%
8%	Manufacturing	11%
2%	Energy and utilities	1%
9%	Financial institutions	11%
5%	Health and care	5%
5%	Information technology	5%
1%	Other	1%
	<b>Debt Securities:</b>	
	By sector	
3%	Property	2%
6%	<b>Private Equity</b>	5%
	<b>Property:</b>	
9%	UK	8%
	<b>Other Investment Funds:</b>	
14%	Equity (pooled funds and unitised insurance policies)	13%
16%	Bonds	12%
100%	Total	100%

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

31 March 2020 £000	Fair value of pension fund assets	31 March 2021
	Equity Instruments	
1,153,123	Quoted in an active market	1,433,339
115,952	Not quoted in an active market	113,026
1,269,075	Total equity instruments	1,546,365

**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 2020.

The significant assumptions used by the actuary have been:

	2019/20	2020/21
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	21.0	20.9
• Women	23.2	23.5
Longevity at 65 for future pensioners (years)		
• Men	22.0	22.3
• Women	24.8	25.5
Rate of inflation	1.9%	2.85%
Rate of increase in salaries	2.8%	3.65%
Rate of increase in pensions	1.9%	2.85%
Rate for discounting fund liabilities	2.3%	2.0%
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%)	1	17,554
Rate of increase in pensions (increase or decrease by 0.5%)	8	151,465
Rate for discounting fund liabilities (increase or decrease by 0.5%)	9	172,735

### **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 80% of the Fund's investments in active management and 20% 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 conducted at 31 March 2023.

The actuaries have estimated that employer contributions for the year to 31 March 2022 will be approximately 25.227m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years 2020/21 (18.0 years 2019/20).

## 27. 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:

<b>2020/21</b>	<b>Contributors</b>	<b>Pensioners</b>	<b>Deferred Pensioners</b>
Highland Council	7,720	7,502	5,833
Scheduled Bodies	3,015	2,249	2,233
Admitted Bodies	2,245	1,124	1,067
<b>Total</b>	<b>12,980</b>	<b>10,875</b>	<b>9,123</b>
<b>2019/20</b>			
Highland Council	7,518	7,341	5,800
Scheduled Bodies	3,070	2,191	2,178
Admitted Bodies	2,232	1,015	1,040
<b>Total</b>	<b>12,820</b>	<b>10,547</b>	<b>9,018</b>

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/>.

## **28. 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 43.

### **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 2020/21 is shown in the remuneration report.

Alasdair Rhind Funeral Directors Ltd had debts of £0.015m owed to the Council at 31st March 2021.



### **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 Executive Chief Officer for Resources and Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX and the Highland Council website.

### **Pension Fund**

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

The Council charged the Pension Fund £1.285m (2019/20 £1.315m) 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 2020/21 Highland Council paid NHS Highland £100.904m (2019/20 £100.636m) for the provision of integrated adult services and NHS Highland made payment of £10.400m (2019/20 £10.681m) 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 2016/17 the Council took over delivery of some of the services previously provided by HOL.

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

<b>Financial Year End</b>	<b>Net Assets £000</b>	<b>Profit/(loss) before taxation £000</b>	<b>Profit/(loss) after taxation £000</b>
31 March 2020	21	(7)	(7)
31 March 2019	29	(4)	(4)

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

<b>Company</b>	<b>Nature of business</b>
Highland Opportunity (Investments) Limited	Investment

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

	<b>Net assets (Liabilities) £000</b>	<b>Profit/(loss) before taxation £000</b>	<b>Profit/(loss) after taxation £000</b>
<b>Year ended 31 March 2020</b>			
Highland Opportunity (Investments) Limited	2,022	(179)	(179)
<b>Year ended 31 March 2019</b>			
Highland Opportunity (Investments) Limited	2,202	(14)	(14)

### **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.

## 29. 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:

31/03/20 £000		31/03/21 £000
3,272	Not later than one year	3,295
10,617	Later than one year and not later than five years	10,484
<u>93,673</u>	Later than five years	<u>94,030</u>
<u><u>107,562</u></u>		<u><u>107,809</u></u>

### Highland Council as Lessee

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

31/03/19 £000		31/03/21 £000
1,155	Not later than one year	1,276
2,143	Later than one year and not later than five years	2,114
<u>703</u>	Later than five years	<u>486</u>
<u><u>4,001</u></u>		<u><u>3,876</u></u>

The total future minimum sublease payments expected to be received under non-cancellable subleases at the Balance Sheet date is £0.006m.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.327m (2019/20 £1.244m).

**30. Property, plant and equipment**

	Council dwellings £000	Other land and buildings (restated) £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	<b>Total Property, plant and equipment £000</b>	PFI Assets included in Property, plant and equipment (restated) £000
<b>Cost or valuation</b>									
As At 1 April 2020	792,122	1,462,088	178,087	584,552	7,233	8,387	104,761	<b>3,137,230</b>	304,674
Additions	13,314	30,861	7,373	17,998	210	-	43,593	<b>113,349</b>	315
Revaluation increases recognised in the surplus/deficit of services	-	3,822	-	-	-	113	-	<b>3,935</b>	-
Revaluation decreases recognised in the surplus/deficit of services	(2,576)	(19,613)	-	-	-	(2,156)	-	<b>(24,345)</b>	(11,287)
Revaluation increases recognised in the Revaluation Reserve	-	33,161	-	-	-	556	-	<b>33,717</b>	26
Revaluation decreases recognised in the Revaluation Reserve	(8,955)	(61,759)	-	-	-	(1,766)	-	<b>(72,480)</b>	-
Derecognition – disposals	(1,569)	(359)	(1,460)	-	-	(69)	(30)	<b>(3,487)</b>	-
Derecognition – other	-	-	-	-	-	-	(250)	<b>(250)</b>	-
Reclassifications	11,475	(5,249)	6	(3)	-	3,797	(10,026)	-	-
Assets reclassified (to)/from Held for Sale	-	(766)	-	-	-	(104)	(75)	<b>(945)</b>	-
<b>At 31 March 2021</b>	<b>803,811</b>	<b>1,442,186</b>	<b>184,006</b>	<b>602,547</b>	<b>7,443</b>	<b>8,758</b>	<b>137,973</b>	<b>3,186,724</b>	<b>293,728</b>

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

	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	<b>Total Property, plant and equipment £000</b>	PFI Assets included in Property, plant and equipment £000
<b>Accumulated depreciation and impairment</b>									
As at 1 April 2020	45,827	5,458	107,596	147,471	-	7	30	<b>306,389</b>	-
Depreciation charge	13,494	24,149	15,503	17,673	-	56	-	<b>70,875</b>	5,055
Revaluation increases recognised in the surplus/deficit of services	-	(3,007)	-	-	-	(9)	-	<b>(3,016)</b>	-
Revaluation increases recognised in the Revaluation Reserve	-	(23,142)	-	-	-	(255)	-	<b>(23,397)</b>	(5,055)
Derecognition – disposals	(96)	(6)	(1,372)	-	-	(1)	-	<b>(1,475)</b>	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	18	(220)	-	-	-	202	-	-	-
Assets reclassified (to)/from Held for Sale	-	(13)	-	-	-	-	-	<b>(13)</b>	-
At 31 March 2021	59,243	3,219	121,727	165,144	-	-	30	<b>349,363</b>	-
<b>Net book value</b>									
<b>At 31 March 2021</b>	<b>746,568</b>	<b>1,438,967</b>	<b>62,279</b>	<b>437,403</b>	<b>7,443</b>	<b>8,758</b>	<b>137,943</b>	<b>2,837,361</b>	<b>293,728</b>
At 31 March 2020	746,295	1,456,630	70,491	437,081	7,233	8,380	104,731	2,830,841	302,988

**Comparative Movements in 2019/20 (restated)**

	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	<b>Total Property, plant and equipment £000</b>	PFI Assets included in Property, plant and equipment £000
<b>Cost or valuation</b>									
As At 1 April 2019	817,308	1,445,907	163,451	553,817	7,159	8,976	71,540	<b>3,068,158</b>	293,217
Additions	28,628	27,197	16,772	30,735	74	-	64,228	<b>167,634</b>	119
Revaluation increases recognised in the surplus/deficit of services	-	22,705	-	-	-	81	-	<b>22,786</b>	882
Revaluation decreases recognised in the surplus/deficit of services	(568)	(60,177)	-	-	-	(359)	-	<b>(61,104)</b>	-
Revaluation increases recognised in the Revaluation Reserve	-	47,138	-	-	-	1,745	-	<b>48,883</b>	10,552
Revaluation decreases recognised in the Revaluation Reserve	(63,849)	(34,693)	-	-	-	(161)	-	<b>(98,703)</b>	(156)
Derecognition - disposals	(209)	(46)	(2,136)	-	-	-	-	<b>(2,391)</b>	-
Derecognition – other	(3,481)	70	-	-	-	-	-	<b>(3,411)</b>	-
Reclassifications Assets reclassified (to)/from Held for Sale	14,293	18,049	-	-	-	(1,040)	(31,302)	-	60
	-	(4,062)	-	-	-	(855)	295	<b>(4,622)</b>	-
<b>At 31 March 2020</b>	<b>792,122</b>	<b>1,462,088</b>	<b>178,087</b>	<b>584,552</b>	<b>7,233</b>	<b>8,387</b>	<b>104,761</b>	<b>3,137,230</b>	<b>304,674</b>

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	<b>Total Property, plant and equipment £000</b>	PFI Assets included in Property, plant and equipment £000
<b>Accumulated depreciation and impairment</b>									
As at 1 April 2019	59,646	6,320	93,226	130,359	-	126	9	<b>289,686</b>	-
Depreciation charge	14,712	23,287	16,430	17,112	-	7	-	<b>71,548</b>	4,412
Revaluation increases recognised in the surplus/deficit of services	-	(6,031)	-	-	-	(11)	-	<b>(6,042)</b>	-
Revaluation increases recognised in the Revaluation Reserve	(28,297)	(17,864)	-	-	-	(133)	-	<b>(46,294)</b>	(4,412)
Derecognition – disposals	(11)	-	(2,060)	-	-	-	-	<b>(2,071)</b>	-
Derecognition – other	(232)	-	-	-	-	-	-	<b>(232)</b>	-
Reclassifications	9	(48)	-	-	-	18	21	-	-
Assets reclassified (to)/from Held for Sale	-	(206)	-	-	-	-	-	<b>(206)</b>	-
At 31 March 2020	<b>45,287</b>	<b>5,458</b>	<b>107,596</b>	<b>147,471</b>	<b>-</b>	<b>7</b>	<b>30</b>	<b>306,389</b>	<b>-</b>
<b>Net book value</b>									
<b>At 31 March 2020</b>	<b>746,295</b>	<b>1,456,630</b>	<b>70,491</b>	<b>437,081</b>	<b>7,233</b>	<b>8,380</b>	<b>104,731</b>	<b>2,830,841</b>	<b>304,674</b>
At 31 March 2019	757,662	1,439,587	70,225	423,458	7,159	8,850	71,531	2,778,472	293,217

The 19/20 figures have been restated to more accurately reflect audit adjustments that were made in that year. There was an overall net nil effect to the net book value at 31 March 2020 for Council Dwellings and Other Land and Buildings and an increase in net book value at 31 March 2020 of £1.686m for PFI assets included in property, plant and equipment.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

The following table outlines the progress of the Council's 5 year rolling programme of valuations. The Council has carried out a desktop exercise in 2019/20 as part of the valuation process to adjust the values of assets valued under the DRC method by yearly changes in build rates and 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.

In 2019/20 as part of a better working practice, the 5 year rolling programme was reorganised to provide a more even level of valuations over the 5 year cycle and to help highlight any market trends within a certain year that may trigger a review over a whole category of assets. Due to overlap between the new and the previous programme the actual assets revalued will be greater than the number in each year of the new programme for the first 5 cycle.

Revaluations of council dwellings previously revalued in 2015/16 are continuing and the outcome will be reported in the final accounts.

	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	-	-	62,279	437,403	7,443	-	137,943	645,068
Asset Last Revalued								
FY 2020/21	-	371,334	-	-	-	8,758	-	380,092
FY 2019/20	243,200	778,290	-	-	-	-	-	1,021,490
FY 2018/19	-	56,422	-	-	-	-	-	56,422
FY 2017/18	-	150,185	-	-	-	-	-	150,185
FY 2016/17	-	82,736	-	-	-	-	-	82,736
FY 2015/16	501,368	-	-	-	-	-	-	501,368
<b>Total cost or valuation</b>	<b>744,568</b>	<b>1,438,967</b>	<b>62,279</b>	<b>437,403</b>	<b>7,443</b>	<b>8,758</b>	<b>137,943</b>	<b>2,837,361</b>



**31. Capital commitments**

The total value of legal commitments on capital contracts as at 31 March 2021, for the acquisition of property, plant and equipment, was £126.185m (31 March 2020 £60.323m). Details of the major commitments by contract or project are as follows:

Contract or Project	2020/21 £m
HRA Housing - Council House New Builds	64.392
Early Learning and Childcare	13.575
Caol Flood Prevention Scheme	10.948
Alness Academy	8.557
School Estate Improvement Programme	5.275
Miscellaneous projects with an individual commitment less than £0.5m	3.750
Heating - All areas	3.036
Inverness High School	2.347
Merkinch Primary	1.701
Windows & Doors Replacements -Inverness	1.613
Covid Costs - Alness, Inverness High & Merkinch	1.500
Hub Legacy Projects	1.357
Culloden Academy	1.100
Lochaber Flood Damage	1.000
Park Fire Reinstatement	966
Modular Units	825
Adult Services (NHS)	825
Windows & Door Replacements-Ross & Cromarty	775
Westlink Phase 2	750
ICT Capital Commitments	670
Alness & Invergordon Fire Detection Works	656
Fire Detection Works	567
	<u>126.185</u>

**32. 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 2020/21

2019/20 £000		2020/21 £000
1,132,521	Opening capital financing requirement	1,175,361
	<b>Capital investment</b>	
167,634	Property, Plant and Equipment	113,099
12,512	Revenue Expenditure funded from capital under statute	12,274
	<b>Sources of finance</b>	
(1,289)	Capital receipts	(1,102)
(1,086)	Capital Fund	(2,276)
(1,015)	Evergreen Infrastructure Fund	6,218
(84,355)	Government grants and other contributions	(82,392)
	Sums set aside from revenue	
(4,864)	- direct revenue contributions	(2,404)
(39,556)	- loans fund principal	(39,513)
1,015	Evergreen Infrastructure Fund Loans	(218)
(167)	House loans & NHT	(15,871)
(5,989)	Reduction in Finance Lease Creditors (PPP)	(5,434)
<u>1,175,361</u>	<b>Closing capital financing requirement</b>	<u>1,157,742</u>
	Explanation of movements in the year	
43,167	Increase in underlying need to borrow (supported by government financial assistance)	(1,748)
(167)	Decrease in underlying need to borrow (unsupported by government financial assistance)	(15,871)
<u>43,000</u>	Increase/(decrease) in capital financing requirement	<u>(17,619)</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:

<b>On Balance Sheet</b>	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	√	√

### **33. 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 2020/21 was £4.002m. (2019/20 £3.932m). 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 2021 until July 2027 amounts to £21.538m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £8.267m over the remaining term of the contract.

#### **Alpha Schools (Highland) 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 2020/21 was £21.685m. (2019/20 £21.402m). 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 £349.593m. 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 £114.560m 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 2020/21 the Annual Service Charge amounted to £4.675m. (2019/20 £4.652m) The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £95.930m at current prices.

During the 25 year term of the Project Agreement the Council will receive financial support of £4.068m pa from the Scottish Government towards the funding of the Annual Service Charge. This support is estimated to amount to £83.311m 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 30.

**Liabilities arising from PFI and similar contracts**

2019/20 £000		2020/21 £000
(154,811)	As at 1 April 2020	(148,822)
5,989	Repaid in year	5,434
<u>(148,822)</u>	As at 31 March 2021	<u>(143,388)</u>

**Payments**

Payments remaining to be made under PFI contracts at 31 March 2021 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due	Repayment of liability £000	Interest £000	Service Charges £000	Total £000
within one year	6,440	10,307	13,905	30,652
within 2 to 5 years	22,711	30,859	54,471	108,041
within 6 to 10 years	41,871	33,589	81,495	156,955
within 11 to 15 years	45,233	18,100	86,698	150,031
within 16 to 20 years	20,294	4,220	25,384	49,898
within 21 to 25 years	6,839	645	4,440	11,924
	<u>143,388</u>	<u>97,720</u>	<u>266,393</u>	<u>507,501</u>

**34. IFRS 13 Fair Value Measurement**

Details of the authority's Corporate Surplus Assets and Assets Held for Sale and information about the fair value hierarchy as at 31 March 2021 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/21 £000
Buildings – Corporate Surplus	436	436
Buildings – Held for Sale	397	397
Land – Corporate Surplus	8,322	8,322
Land – Held for Sale	637	637
	<u>9,792</u>	<u>9,792</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 7 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).

### 35. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2019	6,290	2,268	8,558
Revaluations	-	(1,500)	(1,500)
Balance at 31 March 2020	<u>6,290</u>	<u>768</u>	<u>7,058</u>
Balance at 1 April 2020	6,290	768	7,058
Revaluations	-	-	-
Balance at 31 March 2021	<u>6,290</u>	<u>768</u>	<u>7,058</u>

### 36. Long term debtors

31/03/20 £000		31/03/21 £000
12,710	Scottish Police Authority	12,206
5,324	Scottish Fire and Rescue Service	4,855
17,642	Landbanking fund advances	15,292
6,458	Evergreen Infrastructure fund advances	6,240
15,870	National Housing Trust	-
1,078	Other loans	1,077
<u>59,082</u>	Long term debtors (net of impairment)	<u>39,670</u>

### 37. Short term debtors

31/03/20 £000		Note	31/03/21 £000
16,932	Central government bodies		38,252
550	Other local authorities		371
2,793	NHS bodies		2,907
8	Public corporations		6
<u>33,743</u>	Other entities and individuals		<u>25,018</u>
54,026			66,554
(10,156)	Impairment Allowance	46	(5,160)
<u>43,870</u>	<b>Total (net of impairment)</b>		<u>61,394</u>
(7,037)	Prepayments included in debtors		(8,511)
<u>36,833</u>	Total Financial Assets Current Debtors	44	<u>52,833</u>

The impairment charge relates to other entities and individuals (sundry and rent debtors).

**38. Debtors for Local Taxation**

31/03/20				31/03/21		
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
4,739	17,063	21,802	Less than one year	5,688	4,694	10,382
6,147	2,083	8,230	One to two years	6,562	2,139	8,701
7,381	1,290	8,671	Three to five years	7,039	1,420	8,459
18,627	130	18,757	More than five years	20,216	496	20,712
<u>36,894</u>	<u>20,566</u>	<u>57,460</u>		<u>39,505</u>	<u>8,749</u>	<u>48,254</u>
(28,356)	(4,519)	(32,875)	Impairment Allowance	(29,584)	(4,723)	(34,307)
<b><u>8,538</u></b>	<b><u>16,047</u></b>	<b><u>24,585</u></b>	<b>Total (net of impairment)</b>	<b><u>9,921</u></b>	<b><u>4,026</u></b>	<b><u>13,947</u></b>

**39. Short term creditors**

31/03/20 £000		Note	31/03/21 £000
11,629	Central government bodies		14,116
204	Other local authorities		771
25,033	NHS bodies		21,978
3	Public corporations		-
6,652	Finance lease creditors		6,440
72,131	Other entities and individuals		90,305
<u>115,652</u>	<b>Total</b>		<u>133,610</u>
(7,249)	Tax and social security creditors included above		(10,492)
(7,244)	Receipts in advance included above		(13,033)
<u>101,159</u>	Total Financial Liabilities Current Creditors	44	<u>110,085</u>

**40. Provisions**

	Note	At 1/4/20 £000	Increase / (Decrease) in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/3/21 £000
<b>Short term</b>						
Equal Pay	1	230	-	-	-	230
Insurance Building Dilapidations	2	35	150	-	(35)	150
	3	461	303	-	(461)	303
		<u>726</u>	<u>453</u>	<u>-</u>	<u>(496)</u>	<u>683</u>

- (1) Provision made to meet anticipated costs of outstanding equal pay and single status claims, appeals against job evaluation outcomes and other related liabilities. The timing and amount of these settlements remains uncertain.
- (2) Provision made for outstanding insurance claims, uncertain with regard to timing.
- (3) Provision made for repairs on leased buildings where dilapidations may have occurred. The timing and amount of these settlements remains uncertain.

#### 41. Long Term Liabilities

31/03/20 £000		31/03/21 £000
230,288	Pension Liability	336,470
142,171	Finance lease creditors	136,949
<u>2,328</u>	Other long term creditors	<u>2,302</u>
<u><u>374,787</u></u>		<u><u>475,721</u></u>

#### 42. 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 2021 is £0.094m (31 March 2020 £0.123m).

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.

##### 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 as stipulated in the lease. 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 £0.303m has been made for these costs, but other buildings exist for which the cost of repairs could not be reliably estimated.

##### Contractual challenges

A contractor has raised legal proceedings against the Council for payment of £1.600m in respect of issues with the dry cyclate contract.

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

### **Highland Council Pension Fund**

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

Cromarty Firth Port Authority  
Highland Opportunity Ltd  
High Life Highland  
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.

### **McCloud Judgement**

The decisions of the Court of Appeal in the Sargeant/McCloud cases (now generally known as McCloud for Local Government Pension Schemes) have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. Going forward remedies relating to the McCloud judgement will need to be made in relation to all public sector pension schemes including the LGPS.

The Council's pension liability and pension costs for 2019/20 and 2020/21 includes the actuary's estimate of the impact of the McCloud remedy, however the exact timing and costs to the Council are unknown at this time.



**43. Grant income**

The Comprehensive Income and Expenditure Statement in 2020/21 includes the following grants, contributions and donations:

2019/20 £000		2020/21 £000
	<b>Credited to Taxation and non-specific grant income</b>	
306,184	Revenue support grant	425,505
145,658	Non-Domestic rates	92,297
71,683	Capital grants and contributions	70,118
<u>523,525</u>		<u>587,920</u>
	<b>Credited to services</b>	
37,387	Housing Benefits	37,396
13,444	Early Learn/Childcare	22,833
12,512	Capital grants and contributions	12,274
4,097	Scottish Futures Trust - Wick Schools	4,100
3,418	Criminal Justice Grant	3,717
4,489	European Grants and Contributions	3,526
3,897	Pupil Equity Funding	3,085
1,292	Crown Estates	1,742
-	COVID-19 Related Grants	1,733
2,937	Developers Contributions	1,674
793	Energy Efficiency Scotland	1,540
-	Education Recovery	1,353
77	Rural Tourism Infrastructure	1,348
1,138	Attainment Challenge	1,101
1,051	Sport Scotland	1,066
2,000	Salix Financing	1,000
905	Gaelic	905
-	Food Fund	850
678	EMA Co-ordination	767
528	Family Nurse Partnership	593
-	Fuel Poverty	421
-	Challenge Fund	420
136	Paths for All	407
208	SAC - Education for LAC	301
295	Syrian Refugees	202
1,530	Home Energy Efficiency Programmes for Scotland: Area Based Schemes	-
<u>616,337</u>	<b>Total</b>	<u>692,274</u>

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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:

2019/20 £000		2020/21 £000
	<b>Grants Received in Advance (Capital Grants)</b>	
17,187	Nurseries 1,140 hours	14,661
4,000	Gaelic Grant c/f	4,000
2,762	Town Centre Fund	2,617
1,882	VDLF	1,678
328	Community Links Plus	321
-	- Travelling Peoples Sites	226
664	Morvern RCGF funding in advance	199
-	- Cycling, Walking and Safer Streets	171
-	- Digital Inclusion	85
-	- Glenmore Corridor	80
111	City Deal	47
-	- Spaces for People	46
-	- Destination Development	34
34	Gairloch RCGF funding in advance	-
255	Armadale RCGF funding in advance	-
82	Inverness Leisure Floodlights	-
1	Rose St Car Park	-
7	20mph Zones	-
13	Safer Routes to School	-
1,465	Corpach Marina	-
<u>28,791</u>	Total	<u>24,165</u>

**44. Financial instrument balances**

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

<b>Financial Assets</b>										
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
2020	2020	2020	2020	2020		2021	2021	2021	2021	2021
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
398	59,082	91,048	36,833	187,361	Amortised cost	-	39,670	112,620	52,883	205,173
<b>398</b>	<b>59,082</b>	<b>91,048</b>	<b>36,833</b>	<b>187,361</b>	<b>Total Financial Assets</b>	<b>-</b>	<b>39,670</b>	<b>112,620</b>	<b>52,883</b>	<b>205,173</b>
-	-	480	31,622	32,102	Non-financial assets	-	-	11	22,458	22,469
<b>398</b>	<b>59,082</b>	<b>91,528</b>	<b>68,455</b>	<b>219,463</b>	<b>Total</b>	<b>-</b>	<b>39,670</b>	<b>112,631</b>	<b>75,341</b>	<b>227,642</b>

Non-financial assets held under current investments consist of cash in hand and at the bank as shown in note 18. Non-financial assets held under current debtors consist of prepayments and debtors for local taxation as shown in notes 37/38.

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<b>Financial Liabilities</b>										
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
2020	2020	2020	2020	2020		2021	2021	2021	2021	2021
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
822,964	144,322	217,601	101,159	1,286,046	Amortised cost	816,630	139,099	155,938	110,085	1,221,752
<b>822,964</b>	<b>144,322</b>	<b>217,601</b>	<b>101,159</b>	<b>1,286,046</b>	<b>Total</b>	<b>816,630</b>	<b>139,099</b>	<b>155,938</b>	<b>110,085</b>	<b>1,221,752</b>
-	230,465	-	14,493	244,958	Non-financial liabilities	-	336,622	-	23,525	360,147
<b>822,964</b>	<b>374,787</b>	<b>217,601</b>	<b>115,652</b>	<b>1,531,004</b>	<b>Total</b>	<b>816,630</b>	<b>475,721</b>	<b>155,938</b>	<b>133,610</b>	<b>1,581,899</b>

Non-financial liabilities held under non-current creditors consist of the pension liability as shown in note 41, 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 39.

**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. These are included within long term debtors.

2019/20 £000		2020/21 £000
13,871	Balance at 1 April 2020	12,420
3,760	Nominal value of new loans made in the year	4,442
(348)	Loans repaid in the year	(6,759)
359	Fair value adjustment re interest uncharged in year	(33)
(5,222)	Other movements - transfer to interest bearing loans	(3,128)
<u>12,420</u>	Balance at 31 March 2021	<u>6,942</u>

The fair value of these soft loans is calculated based on the average loans fund rate in the initial year of the loan. For new loans provided in 2020/21 this was 3.70%.

**Loans to Inverness Airport Business Park Limited**

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

2019/20 £000		2020/21 £000
820	Balance at 1 April 2020	811
(9)	Fair value adjustment re interest uncharged in year	364
<u>811</u>	Balance at 31 March 2021	<u>1,175</u>
(413)	Impairment Loss Allowance	(1,175)
<u>398</u>	Balance net of impairment at 31 March 2021	<u>-</u>

Following the annual review of Inverness Airport Business Park Limited's capacity to make repayment of the Loan Stock to the Council, it became apparent that the previously provided profile for repayment of the outstanding Loan Stock (that it will be repaid in two equal amounts, the first of which will not be made until at least 2025 with the second payment being made at least 5 years after the first payment) is unlikely to be achieved and that repayment will now not be made until future later dates. Consequently it was decided to create an impairment loss allowance to reflect the credit risk in this investment and reduce its value to zero in the accounts. The total reduction in value amounts to £0.398m, comprised of the impairment loss allowance increase of £0.762m in relation to the loan less the £0.364m for interest uncharged in the year.

Valuation assumptions

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

**45. 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:

2019/20 Surplus or Deficit on the Provision of Services £000		2020/21 Surplus or Deficit on the Provision of Services £000
2,897	Net (gains)/losses on:	
<u>2,897</u>	Financial assets measured at amortised cost	<u>2,239</u>
	<b>Total (gains)/losses</b>	<b>2,239</b>
	Interest revenue:	
(1,244)	Financial assets measured at amortised cost	<u>(1,400)</u>
<u>(1,244)</u>	<b>Total interest revenue</b>	<b>(1,400)</b>
58,259	<b>Interest expense</b>	55,220

**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 2020 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**

(restated) 31/03/20			31/03/21	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
714,846	894,458	PWLB debt	698,795	934,757
146,356	222,192	Market long term	135,590	219,395
174,045	174,021	Temporary loans	131,194	131,224
		Loans Fund advances to group		
5,318	5,318	bodies	6,989	6,989
142,171	213,712	PFI	136,949	210,340
2,151	2,151	Long Term Creditors	2,150	2,150
101,159	101,159	Short Term Creditors	110,085	110,085
<u>1,286,046</u>	<u>1,613,011</u>	Financial liabilities	<u>1,221,752</u>	<u>1,614,940</u>

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

**Fair value of assets carried at amortised cost**

31/03/20			31/03/21	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
91,048	91,048	Call accounts	102,620	102,620
-	-	Fixed term deposits	10,000	10,000
59,082	59,082	Long term debtors	39,670	39,670
36,833	36,833	Short term debtors	52,883	52,883
398	398	Loan to Inverness Airport Business Park	-	-
<u>187,361</u>	<u>187,361</u>	Financial assets	<u>205,173</u>	<u>205,173</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.

**46. 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:

2019/20				<b>Asset Class: Financial Assets Held at Amortised Cost</b>	2020/21			
Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Lifetime Expected Credit Losses – not credit impaired IABP £000	Total £000		Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Lifetime Expected Credit Losses – not credit impaired IABP £000	Total £000
4,166	5,480	-	9,646	Opening balance as at 1 April 2020	4,376	5,780	413	10,569
				Transfers:				
(1,176)	(798)	-	(1,974)	Amounts written off	(2,781)	(4,718)	-	(7,499)
1,386	1,098	413	2,897	Other changes	1,466	1,037	762	3,265
<u>4,376</u>	<u>5,780</u>	<u>413</u>	<u>10,569</u>	As at 31 March 2021	<u>3,061</u>	<u>2,099</u>	<u>1,175</u>	<u>6,335</u>

The Council has the following exposure to credit risk as at 31 March 2021:

	Credit risk rating	Gross carrying amount £000s
	%	
<b>Significant increase in credit risk since initial recognition</b>		
Inverness Airport Business Park Limited Soft Loan	100.00	1,175
<b>Simplified Approach</b>		
Customers	26.69	11,469
Rent	57.86	3,628
Landbank Fund Soft Loans	0.00	6,942
Deposits with Banks	0.00	112,620
<b>Total</b>		<b><u>135,834</u></b>

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.

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:

31/03/20 £000		31/03/21 £000
3,588	Less than three months	5,758
431	Three to six months	453
1,250	Six to twelve months	388
<u>6,179</u>	More than twelve months	<u>4,870</u>
<u>11,448</u>	Total	<u>11,469</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 2021, 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	600
Increase in interest receivable on variable rate investments	<u>(1,026)</u>
Impact on Income and Expenditure Account	<u>(426)</u>
 Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	 <u><u>12,253</u></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:

(restated) 31/03/2020			31/03/2021	
Amortised cost	Nominal value	<b>Liquidity risk</b>	Amortised cost	Nominal value
£000	£000		£000	£000
		<b>Financial Liabilities</b>		
		Public Works Loans		
714,846	714,732	Board	698,795	698,680
146,356	144,306	Market Loans	135,590	133,806
174,045	173,500	Temporary Loans	131,194	131,000
		Internal Loans Fund		
5,318	5,318	Advances	6,989	6,989
142,171	142,171	PFI and similar contracts	136,949	136,949
2,151	2,151	Long term creditor	2,150	2,150
101,159	101,159	Short term creditor	110,085	110,085
<u>1,286,046</u>	<u>1,283,337</u>		<u>1,221,752</u>	<u>1,219,659</u>
		<b>Maturity</b>		
318,759	316,530	Less than 1 year	266,024	264,402
22,760	22,760	Between 1 and 2 years	45,215	45,215
63,491	63,489	Between 2 and 5 years	50,010	50,010
154,071	154,071	Between 5 and 10 years	156,871	156,871
726,965	726,487	More than 10 years	703,632	703,161
<u>1,286,046</u>	<u>1,283,337</u>		<u>1,221,752</u>	<u>1,219,659</u>

The 19/20 figures have been restated throughout the note for PFI and similar contracts to reflect the fair value of the financial liability held for them.

**47. Events after Reporting Period**

The unaudited annual accounts were issued by the Executive Chief Officer for Resources and Finance on 30 June 2021.

**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.

2019/20 £000		2020/21	
		£000	£000
	Income		
(51,695)	Dwelling rents (gross)	(53,819)	
(764)	Non-dwelling rents (gross)	(705)	
<u>(2,561)</u>	Other income	<u>(513)</u>	
(55,020)			(55,037)
	Expenditure		
18,046	Repairs and maintenance	16,893	
12,416	Supervision and management	11,607	
-	Impairment of debtors	-	
15,642	Depreciation and impairment of non-current assets	16,782	
<u>850</u>	Other expenditure	<u>1,088</u>	
46,954			46,370
	<b>Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement</b>		<b>(8,667)</b>
<u>(8,066)</u>	<b>Net (income)/expenditure from HRA services</b>		<u><b>(8,667)</b></u>
3,211	Loss on disposal of non-current assets	1,477	
10,901	Interest payable and similar charges	11,144	
(546)	Amortisation of premiums and discounts	(568)	
(95)	Interest and investment income	(94)	
509	Pension net interest	333	
(13,136)	Capital Grants and contributions	(22,084)	
<u>1,934</u>	Impairment of debtors	<u>1,426</u>	
2,778			(8,366)
<u><b>(5,288)</b></u>	<b>(Surplus)/Deficit on HRA services</b>		<u><b>(17,033)</b></u>

**STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT**

2019/20 £000		2020/21 £000	£000
(7,328)	Balance on HRA at 1 April 2020		(7,328)
(5,288)	(Surplus)/Deficit for the year on HRA Income and Expenditure Statement		(17,033)
	Adjustments between accounting basis and funding basis under statute		
(3,211)	Loss on sale of HRA non current assets	(1,476)	
3,395	Capital expenditure funded by the HRA	-	
184			(1,476)
	Transfer to the Capital Adjustment Account		
(15,642)	- Depreciation and impairment	(16,782)	
9,244	- repayment of debt	9,610	
13,136	- Capital grants and contributions	22,084	
6,738			14,912
(2,180)	HRA share of contributions to the Pensions Reserve		(1,445)
546	HRA share of transfer from the Financial Instruments Adjustment Account		568
<b>(7,328)</b>	<b>Balance on HRA at 31 March 2021</b>		<b>(11,802)</b>

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/20 £000		31/03/21 £000
2,224	Current tenants	2,814
<u>1,127</u>	Former tenants	<u>271</u>
<u><u>3,351</u></u>	<b>Total</b>	<u><u>3,085</u></u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.006m (2019/20 £1.005m) have been netted off against rental income.

3. Impairment of debtors

In 2019/20 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/20 £000		31/03/21 £000
2,187	Rent arrears	1,668
<u>588</u>	Sundry debts	<u>517</u>
<u><u>2,775</u></u>		<u><u>2,185</u></u>

4. Housing Stock

The Council's housing stock was as follows

31/03/20 Number	Type of House	31/03/21 Number
239	1 apartment	231
3,644	2 apartment	3,689
5,814	3 apartment	5,877
4,091	4 apartment	4,116
362	5 apartment	374
24	6 apartment	24
-	7 apartment	1
2	8 apartment	2
<u>1</u>	10 apartment	<u>1</u>
<u><u>14,177</u></u>		<u><u>14,315</u></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.

2019/20 £000		2020/21 £000
156,069	Gross Council Tax levied and contributions in lieu	164,915
(11,993)	Council Tax Reduction Scheme	(13,881)
(17,284)	Other discounts and reductions	(18,584)
(2,467)	Write off of uncollectable debts and allowances for impairment	(2,529)
	Adjustments for prior years Council Tax and	
545	Community Charge	(208)
<b>124,870</b>	<b>Net Council Tax income per the Comprehensive Income and Expenditure Statement</b>	<b>129,713</b>

**NOTES TO THE COUNCIL TAX INCOME ACCOUNT**

**Calculation of the Council Tax base 2020/21**

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
<b>A (dbr)*</b>	-	-	47	(5)	(1)	41	200/360	23
<b>A</b>	19,551	(1,133)	59	(2,447)	(358)	15,672	240/360	10,448
<b>B</b>	23,273	(1,053)	34	(2,486)	(399)	19,369	280/360	15,065
<b>C</b>	23,897	(808)	(4)	(2,187)	(535)	20,363	320/360	18,100
<b>D</b>	19,077	(373)	53	(1,365)	(434)	16,958	360/360	16,958
<b>E</b>	18,864	(306)	(72)	(1,057)	(420)	17,009	473/360	22,348
<b>F</b>	9,317	(117)	(61)	(366)	(188)	8,585	585/360	13,951
<b>G</b>	4,499	(57)	(53)	(142)	(137)	4,110	705/360	8,048
<b>H</b>	331	(12)	(3)	(8)	(32)	276	882/360	676
<b>Total</b>	118,809	(3,859)	0	(10,063)	(2,504)	102,383	0	105,617
							Council Tax Reduction	(9,437)
							Contributions in lieu	153
							Provision for non- collection (1.89%)	(1,820)
							<b>Council tax base</b>	<b>94,513</b>

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



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Dwellings fall within a valuation band between A to H which is determined by the Assessor. The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. This value is then increased or decreased depending on the band. The band D charge for 2020/21 was £1,332.33.

From 1 April 2017 the Scottish Government changed the basis on which properties are assessed for Council Tax and this increased the charge for Council Tax properties that are banded E to H. The Highland Council had no discretion in this matter and must apply these increases to the Council Tax charges from 1 April 2017. Householders living in properties in Bands A-D are not affected by this increase. Based on the Council Tax base available to Highland Council the Band D charge for 2020/21 was £1,332.33

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 2020/21:

Band A (disabled band reduction)	£740.18
Band A	£888.22
Band B	£1,036.26
Band C	£1,184.29
Band D	£1,332.33
Band E	£1,750.53
Band F	£2,165.04
Band G	£2,609.15
Band H	£3,264.21

**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.

2019/20 £000		2020/21 £000
188,011	Gross rates levied and contributions in lieu	195,768
(42,056)	Reliefs and other deductions	(90,789)
(1,345)	Write-off of uncollectible debts and allowance for impairment	(1,037)
<b>144,610</b>	<b>Net Non-Domestic Rate Income (NNDR)</b>	<b>103,942</b>
(7,388)	Adjustment to previous years' national Non-Domestic rates	(7,508)
(2,418)	Non Domestic Rate Income Retained by Council (BRIS)	-
<b>134,804</b>	<b>Contribution to Non-Domestic Rate Pool</b>	<b>96,434</b>

**NOTES TO THE NON-DOMESTIC RATE ACCOUNT**

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.

143,240	Distribution from Non-Domestic Rate Pool	92,297
2,418	Non-Domestic Rate Income retained by Council (BRIS)	-
<b>145,658</b>	<b>Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement</b>	<b>92,297</b>

## 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 2020/21 was 49.8p Rateable Value equal to or less than £51,000, 51.1p Rateable Value between £51,001 and £95,000 and 52.4p Rateable Value greater than £95,000

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2020/21

Highland Council Rateable Values

1 April 2020			1 April 2021	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,671	65,734	Shops	2,673	64,362
915	27,079	Public houses and hotels	920	26,403
1,711	28,660	Offices	1,715	28,679
2,746	48,534	Industrial subjects	2,763	48,444
5,663	28,020	Leisure, entertainment, caravans and holiday sites	6,039	28,640
320	5,310	Garages and petrol stations	318	5,264
2,732	31,288	Cultural, sporting subjects, education and training	2,594	28,930
1,114	16,344	Public service subjects	1,081	16,012
2,143	125,591	Miscellaneous	2,104	125,405
<b>20,015</b>	<b>376,560</b>	<b>Total</b>	<b>20,207</b>	<b>372,139</b>



## **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 5 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 IFRS 13 – 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 5<sup>th</sup> 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**

2019/20				2020/21		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
1,972	(133)	1,839	Inverness	1,379	(387)	992
29	(15)	14	Nairn	18	(110)	(92)
6	-	6	Tain	16	-	16
20	(1)	19	Dornoch	30	-	30
33	(33)	0	Dingwall	54	(54)	-
3	-	3	Fortrose	3	(1)	2
-	-	-	Cromarty	9	(9)	-
2	-	2	Invergordon	2	-	2
<b>2,065</b>	<b>(182)</b>	<b>1,883</b>	<b>Cost of services</b>	<b>1,511</b>	<b>(561)</b>	<b>950</b>
		(934)	Financing and investment income and expenditure (note 2)			(4,296)
		(60)	Capital Grants and Contributions			(166)
		<b>889</b>	<b>(Surplus)/Deficit on provision of services</b>			<b>(3,512)</b>
		(1,500)	Deficit/(surplus) on revaluation of heritage assets			-
		<b>(1,500)</b>	<b>Other comprehensive income and expenditure</b>			-
		<b>(611)</b>	<b>Total comprehensive (income) and expenditure</b>			<b>(3,512)</b>

COMMON GOOD FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

<b>MOVEMENT IN RESERVES STATEMENT 2019/20</b>	Revenue Reserves	Capital Fund	Revaluation Reserve	Capital Adjustment Account	<b>Total Reserves</b>
	£000	£000	£000	Account £000	<b>£000</b>
Balance at 31 March 2019	8,649	120	2,578	31,395	<b>42,742</b>
<b>Movement in reserves during 2019/20</b>					
<b>Total Comprehensive Income and Expenditure</b>	<b>(889)</b>	-	<b>1,500</b>	-	<b>611</b>
Adjustments between accounting and funding basis (note 1)	(1,117)	-	-	1,117	-
<b>Net increase/(decrease) before transfers to other statutory reserves</b>	<b>(2,006)</b>	-	<b>1,500</b>	<b>1,117</b>	<b>611</b>
Transfers between statutory reserves	-	-	-	-	-
<b>Net increase/(decrease)</b>	<b>(2,006)</b>	-	<b>1,500</b>	<b>1,117</b>	<b>611</b>
<b>Balance at 31 March 2020</b>	<b>6,643</b>	<b>120</b>	<b>4,078</b>	<b>32,512</b>	<b>43,353</b>

COMMON GOOD FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

<b>MOVEMENT IN RESERVES STATEMENT 2020/21</b>	Revenue Reserves	Capital Fund	Revaluation Reserve	Capital Adjustment Account	<b>Total Reserves</b>
	£000	£000	£000	£000	<b>£000</b>
Balance at 31 March 2020	<b>6,643</b>	<b>120</b>	<b>4,078</b>	<b>32,512</b>	<b>43,353</b>
<b>Movement in reserves during 2020/21</b>					
<b>Total Comprehensive Income and Expenditure</b>	<b>3,512</b>	-	-	-	<b>3,512</b>
Adjustments between accounting and funding basis (note 1)	(1,826)	-	-	1,826	-
<b>Net increase/(decrease) before transfers to other statutory reserves</b>	<b>1,686</b>	-	-	<b>1,826</b>	<b>3,512</b>
Transfers between statutory reserves	-	-	-	-	-
<b>Net increase/(decrease)</b>	<b>1,686</b>	-	-	<b>1,826</b>	<b>3,512</b>
<b>Balance at 31 March 2021</b>	<b>8,329</b>	<b>120</b>	<b>4,078</b>	<b>34,338</b>	<b>46,865</b>



**COMMON GOOD FUNDS  
BALANCE SHEET AS AT 31 March 2021**

31/03/20 £000		Notes	31/03/21 £000
-	Property, Plant and Equipment	4	201
4,370	Heritage Assets	4	4,370
32,210	Investment Properties	4,6	33,836
10	Intangible Assets	7	9
5,801	Investments	8	6,056
<b>42,391</b>	<b>Long Term Assets</b>		<b>44,472</b>
1,166	Cash and cash equivalents	9	2,488
8	Inventories		-
9	Sundry debtors		3
<b>1,183</b>	<b>Current Assets</b>		<b>2,491</b>
(221)	Sundry creditors		(98)
<b>(221)</b>	<b>Current Liabilities</b>		<b>(98)</b>
<b>962</b>	<b>Net current assets</b>		<b>2,393</b>
<b>43,353</b>	<b>Net assets</b>		<b>46,865</b>
<b>6,763</b>	<b>Usable Reserves</b>	10	<b>8,449</b>
<b>36,590</b>	<b>Unusable Reserves</b>	11&13	<b>38,416</b>
<b>43,353</b>	<b>Total Reserves</b>		<b>46,865</b>

**CASH FLOW STATEMENT**

31/03/20 £000		Notes	31/03/21 £000
611	Net surplus/(deficit) on the provision of services		3,512
(229)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	16	(2,198)
<u>382</u>	Net cash outflow from operating activities		<u>1,314</u>
<u>(545)</u>	Investing activities	17	<u>8</u>
<b>(163)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,322</b>
1,329	Cash and cash equivalents at 1 April 2020		1,166
<u><b>1,166</b></u>	<b>Cash and cash equivalents at 31 March 2021</b>		<u><b>2,488</b></u>

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

<b>2020/21</b>	Capital Adjustment Account £000	Total 2020/21 £000
Revaluation of investment properties	948	948
Capital grants and contributions	56	56
Capital expenditure funded from revenue	837	837
Depreciation and amortisation	(15)	(15)
	<b>1,826</b>	<b>1,826</b>
<b>2019/20</b>	Capital Adjustment Account £000	Total 2019/20 £000
Revaluation of investment properties	(627)	(627)
Capital grants and contributions	60	60
Capital expenditure funded from revenue	1,685	1,685
Depreciation and amortisation	(1)	(1)
	<b>1,117</b>	<b>1,117</b>

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

2019/20 £000		2020/21 £000
(392)	Interest and investment income and expenditure	(473)
(2,439)	Rental income	(2,397)
306	Property costs	233
627	(Surplus)/deficit on revaluation of investment properties	(948)
807	(Gains)/losses on valuation of financial assets	(1,065)
157	(Gains)/ losses on derecognition of financial assets	354
<b>(934)</b>		<b>(4,296)</b>

**3. Operating leases**

Common Good Fund as lessor

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

2019/20 £000		2020/21 £000
<u>2,439</u>	Lease income received in year	<u>2,397</u>

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

31/03/20 £000		31/03/21 £000
2,258	Within one year	2,441
7,339	Later than one year and not later than five years	9,106
<u>81,229</u>	Later than five years	<u>88,790</u>
<u>90,826</u>		<u>100,337</u>

**4. Non-current assets**

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

Movements in 2020/21

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
<b>Gross book value</b>				
As at 1 April 2020	32,210	4,370	-	36,580
Additions	678	-	215	893
Revaluations	948	-	-	948
As at 31 March 2021	<u>33,836</u>	<u>4,370</u>	<u>215</u>	<u>38,421</u>
<b>Accumulated depreciation</b>				
As at 1 April 2020	-	-	-	-
Depreciation charge	-	-	14	14
As at 31 March 2021	<u>-</u>	<u>-</u>	<u>14</u>	<u>14</u>
<b>Net book value</b>				
As at 31 March 2021	<u>33,836</u>	<u>4,370</u>	<u>201</u>	<u>38,407</u>
As at 31 March 2020	<u>32,210</u>	<u>4,370</u>	<u>-</u>	<u>36,580</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 2021, and 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 £0.067m 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 £0.283m 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:

COMMON GOOD FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

31/03/20 £000	Investment Property at Fair Value	31/03/21 £000
	Common Good Fund	
23,505	Inverness	24,257
7,445	Nairn	8,296
325	Tain	332
530	Dornoch	531
190	Dingwall	195
159	Fortrose	168
56	Cromarty	57
<u>32,210</u>		<u>33,836</u>

**7. Intangible assets**

2019/20 £000		2020/21 £000
	Fishing Licence – Tain	
11	As at 1 April 2020	10
(1)	Amortisation	(1)
<u>10</u>	As at 31 March 2021	<u>9</u>

**8. Long Term Investments**

31/03/20			31/03/21	
Cost £000	Valuation £000		Cost £000	Valuation £000
3,970	5,338	Inverness - Managed portfolio	3,516	5,481
503	463	Nairn – Managed portfolio	501	575
<u>4,473</u>	<u>5,801</u>		<u>4,017</u>	<u>6,056</u>

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

31/03/20			31/03/21	
Cost £000	Units Held		Cost £000	Units Held
2,249	3,577	Equities	1,902	3,811
1,663	1,703	Bonds	1,555	1,610
58	58	Cash	60	60
<u>3,970</u>	<u>5,338</u>	Total	<u>3,517</u>	<u>5,481</u>

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

COMMON GOOD FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

31/03/20 Units Held			31/03/21 Units Held	
Cost £000	Valuation £000		Cost £000	Valuation £000
369	324	Equities	368	437
84	86	Bonds	85	89
33	33	Cash	30	30
17	20	Property	18	19
<u>503</u>	<u>463</u>	Total	<u>501</u>	<u>575</u>

**9. Cash and cash equivalents**

31/03/20 £000		31/03/21 £000
<u>1,166</u>	Balance with Highland Council Loans Fund	<u>2,488</u>
<u>1,166</u>	Total	<u>2,488</u>

**10. Usable Reserves**

**Common Good Funds**

Revenue Funds	Balance at 1/04/20 £000	Movement 2020/21 £000	Balance at 31/03/21 £000
Inverness	4,994	1,570	6,564
Nairn	621	61	682
Tain	224	(2)	222
Dornoch	315	18	333
Dingwall	236	26	262
Fortrose	138	4	142
Cromarty	38	6	44
Invergordon	77	3	80
<b>Total</b>	<u>6,643</u>	<u>1,686</u>	<u>8,329</u>

Included within the above totals are the unrealised gains related to the Investment portfolios as required by IFRS 9: Financial Instruments which are not available for use. These totals are:

	Balance at 1/04/20 £000	Movement 2020/21 £000	Balance at 31/03/21 £000
Nairn	1,368	596	1,964
	(40)	115	75
<b>Total</b>	<u>1,328</u>	<u>711</u>	<u>2,039</u>

Capital Fund	Balance at 01/04/2020 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2021 £000
Tain	120	-	120
	120	-	120

## COMMON GOOD FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

**11. Unusable Reserves**

Revaluation Reserve	Balance at 31/03/20 £000	Revaluations 2020/21 £000	Balance at 31/03/21 £000
Fund			
Inverness	2,063	-	2,063
Nairn	60	-	60
Tain	94	-	94
Dornoch	22	-	22
Fortrose	254	-	254
Invergordon	1,585	-	1,585
<b>Total</b>	<b>4,078</b>	<b>-</b>	<b>4,078</b>

**12. Capital Adjustment Account**

Fund	Balance at 31/03/20 £000	Revaluations 2020/21 £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/21 £000
Inverness	23,505	74	56	622	-	24,257
Nairn	7,445	851	-	215	(14)	8,497
Tain	627	7	-	-	(1)	633
Dornoch	530	2	-	-	-	532
Dingwall	190	5	-	-	-	195
Fortrose	159	8	-	-	-	167
Cromarty	56	1	-	-	-	57
<b>Total</b>	<b>32,512</b>	<b>948</b>	<b>56</b>	<b>837</b>	<b>(15)</b>	<b>34,338</b>



**14. Financial Instrument balances**

## Categories of Financial Instruments

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

<b>Financial Assets</b>						<b>Financial Assets</b>				
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
2020	2020	2020	2020	2020		2021	2021	2021	2021	2021
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
5,801	-	-	-	5,801	Fair value through profit or loss	6,056	-	-	-	6,056
-	-	1,166	9	1,175	Amortised cost	-	-	2,487	3	2,490
<b>5,801</b>	<b>-</b>	<b>1,166</b>	<b>9</b>	<b>6,976</b>	<b>Total Financial Assets</b>	<b>6,056</b>	<b>-</b>	<b>2,487</b>	<b>3</b>	<b>8,546</b>

<b>Financial Liabilities</b>						<b>Financial Liabilities</b>				
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
2020	2020	2020	2020	2020		2021	2021	2021	2021	2021
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	-	-	221	221	Amortised cost	-	-	-	98	98
<b>-</b>	<b>-</b>	<b>-</b>	<b>221</b>	<b>221</b>	<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>98</b>

**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:

2019/20		2020/21
Surplus or Deficit on the Provision of Services £000		Surplus or Deficit on the Provision of Services £000
964	Net (gains)/losses on: Financial assets measured at fair value through profit or loss	(710)
964	<b>Total (gains)/losses</b>	(710)
(392)	Interest revenue: Financial assets measured at amortised cost	(473)
(392)	<b>Total interest revenue</b>	(473)

**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	31/03/20 £000	31/03/21 £000
<b>Fair Value through Profit and Loss</b>				
Investment portfolios held with Adam and Co	Level 1	Unadjusted quoted prices in active markets for identical investments	5,801	6,056
<b>Total</b>			<u>5,801</u>	<u>6,056</u>

**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**

2019/20 £000		2020/21 £000
	<b>Non-cash items</b>	
1	Depreciation and impairments	15
(252)	Revaluation of investments	(2,104)
	<b>Items on accruals basis</b>	
4	(Increase)/decrease in debtors	6
21	Increase/(decrease) in creditors	(123)
(3)	(Increase)/decrease in inventories	8
<u>(229)</u>		<u>(2,198)</u>

**17. Cashflow statement – investing activities**

2019/20 £000		2020/21 £000
1,200	Proceeds from long term investments	900
(1,745)	Purchase of Investment Properties	(892)
<u>(545)</u>		<u>8</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 £0.200m of contracted works still to be undertaken over the next year. In addition to this there are kitchen alterations also being undertaken over the next year with £0.060m contracted works committed.

Renovation works at the Victorian Market are ongoing with an estimated further £1.397m contracted works still to be undertaken.

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



**CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS**

ACCOUNTING POLICIES

The Trust Fund accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 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 2021**

2019/20 (restated)			2020/21		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000	Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
346	206	100	24	14	48
(67)	(14)	(120)	(42)	(6)	(44)
<u>279</u>	<u>192</u>	<u>(20)</u>	<u>(18)</u>	<u>8</u>	<u>4</u>
-	-	-	-	-	-
<u>278</u>	<u>192</u>	<u>(20)</u>	<u>(18)</u>	<u>8</u>	<u>4</u>
<u>2,259</u>	<u>725</u>	<u>2,076</u>	<u>2,538</u>	<u>917</u>	<u>2,054</u>
<b><u>2,538</u></b>	<b><u>917</u></b>	<b><u>2,054</u></b>	<b><u>2,520</u></b>	<b><u>925</u></b>	<b><u>2,058</u></b>

Incoming resources  
 Expenditure resources  
 Net incoming / (outgoing) resources before  
 other recognised gains & losses  
  
 Other gain / (losses)  
  
**Net Movement in Funds**  
  
**Reconciliation of Funds**  
 Total Funds brought forward at 1 April  
**Total Funds carried forward at 31 March**

TRUST FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

**BALANCE SHEET AS AT 31 MARCH**

31 March 2020 (restated)			31 March 2021		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000	Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	6	1,309			
			<b>Non current assets</b>		
			Investments		
			860	6	1,238
			<b>Current assets</b>		
			Debtor - Highland Council Loans Fund		
1,678	911	745	1,660	919	820
<u>2,538</u>	<u>917</u>	<u>2,054</u>	<b>Net assets</b>		
			<u>2,520</u>	<u>925</u>	<u>2,058</u>
			Capital funds		
2,196	646	1,071	2,245	656	1,000
342	271	983	275	269	1,058
<u>2,538</u>	<u>917</u>	<u>2,054</u>	<u>2,520</u>	<u>925</u>	<u>2,058</u>
			<b>Total funds</b>		

In 2019/20, investment income was greater than £0.250m which required Highland Council Charitable Trusts to adopt the Charities SORP in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). In adopting the SORP, investments were held at Fair Value (Market value) in the financial statements. In 2020/21, the investment income fell to below £0.250m so the accounts of Highland Council Charitable Trust were returned to the Receipts and Payments basis and the prior year figures were restated.

**NOTES TO THE CHARITABLE, EDUCATIONAL AND OTHER TRUST FUND ACCOUNTS**

**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 2021 the balances and investments held are as follows:

Fund Balance £000	31 March 2020 (restated)		Charity	Scottish Charity Number	31 March 2021		
	Investments at cost £000	Investments at valuation £000			Fund Balance £000	Investments at cost £000	Investments at valuation £000
147	1	1	Highland Charities Trust	SC044714	144	1	2
2,391	859	2,109	Highland Council Charitable Trusts	SC025079	2,376	859	2,879
<u>2,538</u>	<u>860</u>	<u>2,110</u>	Total Charitable Trusts		<u>2,520</u>	<u>860</u>	<u>2,881</u>

TRUST FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

**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 2021 the balances and investments held are as follows:

31 March 2020				31 March 2021		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
23	-	-	George Kerr Bequest	23	-	-
30	-	-	Howard Doris fund – Plockton High School	30	-	-
511	6	277	Inverness Royal Academy Educational Trust	521	6	377
103	-	-	Manson Bequest – Keiss	100	-	-
130	-	-	Manson Bequest – Nairn and Ardclach	129	-	-
11	-	-	Miss B G Angus Executory	11	-	-
109	-	-	Other Educational Trusts	111	-	-
<u>917</u>	<u>6</u>	<u>277</u>	<b>Total Educational Trusts</b>	<u>925</u>	<u>6</u>	<u>377</u>



TRUST FUNDS UNAUDITED ANNUAL ACCOUNTS 2020/21

**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 2020				31 March 2021		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
721	770	1,197	Inverness Burial Grounds Fund	707	704	1,418
599	539	786	Inverness Benevolent Funds	613	534	1,021
50	-	-	Social Work Amenity Funds	50	-	-
157	-	-	Inverness – Other Trust Funds	158	-	-
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-
138	-	-	Caithness Trust Funds	137	-	-
123	-	-	Lochaber Trust Funds	126	-	-
92	-	-	Nairn Trust Funds	93	-	-
143	-	-	Ross and Cromarty Trust Funds	143	-	-
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
22	-	-	Sutherland Trust Funds	22	-	-
<u>2,054</u>	<u>1,309</u>	<u>1,983</u>	Total other trust funds	<u>2,058</u>	<u>1,238</u>	<u>2,439</u>



# **GROUP ACCOUNTS**

**GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

2019/20				2020/21			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
46,954	(55,020)	(8,066)	Council Housing – Housing Revenue Account		46,370	(55,037)	(8,667)
58,671	(13,078)	45,593	Communities & Place		60,327	(23,328)	36,999
271,188	(39,815)	231,373	Education & Learning		258,977	(34,717)	224,260
162,870	(15,904)	146,966	Health & Social Care		166,966	(16,372)	150,594
99,329	(40,310)	59,019	Infrastructure, Environment & Economy		102,288	(35,804)	66,484
6,261	(1,439)	4,822	Performance & Governance		7,845	(1,945)	5,900
92,583	(16,406)	76,177	Property & Housing		88,677	(13,428)	75,249
32,332	(2,257)	30,075	Resources & Finance		34,044	(2,315)	31,729
2,325	(399)	1,926	Transformation		1,873	(20)	1,853
42,852	(37,597)	5,255	Welfare Services		47,138	(39,381)	7,757
			Joint Board Requisitions:				
2,694	-	2,694	Highlands and Western Isles Valuation Joint Board		2,984	-	2,984
91	-	91	Highland and Islands Transport Partnership		91	-	91
			Other Income and Expenditure				
344	-	344	Operating results associates		349	-	349
<b>818,494</b>	<b>(222,225)</b>	<b>596,269</b>	<b>Cost of Services Carried Forward</b>		<b>817,929</b>	<b>(222,347)</b>	<b>595,582</b>

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2020/21

818,494	(222,225)	<b>596,269</b>	<b>Cost of Services Brought Forward</b>		817,929	(222,347)	<b>595,582</b>
		5,090	Other operating expenditure				1,769
		58,487	Financing and investment income and expenditure	7			50,952
		<u>(648,615)</u>	Taxation and non-specific grant income				<u>(717,800)</u>
		<b>11,231</b>	<b>Deficit on provision of services</b>				<b>(69,497)</b>
		(39,571)	(Surplus) or deficit on revaluation of non-current assets				(34,082)
		44,471	Impairment losses on non-current assets charged to the revaluation reserve				49,644
		<u>(149,185)</u>	Remeasurements of the net defined liability				<u>99,834</u>
		<b>(144,285)</b>	<b>Other comprehensive income and expenditure</b>				<b>115,396</b>
		<u><b>(133,054)</b></u>	<b>Total Comprehensive Income and Expenditure</b>				<u><b>45,899</b></u>

Prior year figures have been restated to reflect the Group's current reporting structure. See note 11 for details.

**GROUP MOVEMENT IN RESERVES STATEMENT 2019/20**

	General Fund £000	Housing Revenue Account £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
<b>Balance at 31 March 2019</b>	<b>20,299</b>	<b>7,328</b>	<b>1,678</b>	<b>2,333</b>	<b>26,283</b>	<b>8,549</b>	<b>66,470</b>	<b>1,305,059</b>	<b>1,371,529</b>
<b>Movement in reserves during 2019/20</b>									
<b>Total comprehensive income and expenditure</b>	6,175	5,288	-	-	-	-	<b>11,463</b>	137,298	<b>148,761</b>
Adjustments to usable reserves permitted by accounting standards	10,708	-	-	-	-	-	<b>10,708</b>	(10,708)	-
Adjustments between accounting basis and funding basis under regulations(note 8)	10,777	(5,288)	-	-	711	-	<b>6,200</b>	(6,200)	-
Adjustments between Group accounts and Council accounts	(17,156)	-	-	-	-	-	<b>(17,156)</b>	-	<b>(17,156)</b>
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	<b>10,504</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>711</b>	<b>-</b>	<b>11,215</b>	<b>120,390</b>	<b>131,605</b>
Transfers to/from other statutory reserves	4,903	-	-	(421)	(3,232)	(3,352)	<b>(2,102)</b>	2,102	-
<b>Increase/(decrease) in 2019/20</b>	<b>15,407</b>	<b>-</b>	<b>-</b>	<b>(421)</b>	<b>(3,232)</b>	<b>(3,352)</b>	<b>9,113</b>	<b>122,492</b>	<b>131,605</b>
<b>Balance at 31 March 2020</b>	<b>35,706</b>	<b>7,328</b>	<b>1,678</b>	<b>1,912</b>	<b>23,762</b>	<b>5,197</b>	<b>75,583</b>	<b>1,427,551</b>	<b>1,503,134</b>

**GROUP MOVEMENT IN RESERVES STATEMENT 2019/20**

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.

<b>GROUP 2019/20</b>	<b>Total Council Reserves £000</b>	<b>Councils share of Subsidiaries Reserves £000</b>	<b>Council's share of Associates Reserves £000</b>	<b>Total Group Reserves £000</b>
Balance at 31 March 2019 brought forward	1,371,529	29,565	(5,068)	1,396,026
<b>Movement in reserves during 2019/20</b>				
Total Comprehensive Expenditure and Income	148,761	(16,680)	973	133,054
Adjustments between accounting basis and funding basis under regulations (note 8)	-	-	-	-
Adjustments between Group accounts and Council accounts*	(17,156)	17,156	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	131,605	476	973	133,054
Increase/(decrease) in 2019/20	131,605	476	973	133,054
Balance at 31 March 2020 carried forward	<b>1,503,134</b>	<b>30,041</b>	<b>(4,095)</b>	<b>1,529,080</b>

**GROUP MOVEMENT IN RESERVES STATEMENT 2020/21**

	General Fund £000	Housing Revenue Account £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
<b>Balance at 31 March 2020</b>	<b>35,706</b>	<b>7,328</b>	<b>1,678</b>	<b>1,912</b>	<b>23,762</b>	<b>5,197</b>	<b>75,583</b>	<b>1,427,551</b>	<b>1,503,134</b>
<b>Movement in reserves during 2020/21</b>									
<b>Total comprehensive income and expenditure</b>	66,764	17,033	-	-	-	-	<b>83,797</b>	(97,871)	<b>(14,074)</b>
Adjustments to usable reserves permitted by accounting standards	9,761	-	-	-	-	-	<b>9,761</b>	(9,761)	-
Adjustments between accounting basis and funding basis under regulations(note 8)	2,850	(12,559)	-	-	343	-	<b>(9,366)</b>	9,366	-
Adjustments between Group accounts and Council accounts	(17,708)	-	-	-	-	-	<b>(17,708)</b>	-	<b>(17,708)</b>
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	<b>61,667</b>	<b>4,474</b>	<b>-</b>	<b>-</b>	<b>343</b>	<b>-</b>	<b>66,484</b>	<b>(98,266)</b>	<b>(31,782)</b>
Transfers to/from other statutory reserves	(404)	-	503	(202)	(1,982)	6,028	<b>3,943</b>	(3,943)	-
<b>Increase/(decrease) in 2020/21</b>	<b>61,263</b>	<b>4,474</b>	<b>503</b>	<b>(202)</b>	<b>(1,982)</b>	<b>6,028</b>	<b>70,427</b>	<b>(102,209)</b>	<b>(31,782)</b>
<b>Balance at 31 March 2021</b>	<b>96,969</b>	<b>11,802</b>	<b>2,181</b>	<b>1,710</b>	<b>22,123</b>	<b>11,225</b>	<b>146,010</b>	<b>1,325,342</b>	<b>1,471,352</b>



**GROUP MOVEMENT IN RESERVES STATEMENT 2020/21**

<b>GROUP 2020/21</b>	<b>Total Council Reserves £000</b>	<b>Councils share of Subsidiaries Reserves £000</b>	<b>Council's share of Associates Reserves £000</b>	<b>Total Group Reserves £000</b>
<b>Balance at 31 March 2020 brought forward</b>	<b>1,503,134</b>	<b>30,041</b>	<b>(4,095)</b>	<b>1,529,080</b>
<b>Movement in reserves during 2020/21</b>				
<b>Total Comprehensive Expenditure and Income</b>	<b>(14,074)</b>	<b>(31,152)</b>	<b>(673)</b>	<b>(45,899)</b>
<b>Adjustments between accounting basis and funding basis under regulations (note 8) (restated*)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Group accounts and Council accounts</b>	<b>(17,708)</b>	<b>17,708</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) before transfers to earmarked and other statutory reserves</b>	<b>(31,782)</b>	<b>(13,444)</b>	<b>(673)</b>	<b>(45,899)</b>
<b>Increase/(decrease) in 2020/21</b>	<b>(31,782)</b>	<b>(13,444)</b>	<b>(673)</b>	<b>(45,899)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>1,471,352</b>	<b>16,597</b>	<b>(4,768)</b>	<b>1,483,181</b>

**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.

31/03/20 £000			31/03/21 £000
2,831,043	Property, plant & equipment		2,837,850
30,950	Investment Properties	8	32,553
9,181	Heritage Assets		9,181
6,199	Long term investments		6,056
59,082	Long term debtors (net of impairment)		39,670
<u>2,936,455</u>	<b>Long term assets</b>		<u>2,925,310</u>
4,789	Inventories		5,106
70,144	Short term debtors		76,847
91,550	Cash and cash equivalents		112,652
1,627	Assets held for sale		1,034
<u>168,110</u>	<b>Current assets</b>		<u>195,639</u>
(217,579)	Short term borrowing		(154,649)
(116,813)	Short term creditors		(132,002)
(726)	Provisions		(683)
(28,791)	Capital Grants Receipts in Advance		(24,165)
<u>(363,909)</u>	<b>Current liabilities</b>		<u>(311,499)</u>
(822,964)	Long term borrowing		(816,630)
(384,517)	Other long term liabilities	9	(504,871)
(4,095)	Liabilities in associates		(4,768)
<u>(1,211,576)</u>	<b>Long term liabilities</b>		<u>(1,326,269)</u>
<u><b>1,529,080</b></u>	<b>Net assets</b>		<u><b>1,483,181</b></u>

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2020/21

31/03/20 £000			31/03/21 £000
75,583	<b>Usable reserves</b>	HC 12	<b>146,010</b>
1,417,821	<b>Unusable reserves</b>	HC 13	<b>1,296,192</b>
35,676	Share of group and associate reserves		40,979
<b><u>1,529,080</u></b>	<b>Total reserves</b>		<b><u>1,483,181</u></b>

The unaudited annual accounts were issued on 30 June 2021.

**Liz Denovan CPFA**  
Executive Chief Officer for Resources and Finance  
30 June 2021

**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.

2019/20 £000		2020/21 £000
(11,231)	Net (deficit)/surplus on the provision of services	69,497
120,425	Adjust net (deficit)/surplus on provision of services for non-cash movements	132,264
<u>(73,132)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(130,815)</u>
36,062	Net cash inflow from operating activities	70,946
(142,935)	Investing activities	(106,742)
<u>134,900</u>	Financing activities	<u>56,898</u>
<b>28,027</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>21,102</b>
<u>63,523</u>	Cash and cash equivalents at 1 April 2020	<u>91,550</u>
<u><b>91,550</b></u>	<b>Cash and cash equivalents at 31 March 2021</b>	<u><b>112,652</b></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 57-68. Detailed notes to the Group Accounts have been provided only where transactions or balances are materially different to the Council's Accounts. Note 26 Defined Benefit Pension Schemes presents the Group disclosures.

### 2. 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 Group I 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 Group Balance Sheet at 31 March 2021 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
COVID-19 Impact on Investment property	<p>The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value.</p> <p>The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the Council's valuer reporting valuations recognised within the Annual Accounts on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market.</p>	<p>Any significant change in market valuations would require Investment Property to be revalued and would therefore impact on the asset valuations on the Group balance Sheet.</p> <p>The risk of movement is uncertain and an upwards or downwards revaluation in future years is possible. It is estimated a change in value of 10% in Investment Property asset category would adjust the total value of plant, property and equipment by £3.255 million.</p>

### 3. 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.

### 4. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 5), the effect on the group balance sheet is an increase in net assets and reserves of £11.829m. This represents Highland Council's share of the net assets in these entities.

The effect on the group balance sheet of including High Life Highlands pensions liability is a reduction in other long term liabilities and the pension reserve of £29.150m. The group defined benefit pension scheme disclosures have been shown alongside the Council figures in note 26.

## 5. 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	(322)	(25,526)
Inverness Common Good	(2,323)	32,885
Nairn Common Good Fund	(1,112)	9,238
	<u>(3,757)</u>	<u>16,597</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 2020/21 were as follows:

Results for the year	Deficit on provision of services £000	Net (liabilities) £000
Highland and Western Isles Joint Valuation Board	389	(5,342)
Highland and Islands Transport Partnership	99	(1,316)
	<u>488</u>	<u>(6,658)</u>

<b>Group share</b>		Deficit on provision of services £000	Net (liabilities) £000
	%		
Highland and Western Isles Joint Valuation Board	80.0	312	(4,274)
Highland and Islands Transport Partnership	37.5	37	(494)
		<u>349</u>	<u>(4,768)</u>

#### 6. 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

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

2019/20 £000		2020/21 £000
(1,409)	Gains on trading operations	(1,467)
49,790	Interest payable and similar charges	49,717
8,814	Pensions net interest expense	5,749
(1,625)	Interest and investment income	(1,865)
(2,039)	Rental income	(2,011)
277	Property costs	226
818	(Surplus)/Deficit on revaluation of investment properties	(925)
2,897	Expected credit losses on financial assets	2,239
807	(Gains)/Losses on valuation of financial assets	(1,065)
<u>157</u>	(Gains)/Losses on derecognition of financial assets	<u>354</u>
<u>58,487</u>		<u>50,952</u>

#### 8. Investment Property

The Group Investment property is held within Inverness and Nairn Common Good Funds. Details are as follows:

	Inverness £000	Nairn £000	Total £000
<b>Gross book value</b>			
As at 1 April 2020	23,505	7,445	30,950
Additions	678	-	678
Revaluations	74	851	925
As at 31 March 2021	<u>24,257</u>	<u>8,296</u>	<u>32,553</u>
<b>Net book value</b>			
As at 31 March 2021	<u>24,257</u>	<u>8,296</u>	<u>32,553</u>
As at 31 March 2020	<u>23,505</u>	<u>7,445</u>	<u>30,950</u>

## 9. Long Term Liabilities

Long term liabilities are comprised as follows:

	Highland Council £000	Subsidiaries (HLH) £000	Total £000
Pension liability	336,470	29,150	365,620
Finance lease creditors	136,949	-	136,949
Other long term creditors	2,302	-	2,302
As at 31 March 2021	<u>475,721</u>	<u>29,150</u>	<u>504,871</u>

## 10. Reserves

### Pension reserve

The Group Pension reserve comprises the Council's Pension reserve and the share of group and associate reserves. Details of the Pension liability is disclosed in Note 26 of the Council Accounts.

	31 March 2020 £000	31 March 2021 £000
Highland Council – Pension Reserve	(230,288)	(336,470)
Share of group and associate pension reserve	<u>(9,730)</u>	<u>(29,150)</u>
<b>As at 31 March 2021</b>	<b><u>(240,018)</u></b>	<b><u>(365,620)</u></b>

### Share of group and associate useable reserve

The group and associate share of usable reserves reflects the share of group and reserves excluding unusable reserves (pension reserve).

	31 March 2020 £000	31 March 2021 £000
Share of group and associate reserves (MIRS)	25,946	11,829
Adjust for share of group and associate pension reserve	<u>9,730</u>	<u>29,150</u>
<b>Share of group and associate useable reserves</b>	<b><u>35,676</u></b>	<b><u>40,979</u></b>



### 11. Prior Year Restatement

The 2019/20 figures in the Comprehensive Income & Expenditure Statement have been restated as follows in accordance with the Group's new reporting structure which took effect during the 2020/21 financial year. The impact of the restatement is set out below. The effect on overall gross income and expenditure was nil.

	2019/20 as Reported			2019/20 Restated			Restatement		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
HRA	46,952	(55,020)	(8,068)	46,954	(55,020)	(8,066)	2	-	2
Care & Learning	438,311	(55,518)	382,793	-	-	-	(438,311)	55,518	(382,793)
Community Services	117,234	(16,025)	101,209	-	-	-	(117,234)	16,025	(101,209)
Chief Executives	10,052	(1,942)	8,110	-	-	-	(10,052)	1,942	(8,110)
Corporate Resources	36,035	(2,785)	33,250	-	-	-	(36,035)	2,785	(33,250)
Development & Infrastructure	123,929	(53,338)	70,591	-	-	-	(123,929)	53,338	(70,591)
Communities & Place	-	-	-	58,671	(13,078)	45,593	58,671	(13,078)	45,593
Education & Learning	-	-	-	271,188	(39,815)	231,373	271,188	(39,815)	231,373
Health & Social Care	-	-	-	162,870	(15,904)	146,966	162,870	(15,904)	146,966
Infrastructure, Environment & Economy	-	-	-	99,329	(40,310)	59,019	99,329	(40,310)	59,019
Performance & Governance	-	-	-	6,261	(1,439)	4,822	6,261	(1,439)	4,822
Property & Housing	-	-	-	92,583	(16,406)	76,177	92,583	(16,406)	76,177
Resources & Finance	-	-	-	32,332	(2,257)	30,075	32,332	(2,257)	30,075
Transformation	-	-	-	2,325	(399)	1,926	2,325	(399)	1,926
<b>Total</b>	<b>772,513</b>	<b>(184,628)</b>	<b>587,885</b>	<b>772,513</b>	<b>(184,628)</b>	<b>587,885</b>	<b>-</b>	<b>-</b>	<b>-</b>

**12. Events after the Balance Sheet date**

The unaudited annual accounts were issued by the Executive Chief Officer for Resources and Finance on 30 June 2021.

# **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.