

# Annual Accounts

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## Aithris Chunntasan

2021/22

Unaudited



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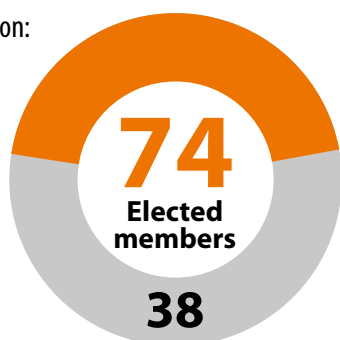
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# Management Commentary

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

## About The Highland Council

Before May 2022 local election:



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



**235,430**  
Population (mid 2020)

## 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.

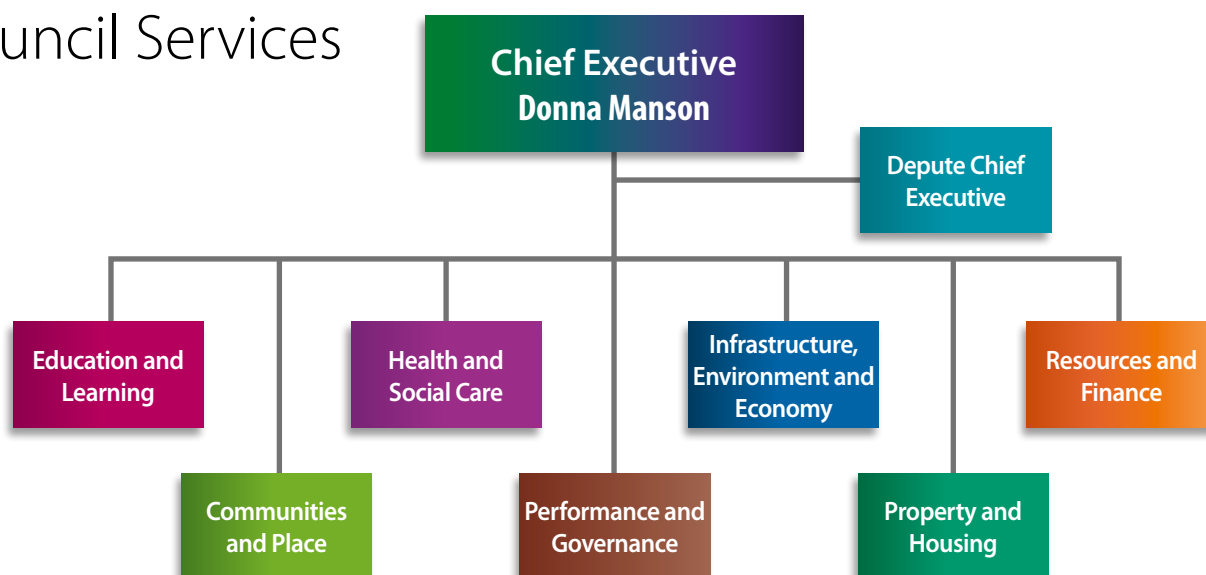


How the Council measures and sets targets for its political, strategic and improvement priorities.



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

## Council Services



# 2021/22 the year in review

Financial year 2021/22 proved to be another extraordinary year for the Council as it wrestled with the twin challenge of dealing with the ongoing pandemic whilst supporting the recovery of Council services and the Highland region as a whole.

As we began the year, social distancing restrictions were being lifted and school children resumed full time in-person education. The emergence of the Omicron COVID-19 variant led to the introduction of a vaccination booster programme along with the reinstatement of isolation and distancing requirements.

Throughout the period the Council continued to provide essential services and maintained appropriate governance arrangements. A full schedule of Council and Committee meetings took place virtually and the 2022/23 budget was set at a hybrid meeting as Members began to return to in-person meetings.

Over the course of the year the majority of Council staff have continued to work on the front line for the communities of the Highlands with office-based staff returning to a hybrid model of working. The commitment and dedication of all those staff is recognised and hugely valued by the Council's elected Members and management.

## 2021/22 Highlights

### Roads investment

Over £24m of capital spent on our road and bridge network.



### Economic prosperity fund

334 jobs supported through the HERO scheme and over 40 Modern Apprenticeship (MA) and 11 Graduate and Intern posts funded in 2021/22.

### Youth action

Intensive community support in Highland has resulted in a 50% reduction of young people requiring secure care accommodation between 2019 and 2022.

### Levelling up fund

Successful funding bid for Inverness Zero Carbon Cultural Regeneration project.

### Counselling services

Service now available for children aged over 10 and accessed in-year by over 1,500 young people.

### ICT services

Provision of ICT services returned to an in-house delivery model.



### Visitor management

£3m of approved tourism investment to welcome visitors back to the Highlands.



### Ambitious Highland

Ongoing delivery of 9 recovery, improvement and transformation projects.



[www.bit.ly/AmbitiousHighland](http://www.bit.ly/AmbitiousHighland)

# Commentary on financial performance 2021/22

The Council continued to show strong financial management during financial year 2021/22 with an overall surplus of £9.0m recorded against the revenue budget for the general fund.

This surplus was added to the general fund non-earmarked reserve which ended the year at £19.3m. A reserve at this level is marginally in excess of the target level for this reserve of 3% of the annual revenue budget agreed in March 2022.

The Council's earmarked reserves increased by £45.9m over the course of 2021/22. Earmarked reserves cover planned and committed spend reflecting investment decisions made locally or funds held to meet government or legislative priorities. Broadly speaking, these earmarked reserves have been created by using previously uncommitted reserves.

Details of the Council's earmarked reserves can be seen in note 8 to the accounts

with significant sums held in relation to Phase 1-4 investment priorities agreed between March 2021 and March 2022, funds held on behalf of NHS Highland and for investment in adult social care, specific funding streams for the COVID-19 response, and developer contributions.

The general fund showed an improving position over the course of the year with the £9m year end surplus supported by underspends across the majority of service areas as well as additional general funding received in-year from government.

The most significant service variance was a £3.9m underspend delivered by the Health and Social Care service as £2.6m of additional funds added to this budget to address anticipated impacts of COVID-19 were not required.

The COVID-19 pandemic continued to have a significant impact on the Council's operations and finances with significant amounts of additional funding received to

support the costs of responding to and recovering from the pandemic. The financial impacts of COVID-19 were felt most keenly in the Infrastructure and Environment and Housing and Property services due to additional school transport costs, the loss of car park, harbour and ferry income, additional school cleaning and facilities management costs, lost income from school meals, and reduced cost recharges to capital projects. These impacts were mostly provided for in the 2021/22 budget allowing those services to deliver near-balanced positions.

The table below gives a summary by category of government COVID-19 revenue funding received in 2020/21 and 2021/22. No significant sums of this nature are expected to be receivable in 2022/23. In addition to this funding the Council has administered £197m of grant funding to businesses on behalf of Government over the same period, £135m in 2020/21 and £62m in 2021/22.

COVID-19 funding category	2020/21 £m	2021/22 £m	Total £m
Schools & Learning	12.1	2.6	14.7
Free School Meals & Welfare	8.7	4.8	13.5
Business & Welfare Grants Admin	1.0	0.5	1.5
Other - Specified	3.7	1.6	5.3
Other - General	30.7	12.0	42.7
<b>Total Revenue Grant Funding</b>	<b>56.2</b>	<b>21.5</b>	<b>77.7</b>

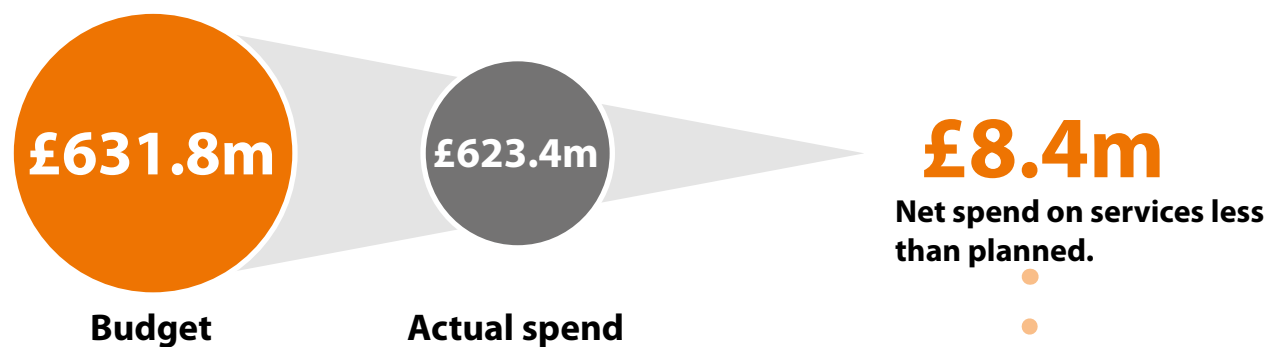
More detail on our 2021/22 outturn will be included in our financial reporting to strategic committees during August and September 2022.

# General Fund Revenue Outturn 2021/22

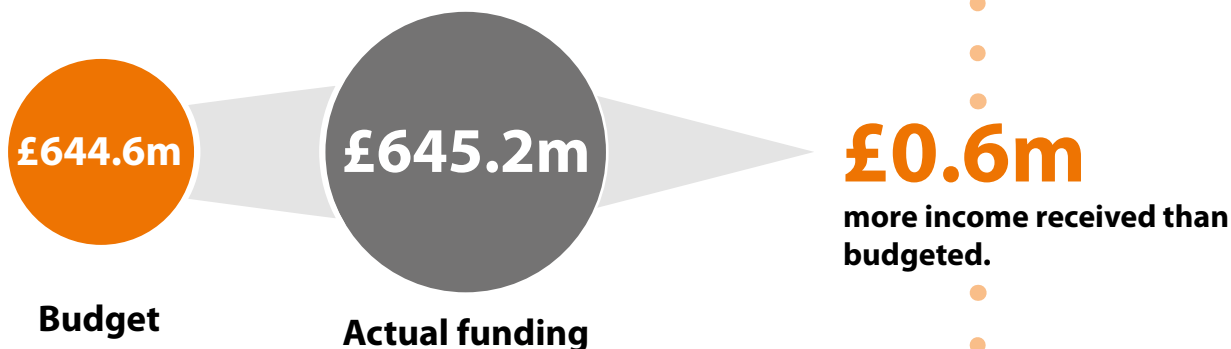
The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022.

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

## General fund service spend



## Council funding



## Overall surplus

Actual spend and income compared to budget.

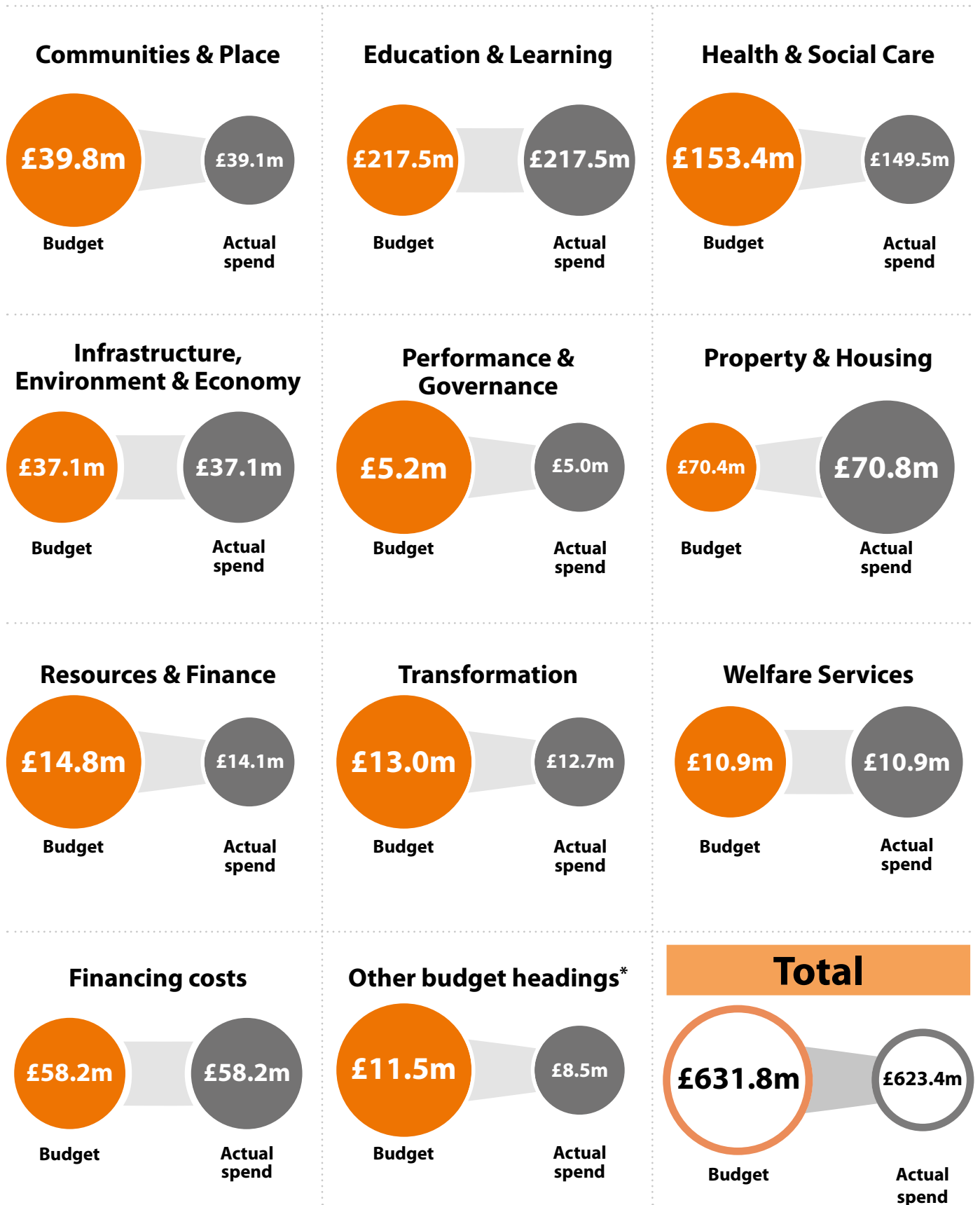
**£9.0m**

## Overall increase in reserves

**£21.8m**

The difference between actual spend and funding in 2021/22 paid back into the Council's General Fund Earmarked and Non-Earmarked Reserves.

# Year end position



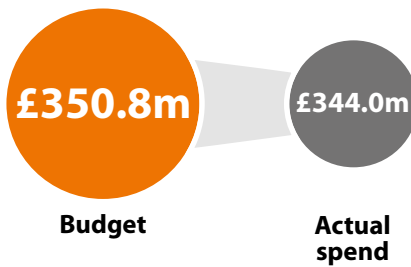
\*includes NDR reliefs, Joint Board requisitions, unallocated budget and transfers to reserves. (Net unallocated budget, rather than savings, in 21/22)



## Analysis of spend

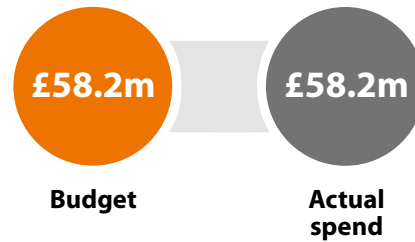
### Staff costs

The cost of the Council's employees.



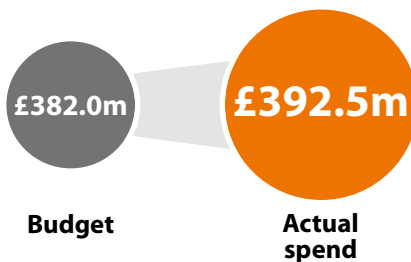
### Financing costs

The cost of borrowing to finance capital investment.



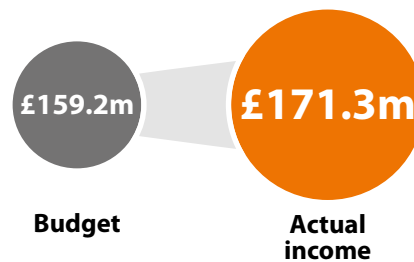
### Other costs

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



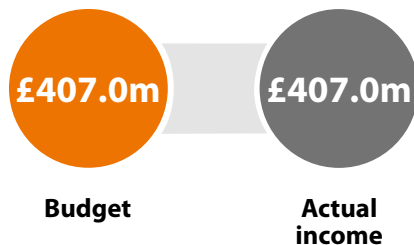
### Service income

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

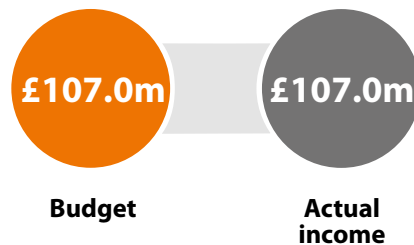


## Council funding

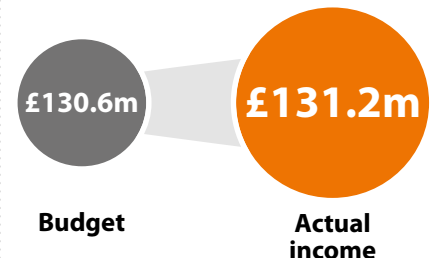
### Revenue Support Grant



### Non-Domestic Rates



### Council Tax



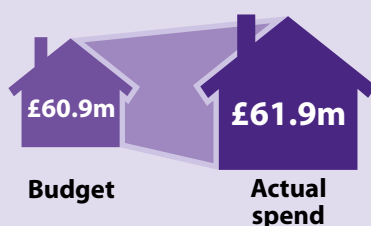
Funding direct from the Scottish Government.

## Housing revenue account

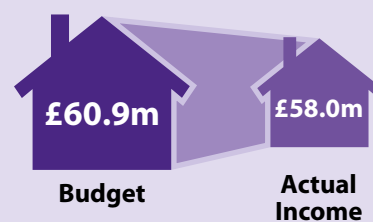


The Council owns 14,600 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated.

### Spend



### Income



# Council Reserves

The Council holds funds in a number of usable reserves:

## General Fund Non-Earmarked Reserve

**£19.3m**

(2020/21 £43.4m)

Funds held as a general contingency.

## General Fund Earmarked Reserve

**£99.5m**

(2020/21 £53.6m)

Funds held for specific purposes, including unspent Government COVID-19 funding, agreed investment, more details at note 8.

## Insurance Fund

**£3.1m**

(2020/21 £1.7m)

Insurance for items not covered by external insurance policies.

## Capital Fund

**£15.0m**

(2020/21 £22.1m)

To buy land for affordable housing provision (£13.6m, 20/21 £20.7m). Capital receipts available to finance future capital investment (£1.4m, 20/21 £1.4m)

## HRA Reserve

**£7.9m**

(2020/21 £11.8m)

For spending on the Council's housing stock.

## Capital Grants Unapplied

**£10.0m**

(2020/21 £11.2m)

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

## Renewal and Repair Fund

**£2.2m**

(2020/21 £2.2m)

For specific types of repair and maintenance work.

## Total Useable Reserves

**£157.0m**

(2020/21 £146.0m)

**See notes 7, 8, and 11 in the accounts for more details on these reserves.**

**3.1%**

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

# Increase in General Fund Reserves during the year

**-£3.4m**

Agreed use of non-earmarked reserves.

**-£21.8m**

Use of earmarked balances for their specified purposes.

**+£9.0m**

Service underspends and excess income in 2021/22 added into the general fund non-earmarked reserve.

**+£38.0m**

Increase in earmarked balances for specified additional funding streams received including COVID-19, developer contributions and 2021/22 service budgets.

**Net increase in General Fund reserves**

**+£21.8m**

Note: £29.7m was transferred from non-earmarked into earmarked reserves to fund investment agreed by Council during 2021/22.

## Capital Outturn 2021/22

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.

**£143.8m** Gross capital spend in 2021/22.

**£52.3m** Project specific capital income in 2021/22

**£91.5m** Net capital spend in 2021/22

**£26.8m** Underspend due to spend not meeting the profile assumed in the capital programme.

### Projects with the largest capital spend in 2021/22:

#### Investment in school buildings

**£49.9m (gross)**



#### Investment in flood risk management

**£10.2m (gross)**



#### Investment in roads and bridges

**£24.6m (gross)**



#### Housing Revenue Account

**£62.9m gross** investment in housing stock in 2021/22



### Funding of the Capital Programme

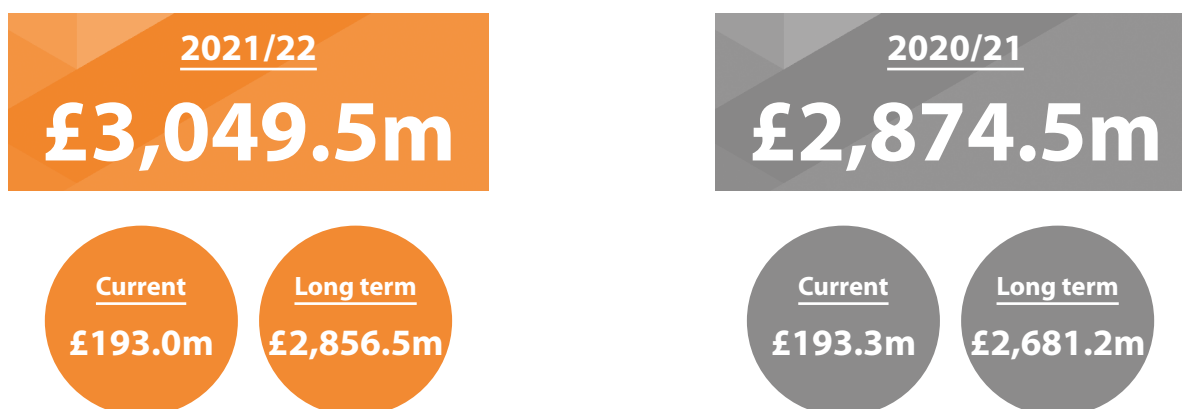
**£66.2m** of the 2021/22 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual treasury report and strategy statement:

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

# Assets and Liabilities

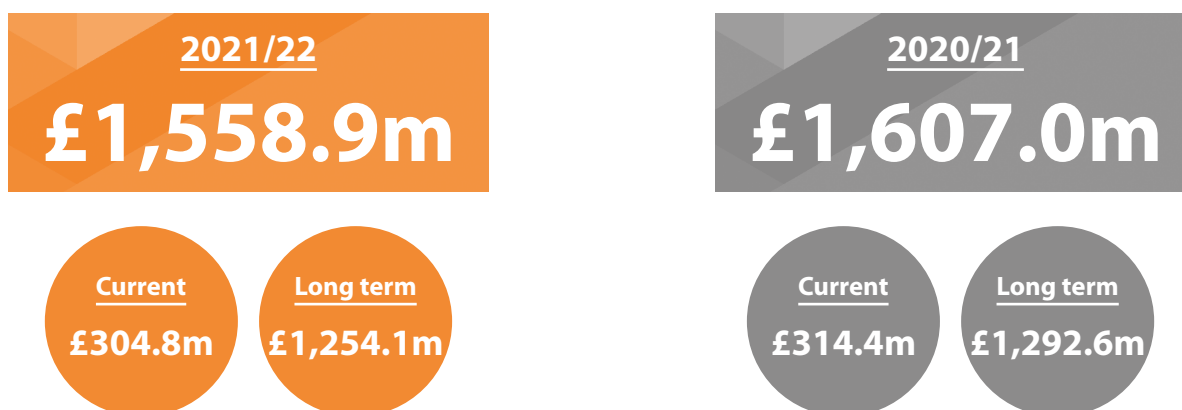
The Council's Balance Sheet shows its assets, liabilities and reserves.  
More information on its component parts can be seen in the notes to the accounts.

## Total Assets



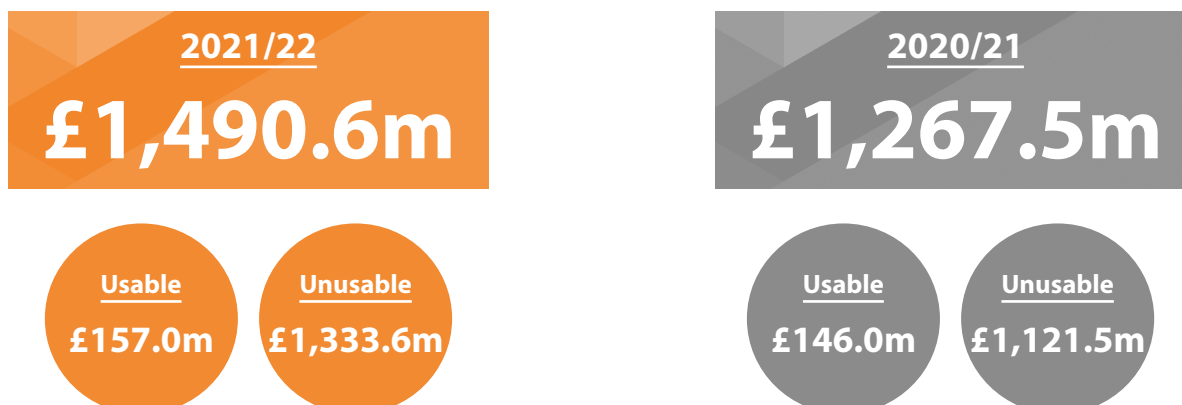
(Increase in long term assets due to revaluations and increase in short term assets due to increase in short term debtors held)

## Total Liabilities



(Decrease in long term liabilities mainly due to decrease in pensions liability. Increase in short term liability due to an increase in short term creditors)

## 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

## Assets

Council houses

**£573.4m**



Infrastructure assets

**£459.4m**



Other assets

**£276.6m**



Other land and buildings

**£1,590.9m**



Short term debtors

**£89.6m**



Vehicles, plant and equipment

**£59.6m**



## Liabilities

Borrowing

**-£1,039.1m**



Pensions liability

**-£236.7m**



Finance leases

**-£136.7m**



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

Short term creditors  
(excluding finance leases)

**-£132.1m**



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

Other liabilities

**-£14.3m**



**9.34%**

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2020/21 9.48%).

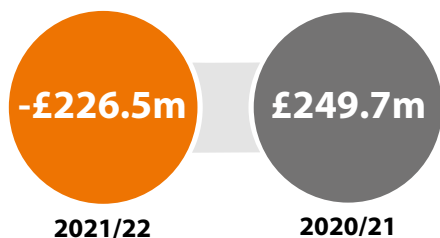
# Group Accounts

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:



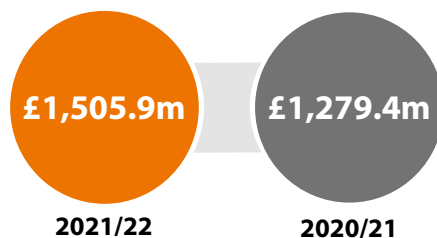
## Key Group Financial Information

### Total Comprehensive income and expenditure



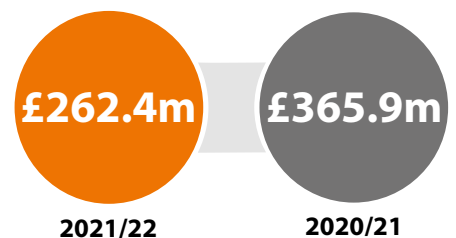
The overall change in total Group reserves calculated on an accounting basis.

### 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 arrangements and is set out in the Corporate Performance Framework. Performance reports are available to the public through reporting to Council and Strategic Committees.

The Council's Code of Corporate Governance is approved annually by the Audit & Scrutiny Committee.

The approach to performance management is underpinned by the Council's Values:

**Ambitious**

**Sustainable**

**Connected**

The Council had a range of performance indicators used to evidence its statutory duty on public performance reporting and these include local and national benchmarked indicators.

**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)

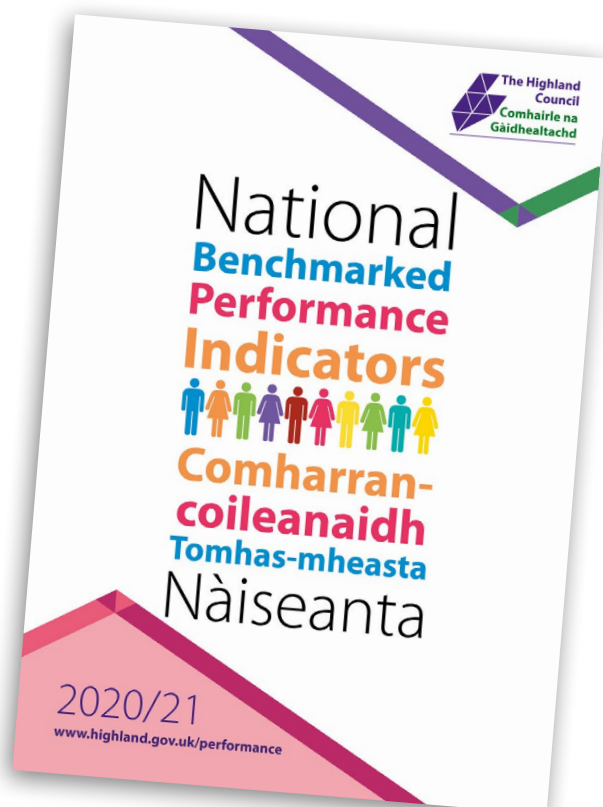
## Council Performance

Following local government elections in May 2022 the Council now has a new political administration and a new Council Programme is under development. This will inform a refresh of the Corporate Plan and Service Plans for 2022/23 onwards. Service Plan guidance is kept under review and will be underpinned by a new vision for how the Council maximises the use and benefits of its business intelligence.

For 2021/22 performance reporting the Council will report on the current Corporate Plan.

A report to Council in March 2022 outlined the data outturns for the Council's 99 SPIs. However, as anticipated, the impact of COVID-19 was evident and combined with a change in the way the Scottish Government has measured some performance indicators an overall assessment of Council performance could not be made. This position is not unique to Highland and is reflected across Scottish Local Authority reporting.

A RAG assessment of progress against existing targets was provided alongside an assessment of positive, negative or neutral impacts of COVID-19.



# A snapshot of the Council's 27 Key Performance Indicators for 2020/21 is provided below:

## Adult Services

- 5.6% of adult social care funding was allocated using direct payments or personalised managed budgets in Highland in 2020/21 (Scottish average: 8.2%). Highland was ranked 14<sup>th</sup> in Scotland.
- 55.6% of people aged 65+ with long term care needs were receiving care at home in Highland in 2020/21 (Scottish average: 61.7%). Highland was ranked 28<sup>th</sup> in Scotland.

## Children's Services

- 48% of Highland secondary school pupils from deprived areas achieved 5 or more awards at SCQF level 5 or higher in 2020/21 (Scottish average: 49%). Highland was ranked 14<sup>th</sup> in Scotland.
- The average total points awarded for levels of attainment in 2020/21 in Highland was 895 points (Scottish average: 972). Highland was ranked 21<sup>st</sup> in Scotland.
- The average number of Looked After Children accommodated out with Highland in 2020/21 was 28 compared to 39 in 2018/19.

## Cultural and Leisure Services

- The average Council spend per customer visit to a library in Highland in 2020/21 was £1.19 (Scottish average: £2.88). Highland was ranked 5<sup>th</sup> in Scotland.

## Environmental Services

- The street cleanliness score for Highland was 95.0% in 2020/21 (Scottish average: 90.1%). Highland was ranked 8<sup>th</sup> in Scotland.
- We recycled 35.7% of household waste in 2021 (Scottish average: 44.2%). Highland was ranked 25<sup>th</sup> in Scotland.

## Housing Services

- In Highland, gross rent arrears as a percentage of total rent due was 5.4% in 2020/21 (Scottish average: 8.2%). Highland was ranked 4<sup>th</sup> in Scotland.
- The average time to re-let Council homes in 2020/21 was 44.2 days. A total of 896 were re-let.

## Corporate Services

- 47.0% of our procurement spend in 2020/21 was with local small and medium sized enterprises (Scottish average: 29.1%). Highland was ranked 2<sup>nd</sup> in Scotland.
- Our sickness absence rate for staff (non-teachers) in 2020/21 was 6.4 days (Scottish average: 9.7 days) Highland was ranked 1<sup>st</sup> in Scotland.

## Business and Development Services

- The average time taken to deliver a commercial planning application decision was 13.5 weeks in 2020/21 (Scottish average: 11.1 weeks). Highland was ranked 27<sup>th</sup> in Scotland.
- 15,319 businesses were supported by our Business Gateway and Economic Development services in 2020/21.

## Road Services

- Energy consumption by our street lights was 10.9 million kWh in 2020/21 compared to 16.7 million kWh in 2016/17. Our target is to reduce this to less than 10 million kWh by March 2022.
- 39.1% of the road network in Highland should be considered for maintenance treatment (2020/21), compared to 38.7% in 2016/17.



[www.bit.ly/Highpoint-Issue17](http://www.bit.ly/Highpoint-Issue17)



# Risks, Uncertainties and Future Developments

The Council provides a quarterly update on its Corporate Risk Register to the Audit and Scrutiny Committee. The items listed below are those considered to have the largest impact on the Council's financial sustainability over the short, medium, and long term.

The latest local government overview report from Audit Scotland provides key contextual information on the Scottish local government sector more generally:

[www.bit.ly/Local-Gov-in-Scotland-Overview-2022](http://www.bit.ly/Local-Gov-in-Scotland-Overview-2022) [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

<b>Resource spending review</b>	The Scottish Government's review released in May 2022 provides high level detail only but suggests that funding for the local government sector as a whole will remain static for the next three years. As the Council receives around 4/5 <sup>ths</sup> of its external funding from government a static position will be challenging in an environment of cost inflation across pay and non-staffing spending.
<b>Inflation</b>	Current high levels of inflation mean Council services are becoming increasingly more expensive to provide. Particular impacts are being seen on the capital budget, further constraining the Council's ability to make much needed investment in our assets. Rising interest rates will also limit our ability to invest.
<b>Pay</b>	Demands for wage uplifts across the public sector are well in excess of the funding the Council has set aside for this purpose. Meeting those demands may require the use of reserves and widen the budget gap for 2023/24. Until an agreement on pay is reached the likelihood of strike action will increase, with consequential impacts on the Council's ability to provide services.
<b>National Care Service</b>	Emergent Scottish Government policy on the creation of a National Care Service will bring substantial change to the public sector landscape in Scotland. This change will impact on the Council's funding settlement as well as requiring changes in the way public bodies in Highland interact.
<b>Service demand</b>	The population in Highland, its distribution, demography and the related service demands are changing. The Council must plan and act for these changes to be able to deliver the services that people require.
<b>Inequality</b>	The 'four harms of COVID-19' (direct impacts of COVID-19, other health impacts, societal impacts and economic impacts) have been felt most by those already experiencing inequality. The Council will need to plan services to focus on addressing those unequal harms yet no further funding is expected to be provided to support this activity.
<b>Workforce planning</b>	The Council needs to have the right people, with the right skills, in the right place, at the right time, to deliver effective services. In a tightening labour market the Council's People Strategy will help mitigate the risk of not being able to fill key roles and deliver essential services.
<b>Climate change</b>	The Council must adapt and build resilience in itself and its communities to address vulnerabilities to the potential effects of climate change and deliver its commitment to Net Zero. Funding the cost of any interventions may require difficult decisions around the prioritisation of spend unless such investments are self-financing.
<b>Waste</b>	The Council continues to develop its long-term plan to meet the landfill ban that comes into effect in 2026. Further Scottish Government policy developments in this area may limit the options available to the Council or bring the potential for substantial additional costs.
<b>Best Value</b>	The Council must not lose sight of its requirement to deliver Best Value and continuous improvement, including ensuring that all actions from the Best Value Assurance report are fully delivered.

# Looking Ahead

The financial results in this document demonstrate that the Council is going into financial year 2022/23 from a position of financial strength with useable reserves at their highest level in recent memory. Prudent management of budgets throughout the pandemic, whilst ensuring all required services were delivered, has created the reserves that give the Council the opportunity to transform in order to be sustainable over the medium and long term and address the continuing effects of the pandemic.

In March 2022 the Council set a balanced budget for financial year 2022/23 that required the delivery of a package of £17m of budget savings, a below inflation increase in Council Tax rates of 3%, and the use of reserves to deal with some ongoing financial impacts from the COVID-19 pandemic. As highlighted on the previous page there are some significant financial risks that could impact adversely during financial year 2022/23.

The financial outlook for future years looks challenging, with a combination of wider macroeconomic factors driven by the COVID-19 pandemic, Brexit and the war in Ukraine likely to present many challenges for the Council, not least the need to balance static government funding levels with cost rises across the Council's expenditure base.

The Council will continue to work on developing its Medium Term Financial Plan (MTFP) to help bridge a budget gap estimated in March to be £80.4m over the period 2023/24 to 2026/27. MTFP workings will be presented to Council regularly throughout 2022/23 with those in the autumn expected to see that forecast gap widening when inflationary impacts are updated.

Inflationary factors will also impact on the ability to deliver all of the Council's capital programme agreed in December 2021 and a review of that programme will be commenced shortly to ensure the affordability of investment plans.

The Council's new SNP and Independent coalition administration elected in May 2022 is in the process of developing its programme for administration to which medium-term revenue and capital investment plans must be aligned. This may mean making some difficult choices not to continue previous investment commitments. It is essential that any funds invested show a return, whether by cost avoidance or income generation to support financial sustainability.

The Council, its staff, its communities and its partners have shown over the last two years that hard work, cooperation, creativity and mutual understanding can help deliver high quality services and positive outcomes in the most trying of circumstances. All of those qualities will again need to be harnessed to ensure the future prosperity of all the communities of the Highlands.

The Council has demonstrated financial resilience in the challenges faced during 2021/2022 and moves into 2022/2023 with a positive and confident outlook focussed on harnessing the many opportunities for investment and sustainability that are available to our unique Highlands: our people, our place, our environment and our economy.

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**Donna Manson**  
Chief Executive

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**Raymond Bremner**  
Leader of the Council

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**Edward Foster CPFA**  
Head of Corporate 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 Head of Corporate 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

**Raymond Bremner**  
Leader of the Council

### The Head of Corporate Finance's Responsibilities

The Head of Corporate 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 2021/22 (the Code).

In preparing the Annual Accounts, the Head of Corporate Finance has:-

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

The Head of Corporate 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 2022.

**Edward Foster CPFA**  
Head of Corporate Finance

## **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 2022 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 June 2021. The basis of the 2021/22 Local Code is the Framework and Guidance issued by CIPFA and SOLACE which identifies seven core principles, each with a number of sub-principles. The core principles are:

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

The progress in delivering the actions set out in the Code is monitored quarterly through the Council's Performance Management System. The Council made substantial progress in delivering the commitments set out within the 2020/21 Code. The majority of actions were either complete or were on target with a small number showing slippage in completion. Those commitments which were slightly behind schedule were:-

- i) Refreshed Member Development Programme
- ii) Review of Finance and Contract Standing Orders
- iii) Develop Participatory Budgeting
- iv) Corporate Workforce Strategy and Plan in place

### **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 Executive Chief Officers 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 2021/22 was approved by the Audit & Scrutiny Committee on 17 June 2021. The Code contains a total of 94 actions and review identified that these are shown as complete or on target except for 7 actions which have some slippage or have not been completed. However, these are not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

The 2019/20 and 2020/21 Annual Governance Statements (AGS) narrated 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 for a limited period. During this time the Council operated in accordance with the Scheme of Delegation which 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 as well as an Officer Gold COVID-19 group.

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

The Council, its Members and Officers adapted quickly and successfully to the new remote model of formal meetings. These arrangements were well established when the second national lockdown began on 05/01/21 ensuring there was no disruption to the Council's governance arrangements with all meetings continuing remotely. The Council ensured openness and transparency in decision making by ensuring all strategic meetings continued to be webcast and recordings of all local Committees were uploaded to the Council's YouTube channel. A Recovery Board (subsequently Recovery, Improvement and Transformation Board) was established initially to offer strategic oversight of the delivery of the Council's recovery plan before assuming responsibility for the co-ordination of all elements of the recovery activity with transformation activity and financial planning. All Council meetings continued to be held remotely throughout 2021 and into 2022 before moving to a hybrid model in March 2022. A wide ranging member training and development programme focussing on induction of new members will be in place for May 2022.

## THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

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 2021/22 to the Audit and Scrutiny Committee in September 2022. This report refers to a total of 44 audit recommendations being made, 8 of which were high grade.

- 4 of these recommendations were in respect of improvements required to minimise off-contract expenditure and ensure full compliance with Contract Standing Orders. The audit also referred to the Procurement Transformation project which is intended to lead to sustainable and measurable improvements in procurement across the Council. The outcomes from the project will also be subject to a subsequent audit review.
- A further 3 recommendations appeared in a control weakness report with the opinion of Limited Assurance. This followed an investigation into missing petty cash and addressed the weaknesses which allowed the suspected theft of money and the actions required to address these and improve the systems of internal control. Further audit work on the control, security and use of petty cash imprests across the Council will also be undertaken.
- The final high grade recommendation arose from a review of Cyber Security and the need to ensure staff vigilance and awareness of cyber security risks including undertaking regular training on this subject.

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 25/11/21. The main areas for improvement identified were in respect of additional training, making the most of support and advice from officers and further guidance on how Members fulfil their role in Committee. Actions were identified to address these and are being implemented. 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.

**Raymond Bremner**  
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 2021/22 the remuneration for the Leader of Highland Council is £43,412. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council in 2021/22 - and set out the maximum salary that can be paid to a Senior Councillor and to the Civic Head as £32,560, 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 £486,049 for 2021/22 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 2021/22.

The total remuneration in 2021/22 for all councillors was £1,492,686 (2020/21: £1,436,185). 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. 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 2021/22**

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 2021/22, the full year equivalent (FYE) salary for the role is shown in brackets.

2020/21		2021/22					
Total £	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	Salary, Fees & Allowances £	Taxable Expenses £	Total £
19,426	Gordon Adam	Chair of Black Isle, Dingwall and Seaforth Committee (2021/22 FYE : £19,784) (Notes 2 and 3)	13/03/20	13/05/21	18,740	369	19,109
18,987	Andrew Baxter	Chair of Lochaber Committee (Note 2)	23/06/17		19,784	-	19,784
22,362	Raymond Bremner	Leader of the Opposition	01/10/20		27,999	-	27,999
		Chair of Caithness Committee (2021/22 FYE: £19,784) (Notes 1 and 2)	29/06/21				
21,913	Helen Carmichael	Provost and Chair of City of Inverness Area Committee (Note 2)	19/06/17		22,833	-	22,833
31,248	Alasdair Christie	Depute Leader of the Council	18/05/17		32,560	-	32,560
41,677	Margaret Davidson	Leader of the Council	18/05/17		43,412	-	43,412
27,026	John Finlayson	Chair of Education Committee	09/12/19		27,999	165	28,164

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2020/21	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2021/22		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Laurie Fraser	Convener of Highland & Western Isles Valuation Joint Board (2021/22 FYE : £23,257) (Notes 1 and 4)	18/06/21		23,730		23,730
		Chair of Housing and Property Committee (2021/22 FYE : £27,999)	12/11/21			-	
18,987	Richard Gale	Chair of Sutherland County Committee (Note 2)	15/11/18		19,784	-	19,784
22,663	Jimmy Gray	Convener of Highland & Western Isles Valuation Joint Board (2021/22 FYE : £23,257) (Notes 1 and 4)	27/06/17	17/06/21	27,999	-	27,999
		Chair of Corporate Resources Committee	04/03/21				
26,871	Allan Henderson	Chair of Communities and Place Committee	09/12/19		27,999	-	27,999
31,715	Bill Lobban	Convener of the Council	18/05/17		32,560	381	32,941
26,985	Graham MacKenzie	Chair of Audit and Scrutiny Committee	06/09/18		27,999	114	28,113
26,871	Linda Munro	Chair of Health, Social Care and Wellbeing Committee	09/12/19		27,999	-	27,999
19,182	Fiona Robertson	Chair of Easter Ross Area Committee (Note 2)	13/03/20		19,784	211	19,995
26,871	Patricia Robertson	Chair of Economy and Infrastructure Committee	09/12/19		27,999	-	27,999

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

2020/21	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2021/22		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
18,689	Nicola Sinclair	Chair of Caithness Committee (2021/22 FYE: £19,784) (Note 2)	06/07/20	28/06/21	4,836	-	4,836
26,871	Ben Thompson	Chair of Housing and Property Committee (2021/22 FYE: £27,999)	09/12/19	11/11/21	17,266	-	17,266
84,708	2020/21 remuneration for former Senior Councillors				n/a	-	n/a
<b>513,052</b>	<b>Total</b>				<b>451,282</b>	<b>1,240</b>	<b>452,522</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. The Dingwall, Black Isle and Seaforth Committee was dissolved during 2021/22 and replaced by two separate Area Committees. Councillor Adam continued as Chair of the Black Isle Committee but this post was not remunerated as a Senior Councillor role as the Committee only comprises one ward.
4. £2,218 was recharged to Highland and Western Isles Valuation Joint Board in 2021/22 (2020/21: £4,123). This recharge represents the difference between the Convener salary and a councillor salary for the period 18 June 2021 to 8 December 2021 when the Convener post was the only Senior Councillor post held by Councillor Fraser. There is no recharge in respect of the period from 1 April to 17 June 2021 when the Convener post was held by Councillor Gray concurrently with the higher remunerated post of Chair of Corporate Resources Committee or the period from 9 December 2021 to 31 March 2022 when the Convener post was held by Councillor Laurie concurrently with the higher remunerated post of Chair of Housing and Property Committee.
5. Four Highland councillors also sit on the Board of High Life Highland. These are non-remunerated positions.

**Members' Allowances and Expenses**

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

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
1,436	Remuneration	1,493
4	Travel and subsistence	21
23	All other expenses	17
<u><b>1,463</b></u>	<b>Total</b>	<u><b>1,531</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/151 sets the amount of salary for the Chief Executive of Highland Council for the year 2021/22. Salaries of Executive Chief Officers are also based on Circular CO/151.

The role of Depute Chief Executive 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 that there should be a separate Depute Chief Executive post, the salary for which should be based on Circular CO/151. This new post remained vacant during 2021/22. From 30 October 2021 the Executive Chief Officer – Performance and Governance was appointed to act up into a deputising role for the Chief Executive and received an additional responsibility payment of £10,000 per annum.

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

Remuneration for Senior Employees for 2021/22 is shown in the table on the following page.

**Remuneration of Senior Employees for 2021/22**

Where a post was not held throughout the whole of 2021/22, the full year equivalent salary for the role is shown in brackets.

2020/21			2021/22	
Total Remuneration £			Senior Employee	Position
160,909	Donna Manson	Chief Executive (2021/22 FYE : £159,499) (Notes 1 and 2)	170,993	170,993
95,599	Carron McDiarmid	Executive Chief Officer - Communities and Place (to 04/02/22) (2021/22 FYE : £94,732) (Notes 2 and 3)	80,271	80,271
89,638	Nicky Grant	Interim Executive Chief Officer - Education and Learning (to 30/06/21) (2021/22 FYE : £94,732) (Note 2) ----- Executive Chief Officer - Education and Learning (from 01/07/21) (2021/22 FYE : £94,732)	94,932	94,932
20,958	Fiona Duncan	Executive Chief Officer – Health and Social Care (from 11/01/21) (2021/22 FYE : £94,732) (Note 4)	94,910	94,910
93,932	Malcolm MacLeod	Executive Chief Officer – Infrastructure and Environment (2021/22 FYE : £94,732) (Note 2)	94,932	94,932
95,599	Kate Lackie	Executive Chief Officer – Performance and Governance (to 29/10/21) (2021/22 FYE : £94,732) (Notes 2 and 3) ----- Executive Chief Officer – Performance and Governance and Depute Chief Executive (from 30/10/21) (2021/22 FYE : £104,732) (Note 5)	99,152	99,152
93,932	Mark Rodgers	Executive Chief Officer – Property and Housing (2021/22 FYE : £94,732) (Note 2)	94,932	94,932

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

2020/21			2021/22	
Total Remuneration £	Senior Employee	Position	Salary, Fees & Allowances £	Total Remuneration £
93,932	Liz Denovan	Executive Chief Officer – Resources and Finance (2021/22 FYE : £94,732) (Note 2)	94,932	94,932
93,932	Allan Gunn	Interim Executive Chief Officer - Transformation (to 01/12/21) (2021/22 FYE : £94,732) (Note 2)	94,932	94,932
		Interim Executive Chief Officer – Communities & Place (from 02/12/21 to 30/03/22) (2021/22 FYE : £94,732)		
		Executive Chief Officer - Communities & Place (from 31/03/22) (2021/22 FYE : £94,732)		
92,841	Steve Walsh	Chief Executive, High Life Highland (2021/22 FYE : £93,641) (Note 2)	93,841	93,841
39,138	Lesley Weber	Executive Chief Officer – Health and Social Care (to 31/08/20)	n/a	n/a
33,836	Fiona Malcolm	Interim Executive Chief Officer – Health and Social Care (from 01/09/20 to 10/01/21)	n/a	n/a
64,365	Karen Ralston	Head of Children’s Services and Chief Social Work Officer (to 31/12/20) (Note 6)	n/a	n/a
67,780	Ruth Rountree Provan	Corporate Communications and Resilience Manager (2021/22 FYE : £57,439) (Note 7)	n/a	n/a
<b>1,136,391</b>	<b>Total</b>		<b>1,013,827</b>	<b>1,013,827</b>

No payments of taxable expenses or Compensation for Loss of Office payments to Senior Employees were made in 2021/22.

For notes to the table, refer to page 29.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

Notes to table on pages 27-28:

1. 2021/22 remuneration includes £11,294 paid to the Chief Executive in her role as Returning Officer for the Scottish Parliamentary Election in May 2021. (2020/21 : £2,209 for the Westminster Parliamentary Election in December 2019.)
2. 2021/22 remuneration includes £200 for the backdating of the 2021/22 Chief Officials' pay award by 3 months to 1 January 2021.
3. 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.
4. 2021/22 remuneration includes £178 for the backdating of the 2021/22 Chief Officials' pay award to start date of 11 January 2021.
5. 2021/22 remuneration includes Depute Chief Executive payment of £4,220 for the period 30 October 2021 to 31 March 2022.
6. Included as Senior Employee as post is politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989. 2020/21 remuneration includes acting-up allowance of £1,493 for the period 15 June to 31 August 2020.
7. Included as Senior Employee up to 2020/21 as post was politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989. As a result of the senior management restructure, the post no longer reports directly to the Chief Executive so ceases to fall into the category of politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989 and is therefore excluded from the Remuneration Report from 2021/22. 2020/21 remuneration includes acting-up allowance of £10,905 for the period 1 April to 31 August 2020.

**General Disclosure by Pay Band**

Remuneration Bands £	Number of Employees	
	2021/22	2020/21
50,000 - 54,999	317	321
55,000 - 59,999	156	157
60,000 - 64,999	75	76
65,000 - 69,999	48	47
70,000 - 74,999	18	13
75,000 - 79,999	10	12
80,000 - 84,999	20	16
85,000 - 89,999	3	4
90,000 - 94,999	7	4
95,000 - 99,999	1	2
100,000 - 104,999	-	-
105,000 - 109,999	-	-
110,000 - 114,999	-	1
115,000 - 119,999	-	-
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	-	-
155,000 - 159,999	1	1

**Exit Disclosure**

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band.

2020/21		Cost Band	2021/22	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
2	86,095	£0 - £20,000	5	79,087
		£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	-	-
-	-	£450,001 - £500,000	-	-
<b>2</b>	<b>86,095</b>	<b>Total</b>	<b>5</b>	<b>79,087</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 2021/22 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 (to 13 May 2021)  
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 2021/22 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.

## **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 2021/22 remuneration report also includes a senior employee whose pension benefits include benefits 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.

## THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

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 2021/22 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2021/22
On earnings up to and including £22,300	5.50%
On earnings above £22,300 and up to £27,300	7.25%
On earnings above £27,300 and up to £37,400	8.50%
On earnings above £37,400 and up to £49,900	9.50%
On earnings above £49,900	12.00%

2020/21 contribution tiers and rates:

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%

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 2021/22 employer's contribution rate is 19% of pensionable pay (2020/21: 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 2022 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 23-25.

Pension Contributions 2020/21 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2021/22 £	Accrued Pension Benefits			
			As at 31/03/22		Difference from 31/03/21 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,689	Gordon Adam	2,978	2	-	-	-
3,696	Andrew Baxter	3,746	4	-	1	-
4,208	Raymond Bremner	5,302	2	-	1	-
6,082	Alasdair Christie	6,166	7	-	1	-
8,110	Margaret Davidson	8,221	11	3	1	-
5,230	John Finlayson	5,302	3	-	1	-
n/a	Laurie Fraser	4,144	7	5	1	-
3,696	Richard Gale	3,746	2	-	-	-
5,230	Allan Henderson	5,302	7	2	1	-
6,082	Bill Lobban	6,166	5	-	1	-
5,230	Graham MacKenzie	5,302	5	-	1	-
5,230	Linda Munro	5,302	6	2	1	-
3,714	Fiona Robertson	3,746	5	-	1	-
5,230	Patricia Robertson	5,302	3	-	1	-

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

Pension Contributions 2020/21 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2021/22 £	Accrued Pension Benefits			
			As at 31/03/22		Difference from 31/03/21 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,620	Nicola Sinclair (Note 2)	1,219	2	-	-	-
5,230	Ben Thompson (Note 2)	3,706	3	-	1	-
14,286	2020/21 pension contributions for former Senior Councillors	n/a	n/a	n/a	n/a	n/a
<b>88,563</b>	<b>Total</b>	<b>75,650</b>	<b>74</b>	<b>12</b>	<b>13</b>	<b>-</b>

Notes :

1. The figures in the "Difference from 31/03/21" columns represent the difference between the unrounded pension benefits as at 31 March 2022 and the unrounded pension benefits as at 31 March 2021, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2022 and as at 31 March 2021 results in a marginally higher or lower difference.
2. Deferred member of pension scheme following resignation during 2021/22.

**Senior Employee Pension Benefits**

The pension entitlements of Senior Employees for the year to 31 March 2022 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 27-28.

Pension Contributions 2020/21 £	Senior Employee	Pension Contributions 2021/22 £	Accrued Pension Benefits			
			As at 31/03/22		Difference from 31/03/21 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
30,946	Donna Manson	30,343	18	-	3	-
18,642	Carron McDiarmid (Note 2)	15,252	34	72	(12)	(7)
20,617	Nicky Grant (Note 3)	19,308	23	39	3	2
4,087	Fiona Duncan (Note 4)	18,033	33	40	32	40
18,317	Malcolm MacLeod	18,037	37	46	2	-
18,642	Kate Lackie	18,839	26	20	3	1
18,317	Mark Rodgers	18,037	4	-	2	-
18,317	Liz Denovan	18,037	39	61	2	1
18,317	Allan Gunn	18,037	43	63	2	1
18,104	Steve Walsh	17,830	10	-	2	-
49,665	2020/21 pension contributions for former Senior Employees	n/a	n/a	n/a	n/a	n/a
<b>233,971</b>	<b>Total</b>	<b>191,753</b>	<b>267</b>	<b>341</b>	<b>39</b>	<b>38</b>

For notes to the table, refer to page 37.

Notes to table on page 36:

1. The figures in the "Difference from 31/03/21" columns represent the difference between the unrounded pension benefits as at 31 March 2022 and the unrounded pension benefits as at 31 March 2021, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2022 and as at 31 March 2021 results in a marginally higher or lower difference.
2. Pension benefits represent the amounts receivable as at retirement date of 4 February 2022. Both the pension and lump sum were subject to an early retirement reduction.
3. Member of LGPS from 1 August 2021. Pension benefits include LGPS benefits from that date plus benefits due from active membership of the Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015 to 31 July 2021. Information on the benefits from the teachers' schemes provided by Scottish Public Pensions Agency.
4. Transfer in of previous membership received during 2021/22.

**4. Trade Union Facility Time Disclosures**

Not available for unaudited accounts but will be added to final accounts.

**Raymond Bremner**  
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 48/49 and in the Movements in Reserves Statement on page 42/43.

2020/21				2021/22		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
201,803	(55,037)	146,766	Council Housing – Housing Revenue Account	65,037	(56,898)	8,139
49,591	(12,024)	37,567	Communities & Place	55,540	(10,515)	45,025
258,977	(34,717)	224,260	Education & Learning	277,457	(39,523)	237,934
166,966	(16,372)	150,594	Health & Social Care	173,913	(17,345)	156,568
103,814	(37,330)	66,484	Infrastructure, Environment & Economy	101,754	(35,455)	66,299
6,306	(1,306)	5,000	Performance & Governance	8,239	(1,619)	6,620
88,960	(13,428)	75,532	Property & Housing	98,715	(8,733)	89,982
34,044	(2,315)	31,729	Resources & Finance	27,247	(2,724)	24,523
1,873	(20)	1,853	Transformation	14,002	(10)	13,992
47,138	(39,381)	7,757	Welfare Services	46,621	(35,758)	10,863
			Joint board requisitions			
2,984	-	2,984	Highland and Western Isles Valuation Joint Board	2,889	-	2,889
91	-	91	Highland and Islands Transport Partnership	91	-	91
<b>962,547</b>	<b>(211,930)</b>	<b>750,617</b>	<b>Cost of Services Carried Forward</b>	<b>871,505</b>	<b>(208,580)</b>	<b>662,925</b>

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

2020/21				2021/22			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
962,547	(211,930)	750,617	<b>Cost of services brought forward</b>		871,505	(208,580)	<b>662,925</b>
		1,769	Losses on the disposal of non-current assets				8,982
		54,592	Financing and investment income and expenditure	9			54,089
		(717,634)	Taxation and non-specific grant Income	10			(710,530)
		<b>89,344</b>	<b>Deficit/(Surplus) on provision of services</b>				<b>15,466</b>
		14,053	Surplus on revaluation of non-current assets				(121,562)
		49,644	Impairment losses on non-current assets charged to the revaluation reserve				36,593
		82,576	Remeasurements of the net defined benefit liability				(153,553)
		<b>146,273</b>	<b>Other comprehensive (income) and expenditure</b>				<b>(238,522)</b>
		<b>235,617</b>	<b>Total comprehensive (income) and expenditure</b>				<b>(223,056)</b>

**MOVEMENT IN RESERVES STATEMENT 2020/21**

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>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	(138,400)	-	-	-	-	<b>(89,344)</b>	(146,273)	<b>(235,617)</b>
Adjustments to usable reserves permitted by accounting standards	8,672	1,089	-	-	-	-	<b>9,761</b>	(9,761)	-
Adjustments between accounting basis and funding basis under regulations (note 7)	3,939	141,785	-	-	343	6,000	<b>152,067</b>	(152,067)	-
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	61,667	4,474	-	-	343	6,000	<b>72,484</b>	(308,101)	<b>(235,617)</b>
Transfers to/from other statutory reserves	(404)	-	503	(202)	(1,982)	28	<b>(2,057)</b>	2,057	-
<b>Increase/(decrease) in 2020/21</b>	<b>61,263</b>	<b>4,474</b>	<b>503</b>	<b>(202)</b>	<b>(1,639)</b>	<b>6,028</b>	<b>70,427</b>	<b>(306,044)</b>	<b>(235,617)</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>1,121,507</b>	<b>1,267,517</b>

**MOVEMENT IN RESERVES STATEMENT 2021/22**

	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 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>1,121,507</b>	<b>1,267,517</b>
<b>Movement in reserves during 2021/22</b>									
<b>Total comprehensive income and expenditure</b>	672	(16,138)	-	-	-	-	<b>(15,466)</b>	238,522	<b>223,056</b>
Adjustments to usable reserves permitted by accounting standards	8,757	230	-	-	-	-	<b>8,987</b>	(8,987)	-
Adjustments between accounting basis and funding basis under regulations (note 7)	4,905	11,980	-	-	2,176	-	<b>19,061</b>	(19,061)	-
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	<b>14,334</b>	<b>(3,928)</b>	<b>-</b>	<b>-</b>	<b>2,176</b>	<b>-</b>	<b>12,582</b>	210,474	<b>223,056</b>
Transfers to/from other statutory reserves	7,502	-	8	1,442	(9,247)	(1,255)	<b>(1,550)</b>	1,550	-
<b>Increase/(decrease) in 2021/22</b>	<b>21,836</b>	<b>(3,928)</b>	<b>8</b>	<b>1,442</b>	<b>(7,071)</b>	<b>(1,255)</b>	<b>11,032</b>	212,024	<b>223,056</b>
<b>Balance at 31 March 2022</b>	<b>118,805</b>	<b>7,874</b>	<b>2,189</b>	<b>3,152</b>	<b>15,052</b>	9,970	<b>157,042</b>	<b>1,333,531</b>	<b>1,490,573</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'.

31/03/21 £000 (restated)		Note	31/03/22 £000
2,633,793	Property, plant and equipment	29	2,802,771
7,058	Heritage assets	34	7,006
40,332	Long term debtors (net of impairment)	35	46,729
<u>2,681,183</u>	<b>Long term assets</b>		<u>2,856,506</u>
5,004	Inventories		6,456
74,679	Short term debtors	36/37	89,636
112,693	Cash and cash equivalents	17	96,075
1,034	Assets held for sale		861
<u>193,410</u>	<b>Current assets</b>		<u>193,028</u>
(155,938)	Short term borrowing	43	(154,253)
(133,610)	Short term creditors	38	(138,465)
(62)	Cash and cash equivalents – bank overdraft	17	(681)
(683)	Provisions	39	(3,006)
(24,165)	Capital Grant Receipts in Advance	42	(8,403)
<u>(314,458)</u>	<b>Current liabilities</b>		<u>(304,808)</u>
(816,630)	Long term borrowing	43	(884,870)
(475,988)	Other long term liabilities	40	(369,283)
<u>(1,292,618)</u>	<b>Long term liabilities</b>		<u>(1,254,153)</u>
<u><b>1,267,517</b></u>	<b>Net assets</b>		<u><b>1,490,573</b></u>

Restatement in 2020/21 to show bank overdraft previously included in current assets in cash and cash equivalents to current liabilities

**BALANCE SHEET (CONTINUED)**

31/03/21 £000		Note	31/03/22 £000
146,010	<b>Usable reserves</b>	11	157,042
1,121,507	<b>Unusable reserves</b>	12	1,333,531
<u><b>1,267,517</b></u>	<b>Total reserves</b>		<u><b>1,490,573</b></u>

The unaudited annual accounts were issued on 30 June 2022.

**Edward Foster CPFA**  
Head of Corporate Finance

**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 (i.e. borrowing) to the Council.

2020/21 £000 (restated)		Note	2021/22 £000
(89,344)	Net surplus/(deficit) on the provision of services		(15,466)
291,106	Adjust net surplus on the provision of services for non-cash movements	13	138,290
(71,220)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	13	(68,114)
<u>130,542</u>	Net cash inflow from operating activities		<u>54,710</u>
(106,742)	Investing activities	15	(197,389)
(2,697)	Financing activities	16	125,442
<u><b>21,103</b></u>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<u><b>(17,237)</b></u>
91,528	Cash and cash equivalents at 1 April 2021		112,631
<u><b>112,631</b></u>	<b>Cash and cash equivalents at 31 March 2022</b>	17	<u><b>95,394</b></u>

Restatement in 20/21 cash flow statement and related notes 13 and 16 to update the capital grants figure used.



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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.

2020/21				2021/22		
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
(25,135)	171,901	146,766	Council Housing – Housing Revenue Account	(19,369)	27,508	8,139
32,775	4,792	37,567	Communities & Place	39,103	5,922	45,025
202,757	21,503	224,260	Education & Learning	217,464	20,470	237,934
142,898	7,696	150,594	Health & Social Care	149,450	7,118	156,568
40,236	26,248	66,484	Infrastructure, Environment & Economy	37,109	29,190	66,299
4,352	648	5,000	Performance & Governance	5,036	1,584	6,620
71,797	3,735	75,532	Property & Housing	83,326	6,656	89,982
23,259	8,470	31,729	Resources & Finance	14,726	9,797	24,523
1,712	141	1,853	Transformation	12,735	1,257	13,992
7,891	(134)	7,757	Welfare Services	10,918	(55)	10,863
3,075	-	3,075	Joint board requisitions	2,980	-	2,980
505,617	245,000	<b>750,617</b>	<b>Cost of services carried forward</b>	553,478	109,447	<b>662,925</b>

**Expenditure and Funding Analysis (continued)**

2020/21				2021/22		
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
505,617	245,000	750,617		553,478	109,447	<b>662,925</b>
(571,758)	(89,515)	(661,273)	Other Income and Expenditure	(563,884)	(83,575)	(647,459)
<hr/>				<hr/>		
(66,141)	155,485	(89,344)	<b>Deficit/(Surplus)</b>	2 (10,406)	25,872	15,466
		(43,034)	Opening General Fund and HRA Balance	(108,771)		
		(66,141)	Deficit/(surplus) on General Fund or HRA Balance in year	(10,406)		
		404	Transfers (from)/to reserves	(7,502)		
		<hr/>	<b>Closing General Fund and HRA Balance at 31 March 2022*</b>	<hr/>		
		<b>(108,771)</b>		<b>(126,679)</b>		

\*For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement on page 43.

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

**Adjustments between Funding & Accounting Basis 2021/22**

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	25,992	2,799	-	28,791	(1,283)	27,508
Communities & Place	(28)	5,708	292	5,972	(50)	5,922
Education & Learning	28,554	12,142	(7)	40,689	(20,219)	20,470
Health & Social Care	1,005	5,889	(143)	6,751	367	7,118
Infrastructure, Environment & Economy	19,938	6,226	(565)	25,599	3,591	29,190
Performance & Governance	(60)	1,592	51	1,583	-	1,583
Property & Housing	460	6,825	68	7,353	(697)	6,656
Resources & Finance	6,245	3,740	(149)	9,836	(39)	9,797
Transformation	-	1,184	74	1,258	-	1,258
Welfare Services	-	-	-	-	(55)	(55)
<b>Net Cost of Services</b>	<b>82,106</b>	<b>46,105</b>	<b>(379)</b>	<b>127,832</b>	<b>(18,385)</b>	<b>109,447</b>
Other Income from the Expenditure and Funding Analysis	(100,698)	7,361	(8,623)	(101,960)	18,385	(83,575)
<b>Total Adjustments</b>	<b>(18,592)</b>	<b>53,466</b>	<b>(9,002)</b>	<b>25,872</b>	<b>-</b>	<b>25,872</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 - (£20.103m), Harbours Trading Income and Expenditure - £3.697m, Expected Credit Losses on Financial Assets – (£1.979m).

**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	172,215	1,112	-	173,327	(1,426)	171,901
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>240,090</b>	<b>18,304</b>	<b>5,440</b>	<b>263,834</b>	<b>(18,834)</b>	<b>245,000</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>133,564</b>	<b>23,873</b>	<b>(1,952)</b>	<b>155,485</b>	<b>-</b>	<b>155,485</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 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 i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### **Net Change for the Pensions Adjustments**

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

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

### **Other Differences**

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

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

### **3. Accounting policies**

Explanations are provided for the basis of the figures included within the Accounts and the policies adopted particularly where there is more than one acceptable basis. Notes are included to provide details of certain aspects contained within the financial statements.

#### **General principles**

The Annual Accounts summarise the transactions of the Council for the financial year 2021/22 and its financial position at 31 March 2022. 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 2021/22 (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 2021/22; and
- fair value through other comprehensive income (FVOCI) - not applicable to the Council for 2021/22.

#### *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.

Council dwellings valuations are carried out externally using the District Valuers (DVS). The work was carried out by Ruby Ashworth (MRICS), Senior Surveyor, DVS.

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 41 to the accounts.

### **Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial

instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in Note 12.

**Value Added Tax (VAT)**

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

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

The following accounting standards will be adopted within the 2022/23 Code effective from 1 April 2022. There is therefore no impact on the 2021/22 financial statements.

- IFRS 16 Leases (only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year). Highland Council will not be adopting IFRS 16 in 2022/23.
- Annual Improvements to IFRS Standards 2018-2020. The annual IFRS improvement programme notes 4 changed standards:
  - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
  - IAS 37 (Onerous contracts) – clarifies the intention of the standard
  - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
  - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect on local authority financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

#### **5. Critical judgements in applying accounting policies**

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

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- 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 £322.374m) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

#### **6. Assumptions made about the future and other major sources of estimation uncertainty**

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

The items in the Council's Balance Sheet at 31 March 2022 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	<p>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.</p>	<p>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 £6.358m for every year that useful lives had to be reduced.</p>
Property Valuations	<p>In making judgements on the measurements of assets at 31 March 2022, the Council place reliance on valuation information received from internal valuers.</p> <p>A large proportion of assets are of a specialised nature reflecting an underlying DRC basis of valuation. An appropriate Buildings indexation factor is calculated and applied to these DRC assets on an annual basis between formal valuation years to reflect annual changes in build rates.</p> <p>The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are functioning again with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, the valuation received is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.</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 £159.093m</p>
Arrears	<p>At 31 March 2022 the Council had a balance of sundry debtors of £10.516m. A review of balances suggested that an allowance for impairment of £3.180m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>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 £0.105m of an allowance.</p>
Pensions Liability	<p>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.</p>	<p>The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in Note 25.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Fair Value Measurements	<p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. Changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value.</p>	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.</p>

**7. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

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<b>2021/22</b>	General Fund	Housing Revenue Account	Capital Fund	Capital Grants Unapplied Account	<b>Total usable reserves</b>	Movement in unusable reserves	Total reserves
	£000	£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	54,566	25,912	-	-	80,478	(80,478)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(74,067)	(11,439)	-	-	(85,506)	85,506	-
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	6,981	6,965	-	-	13,946	(13,946)	-
Revenue expenditure funded by capital	20,180	-	-	-	20,180	(20,180)	-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>							
Statutory provision for repayment of debt	(33,338)	(11,944)	-	-	(45,282)	45,282	-
Repayment of Finance Lease Creditors	(6,663)	-	-	-	(6,663)	6,663	-
Capital expenditure charged against the General Fund and HRA balances	(6,280)	(150)	-	-	(6,430)	6,430	-
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

<b>2021/22</b>	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Capital Grants Unapplied Account £000	<b>Total usable reserves £000</b>	Movement in unusable reserves £000	Total reserves £000
<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	(4,964)	-	4,964	-	-	-	-
Use of the capital fund to finance new capital expenditure	-	-	(2,788)	-	(2,788)	2,788	-
<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	(1,363)	(598)	-	-	(1,961)	1,961	-
<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	78,744	5,070	-	-	83,814	(83,814)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(28,512)	(1,836)	-	-	(30,348)	30,348	-
<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	(379)	-	-	-	(379)	379	-
<b>Total adjustments 2021/22</b>	<b>4,905</b>	<b>11,980</b>	<b>2,176</b>	<b>-</b>	<b>19,061</b>	<b>(19,061)</b>	<b>-</b>

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

<b>2020/21</b>	General Fund	Housing Revenue Account	Capital Fund	Capital Grants Unapplied Account	<b>Total usable reserves</b>	Movement in unusable reserves	Total reserves
	£000	£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	62,943	171,126	-	-	234,069	(234,069)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(54,308)	(22,084)	-	-	(76,392)	76,392	-
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 Statement	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 Grants Unapplied Account</b>							
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(6,000)	-	-	6,000	-	-	-



THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

2020/21	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Capital Grants Unapplied Account £000	<b>Total usable reserves £000</b>	Movement in unusable reserves £000	Total reserves £000
<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	-
<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>3,939</b>	<b>141,785</b>	<b>343</b>	<b>6,000</b>	<b>152,067</b>	<b>(152,067)</b>	<b>-</b>

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

This note sets out the amounts set aside from the General Fund balance in earmarked reserves. The increase in General Fund of £21.836m (2020/21-£61.263m increase) comprises an increase in earmarked balances of £45.986m (2020/21 - £33.307m increase) and a decrease in non-earmarked balances of £24.150m (2020/21 - £27.956m increase).

	<b>Balance at 31/03/20 £000</b>	Transfers out £000	Transfers in £000	Interest on balances £000	<b>Balance at 31/03/21 £000</b>	Transfers out £000	Transfers in £000	Interest on balances £000	<b>Balance at 31/03/22 £000</b>
Badaguish Outdoor Centre	460	-	-	-	460	-	-	-	460
Business Rates Incentivisation Scheme (BRIS)	1,095	(1,095)	-	-	-	-	-	-	-
Change Fund	1,317	-	1,103	-	2,420	(342)	1,166	-	3,244
Commercial Investment Fund	89	-	-	-	89	(15)	-	-	74
COVID-19	185	-	12,082	-	12,267	(4,814)	4,989	-	12,442
Developers' Contributions	6,547	(1,578)	1,987	66	7,022	(1,428)	3,176	24	8,794
Developing the Young Workforce	70	-	-	-	70	(35)	-	-	35
Devolved School Management	2,889	(2,889)	3,119	-	3,119	(26)	1,483	-	4,576
Elections	170	-	585	-	755	-	85	-	840
Funding for 2022/23 Non-recurring Budget Pressures	-	-	-	-	-	-	5,662	-	5,662
Grants and Match Funding	2,155	(443)	418	-	2,130	(1,097)	4,768	-	5,801
Highlife Highland	-	-	-	-	-	-	1,000	-	1,000
IT Investment Fund	519	-	725	-	1,244	(166)	-	-	1,078
Lease Premium Windfall	-	-	-	-	-	-	265	-	265
NHS Highland - COVID Response Fund & Investment Fund *	-	-	5,600	-	5,600	(4,000)	14,796	-	16,396
Phase 1 Investment Fund	-	-	9,810	-	9,810	(2,387)	-	-	7,423
Phase 2 Investment Fund **	-	-	-	-	-	(2,984)	8,750	-	5,766
Phase 3 Investment Fund	-	-	-	-	-	-	5,300	-	5,300
Phase 4 Investment Fund	-	-	-	-	-	-	8,000	-	8,000
Property (Health & Safety Issues etc)	-	-	-	-	-	-	2,400	-	2,400
Salix Recycling Fund	1,370	(1,584)	1,109	-	895	(2,629)	2,034	-	300
Scottish Crown Estate	1,292	-	1,743	-	3,035	(823)	3,201	-	5,413
Skye Airstrip	187	-	-	-	187	-	-	-	187

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	<b>Balance at 31/03/20</b>	Transfers out	Transfers in	Interest on balances	<b>Balance at 31/03/21</b>	Transfers out	Transfers in	Interest on balances	<b>Balance at 31/03/22</b>
	<b>£000</b>	£000	£000	£000	<b>£000</b>	£000	£000	£000	<b>£000</b>
Staffing Conditions and Development Fund	<b>1,420</b>	-	2,032	-	<b>3,452</b>	(609)	560	-	<b>3,403</b>
Walks to Water	<b>126</b>	(50)	-	-	<b>76</b>	-	-	-	<b>76</b>
Welfare Issues	<b>364</b>	(58)	625	-	<b>931</b>	(708)	390	-	<b>613</b>
<b>Total</b>	<b>20,255</b>	<b>(7,697)</b>	<b>40,938</b>	<b>66</b>	<b>53,562</b>	<b>(22,063)</b>	<b>68,025</b>	<b>24</b>	<b>99,548</b>

\* Included within COVID-19 balance in 2020/21 accounts

\*\* Total Phase 2 Investment of £10m includes £1.250m for Salix Recycling Fund

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

2020/21 £000		Note	2021/22 £000
(1,467)	Gains on trading operations	21	(2,598)
49,717	Interest payable and similar charges		48,108
5,503	Pensions net interest expense		7,190
(1,400)	Interest and investment income		(590)
2,239	Expected credit losses on financial assets		1,979
<u>54,592</u>			<u>54,089</u>

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

2020/21 £000		2021/22 £000
(425,505)	Revenue support grant	(406,990)
(129,714)	Council tax income	(131,247)
(92,297)	Non-Domestic rates	(106,967)
(70,118)	Capital grants and contributions	(65,326)
<u>(717,634)</u>		<u>(710,530)</u>

**11. Balance Sheet – usable reserves**

31/03/21 £000		31/03/22 £000
2,181	Renewal and Repair Fund (a)	2,189
22,123	Capital Fund (b)	15,052
1,710	Insurance Fund (c)	3,152
11,225	Capital Grants Unapplied (d)	9,970
96,969	General Fund (e)	118,805
11,802	Housing Revenue Account (e)	7,874
<u>146,010</u>		<u>157,042</u>

(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.

The movements in the Capital Fund are detailed below.

	Landbanking Initiative £000	Capital Receipts £000	Total £000
<b>Balance at 31 March 2021</b>	<b>20,716</b>	<b>1,407</b>	<b>22,123</b>
Transferred to General Fund	(5,522)	(2,176)	(7,698)
Transferred to Capital Adjustment account	(1,549)	2,176	627
<b>Balance at 31 March 2022</b>	<b>13,645</b>	<b>1,407</b>	<b>15,052</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.

	Total £000
Balance at 31 March 2021	<b>11,225</b>
Transferred from/(to) General Fund	(1,255)
Transferred from/(to) Capital Adjustment account	-
<b>Balance at 31 March 2022</b>	<b>9,970</b>

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

**12. Balance Sheet – unusable reserves**

31/03/21		31/03/22
£000		£000
510,258	Revaluation Reserve (a)	584,920
979,306	Capital Adjustment Account (b)	1,014,241
(17,318)	Financial Instruments Adjustment Account (c)	(15,357)
(336,737)	Pensions Reserves (d)	(236,650)
(14,002)	Employee Statutory Adjustment Account (e)	(13,623)
<b><u>1,121,507</u></b>		<b><u>1,333,531</u></b>

**(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.

2020/21		2021/22
£000		£000
584,234	Balance at 1 April 2021	510,258
37,912	Upward revaluation of assets	121,996
(51,965)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services	12,617
(49,644)	Impairment losses not charged to the Surplus/Deficit on the Provision of services	(49,644)
(63,697)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services	84,969
(9,761)	Difference between fair value depreciation and historical cost depreciation	(8,988)
(475)	Accumulated gains on assets sold or scrapped	(1,259)
(43)	Amount written off revaluation reserve	(60)
(518)	Amount written off to the Capital Adjustment Account	(1,319)
<b><u>510,258</u></b>	<b>Balance at 31 March 2022</b>	<b><u>584,920</u></b>

(b) Capital Adjustment Account

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

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

2020/21 £000		2021/22 £000
1,101,441	Balance at 1 April 2021	979,306
(12,274)	Revenue Expenditure funded from capital under statute	(20,180)
(61,114)	Charges for depreciation on non-current assets	(72,315)
(172,954)	Revaluation losses on Property, Plant and Equipment	(8,162)
	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	(13,946)
(3,214)		
(249,556)		(114,603)
518	Adjusting amounts written out of the Revaluation Reserve	1,319
518	Net written out amount of the cost of non-current assets consumed in the year	1,319
	<b>Capital Financing applied in the year</b>	
5,434	Repayment of PPP creditors	6,663
1,102	Use of the Capital Fund to finance new capital expenditure	2,788
76,392	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	85,506
2,276	Use of the Capital Fund	1,550
(218)	Use of Capital Grants Unapplied Account	-
39,513	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	45,282
2,404	Capital expenditure charged against the General Fund and HRA balances	6,430
126,903		148,219
<b>979,306</b>	<b>Balance at 31 March 2022</b>	<b>1,014,241</b>

(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.

2020/21 £000		2021/22 £000
(19,275)	Balance at 1 April 2021	(17,318)
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	1,955
5	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	6
<u>(17,318)</u>	<b>Balance at 31 March 2022</b>	<u>(15,357)</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.

2020/21 £000		2021/22 £000	£000
(230,288)	Balance at 1 April 2021		(336,737)
(355,085)	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	130,636	
312,422	Return on plan assets	25,740	
(39,913)	Other experience adjustments	<u>(2,823)</u>	
(82,576)	<b>Total remeasurements of the net defined liability</b>		153,553
(52,771)	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	(83,814)	
28,898	Employer's pension contributions and direct payments to pensioners payable in the year	<u>30,348</u>	
<u>(23,873)</u>			<u>(53,466)</u>
<u>(336,737)</u>	<b>Balance at 31 March 2022</b>		<u>(236,650)</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.

2020/21 £000		2021/22 £000
(8,561)	Balance at 1 April 2021	(14,002)
8,561	Settlement or cancellation of accrual made at the end of the preceding year	14,002
(14,002)	Amounts accrued at the end of the current year	(13,623)
<u>(14,002)</u>	<b>Balance at 31 March 2022</b>	<u>(13,623)</u>

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

2020/21 £000		2021/22 £000
	<b>Non-cash items</b>	
70,875	Depreciation	81,302
172,954	Impairments	8,162
3,214	Net book value of assets sold	13,946
23,873	IAS 19 transactions	53,466
426	Financial instruments adjustments	(84)
	<b>Items on accruals basis</b>	
(338)	Decrease/(increase) in inventories	(1,453)
256	Decrease/(increase) in debtors	(11,938)
19,890	(Decrease)/increase in creditors	(7,434)
(44)	(Decrease)/increase In provisions	2,323
<u>291,106</u>		<u>138,290</u>
£000		£000
(restated)	<b>Items in investing &amp; financing activities</b>	
(70,118)	Capital grants credited to surplus/deficit on provision of services	(65,326)
(1,102)	Proceeds from sale of assets	(2,788)
<u>(71,220)</u>		<u>(68,114)</u>

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

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

2020/21		2021/22
£000		£000
(1,448)	Interest received	(557)
50,327	Interest paid	48,325

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

2020/21		2021/22
£000		£000
(113,099)	Purchase of property, plant and equipment	(187,194)
(10,135)	Other (payments)/receipts for investing activities	(11,870)
1,102	Proceeds from the sale of property, plant and equipment	2,788
15,390	Other (payments)/receipts from investing activities	(1,113)
<b>(106,742)</b>	<b>Net cash flows from investing activities</b>	<b>(197,389)</b>

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

2020/21		2021/22
£000		£000
(restated)		
215,880	Cash receipts of short and long term borrowing	289,890
70,119	Other receipts from financing activities	65,326
(5,434)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(6,663)
(284,933)	Repayments of short and long term borrowing	(225,288)
1,671	Other payments for financing activities	2,177
<b>(2,697)</b>	<b>Net cash flows from financing activities</b>	<b>125,442</b>

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

	At 1 April 2021	Cash flow	At 31 March
	£000	£000	2022
			£000
Temporary investments	112,620	(16,617)	96,003
Cash in hand	73	(1)	72
Cash at bank	(62)	(619)	(681)
<b>Total cash and cash equivalents</b>	<b>112,631</b>	<b>(17,237)</b>	<b>95,394</b>

### **18. Service Income and Expenditure**

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

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

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

#### **Revenue Outturn Position – General Fund**

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1 April 2021 to 31 March 2022. 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 2021/22**

	Budget £000	Actual £000	Over/(Under) £000
Communities & Place	39,794	39,103	(691)
Education & Learning	217,523	217,464	(59)
Health & Social Care	153,405	149,451	(3,954)
Infrastructure, Environment & Economy	37,115	37,110	(5)
Performance & Governance	5,192	5,036	(156)
Property & Housing	70,374	70,782	408
Resources & Finance	14,814	14,077	(737)
Transformation	13,016	12,735	(281)
Welfare Services	10,910	10,918	8
Non Domestic Rates reliefs	671	648	(23)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	3,091	2,889	(202)
Highland and Islands Transport Partnership	91	91	-
Financing			
Loan Charges	58,542	58,581	39
Interest and Investment Income	(330)	(392)	(62)
Unallocated Budget	3,633	-	(3,633)
Unallocated Savings	(501)	-	501
<b>Total General Fund Services</b>	<b>627,340</b>	<b>618,493</b>	<b>(8,847)</b>
Appropriations to/from Reserves			
Repairs & Renewals Fund	8	8	-
Insurance Fund	1,442	1,442	-
Affordable Housing	3,000	3,425	425
<b>Amount to be funded from Taxpayers and General Fund Balance</b>	<b>631,790</b>	<b>623,368</b>	<b>(8,422)</b>
<b>Funding</b>			
Revenue Support Grant	(406,990)	(406,990)	-
Non-domestic Rates	(106,967)	(106,967)	-
Council Tax	(130,654)	(131,247)	(593)
<b>Increase in General Fund in the year</b>	<b>(12,821)</b>	<b>(21,836)</b>	<b>(9,015)</b>

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

**19. Segmental Income**

Income received on a segmental basis is analysed below:

**Segmental Income  
2021/22**

	Income from Services £000	Internal Recharges £000	Total Income from External Customers/Service Users £000	Adjustments £000	Gross Income £000
<b>Services</b>					
HRA	56,898	-	56,898	-	56,898
Communities & Place	19,452	(9,243)	10,209	306	10,515
Education & Learning	38,051	(294)	37,757	1,767	39,524
Health & Social Care	17,349	(5)	17,344	-	17,344
Infrastructure, Environment & Economy	60,565	(22,963)	37,602	(2,147)	35,455
Performance & Governance	1,672	(113)	1,559	60	1,619
Property & Housing	18,087	(12,976)	5,111	3,622	8,733
Resources & Finance	2,287	4	2,291	433	2,724
Transformation	4,441	(4,431)	10	-	10
Welfare Services	35,758	-	35,758	-	35,758
<b>Total Income analysed on a segmental basis</b>	<b>254,560</b>	<b>(50,021)</b>	<b>204,539</b>	<b>4,041</b>	<b>208,580</b>

**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	61,380	(20,448)	40,932	(3,602)	37,330
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>281,267</b>	<b>(69,452)</b>	<b>211,815</b>	<b>115</b>	<b>211,930</b>

Adjustments: Infrastructure, Environment & Economy – Trading Income included in note 21: £17,511,000 (2020/21 - £12,737,000). Property & Housing: Landbanking income £1,371,000 (2020/21 - £578,000). Capital Grants credited to services: £20,180,000 (2020/21 - £12,274,000).

## 20. Expenditure & Income Analysed by Segment and Nature

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

### 2021/22

	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	(9,590)	(2,830)	(11,661)	(13,722)	(1,559)	(2,076)	(2,256)	(10)	(35,151)	(56,898)	(17,511)	<b>(153,264)</b>
Interest and investment income	(30)	-	-	-	-	-	-	-	-	-	(593)	<b>(623)</b>
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(131,247)	<b>(131,247)</b>
Government grants and contributions	(895)	(36,693)	(5,684)	(21,733)	(60)	(6,657)	(468)	-	(607)	-	(579,284)	<b>(652,081)</b>
<b>Total income</b>	<b>(10,515)</b>	<b>(39,523)</b>	<b>(17,345)</b>	<b>(35,455)</b>	<b>(1,619)</b>	<b>(8,733)</b>	<b>(2,724)</b>	<b>(10)</b>	<b>(35,758)</b>	<b>(56,898)</b>	<b>(728,635)</b>	<b>(937,215)</b>
Employee expenses	28,981	217,493	42,661	18,935	7,736	24,586	16,273	6,154	-	14,751	978	<b>378,548</b>
Other service expenses	24,550	29,014	130,247	43,686	503	71,391	4,234	7,848	46,621	24,144	25,160	<b>407,398</b>
Depreciation, amortisation and impairment	2,009	30,950	1,005	39,133	-	2,738	6,740	-	-	26,142	928	<b>109,645</b>
Interest payments	-	-	-	-	-	-	-	-	-	-	48,108	<b>48,108</b>
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	-	-	8,982	<b>8,982</b>
<b>Total expenditure</b>	<b>55,540</b>	<b>277,457</b>	<b>173,913</b>	<b>101,754</b>	<b>8,239</b>	<b>98,715</b>	<b>27,247</b>	<b>14,002</b>	<b>46,621</b>	<b>65,037</b>	<b>84,156</b>	<b>952,681</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>45,025</b>	<b>237,934</b>	<b>156,568</b>	<b>66,299</b>	<b>6,620</b>	<b>89,982</b>	<b>24,523</b>	<b>13,992</b>	<b>10,863</b>	<b>8,139</b>	<b>(644,479)</b>	<b>15,466</b>

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

**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)	(15,961)	-	(5,987)	(123)	-	(2,028)	-	(587,920)	<b>(650,800)</b>
<b>Total income</b>	<b>(12,024)</b>	<b>(34,717)</b>	<b>(16,372)</b>	<b>(37,330)</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>(943,711)</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	45,431	356	62,453	10,979	54	47,138	17,678	19,985	<b>370,264</b>
Depreciation, amortisation and impairment	2,318	33,333	4,972	32,031	1	3,020	6,877	-	-	172,215	1,336	<b>256,103</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>103,814</b>	<b>6,306</b>	<b>88,960</b>	<b>34,044</b>	<b>1,873</b>	<b>47,138</b>	<b>201,803</b>	<b>73,583</b>	<b>1,033,055</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>146,766</b>	<b>(658,198)</b>	<b>89,344</b>

**21. Trading operation**

The Council has one 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 2021/22 is as follows:

Fishery, Piers and Harbours	£000
Turnover	17,514
Expenditure	<u>(14,873)</u>
Surplus	2,641
Less internal surplus included in service net expenditure	(40)
Less interest on revenue balances	(3)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 9)	<u><u>2,598</u></u>
Three year surplus	
Financial Year	£000
2019/20	1,409
2020/21	1,467
2021/22	<u>2,598</u>
	<u><u>5,474</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.

**22. Agency Services**

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2021/22 the Council collected £106.193m and received £106.697m contribution from the non-domestic rates pool (2020/21 collected £96.434m and received £92.297m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2021/22 the Council paid over £38.002m and received £0.765m for providing this service. During 2020/21 the Council paid over £36.739m and received £0.768m for providing this service.

Payments totalling £0.154m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2020/21 - £0.150m).

The Council issued COVID-19 related grants and payments on behalf of the Scottish Government during 2021/22 to the value of £66.227m. (2020/21 - £136.373m).



Scottish Child Bridging Payments were also issued on behalf of the Scottish Government during 2021/22 to the value of £2.584m (2020/21 – nil).

### 23. External audit costs

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

2020/21 £000		2021/22 £000
435	Fees payable to Audit Scotland with regard to external audit services	444

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

### 24. Pension schemes accounted for as defined contribution schemes

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

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

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

In 2021/22 the Council paid £24.982m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.0% of pensionable pay. The figures for 2020/21 were £24.458m and 23.0%. There were no contributions remaining payable at the year-end.

In 2021/22 the Council paid £1.567m to the Scottish Public Pensions Agency in respect of NHS retirement benefits, representing 20.9% of pensionable pay. The figures for 2020/21 were £1.50m 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 25.

## **25. Defined benefit pension schemes**

### **Participation in pension schemes**

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

The authority has two post employment arrangements:

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

### **Transactions relating to post employment benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	Council		Group		Council and Group	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000
<b>Comprehensive Income and Expenditure Statement</b>						
<b>Cost of services</b>						
Current service cost	47,268	76,619	52,250	85,609	-	-
Past service cost (including curtailments)	-	5	-	12	-	-
	47,268	76,624	52,250	85,621	-	-
Financing and investment (income) and expenditure	4,401	6,163	4,647	6,819	1,102	1,027
<b>Total post employment benefits charged to the surplus or deficit on the provision of services</b>	<b>51,669</b>	<b>82,787</b>	<b>56,897</b>	<b>92,440</b>	<b>1,102</b>	<b>1,027</b>

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	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2020/21 £000	Council 2021/22 £000	2020/21 £000 (restated)	Group 2021/22 £000	2020/21 £000	Council and Group 2021/22 £000
<b>Other post employment benefits charged to the comprehensive income and expenditure statement</b>						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets excluding the amount included in the net interest expense	(312,422)	(25,740)	(324,787)	(26,958)	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	357,164	(119,247)	384,395	(129,168)	4,148	(1,072)
Actuarial (gains)/losses arising on changes in demographic assumptions	(6,178)	(9,964)	(6,039)	(10,515)	(49)	(353)
Experience adjustments	38,881	3,431	41,342	3,666	1,032	(608)
<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>77,445</b>	<b>(151,520)</b>	<b>94,911</b>	<b>(162,975)</b>	<b>5,131</b>	<b>(2,033)</b>

2020/21 group figures restated for presentational error with associate amounts

	Local Government Pension Scheme Council		Local Government Pension Scheme Group		Discretionary Benefits Arrangements Council and Group	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £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	(51,669)	(82,787)	(56,897)	(92,440)	(1,102)	(1,027)
<b>Actual amount charged against the General Fund balance for pensions in the year</b>						
Employers contributions payable to the scheme	26,083	27,561	29,092	30,756	2,815	2,787

The above group figures on pages 89-91 include the following amounts for associates which are not consolidated into the pension liability: Return on Plan Assets (£0.251m) (2020/21 (£3.236m)), Actuarial Gains/Losses on changing financial assumptions (£1.273m) (2020/21 £3.586m) Actuarial Gains/Losses on changing demographic assumptions (£0.106m) (2020/21 (£0.135m)) Experience Adjustments £0.019m (2020/21 £0.050m).

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	
	31/03/21 £000	31/03/22 £000	31/03/21 £000	31/03/22 £000	31/03/21 £000	31/03/22 £000
Present value of the defined benefit obligation	(1,838,883)	(1,790,667)	(1,926,321)	(1,880,516)	(52,765)	(48,972)
Fair value of pension fund assets	1,554,911	1,602,989	1,613,199	1,667,075	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>(283,972)</b>	<b>(187,678)</b>	<b>(313,122)</b>	<b>(213,441)</b>	<b>(52,765)</b>	<b>(48,972)</b>

**Information about the defined benefit obligation**

	Liability split 31/03/21		Liability split 31/03/22	
	£000	(%)	£000	(%)
Active members	860,597	46.8	876,105	48.9
Deferred members	314,449	17.1	291,901	16.3
Pensioner members	663,837	36.1	622,661	34.8
<b>Total</b>	<b>1,838,883</b>	<b>100.0</b>	<b>1,790,667</b>	<b>100.0</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	
	31/03/21 £000	31/03/22 £000	31/03/21 £000	31/03/22 £000	31/03/21 £000	31/03/22 £000
Opening fair value of scheme assets	1,269,075	1,554,911	1,305,971	1,613,199	-	-
Interest income	29,101	30,991	29,986	32,222	-	-
Return on plan assets	312,422	25,740	321,551	26,707	-	-
Contributions by employer	26,083	27,561	29,092	30,756	2,815	2,787
Contributions by Scheme participants	7,940	8,617	8,875	9,624	-	-
Experience adjustments	(49,781)	-	(41,610)	-	-	-
Estimated benefits paid (net of transfers in)	(39,929)	(44,831)	(40,666)	(45,434)	(2,815)	(2,787)
<b>Closing fair value of scheme assets</b>	<b>1,554,911</b>	<b>1,602,989</b>	<b>1,613,199</b>	<b>1,667,074</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>31/03/21</b>	<b>31/03/22</b>	<b>31/03/21</b>	<b>31/03/22</b>	<b>31/03/21</b>	<b>31/03/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening defined benefit obligation	(1,450,016)	(1,838,883)	(1,496,642)	(1,926,321)	(49,347)	(52,765)
Current service cost	(47,268)	(76,619)	(52,250)	(85,609)	-	-
Past service cost	-	(5)	-	(12)	-	-
Interest cost	(33,502)	(37,154)	(34,633)	(39,041)	(1,102)	(1,027)
Contributions by scheme participants	(7,940)	(8,617)	(8,875)	(9,624)	-	-
Actuarial gains/(losses) from changes in financial assumptions	(357,164)	119,247	(380,809)	127,895	(4,148)	1,072
Actuarial gains/(losses) from changes in demographic assumptions	6,178	9,964	5,904	10,409	49	353
Experience adjustments	10,900	(3,431)	318	(3,647)	(1,032)	608
Estimated benefits paid (net of transfers in)	39,929	44,831	40,666	45,434	-	2,787
Unfunded pension payments	-	-	-	-	2,815	-
<b>Closing value</b>	<b>(1,838,883)</b>	<b>(1,790,667)</b>	<b>(1,926,321)</b>	<b>(1,880,516)</b>	<b>(52,765)</b>	<b>(48,972)</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:

2020/21		2021/22
7%	<b>Cash and cash equivalents</b>	5%
	<b>Equity Securities:</b>	
	By industry type	
18%	Consumer	15%
11%	Manufacturing	8%
1%	Energy and utilities	1%
11%	Financial institutions	10%
5%	Health and care	5%
5%	Information technology	6%
1%	Other	1%
	<b>Debt Securities:</b>	
	By sector	
2%	Property	4%
-	Corporate Bonds	7%
-	UK Government	2%
5%	<b>Private Equity</b>	7%
	<b>Property:</b>	
8%	UK	11%
	<b>Other Investment Funds:</b>	
13%	Equity (pooled funds and unitised insurance policies)	10%
13%	Bonds	2%
-	Hedge Funds	1%
-	Commodities	5%
<u>100%</u>	<b>Total</b>	<u>100%</u>

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

31 March 2021	Fair value of pension fund assets	31 March 2022
1,441,260	Equity Instruments	1,427,951
113,651	Quoted in an active market	175,038
<u>1,554,911</u>	Not quoted in an active market	<u>1,602,989</u>
	<b>Total equity instruments</b>	<b><u>1,602,989</u></b>

**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:

	2020/21	2021/22
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	20.9	20.8
• Women	23.5	23.3
Longevity at 65 for future pensioners (years)		
• Men	22.3	22.0
• Women	25.5	25.3
Rate of inflation	2.85%	3.20%
Rate of increase in salaries	3.65%	4.00%
Rate of increase in pensions	2.85%	3.20%
Rate for discounting fund liabilities	2.00%	2.70%
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 % increase to Employer Liability	Approximate monetary amount (£000)
0.1% decrease in Real Discount Rate	2%	32,942
1 year increase in member life expectancy	4%	73,586
0.1% increase in the Salary Increase Rate	0%	3,252
0.1% increase in the Pension Increase Rate (CPI)	2%	29,429

**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 2023 will be approximately 27.467m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years 2021/22 (19.0 years 2020/21).

## **26. Local Government Pension Scheme**

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

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

### Scheduled Bodies

- |   |                               |
|---|-------------------------------|
| 1. The Highland Council                             | 5. HITRANS                    |
| 2. Comhairle Nan Eilean Siar                        | 6. Inverness College          |
| 3. Highland and Western Isles Valuation Joint Board | 7. Lews Castle College        |
| 4. Scottish Fire & Rescue Service                   | 8. Scottish Police Authority  |
|   | 9. 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>2021/22</b>	<b>Contributors</b>	<b>Pensioners</b>	<b>Deferred Pensioners</b>
Highland Council	8,252	7,861	5,989
Scheduled Bodies	3,028	2,383	2,368
Admitted Bodies	2,333	1,245	1,189
<b>Total</b>	<b>13,613</b>	<b>11,489</b>	<b>9,546</b>
<b>2020/21</b>			
Highland Council	7,720	7,502	5,833
Scheduled Bodies	3,015	2,249	2,223
Admitted Bodies	2,245	1,124	1,067
<b>Total</b>	<b>12,980</b>	<b>10,875</b>	<b>9,123</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/>.

## **27. Related parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### **Central Government**

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

An analysis of significant government grants received during the year is set out in Note 42.

### **Members**

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

The total of members' allowances paid in 2021/22 is shown in the remuneration report.

Alasdair Rhind Funeral Directors Ltd had debts of £0.028m owed to the Council at 31st March 2022.

### **Valuation Joint Board and Highland and Islands Transport Partnership**

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

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

Further information on the Joint Board and the Transport Partnership can be found in each body's Annual Accounts available upon request from the Head of Corporate Finance, 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 £1.454m (2020/21 £1.285m) 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 2021/22 Highland Council paid NHS Highland £106.723m (2020/21 £102.057m) for the provision of integrated adult services and NHS Highland made payment of £11.362m (2020/21 £10.400m) 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 2021	15	(6)	(6)
31 March 2020	21	(7)	(7)

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 2021</b>			
Highland Opportunity (Investments) Limited	1,992	(30)	(30)
<b>Year ended 31 March 2020</b>			
Highland Opportunity (Investments) Limited	2,022	(179)	(179)

### Pathfinder North and Swan

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

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

### Hub North Scotland Ltd

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

## 28. Operating Leases

Highland Council as Lessor

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

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

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

31/03/21 £000 (restated)		31/03/22 £000
3,350	Not later than one year	3,443
10,644	Later than one year and not later than five years	10,566
94,086	Later than five years	99,123
<u>108,080</u>		<u>113,132</u>

The comparative figures have been restated to include future minimum lease payments receivable under non-cancellable leases for non-HRA property leases.

Highland Council as Lessee

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

31/03/21 £000		31/03/22 £000
1,276	Not later than one year	1,262
2,114	Later than one year and not later than five years	1,557
486	Later than five years	156
<u>3,876</u>		<u>2,975</u>

The total future minimum sublease payments expected to be received under non-cancellable subleases at the Balance Sheet date is £0.014m.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.326m (2020/21 £1.327m).

**29. 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 2021	541,000	1,442,186	184,006	602,547	7,443	8,759	137,973	<b>2,923,914</b>	293,728
Additions	22,480	43,046	11,590	44,880	723	8	64,467	<b>187,194</b>	478
Revaluation increases recognised in the surplus/deficit of services	6,473	14,803	-	-	-	25	-	<b>21,301</b>	-
Revaluation decreases recognised in the surplus/deficit of services	(32,181)	(20,979)	-	-	-	(56)	-	<b>(53,216)</b>	-
Revaluation increases recognised in the Revaluation Reserve	-	103,104	-	-	-	226	-	<b>103,330</b>	28,168
Revaluation decreases recognised in the Revaluation Reserve	-	(43,792)	-	-	-	(197)	-	<b>(43,989)</b>	-
Derecognition – disposals	(7,726)	(964)	(451)	-	(4)	-	(3,568)	<b>(12,713)</b>	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	43,383	56,918	-	(4,206)	-	228	(96,323)	-	-
Assets reclassified (to)/from Held for Sale	-	(1,341)	-	-	-	(302)	-	<b>(1,643)</b>	-
<b>At 31 March 2022</b>	<b>573,429</b>	<b>1,592,981</b>	<b>195,145</b>	<b>643,221</b>	<b>8,162</b>	<b>8,691</b>	<b>102,549</b>	<b>3,124,178</b>	<b>322,374</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 2021	-	3,220	121,727	165,144	-	-	30	<b>290,121</b>	-
Depreciation charge	21,978	26,449	14,187	18,669	-	19	-	<b>81,302</b>	4,937
Revaluation increases recognised in the surplus/deficit of services	(21,980)	(1,978)	-	-	-	(6)	-	<b>(23,964)</b>	-
Revaluation increases recognised in the Revaluation Reserve	-	(25,623)	-	-	-	(13)	-	<b>(25,636)</b>	(4,937)
Derecognition – disposals	-	(15)	(396)	-	-	-	-	<b>(411)</b>	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	2	-	-	-	-	-	(2)	-	-
Assets reclassified (to)/from Held for Sale	-	(5)	-	-	-	-	-	<b>(5)</b>	-
At 31 March 2022	-	2,048	135,518	183,813	-	-	28	<b>321,407</b>	-
<b>Net book value</b>									
<b>At 31 March 2022</b>	<b>573,429</b>	<b>1,590,933</b>	<b>59,627</b>	<b>459,408</b>	<b>8,162</b>	<b>8,691</b>	<b>102,521</b>	<b>2,802,771</b>	<b>322,374</b>
At 31 March 2021	541,000	1,438,966	62,279	437,403	7,443	8,759	137,943	2,663,793	293,728

**Comparative Movements in 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>Cost or valuation</b>									
As At 1 April 2020	799,590	1,462,892	178,087	584,552	7,233	8,387	104,761	<b>3,145,502</b>	302,988
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	(181,031)	(19,613)	-	-	-	(2,156)	-	<b>(202,800)</b>	(11,287)
Revaluation increases recognised in the Revaluation Reserve	-	33,161	-	-	-	556	-	<b>33,717</b>	1,712
Revaluation decreases recognised in the Revaluation Reserve	(100,779)	(62,563)	-	-	-	(1,766)	-	<b>(165,108)</b>	-
Derecognition - disposals	(1,569)	(359)	(1,460)	-	-	(68)	(30)	<b>(3,486)</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>541,000</b>	<b>1,442,186</b>	<b>184,006</b>	<b>602,547</b>	<b>7,443</b>	<b>8,759</b>	<b>137,973</b>	<b>2,923,914</b>	<b>293,728</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 2020	53,295	6,262	107,596	147,471	-	7	30	<b>314,661</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	(23,022)	(3,007)	-	-	-	(9)	-	<b>(26,038)</b>	-
Revaluation increases recognised in the Revaluation Reserve	(43,689)	(23,945)	-	-	-	(255)	-	<b>(67,889)</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	-	3,220	121,727	165,144	-	-	30	<b>290,121</b>	-
<b>Net book value</b>									
<b>At 31 March 2021</b>	<b>541,000</b>	<b>1,438,966</b>	<b>62,279</b>	<b>437,403</b>	<b>7,443</b>	<b>8,759</b>	<b>137,943</b>	<b>2,663,793</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

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The following table outlines the progress of the Council's 5 year rolling programme of valuations. The Council carries out a desktop exercise 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.

	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	-	-	59,627	459,408	8,162	-	102,521	<b>629,718</b>
Asset Last Revalued								
FY 2021/22	573,429	543,827	-	-	-	8,691	-	<b>1,125,947</b>
FY 2020/21	-	303,166	-	-	-	-	-	<b>303,166</b>
FY 2019/20	-	575,959	-	-	-	-	-	<b>575,959</b>
FY 2018/19	-	56,228	-	-	-	-	-	<b>56,228</b>
FY 2017/18	-	111,753	-	-	-	-	-	<b>111,753</b>
<b>Total cost or valuation</b>	<b>573,429</b>	<b>1,590,933</b>	<b>59,627</b>	<b>459,408</b>	<b>8,162</b>	<b>8,691</b>	<b>102,521</b>	<b>2,802,771</b>

**30. Capital commitments**

The total value of legal commitments on capital contracts as at 31 March 2022, for the acquisition of property, plant and equipment, was £92.822m (31 March 2021 £126.185m). Details of the major commitments by contract or project are as follows:

Contract or Project	2021/22 £m
HRA Housing - Council House New Builds	38.679
Inverness Castle Redevelopment	22.876
Early Learning and Childcare	5.437
ICT Capital Commitments	3.950
Miscellaneous projects with an individual commitment less than £0.5m	3.707
School Estate Improvement Programme	3.415
Former Children's Home, Coulhill, Alness	3.246
Modular Units - Schools	2.405
Windows & Doors Replacements -All Areas	2.395
Raigmore Primary – Extension	0.938
Kyle Primary – Extension	0.905
Grantown Grammar School - new Energy Hub	0.775
Heating - All Areas	0.709
BSGLA - Classroom Expansion	0.634
Fire Detection Works	0.631
Rewiring – All Areas	0.594
Lochaber High School - Roof Refurb	0.593
Inverness Botanic Gardens - Greenhouse Replacement	0.586
Reroofing - All Areas	0.347
	<u>92.822</u>

**31. Capital expenditure and capital financing**

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

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2020/21 £000 (restated)		2021/22 £000
1,177,177	Opening capital financing requirement	1,159,560
	<b>Capital investment</b>	
113,099	Property, Plant and Equipment	187,194
12,274	Revenue Expenditure funded from capital under statute	20,180
	<b>Sources of finance</b>	
(1,102)	Capital receipts	(2,788)
(2,276)	Capital Fund	(1,550)
218	Evergreen Infrastructure Fund	-
(76,392)	Government grants and other contributions	(85,506)
	Sums set aside from revenue	
(2,404)	- direct revenue contributions	(6,430)
(39,513)	- loans fund principal	(45,282)
(218)	Evergreen Infrastructure Fund Loans	-
(15,869)	House loans & NHT	(2)
(5,434)	Reduction in Finance Lease Creditors (PPP)	(6,663)
<u>1,159,560</u>	<b>Closing capital financing requirement</b>	<u>1,218,713</u>
	Explanation of movements in the year	
(1,748)	Increase in underlying need to borrow (supported by government financial assistance)	59,155
(15,869)	Decrease in underlying need to borrow (unsupported by government financial assistance)	(2)
<u>(17,617)</u>	Increase/(decrease) in capital financing requirement	<u>59,153</u>

The opening capital financing requirement balance in 2020/21 has been adjusted by the historic balance difference in the prudential balance sheet capital financing requirement.

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	√	√

## **32. Private finance initiatives and similar contracts**

### **Community Schools (Highlands) Ltd**

The Council signed a PFI Project Agreement with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this project in 2021/22 was £4.038m. (2020/21 £4.002m). 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 2022 until July 2027 amounts to £18.415m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £6.717m 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 2021/22 was £21.850m. (2020/21 £21.685m). 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 £340.348m 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 £107.400m 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 2021/22 the Annual Service Charge amounted to £4.688m. (2020/21 £4.675m) The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £92.747m 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 £79.243m over the remaining contract term.

### **Property, plant and equipment**

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 29.

**Liabilities arising from PFI and similar contracts**

2020/21 £000		2021/22 £000
(148,822)	As at 1 April 2021	(143,388)
5,434	Repaid in year	6,663
<u>(143,388)</u>	As at 31 March 2022	<u>(136,725)</u>

**Payments**

Payments remaining to be made under PFI contracts at 31 March 2022 (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	6,370	9,800	14,688	30,858
within 2 to 5 years	31,038	33,554	62,158	126,750
within 6 to 10 years	38,512	28,628	77,814	144,954
within 11 to 15 years	50,009	13,507	87,585	151,101
within 16 to 20 years	10,796	1,735	8,850	21,381
within 21 to 25 years				
	<u>136,725</u>	<u>87,224</u>	<u>251,095</u>	<u>475,044</u>

**33. IFRS 13 Fair Value Measurement**

Details of the authority's Corporate Surplus Assets and Assets Held for Sale and information about the fair value hierarchy as at 31 March 2022 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/22 £000
Buildings – Corporate Surplus	423	423
Buildings – Held for Sale	443	443
Land – Corporate Surplus	8,268	8,268
Land – Held for Sale	418	418
	<u>9,552</u>	<u>9,552</u>

The fair value for the properties has been based on the comparable method of valuation, which is a market approach using current market conditions and recent transactions and other relevant information for similar assets in the Highland Council area. The inputs are derived through market transactions of other properties actively exchanged through sales and leasing. The level of observable inputs are tangible transactions, leading to the properties being categorised at Level 2 in the fair value hierarchy. Note 6 explains the valuation techniques used in estimating fair value.

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

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

Details of the Common Good Funds' Investment properties held at fair value are shown in the Common Good accounts (Note 46d).



**34. Heritage assets**

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2020	6,290	768	7,058
Balance at 31 March 2021	<u>6,290</u>	<u>768</u>	<u>7,058</u>
Balance at 1 April 2021	6,290	768	7,058
Revaluations	-	(52)	(52)
Balance at 31 March 2022	<u>6,290</u>	<u>716</u>	<u>7,006</u>

**35. Long term debtors**

31/03/21 £000		31/03/22 £000
12,206	Scottish Police Authority	11,713
4,855	Scottish Fire and Rescue Service	4,428
15,292	Landbanking fund advances	22,327
6,902	Evergreen Infrastructure fund advances	7,186
1,077	Other loans	1,075
<u>40,332</u>	Long term debtors (net of impairment)	<u>46,729</u>

**36. Short term debtors**

31/03/21 £000		Note	31/03/22 £000
38,252	Central government bodies		30,889
371	Other local authorities		402
2,907	NHS bodies		14,362
6	Public corporations		8
<u>24,356</u>	Other entities and individuals		<u>31,317</u>
65,892			76,978
(5,160)	Impairment Allowance	45	(5,885)
<u>60,732</u>	<b>Total (net of impairment)</b>		<u>71,093</u>
(8,511)	Prepayments included in debtors		(6,262)
<u>52,221</u>	Total Financial Assets Current Debtors	43	<u>64,831</u>

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

### 37. Debtors for Local Taxation

31/03/21				31/03/22		
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
5,688	4,694	10,382	Less than one year	4,921	10,550	15,471
6,562	2,139	8,701	One to two years	7,259	1,514	8,773
7,039	1,420	8,459	Three to five years	7,285	1,632	8,917
20,216	496	20,712	More than five years	20,736	499	21,235
<u>39,505</u>	<u>8,749</u>	<u>48,254</u>		<u>40,201</u>	<u>14,195</u>	<u>54,396</u>
(29,584)	(4,723)	(34,307)	Impairment Allowance	(31,141)	(4,712)	(35,853)
<b><u>9,921</u></b>	<b><u>4,026</u></b>	<b><u>13,947</u></b>	<b>Total (net of impairment)</b>	<b><u>9,060</u></b>	<b><u>9,483</u></b>	<b><u>18,543</u></b>

### 38. Short term creditors

31/03/21 £000		Note	31/03/22 £000
14,116	Central government bodies		13,956
802	Other local authorities		345
21,979	NHS bodies		16,070
6,440	Finance lease creditors		6,370
90,273	Other entities and individuals		101,724
<b><u>133,610</u></b>	<b>Total</b>		<b><u>138,465</u></b>
(10,492)	Tax and social security creditors included above		(10,735)
(13,033)	Receipts in advance included above		(15,561)
<u>110,085</u>	<b>Total Financial Liabilities Current Creditors</b>	43	<u>112,169</u>

### 39. Provisions

	Note	At 1/4/21 £000	Increase / (Decrease) in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/3/22 £000
<b>Short term</b>						
Equal Pay	1	230	-	(8)	-	222
Insurance Building	2	150	-	-	(150)	-
Dilapidations	3	303	284	-	(303)	284
Legal Disputes	4	-	2,500	-	-	2,500
		<u>683</u>	<u>2,784</u>	<u>(8)</u>	<u>(453)</u>	<u>3,006</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.
- (4) Provision made relating to contractual dispute regarding contract terms and pricing. The timing and amount of any settlement remains uncertain

#### 40. Long Term Liabilities

31/03/21 £000		31/03/22 £000
336,737	Pension Liability	236,650
136,949	Finance lease creditors	130,356
<u>2,302</u>	Other long term creditors	<u>2,277</u>
<u>475,988</u>		<u>369,283</u>

#### 41. Contingent liabilities

##### Mallaig Harbour Authority

The Council has guaranteed a 25 year loan from the Public Works Loan Board to Mallaig Harbour Authority. The Harbour Authority's current loan obligations to the PWLB comprise half yearly repayments of principal and interest totalling £0.034m. The balance of that loan as at 31 March 2022 is £0.064m (31 March 2021 £0.094m).

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.

##### 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.

##### 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, 2020/21 and 2021/22 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.

### **Consolidation of Living Wage**

The living wage rate has been consolidated into the bottom points of the Council pay grades, however over time the pay award has encroached into the bottom pay points. As part of the 2018-2021 three year pay award, a national reference group involving the Trades Unions was established to oversee the process of Councils achieving full consolidation by March 2021. Where Councils are unable to implement a revised pay model by this date, an agreement can be reached locally which would incorporate a firm commitment that any extension would have a final implementation date of 2022. The Highland Council has agreed an extension and is working to implement a revised pay and grading model for Scottish Joint Council (for Local Government Services) staff which will be effective from 1 April 2021.

**42. Grant income**

The Comprehensive Income and Expenditure Statement in 2021/22 includes the following grants, contributions and donations:

2020/21 £000		2021/22 £000
	<b>Credited to Taxation and non-specific grant income</b>	
371,023	Revenue support grant	386,770
54,482	Revenue support grant - COVID-19 redeterminations	20,220
92,297	Non-Domestic rates	106,967
70,118	Capital grants and contributions	65,326
587,920		579,283
	<b>Credited to services</b>	
37,168	Housing Benefits	35,631
22,833	Early Learn/Childcare	25,573
12,274	Capital grants and contributions	20,180
3,085	Pupil Equity Funding	4,517
4,100	Scottish Futures Trust - Wick Schools	4,106
3,717	Criminal Justice Grant	3,725
6,209	COVID-19 Related Grants	3,504
1,742	Crown Estates	3,201
1,540	Energy Efficiency Scotland	2,813
1,674	Developers Contributions	2,640
1,101	Attainment Challenge	1,220
1,066	Sport Scotland	1,099
3,526	European Grants and Contributions	1,063
420	Challenge Fund	1,047
1,348	Rural Tourism Infrastructure	1,035
905	Gaelic	910
767	EMA Co-ordination	572
593	Family Nurse Partnership	547
1,000	Salix Financing	500
301	SAC - Education for LAC	442
202	Syrian Refugees	417
-	- Belwin & Regional Economic Partnership	399
-	- City Centre Recovery	360
-	- Milk & Healthy Snack Scheme	320
-	- CJS Caledonian System	238
407	Paths for All	227
-	- Vehicles Insurance Claim	216
693,898	Total	695,785

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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:

2020/21 £000		2021/22 £000
	<b>Grants Received in Advance (Capital Grants)</b>	
4,000	Gaelic Grant c/f	4,000
-	- Place Based Investment Programme	1,733
2,617	Town Centre Fund	975
-	- Carse RCGF funding in advance	725
1,678	VDLF	556
321	Community Links Plus	321
199	Morvern RCGF funding in advance	65
-	- Corpach Marina RCGF funding in advance	24
85	Digital Inclusion	4
14,661	Nurseries 1,140 hours	-
226	Travelling Peoples Sites	-
171	Cycling, Walking and Safer Streets	-
80	Glenmore Corridor	-
47	City Deal	-
46	Spaces for People	-
34	Destination Development	-
24,165	Total	8,403

**43. 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
2021	2021	2021	2021	2021		2022	2022	2022	2022	2022
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	40,332	112,620	52,221	205,173	Amortised cost	-	46,729	96,003	64,831	207,563
<hr/>					<b>Total Financial Assets</b>	<hr/>				
-	<b>40,332</b>	<b>112,620</b>	<b>52,221</b>	<b>205,173</b>		-	<b>46,729</b>	<b>96,003</b>	<b>64,831</b>	<b>207,563</b>
<hr/>					Non-financial assets	<hr/>				
-	-	73	22,458	22,531		-	-	72	24,805	24,877
<hr/>					<b>Total</b>	<hr/>				
-	<b>40,332</b>	<b>112,693</b>	<b>74,679</b>	<b>227,704</b>		-	<b>46,729</b>	<b>96,075</b>	<b>89,636</b>	<b>232,440</b>
<hr/>						<hr/>				

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

Restated in 2020/21 to move nett bank overdraft position from non-financial assets under current investments to non-financial liabilities under current borrowing.

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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
2021	2021	2021	2021	2021		2022	2022	2022	2022	2022
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
816,630	139,099	155,938	110,085	1,221,752	Amortised cost	884,870	132,506	154,253	112,169	1,283,798
<hr/>					<b>Total</b>	<hr/>				
<b>816,630</b>	<b>139,099</b>	<b>155,938</b>	<b>110,085</b>	<b>1,221,752</b>	<b>Financial</b>	<b>884,870</b>	<b>132,506</b>	<b>154,253</b>	<b>112,169</b>	<b>1,283,798</b>
<hr/>					<b>Liabilities</b>	<hr/>				
-	336,889	62	23,525	360,476	Non-financial	-	236,777	681	26,296	263,754
		(restated)		(restated)	liabilities					
<b>816,630</b>	<b>475,988</b>	<b>156,000</b>	<b>133,610</b>	<b>1,582,228</b>	<b>Total</b>	<b>884,870</b>	<b>369,283</b>	<b>154,934</b>	<b>138,465</b>	<b>1,547,552</b>
<hr/>						<hr/>				

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

Non-financial liabilities held under current borrowings consist of cash held at bank as shown in note 17.

Restated in 2020/21 to move net bank overdraft position from non-financial assets under current investments to non-financial liabilities under current borrowing.



**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.

2020/21 £000		2021/22 £000
12,420	Balance at 1 April 2021	6,942
4,442	Nominal value of new loans made in the year	8,225
(6,759)	Loans repaid in the year	(1,268)
(33)	Fair value adjustment re interest uncharged in year	78
(3,128)	Other movements – transfer to interest bearing loans	(7,755)
<u>6,942</u>	Balance at 31 March 2022	<u>6,222</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 2021/22 this was 3.47%.

**Loans to Inverness Airport Business Park Limited**

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

2020/21 £000		2021/22 £000
811	Balance at 1 April 2021	1,175
<u>364</u>	Fair value adjustment re interest uncharged in year	<u>-</u>
1,175	Balance at 31 March 2022	1,175
(1,175)	Impairment Loss Allowance	(1,175)
<u>-</u>	Balance net of impairment at 31 March 2022	<u>-</u>

Following the 2020/21 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.

**Valuation assumptions**

The interest rate at which the fair value of the soft loan had been calculated in prior years was 4.52%.

**44. Financial instrument gains and losses**

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

2020/21 Surplus or Deficit on the Provision of Services £000 (restated)		2021/22 Surplus or Deficit on the Provision of Services £000
	Net (gains)/losses on:	
2,239	Financial assets measured at amortised cost	1,979
2,239	<b>Total (gains)/losses</b>	1,979
	Interest revenue:	
(1,400)	Financial assets measured at amortised cost	(590)
(1,400)	<b>Total interest revenue</b>	(590)
49,717	<b>Interest expense</b>	48,108

Interest expenses in 2020/21 has been updated to remove the pension liability interest as this is a non-financial liability.

**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**

31/03/21			31/03/22	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
698,795	934,757	PWLB debt	791,464	922,966
135,590	219,395	Market loan	126,432	192,455
131,194	131,224	Temporary loans	112,061	111,917
		Loans Fund advances to group		
6,989	6,989	bodies	9,166	9,166
136,949	210,340	PFI	130,356	184,516
2,150	2,150	Long Term Creditors	2,150	2,150
110,085	110,085	Short Term Creditors	112,169	112,169
<u>1,221,752</u>	<u>1,614,940</u>	Financial liabilities	<u>1,283,798</u>	<u>1,535,339</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**

31/03/21			31/03/22	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
102,620	102,620	Call accounts	96,003	96,003
10,000	10,000	Fixed term deposits	-	-
40,332	40,332	Long term debtors	46,729	46,729
52,221	52,221	Short term debtors	64,831	64,831
<u>205,173</u>	<u>205,173</u>	Financial assets	<u>207,563</u>	<u>207,563</u>

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

**45. Nature and extent of risks arising from financial instruments**

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

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

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

**Credit risk**

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

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

2020/21				<b>Asset Class: Financial Assets Held at Amortised Cost</b>	2021/22			
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
4,376	5,780	413	10,569	Opening balance as at 1 April 2021	3,061	2,099	1,175	6,335
				Transfers:				
(2,781)	(4,718)	-	(7,499)	Amounts written off	(996)	(258)	-	(1,254)
1,466	1,037	762	3,265	Other changes	1,115	864	-	1,979
<u>3,061</u>	<u>2,099</u>	<u>1,175</u>	<u>6,335</u>	As at 31 March 2022	<u>3,180</u>	<u>2,705</u>	<u>1,175</u>	<u>7,060</u>

The Council has the following exposure to credit risk as at 31 March 2022:

	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	30.24	10,516
Rent	63.92	4,232
Landbank Fund Soft Loans	0.00	6,222
Deposits with Banks	0.00	96,003
<b>Total</b>		<b>118,148</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:

31/03/21		31/03/22
£000		£000
5,758	Less than three months	4,924
453	Three to six months	776
388	Six to twelve months	450
<u>4,870</u>	More than twelve months	<u>4,366</u>
<u>11,469</u>	Total	<u>10,516</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 of 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 2022, 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	365
Increase in interest receivable on variable rate investments	<u>(960)</u>
Impact on Income and Expenditure Account	<u>(595)</u>
 Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	 <u>11,728</u>

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

### Price risk

The Council does not invest in equity shares.

### Foreign exchange risk

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

## Liquidity Risk

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

The maturity structure of financial liabilities is as follows:

31/03/2021		Liquidity risk	31/03/2022	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
<b>Financial Liabilities</b>				
		Public Works Loans Board	791,464	791,352
698,795	698,680	Market Loans	126,432	124,806
135,590	133,806	Temporary Loans	112,061	112,000
131,194	131,000	Internal Loans Fund		
		Advances	9,166	9,166
6,989	6,989	PFI and similar contracts	130,356	130,356
136,949	136,949	Long term creditor	2,150	2,150
2,150	2,150	Short term creditor	112,169	112,169
110,085	110,085			
<u>1,221,752</u>	<u>1,219,659</u>		<u>1,283,798</u>	<u>1,281,999</u>
<b>Maturity</b>				
266,024	264,402	Less than 1 year	266,422	265,088
45,215	45,215	Between 1 and 2 years	31,081	31,081
50,010	50,010	Between 2 and 5 years	90,717	90,717
156,871	156,871	Between 5 and 10 years	114,648	114,648
703,632	703,161	More than 10 years	780,930	780,465
<u>1,221,752</u>	<u>1,219,659</u>		<u>1,283,798</u>	<u>1,281,999</u>



#### **46. 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 smallest Common Good Fund, Kingussie, is included in the following statements, but due to the size of the fund, not listed separately. Further details are, however, available on request. A Common Good Fund was established for the town of Wick in 2021/22.

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

#### **Accounting Policies**

The Common Good accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in Note 3 to the financial statements. In addition, the Common Good Fund has investment properties which are those used solely to earn rentals and for capital appreciation.

Investment property values are determined by applying IFRS 13 – Fair Value Measurement. Disclosures regarding the valuation of investment properties are detailed in Note 46d) 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**

2020/21				2021/22		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
1,379	(497)	882	Inverness	1,898	(317)	1,581
18	-	18	Nairn	58	(28)	30
16	-	16	Tain	8	-	8
30	-	30	Dornoch	125	(2)	123
63	(63)	-	Dingwall	146	(135)	11
3	(1)	2	Fortrose	3	-	3
-	-	-	Cromarty	1	-	1
2	-	2	Invergordon	2	-	2
<b>1,511</b>	<b>(561)</b>	<b>950</b>	<b>Cost of services</b>	<b>2,241</b>	<b>(482)</b>	<b>1,759</b>
		(4,296)	Financing and investment income and expenditure (note 46b)			(1,647)
		(166)	Capital Grants and Contributions			(393)
		<b>(3,512)</b>	<b>(Surplus)/Deficit on provision of services</b>			<b>(281)</b>
		-	Deficit/(surplus) on revaluation of heritage assets			327
		-	<b>Other comprehensive income and expenditure</b>			
		<b>(3,512)</b>	<b>Total comprehensive (income) and expenditure</b>			<b>46</b>

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<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 46a)	(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>

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

<b>MOVEMENT IN RESERVES STATEMENT 2021/22</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 2021	<b>8,329</b>	<b>120</b>	<b>4,078</b>	<b>34,338</b>	<b>46,865</b>
<b>Movement in reserves during 2021/22</b>					
<b>Total Comprehensive Income and Expenditure</b>	<b>281</b>	-	<b>(327)</b>	-	<b>(46)</b>
Adjustments between accounting and funding basis (note 46a)	(892)	-	-	892	-
<b>Net increase/(decrease) before transfers to other statutory reserves</b>	<b>(611)</b>	-	<b>(327)</b>	892	<b>(46)</b>
Transfers between statutory reserves	-	-	-	-	-
<b>Net increase/(decrease)</b>	<b>(611)</b>	-	<b>(327)</b>	892	<b>(46)</b>
<b>Balance at 31 March 2022</b>	<b>7,718</b>	<b>120</b>	<b>3,751</b>	<b>35,230</b>	<b>46,819</b>

**COMMON GOOD FUNDS  
BALANCE SHEET AS AT 31 March 2022**

31/03/21 £000		Notes	31/03/22 £000
201	Property, Plant and Equipment	46d)	208
4,370	Heritage Assets	46d)	4,043
33,836	Investment Properties	46d),46f)	34,722
9	Intangible Assets	46g)	8
6,056	Investments	46h)	6,223
<b>44,472</b>	<b>Long Term Assets</b>		<b>45,204</b>
2,488	Cash and cash equivalents	46i)	1,906
3	Sundry debtors		98
<b>2,491</b>	<b>Current Assets</b>		<b>2,004</b>
(98)	Sundry creditors		(389)
<b>(98)</b>	<b>Current Liabilities</b>		<b>(389)</b>
<b>2,393</b>	<b>Net current assets</b>		<b>1,615</b>
<b>46,865</b>	<b>Net assets</b>		<b>46,819</b>
<b>8,449</b>	<b>Usable Reserves</b>	46j)	<b>7,838</b>
<b>38,416</b>	<b>Unusable Reserves</b>	46k)&46l)	<b>38,981</b>
<b>46,865</b>	<b>Total Reserves</b>		<b>46,819</b>

**CASH FLOW STATEMENT**

31/03/21 £000		Notes	31/03/22 £000
3,512	Net surplus/(deficit) on the provision of services		281
(2,198)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	46o)	858
(166)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	46o)	(393)
<u>1,148</u>	Net cash inflow/(outflow) from operating activities		<u>746</u>
8	Investing activities	46p)	(1,721)
166	Financing activities	46q)	393
<u><b>1,322</b></u>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(582)</b></u>
1,166	Cash and cash equivalents at 1 April 2021		2,488
<u><u><b>2,488</b></u></u>	<b>Cash and cash equivalents at 31 March 2022</b>	<b>46i)</b>	<u><u><b>1,906</b></u></u>

**NOTES TO THE COMMON GOOD FUNDS ACCOUNTS**

**46a) Movement in Reserves Statement – Adjustment between accounting and funding basis**

<b>2021/22</b>	Capital Adjustment Account £000	Total 2021/22 £000
Revaluation of investment properties	(809)	(809)
Capital grants and contributions	393	393
Capital expenditure funded from revenue	1,328	1,328
Depreciation and amortisation	(20)	(20)
	892	892
<b>2020/21</b>	Capital Adjustment Account £000	Total 2020/21 £000
Revaluation of investment properties	948	948
Capital grants and contributions	166	166
Capital expenditure funded from revenue	727	727
Depreciation and amortisation	(15)	(15)
	1,826	1,826

**46b) Comprehensive income and expenditure statement – Financing and investment income and expenditure**

2020/21 £000		2021/22 £000
(473)	Interest and investment income and expenditure	(204)
(2,397)	Rental income	(2,529)
233	Property costs	277
(948)	(Surplus)/deficit on revaluation of investment properties	809
(1,065)	(Gains)/losses on valuation of financial assets	(55)
354	(Gains)/ losses on derecognition of financial assets	55
(4,296)		(1,647)

**46c) Operating leases**

Common Good Fund as lessor

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

2020/21 £000		2021/22 £000
<u>2,397</u>	Lease income received in year	<u>2,521</u>

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

31/03/21 £000		31/03/22 £000
2,441	Within one year	2,494
9,106	Later than one year and not later than five years	8,804
88,790	Later than five years	92,487
<u>100,337</u>		<u>103,785</u>

**46d) Non-current assets**

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

Movements in 2021/22

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
<b>Gross book value</b>				
As at 1 April 2021	33,836	4,370	215	38,421
Additions	1,695	-	26	1,721
Revaluations	(809)	(327)	-	(1,136)
As at 31 March 2022	<u>34,722</u>	<u>4,043</u>	<u>241</u>	<u>39,006</u>
<b>Accumulated depreciation</b>				
As at 1 April 2021	-	-	14	14
Depreciation charge	-	-	19	19
As at 31 March 2022	<u>-</u>	<u>-</u>	<u>33</u>	<u>33</u>
<b>Net book value</b>				
As at 31 March 2022	<u>34,722</u>	<u>4,043</u>	<u>208</u>	<u>38,973</u>
As at 31 March 2021	<u>33,836</u>	<u>4,370</u>	<u>201</u>	<u>38,407</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 2022, 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.

## **46e) Related Parties**

During the period the Council incurred £0.068m 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 £0.270m in rental income.

## **46f) Investment property**

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

31/03/21 £000	Investment Property at Fair Value	31/03/22 £000
	Common Good Fund	
24,257	Inverness	24,556
8,296	Nairn	8,300
332	Tain	358
531	Dornoch	609
195	Dingwall	235
168	Fortrose	171
57	Cromarty	58
-	Grantown-on-Spey	10
-	Wick	425
<u>33,836</u>		<u>34,722</u>

**46g) Intangible assets**

2020/21 £000		2021/22 £000
10	Fishing Licence – Tain As at 1 April 2021	9
(1)	Amortisation	(1)
<u>9</u>	As at 31 March 2022	<u>8</u>

**46h) Long Term Investments**

31/03/21			31/03/22	
Cost £000	Valuation £000		Cost £000	Valuation £000
3,516	5,481	Inverness - Managed portfolio	3,675	5,635
501	575	Nairn – Managed portfolio	509	588
<u>4,017</u>	<u>6,056</u>		<u>4,184</u>	<u>6,223</u>

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

31/03/21			31/03/22	
Cost £000	Valuation £000	Units Held	Cost £000	Valuation £000
1,902	3,811	Equities	1,918	3,877
1,555	1,610	Bonds	1,437	1,438
60	60	Cash	170	170
-	-	Property	150	150
<u>3,517</u>	<u>5,481</u>	Total	<u>3,675</u>	<u>5,635</u>

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

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31/03/21 Units Held			31/03/22 Units Held	
Cost £000	Valuation £000		Cost £000	Valuation £000
368	437	Equities	369	446
85	89	Bonds	71	69
30	30	Cash	33	33
18	19	Property	36	40
<u>501</u>	<u>575</u>	Total	<u>509</u>	<u>588</u>

**46i) Cash and cash equivalents**

31/03/21 £000		31/03/22 £000
<u>2,488</u>	Balance with Highland Council Loans Fund	<u>1,906</u>
<u>2,488</u>	Total	<u>1,906</u>

**46j) Usable Reserves**

**Common Good Funds**

Revenue Funds	Balance at 1/04/21 £000	Movement 2021/22 £000	Balance at 31/03/22 £000
Inverness	6,564	(653)	5,911
Nairn	682	66	748
Tain	222	2	224
Dornoch	333	(78)	255
Dingwall	262	18	280
Fortrose	142	20	162
Cromarty	44	4	48
Invergordon	80	2	82
Wick	-	8	8
<b>Total</b>	<u>8,329</u>	<u>(611)</u>	<u>7,718</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 1/04/21 £000	Movement 2021/22 £000	Balance at 31/03/22 £000
Inverness	1,964	(4)	1,960
Nairn	75	4	79
<b>Total</b>	<u>2,039</u>	<u>-</u>	<u>2,039</u>

Capital Fund	Balance at 01/04/2021 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2022 £000
Tain	<u>120</u>	-	<u>120</u>
	<u>120</u>	-	<u>120</u>

**46k) Unusable Reserves**

Revaluation Reserve	Balance at 31/03/21 £000	Revaluations 2021/22 £000	Balance at 31/03/22 £000
Fund			
Inverness	2,063	(279)	1,784
Nairn	60	-	60
Tain	94	-	94
Dornoch	22	-	22
Fortrose	254	-	254
Invergordon	1,585	(100)	1,485
Wick	-	52	52
<b>Total</b>	<b>4,078</b>	<b>(327)</b>	<b>3,751</b>

**46l) Capital Adjustment Account**

Fund	Balance at 31/03/21 £000	Revaluations 2021/22 £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/22 £000
Inverness	24,257	(1,396)	393	1,323	(4)	24,573
Nairn	8,497	5	-	5	(15)	8,492
Tain	633	26	-	-	(1)	658
Dornoch	532	77	-	-	-	609
Dingwall	195	40	-	-	-	235
Fortrose	167	3	-	-	-	170
Cromarty	57	1	-	-	-	58
Grantown-on-Spey	-	10	-	-	-	10
Wick	-	425	-	-	-	425
<b>Total</b>	<b>34,338</b>	<b>(809)</b>	<b>393</b>	<b>1,328</b>	<b>(20)</b>	<b>35,230</b>

**46m) 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
2021	2021	2021	2021	2021		2022	2022	2022	2022	2022
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
6,056	-	-	-	6,056	Fair value through profit or loss	6,223	-	-	-	6,223
-	-	2,488	3	2,491	Amortised cost	-	-	1,906	98	2,004
<b>6,056</b>	<b>-</b>	<b>2,488</b>	<b>3</b>	<b>8,547</b>	<b>Total Financial Assets</b>	<b>6,223</b>	<b>-</b>	<b>1,906</b>	<b>98</b>	<b>8,227</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
2021	2021	2021	2021	2021		2022	2022	2022	2022	2022
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	-	-	98	98	Amortised cost	-	-	-	389	389
<b>-</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>98</b>	<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>389</b>	<b>389</b>

#### 46n) 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:

2020/21		2021/22
Surplus or Deficit on the Provision of Services £000		Surplus or Deficit on the Provision of Services £000
(710)	Net (gains)/losses on: Financial assets measured at fair value through profit or loss	-
<u>(710)</u>	<b>Total (gains)/losses</b>	<u>-</u>
(473)	Interest revenue: Financial assets measured at amortised cost	(204)
<u>(473)</u>	<b>Total interest revenue</b>	<u>(204)</u>

#### 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	31/03/21	31/03/22
<b>Fair Value through Profit and Loss</b>			£000	£000
Investment portfolios held with Adam and Co	Level 1	Unadjusted quoted prices in active markets for identical investments	6,056	6,223
<b>Total</b>			<u>6,056</u>	<u>6,223</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.

**46o) Cashflow statement – Adjustments for non-cash movements**

2020/21 £000 (restated)		2021/22 £000
	<b>Non-cash items</b>	
15	Depreciation and impairments	20
(948)	Revaluation of investment properties	809
(1,156)	Revaluation of investments	(166)
	<b>Items on accruals basis</b>	
6	(Increase)/decrease in debtors	(95)
(123)	Increase/(decrease) in creditors	290
8	(Increase)/decrease in inventories	-
(2,198)		858
	<b>Items in investing &amp; financing activities</b>	
(166)	Capital grants credited to surplus/deficit on provision of services	393
(166)		393

The prior year comparatives have been restated to separately show the revaluation of investment properties, which had been included in the value for the revaluation of investments.

**46p) Cashflow statement – investing activities**

2020/21 £000 (restated)		2021/22 £000
900	Proceeds from long term investments	-
(215)	Purchase of property, plant and equipment	(26)
(677)	Purchase of investment properties	(1,695)
8		(1,721)

The prior year comparatives have been restated to separately show the purchase of property, plant and equipment, which had been included in the value for the purchase of investment properties.

**46q) Cashflow statement – financing activities**

2020/21 £000		2021/22 £000
166	Other receipts from financing activities	393
166		393

**46r) 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 £0.057m of contracted works still to be undertaken over the next year.

Renovation works at the Victorian Market are ongoing with an estimated further £0.393m 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.

**47. 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 2022**

2020/21				2021/22		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
24	14	48	Incoming resources	16	11	77
(42)	(6)	(44)	Expenditure resources	(63)	(4)	(74)
(18)	8	4	Net incoming / (outgoing) resources before other recognised gains & losses	(47)	7	3
(18)	8	4	<b>Net Movement in Funds</b>	(47)	7	3
2,538	917	2,054	<b>Reconciliation of Funds</b>			
<b>2,520</b>	<b>925</b>	<b>2,058</b>	Total Funds brought forward at 1 April	<b>2,520</b>	<b>925</b>	<b>2,058</b>
			<b>Total Funds carried forward at 31 March</b>	<b>2,473</b>	<b>932</b>	<b>2,061</b>



**BALANCE SHEET AS AT 31 MARCH**

31 March 2021				31 March 2022		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	6	1,238	<b>Non current assets</b>	860	6	1,215
			Investments			
1,660	919	820	<b>Current assets</b>	1,613	926	842
-	-	-	Debtor - Highland Council Loans Fund	-	-	4
1,660	919	820	Debtor – Other debtors	1,613	926	846
<b>2,520</b>	<b>925</b>	<b>2,058</b>	<b>Net assets</b>	<b>2,473</b>	<b>932</b>	<b>2,061</b>
2,245	656	1,000	Capital funds	2,246	656	976
275	269	1,058	Revenue funds	227	276	1,085
<b>2,520</b>	<b>925</b>	<b>2,058</b>	<b>Total funds</b>	<b>2,473</b>	<b>932</b>	<b>2,061</b>

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 2022 the balances and investments held are as follows:

31 March 2021			Charity	Scottish Charity Number	31 March 2022		
Fund Balance £000	Investments at cost £000	Investments at valuation £000			Fund Balance £000	Investments at cost £000	Investments at valuation £000
144	1	2	Highland Charities Trust	SC044714	140	1	2
<u>2,376</u>	<u>859</u>	<u>2,879</u>	Highland Council Charitable Trusts	SC025079	<u>2,333</u>	<u>859</u>	<u>2,766</u>
<u>2,520</u>	<u>860</u>	<u>2,881</u>	Total Charitable Trusts		<u>2,473</u>	<u>860</u>	<u>2,768</u>

**EDUCATIONAL TRUST FUNDS**

Highland Council administers 42 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2022 the balances and investments held are as follows:

31 March 2021				31 March 2022		
Fund Balance £000 (restated)	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	-	-
521	6	377	Inverness Royal Academy Educational Trust	531	6	373
100	-	-	Manson Bequest – Keiss	98	-	38
129	-	-	Manson Bequest – Nairn and Ardclach	128	-	28
11	-	-	Miss B G Angus Executory	11	-	-
47	-	-	META MacBean - Kingussie High School	47	-	-
64	-	-	Other Educational Trusts	64	-	-
<b>925</b>	<b>6</b>	<b>377</b>	<b>Total Educational Trusts</b>	<b>932</b>	<b>6</b>	<b>439</b>

The 2020/21 prior year comparatives have been amended to separately show the META MacBean - Kingussie High School Educational Trust Fund, which had previously been included in Other Educational Trusts.

**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 2021				31 March 2022		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
707	704	1,418	Inverness Burial Grounds Fund	689	680	1,424
613	534	1,021	Inverness Benevolent Funds	626	535	1,025
50	-	-	Social Work Amenity Funds	50	-	-
158	-	-	Inverness – Other Trust Funds	158	-	-
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-
137	-	-	Caithness Trust Funds	138	-	-
126	-	-	Lochaber Trust Funds	133	-	-
93	-	-	Nairn Trust Funds	93	-	-
143	-	-	Ross and Cromarty Trust Funds	143	-	-
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
22	-	-	Sutherland Trust Funds	22	-	-
<b>2,058</b>	<b>1,238</b>	<b>2,439</b>	<b>Total other trust funds</b>	<b>2,061</b>	<b>1,215</b>	<b>2,449</b>

**48. Events after Reporting Period**

The unaudited annual accounts were issued by the Head of Corporate Finance on 30 June 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022 the financial statements have been adjusted in all material respects.

**HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT**

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

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

2020/21 £000 (restated)		2021/22 £000	£000
	Income		
(53,819)	Dwelling rents (gross)	(55,454)	
(705)	Non-dwelling rents (gross)	(812)	
<u>(513)</u>	Other income	<u>(632)</u>	
(55,037)			(56,898)
	Expenditure		
16,893	Repairs and maintenance	23,378	
11,607	Supervision and management	13,039	
172,215	Depreciation and impairment of non-current assets	26,142	
<u>1,088</u>	Other expenditure	<u>2,478</u>	
201,803			65,037
<b>146,766</b>	<b>Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement</b>		<b>8,139</b>
<b>146,766</b>	<b>Net (income)/expenditure from HRA services</b>		<b>8,139</b>
1,477	Loss on disposal of non-current assets	6,965	
11,144	Interest payable and similar charges	11,385	
(568)	Amortisation of premiums and discounts	(598)	
(94)	Interest and investment income	(32)	
333	Pension net interest	435	
(22,084)	Capital Grants and contributions	(11,439)	
<u>1,426</u>	Impairment of debtors	<u>1,283</u>	
(8,366)			7,999
<b>138,400</b>	<b>(Surplus)/Deficit on HRA services</b>		<b>16,138</b>

Depreciation and impairment of non-current assets in 2020/21 has been restated to include figures previously shown separately in the expenditure section above. This separate line has now been removed.

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

2020/21 £000		2021/22 £000	£000
(7,328)	Balance on HRA at 1 April 2021		(11,802)
138,400	(Surplus)/Deficit for the year on HRA Income and Expenditure Statement		16,138
	Adjustments between accounting basis and funding basis under statute		
(1,476)	Loss on sale of HRA non-current assets	(6,965)	
-	Capital expenditure funded by the HRA	150	
(1,476)			(6,815)
	Transfer to the Capital Adjustment Account		
(172,215)	- Depreciation and impairment	(26,142)	
9,610	- repayment of debt	11,944	
22,084	- Capital grants and contributions	11,439	
(140,521)			(2,759)
(1,445)	HRA share of contributions to the Pensions Reserve		(3,234)
568	HRA share of transfer from the Financial Instruments Adjustment Account		598
<b>(11,802)</b>	<b>Balance on HRA at 31 March 2022</b>		<b>(7,874)</b>

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/21 £000		31/03/22 £000
2,814	Current tenants	2,748
<u>271</u>	Former tenants	<u>611</u>
<u><u>3,085</u></u>	<b>Total</b>	<u><u>3,359</u></u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.344m (2020/21 £1.006m) have been netted off against rental income.

3. Impairment of debtors

In 2021/22 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/21 £000		31/03/22 £000
1,668	Rent arrears	1,957
<u>517</u>	Sundry debts	<u>525</u>
<u><u>2,185</u></u>		<u><u>2,482</u></u>

4. Housing Stock

The Council's housing stock was as follows

31/03/21 Number	Type of House	31/03/22 Number
231	1 apartment	222
3,689	2 apartment	3,782
5,877	3 apartment	6,001
4,116	4 apartment	4,184
374	5 apartment	383
24	6 apartment	24
1	7 apartment	1
2	8 apartment	2
<u>1</u>	10 apartment	<u>1</u>
<u><u>14,315</u></u>		<u><u>14,600</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.

2020/21 £000		2021/22 £000
164,915	Gross Council Tax levied and contributions in lieu	166,547
(13,881)	Council Tax Reduction Scheme	(13,084)
(18,584)	Other discounts and reductions	(18,717)
(2,529)	Write off of uncollectable debts and allowances for impairment	(2,574)
(208)	Adjustments for prior years Council Tax and Community Charge	(925)
<b>129,713</b>	<b>Net Council Tax income per the Comprehensive Income and Expenditure Statement</b>	<b>131,247</b>

**NOTES TO THE COUNCIL TAX INCOME ACCOUNT****Calculation of the Council Tax base 2021/22**

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>	-	-	51	(5)	(1)	45		25
<b>A</b>	19,527	(1,215)	55	(2,479)	(378)	15,510		10,340
<b>B</b>	23,260	(1,101)	38	(2,569)	(432)	19,196		14,930
<b>C</b>	24,240	(803)	1	(2,341)	(539)	20,558		18,274
<b>D</b>	19,614	(503)	43	(1,447)	(448)	17,259		17,259
<b>E</b>	19,297	(287)	(76)	(1,129)	(445)	17,360		22,809
<b>F</b>	9,603	(123)	(62)	(402)	(193)	8,823		14,337
<b>G</b>	4,582	(56)	(45)	(148)	(140)	4,193		8,212
<b>H</b>	339	(15)	(5)	(8)	(35)	276		676
<b>Total</b>	120,462	(4,103)	-	(10,528)	(2,611)	103,220		106,862
							Council Tax Reduction	(9,821)
							Contributions in lieu	172
							Provision for non- collection (1.89%)	(1,837)
							<b>Council tax base</b>	<b>95,376</b>

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

## THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2021/22

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 2021/22 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.

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 2021/22:

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.

2020/21 £000		2021/22 £000
195,768	Gross rates levied and contributions in lieu	192,102
(90,789)	Reliefs and other deductions	(74,863)
<u>(1,037)</u>	Write-off of uncollectible debts and allowance for impairment	<u>(1,004)</u>
<b>103,942</b>	<b>Net Non-Domestic Rate Income (NNDR)</b>	<b>116,235</b>
(7,508)	Adjustment to previous years' national Non-Domestic rates	(10,042)
<b><u>96,434</u></b>	<b>Contribution to Non-Domestic Rate Pool</b>	<b><u>106,193</u></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.

<b><u>92,297</u></b>	<b>Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement</b>	<b><u>106,967</u></b>
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## 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 2021/22 was 49.0p Rateable Value equal to or less than £51,000, 50.3p Rateable Value between £51,001 and £95,000 and 51.6p Rateable Value greater than £95,000

Highland Council Rateable Values

1 April 2021			1 April 2022	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,673	64,362	Shops	2,687	63,986
920	26,403	Public houses and hotels	965	27,312
1,715	28,679	Offices	1,729	28,648
2,763	48,444	Industrial subjects	2,818	48,927
6,039	28,640	Leisure, entertainment, caravans and holiday sites	6,295	29,334
318	5,264	Garages and petrol stations	312	5,231
2,594	28,930	Cultural, sporting subjects, education and training	2,486	28,764
1,081	16,012	Public service subjects	1,078	16,375
2,104	125,405	Miscellaneous	2,098	133,985
<b>20,207</b>	<b>372,139</b>	<b>Total</b>	<b>20,468</b>	<b>382,562</b>

# **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.

2020/21				2021/22			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
201,803	(55,037)	146,766	Council Housing – Housing Revenue Account		65,037	(56,898)	8,139
60,308	(23,328)	36,980	Communities & Place		71,095	(19,789)	51,306
258,977	(34,717)	224,260	Education & Learning		277,457	(39,523)	237,934
166,966	(16,372)	150,594	Health & Social Care		173,913	(17,345)	156,568
103,814	(37,330)	66,484	Infrastructure, Environment & Economy		101,754	(35,455)	66,299
7,845	(1,945)	5,900	Performance & Governance		10,313	(2,100)	8,213
88,677	(13,428)	75,249	Property & Housing		98,445	(8,733)	89,712
34,044	(2,315)	31,729	Resources & Finance		27,247	(2,724)	24,523
1,873	(20)	1,853	Transformation		14,002	(10)	13,992
47,138	(39,381)	7,757	Welfare Services		46,621	(35,758)	10,863
			Joint Board Requisitions:				
2,984	-	2,984	Highlands and Western Isles Valuation Joint Board		2,889	-	2,889
91	-	91	Highland and Islands Transport Partnership		91	-	91
			Other Income and Expenditure				
344	-	344	Operating results associates		552	-	552
<b>974,868</b>	<b>(223,873)</b>	<b>750,995</b>	<b>Cost of Services Carried Forward</b>		<b>889,416</b>	<b>(218,335)</b>	<b>671,081</b>

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2021/22

974,869	(223,873)	<b>750,995</b>	<b>Cost of Services Brought Forward</b>		889,416	(218,335)	<b>671,081</b>
		1,769	Other operating expenditure				8,982
		50,952	Financing and investment income and expenditure	6			54,091
		(717,800)	Taxation and non-specific grant income				(710,923)
		<b>85,916</b>	<b>Deficit on provision of services</b>				<b>23,231</b>
		14,053	(Surplus) or deficit on revaluation of non-current assets				(121,284)
		49,644	Impairment losses on non-current assets charged to the revaluation reserve				36,593
		100,042	Remeasurements of the net defined liability				(165,008)
		<b>163,739</b>	<b>Other comprehensive income and expenditure</b>				<b>(249,699)</b>
		<b>249,655</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(226,468)</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	(138,400)	-	-	-	-	<b>(71,636)</b>	(146,273)	<b>(217,909)</b>
Adjustments to usable reserves permitted by accounting standards	8,672	1,089	-	-	-	-	<b>9,761</b>	(9,761)	-
Adjustments between accounting basis and funding basis under regulations(note 7 in Council accounts)	3,939	141,785	-	-	343	6,000	<b>152,067</b>	(152,067)	-
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>	61,667	4,474	-	-	343	6,000	<b>72,484</b>	(308,101)	<b>(235,617)</b>
Transfers to/from other statutory reserves	(404)	-	503	(202)	(1,982)	28	<b>(2,057)</b>	2,057	-
<b>Increase/(decrease) in 2020/21</b>	<b>61,263</b>	<b>4,474</b>	<b>503</b>	<b>(202)</b>	<b>(1,639)</b>	<b>6,028</b>	<b>70,427</b>	<b>(306,044)</b>	<b>(235,617)</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>1,121,507</b>	<b>1,267,517</b>



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

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 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>(217,909)</b>	<b>(31,133)</b>	<b>(613)</b>	<b>(249,655)</b>
<b>Adjustments between accounting basis and funding basis under regulations</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>(235,617)</b>	<b>(13,425)</b>	<b>(613)</b>	<b>(249,655)</b>
<b>Increase/(decrease) in 2020/21</b>	<b>(235,617)</b>	<b>(13,425)</b>	<b>(613)</b>	<b>(249,655)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>1,267,517</b>	<b>16,616</b>	<b>(4,708)</b>	<b>1,279,425</b>

**GROUP MOVEMENT IN RESERVES STATEMENT 2021/22**

	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 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>1,121,507</b>	<b>1,267,517</b>
<b>Movement in reserves during 2021/22</b>									
<b>Total comprehensive income and expenditure</b>	20,680	(16,138)	-	-	-	-	<b>4,542</b>	238,522	<b>243,064</b>
Adjustments to usable reserves permitted by accounting standards	8,757	230	-	-	-	-	<b>8,987</b>	(8,987)	-
Adjustments between accounting basis and funding basis under regulations(note 7 in Council accounts)	4,905	11,980	-	-	2,176	-	<b>19,061</b>	(19,061)	-
Adjustments between Group accounts and Council accounts	(20,008)	-	-	-	-	-	<b>(20,008)</b>	-	<b>(20,008)</b>
<b>Net increase/(decrease) before transfers to and other statutory reserves</b>	14,334	(3,928)	-	-	2,176	-	<b>12,582</b>	210,474	<b>223,056</b>
Transfers to/from other statutory reserves	7,502	-	8	1,442	(9,247)	(1,255)	<b>(1,550)</b>	1,550	-
<b>Increase/(decrease) in 2021/22</b>	<b>21,836</b>	<b>(3,928)</b>	<b>8</b>	<b>1,442</b>	<b>(7,071)</b>	<b>(1,255)</b>	<b>11,033</b>	<b>212,024</b>	<b>233,056</b>
<b>Balance at 31 March 2022</b>	<b>118,805</b>	<b>7,874</b>	<b>2,189</b>	<b>3,152</b>	<b>15,052</b>	<b>9,970</b>	<b>157,042</b>	<b>1,333,531</b>	<b>1,490,573</b>

**GROUP MOVEMENT IN RESERVES STATEMENT 2021/22**

<b>GROUP 2021/22</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 2021 brought forward</b>	<b>1,267,517</b>	<b>16,616</b>	<b>(4,708)</b>	<b>1,279,425</b>
<b>Movement in reserves during 2021/22</b>				
<b>Total Comprehensive Expenditure and Income</b>	<b>243,064</b>	<b>(17,655)</b>	<b>1,059</b>	<b>226,468</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Group accounts and Council accounts</b>	<b>(20,008)</b>	<b>20,008</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) before transfers to earmarked and other statutory reserves</b>	<b>223,056</b>	<b>2,353</b>	<b>1,059</b>	<b>226,468</b>
<b>Increase/(decrease) in 2021/22</b>	<b>223,056</b>	<b>2,353</b>	<b>1,059</b>	<b>226,468</b>
<b>Balance at 31 March 2022 carried forward</b>	<b>1,490,573</b>	<b>18,969</b>	<b>(3,649)</b>	<b>1,505,893</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.

31/03/21 £000 (restated)		31/03/22 £000
2,634,282	Property, plant & equipment	2,803,584
32,553	Investment Properties	7 32,856
9,181	Heritage Assets	8,851
6,056	Long term investments	6,223
40,332	Long term debtors (net of impairment)	46,729
2,722,404	<b>Long term assets</b>	2,898,243
5,106	Inventories	6,576
76,040	Short term debtors	90,540
112,714	Cash and cash equivalents	96,097
1,034	Assets held for sale	861
194,894	<b>Current assets</b>	194,074
(154,649)	Short term borrowing	(153,554)
(131,838)	Short term creditors	(137,215)
(62)	Cash and cash equivalents – bank overdraft	(681)
(683)	Provisions	(3,006)
(24,165)	Capital Grants Receipts in Advance	(8,403)
(311,397)	<b>Current liabilities</b>	(302,859)
(816,630)	Long term borrowing	(884,870)
(505,138)	Other long term liabilities	8 (395,046)
(4,708)	Liabilities in associates	(3,649)
(1,326,476)	<b>Long term liabilities</b>	(1,283,565)
1,279,425	<b>Net assets</b>	1,505,893

Restatement in 2020/21 to show bank overdraft previously included in current assets in cash and cash equivalents to current liabilities.

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2021/22

31/03/21 £000			31/03/22 £000
<b>146,010</b>	<b>Usable reserves</b>	HC 11	<b>157,042</b>
<b>1,092,357</b>	<b>Unusable reserves</b>	9	<b>1,307,768</b>
41,058	Share of group and associate reserves		41,083
<b><u>1,279,425</u></b>	<b>Total reserves</b>		<b><u>1,505,893</u></b>

The unaudited annual accounts were issued on 30 June 2022

**Edward Foster CPFA**  
Head of Corporate Finance

**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.

2020/21 £000 (restated)		2021/22 £000
(85,916)	Net (deficit)/surplus on the provision of services	(23,231)
287,677	Adjust net (deficit)/surplus on provision of services for non-cash movements	146,056
<u>(71,220)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(68,114)</u>
130,541	Net cash inflow from operating activities	54,711
(106,742)	Investing activities	(197,389)
<u>(2,697)</u>	Financing activities	<u>125,442</u>
<b>21,102</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>(17,236)</b>
<u>91,550</u>	Cash and cash equivalents at 1 April 2021	<u>112,652</u>
<u><b>112,652</b></u>	<b>Cash and cash equivalents at 31 March 2022</b>	<u><b>95,416</b></u>

Restatement in 20/21 cash flow statement and related notes 13 and 16 in Highland Council accounts to update the capital grants figure used.

## 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 53-64. Detailed notes to the Group Accounts have been provided only where transactions or balances are materially different to the Council's Accounts. Note 25 Defined Benefit Pension Schemes presents the Group disclosures.

#### a. 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 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 2022 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
Investment property valuations	The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are functioning at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, the valuation received is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.	<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 £3.286 million.</p>

### 2. Interest in other entities

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

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

### 3. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 5), the effect on the group balance sheet is an increase in net assets and reserves of £15.320m. This represents Highland Council's share of the net assets in these entities.

The effect on the group balance sheet of including High Life Highland's pensions liability is a reduction in other long term liabilities and the pension reserve of £25.763m. The group defined benefit pension scheme disclosures have been shown alongside the Council figures in note 25.

#### 4. Group entities

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

##### Subsidiaries

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

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

Results for the year	(Surplus)/deficit on provision of services £000	Net assets/(liabilities) £000
High Life Highland	6,937	(22,600)
Inverness Common Good	337	32,270
Nairn Common Good Fund	(61)	9,299
	<u>7,213</u>	<u>18,969</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 2021/22 were as follows:

Results for the year	Deficit on provision of services £000	Net (liabilities) £000
Highland and Western Isles Joint Valuation Board	612	(4,040)
Highland and Islands Transport Partnership	165	(1,108)
	<u>777</u>	<u>(5,148)</u>



<b>Group share</b>		Deficit on provision of services £000	Net (liabilities) £000
	%		
Highland and Western Isles Joint Valuation Board	80.0	490	(3,233)
Highland and Islands Transport Partnership	37.5	62	(416)
		<u>552</u>	<u>(3,649)</u>

#### 5. Non material interest in other entities

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

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

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

2020/21 £000		2021/22 £000
(1,467)	Gains on trading operations	(2,598)
49,717	Interest payable and similar charges	48,108
5,749	Pensions net interest expense	7,846
(1,865)	Interest and investment income	(773)
(2,011)	Rental income	(2,138)
226	Property costs	275
(925)	(Surplus)/Deficit on revaluation of investment properties	1,392
2,239	Expected credit losses on financial assets	1,979
(1,065)	(Gains)/Losses on valuation of financial assets	(55)
354	(Gains)/Losses on derecognition of financial assets	55
<u>50,952</u>		<u>54,091</u>

#### 7. 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 2021	24,257	8,296	32,553
Additions	1,695	-	1,695
Revaluations	(1,396)	4	(1,392)
As at 31 March 2022	<u>24,556</u>	<u>8,300</u>	<u>32,856</u>
<b>Net book value</b>			
As at 31 March 2022	<u>24,556</u>	<u>8,300</u>	<u>32,856</u>
As at 31 March 2021	<u>24,257</u>	<u>8,296</u>	<u>32,553</u>

**8. Long Term Liabilities**

Long term liabilities are comprised as follows:

	Highland Council £000	Subsidiaries (HLH) £000	Total £000
Pension liability	236,650	25,763	262,413
Finance lease creditors	130,356	-	130,356
Other long term creditors	2,277	-	2,277
As at 31 March 2022	<u>369,283</u>	<u>25,763</u>	<u>395,046</u>

**9. 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 25 of the Council Accounts.

	31 March 2021 £000	31 March 2022 £000
Highland Council – Pension Reserve	(336,737)	(236,650)
Share of group and associate pension reserve	<u>(29,150)</u>	<u>(25,763)</u>
<b>As at 31 March 2022</b>	<b><u>(365,887)</u></b>	<b><u>(262,413)</u></b>

**Share of group and associate usable reserve**

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

	31 March 2021 £000	31 March 2022 £000
Share of group and associate reserves (MIRS)	11,908	15,320
Adjust for share of group and associate pension reserve	<u>29,150</u>	<u>25,763</u>
<b>Share of group and associate usable reserves</b>	<b><u>41,058</u></b>	<b><u>41,083</u></b>

**Total group unusable reserves**

	31 March 2021 £000	31 March 2022 £000
Highland Council – unusable reserves	1,121,507	1,333,531
Share of group and associate pension reserve	<u>(29,150)</u>	<u>(25,763)</u>
<b>Group unusable reserves</b>	<b><u>1,092,357</u></b>	<b><u>1,307,768</u></b>

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

The unaudited annual accounts were issued by the Head of Corporate Finance on 30 June 2022. Where events taking place before this date provided information about conditions existing at 31 March 2022 the financial statements have been adjusted in all material respects.

# **GLOSSARY OF TERMS**

## GLOSSARY OF TERMS

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

**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.