

Annual Accounts

Cunntasan Bliadhnail

2022/23

Unaudited

Neo-sgrùdaichte

Contents

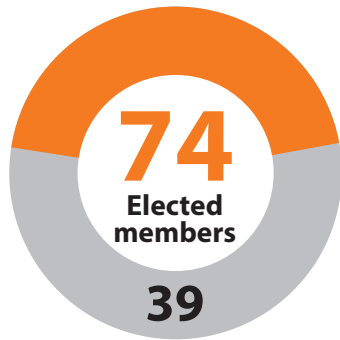
Clàr-innse

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Management Commentary

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

About The Highland Council



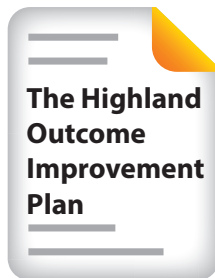
Coalition Administration of Scottish National Party and Independent.



238,060
Population (mid 2021)

Council Priorities

The Highland Community Planning Partnership's shared priorities are set out here.



This is what the Council's Administration wishes to achieve, its political commitments and priorities.

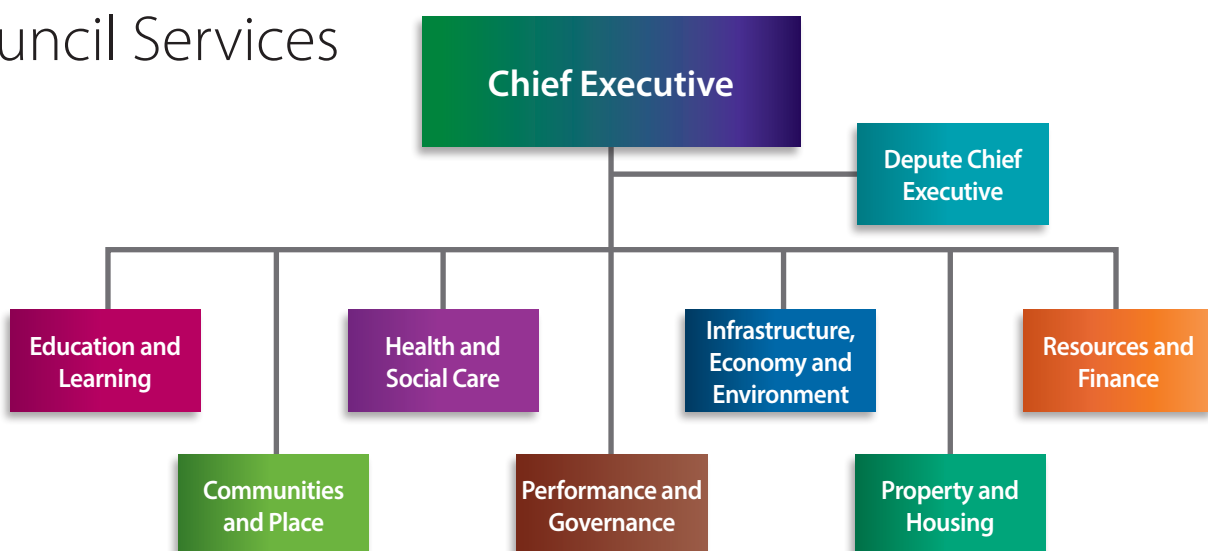


How the Council measures and sets targets for its political, strategic and improvement priorities.



www.highland.gov.uk/our-priorities

Council Services



2022/23 the year in review

Financial year 2022/23 represented a year in which the Council, alongside wider society, returned to a degree of 'normality' following the previous two years of the Covid-19 pandemic. The Council saw increasing numbers of staff who had been home-working, returning to the work place often on a hybrid home and office working basis. Similarly, the formal conduct of Council business, which had been via wholly online meetings, returned to in-person meetings with the use of technology to support remote/online attendance for those elected members who wished to do so.



Photos by The Highland Council

The year however saw some significant new challenges, in particular the cost of living crisis which was driven by wider global economic turmoil and the War in Ukraine. The effects of this were felt by the Council, particularly in financial terms, through rising costs of service delivery driven by increases in headline inflation, significant increases in fuel, utility and food costs in particular, increased staff pay awards and rising interest rates.

Despite these significant challenges felt across our society, the Council continued to provide its essential services, and also undertook a number of additional targeted actions to support its communities as they also faced the cost of living crisis. These actions included cost of living financial support payments for our vulnerable and low income households, additional temporary resources for in-house welfare support and advice, additional funding for Citizen's Advice to provide further energy advice to Highland residents, Free School Meal weekend holiday payments to families, grant funding for Community-led initiatives, and funding to 3rd sector organisations who provided food bank/food support. The Council also played its part in receiving and supporting displaced Ukrainians in line with UK and Scottish Government schemes.

In relation to financial performance, despite the very significant financial challenges referred to, the Council finished the year in a net surplus position, and with an increased level of reserves. This was through a combination of cost control measures, an ongoing focus on efficiency, transformation and income generation, as well as utilising some of the fiscal flexibilities available to it including utilising a loans fund principal repayment 'holiday' which deferred £29.3m of loans fund principal repayments into subsequent years.

2022/23 Highlights

Our Future Highland

A new Council programme for 2022 – 2027 agreed along with a new Corporate Plan.



Green Freeport

Inverness and Cromarty Firth Green Freeport confirmed as being one of only two Green Freeports in Scotland.



Roads

£22.7m budget committed towards roads improvement, including £5.5m of additional revenue funding for 22/23.

Education

Opening of the new Ness Castle Primary School, Inverness and contact award for the new Tain 3-18 Campus.

Support for Ukrainian Refugees

Daily support to 350-500 people placed into Highland hotels, alongside provision of education in Highland schools, school psychological support, social work support, digital support, tenancy support and a range of other actions.

Recycling Improvement Funding

Successful award to the Council of £6.5m to introduce significant changes to recycling services to all households across Highland. This builds upon the opening of 2 new major Waste Transfer Stations at Granish, Aviemore and Inverness.



Housing

The Council with its housing partners completed 523 new affordable homes (including 273 new council houses) in 2022/23, with a further 480 new affordable homes approved.

In-house Bus Operation

In January 2023 the Council went live with a new in-house bus operation, consisting of 12 buses to deliver passenger and school transport services.

Local Government Elections

Successful delivery of the 2022 local government elections.



Photos by The Highland Council, Ewen Weatherspoon and Peter Jolly

Commentary on financial performance 2022/23

Despite the cost of living crisis, rising costs and interest rates, the Council continued to show strong financial management and performance during 2022/23. An overall surplus of £36.7m was recorded against the revenue budget for the General Fund.

This surplus, when added to movements to and from reserves, resulted in a final closing balance of £70.5m on non-earmarked General Fund reserves. Of this sum, £23.3m has been committed towards supporting the 2023/24 revenue budget, and reports to Council have highlighted that the continued use of reserves to support the revenue budget could see reserves depleted by 2026/27.

The following decision made by the Council was a significant contributor to the surplus for the year.

Loans Fund Principal Repayment Holiday – on 2 March 2023 the Council agreed to implement a financial flexibility introduced by Scottish Government. This allowed the Council to defer the statutory repayment of debt (the ‘principal’ element of annual loan charges) to the value of £29.3m, giving a one-off benefit to that value in the 2022-23 revenue budget, and with that sum being re-profiled over the period of the residual asset life or twenty years (whichever is lower).

Closing earmarked reserves were £61.3m at financial year end, after drawdown and agreed re-purposing (transfers) back to non-earmarked reserves. Earmarked reserves are held for a variety of specific purposes including local investment, redesign and transformation programmes, funds held to meet Government legislative priorities, or funds held for other specific purposes.

Details of the Council’s earmarked reserves can be found in note 8 to the accounts.

Service Financial Performance:

In recognition of the financial pressures being faced, and rising costs and interest rates, the Council implemented a number of financial strategies during 2022/23 to mitigate these risks. These strategies included recruitment control measures and other cost control measures. These strategies were intended to manage cost, while ensuring that vital and statutory services continued to be delivered. The effect of the actions taken were contributory factors in overall service financial performance.

The combined net position for Council Services was a net underspend of £4.6m against budget. This, plus an underspend on financing costs of £28.5m, an underspend on other budget headings of £2.9m, and an improvement in council tax income of £0.7m, results in the net £36.7m surplus for the year.

Major areas of Service underspend and the contributory factors included:

Education and Learning

£2.6m
underspend

Due to cost control measures and a reduction in staff costs due to Teacher industrial action.

Health, Social Care and Wellbeing

£4.0m
underspend

Due to staffing vacancies and underspends, and lower than expected expenditure against Covid-19 pressure funding.

Resources and Finance

£1.4m
underspend

Due to staff underspends and increased warrant income.

Major areas of Service overspend, which were more than offset by the underspends noted above, included:

Property and Housing

£2.8m
overspend

Due to increased utility and property maintenance costs, and a shortfall in income recovery.

Communities and Place

£0.5m
overspend

Due to increased waste collection contract costs, fleet and fuel costs.

While the financial performance in year was positive, and the decisions taken and actions implemented have led to a significant increase in General Fund reserves, this needs to be seen in the context of a very difficult financial outlook for the Council in 2023/24 and beyond. Significant transformation and reviews of the level and breadth of service provision will be necessary, to ensure the Council is on a financially sustainable position over the coming years.

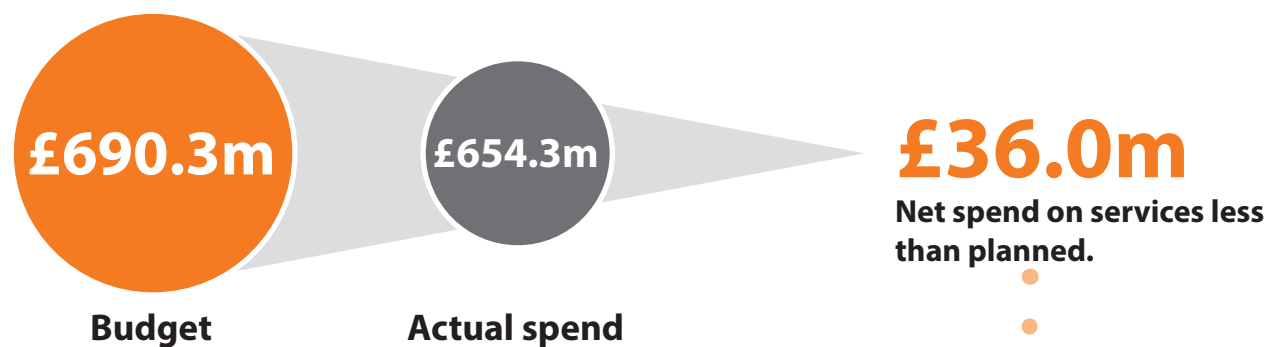
Note: more detailed reporting and analysis of the 2022/23 out-turn position will be to the Council's Strategic Committees in August and September of 2023.

General Fund Revenue Outturn 2022/23

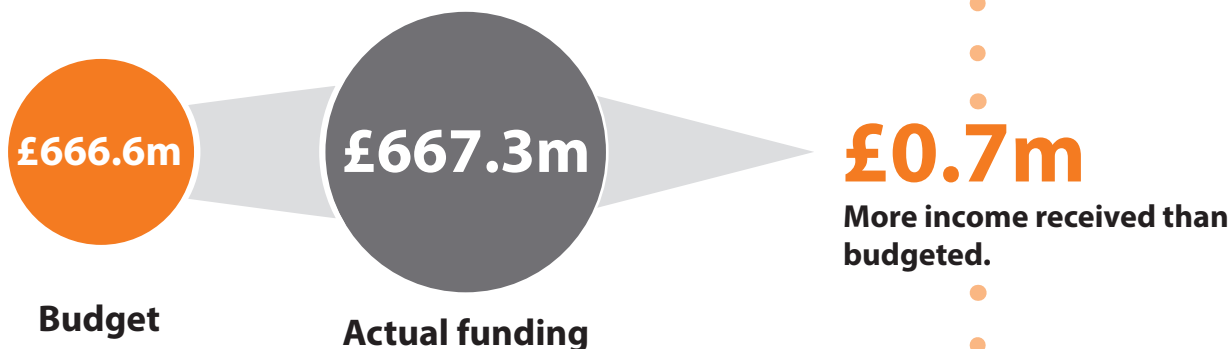
The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1st April 2022 to 31st March 2023.

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

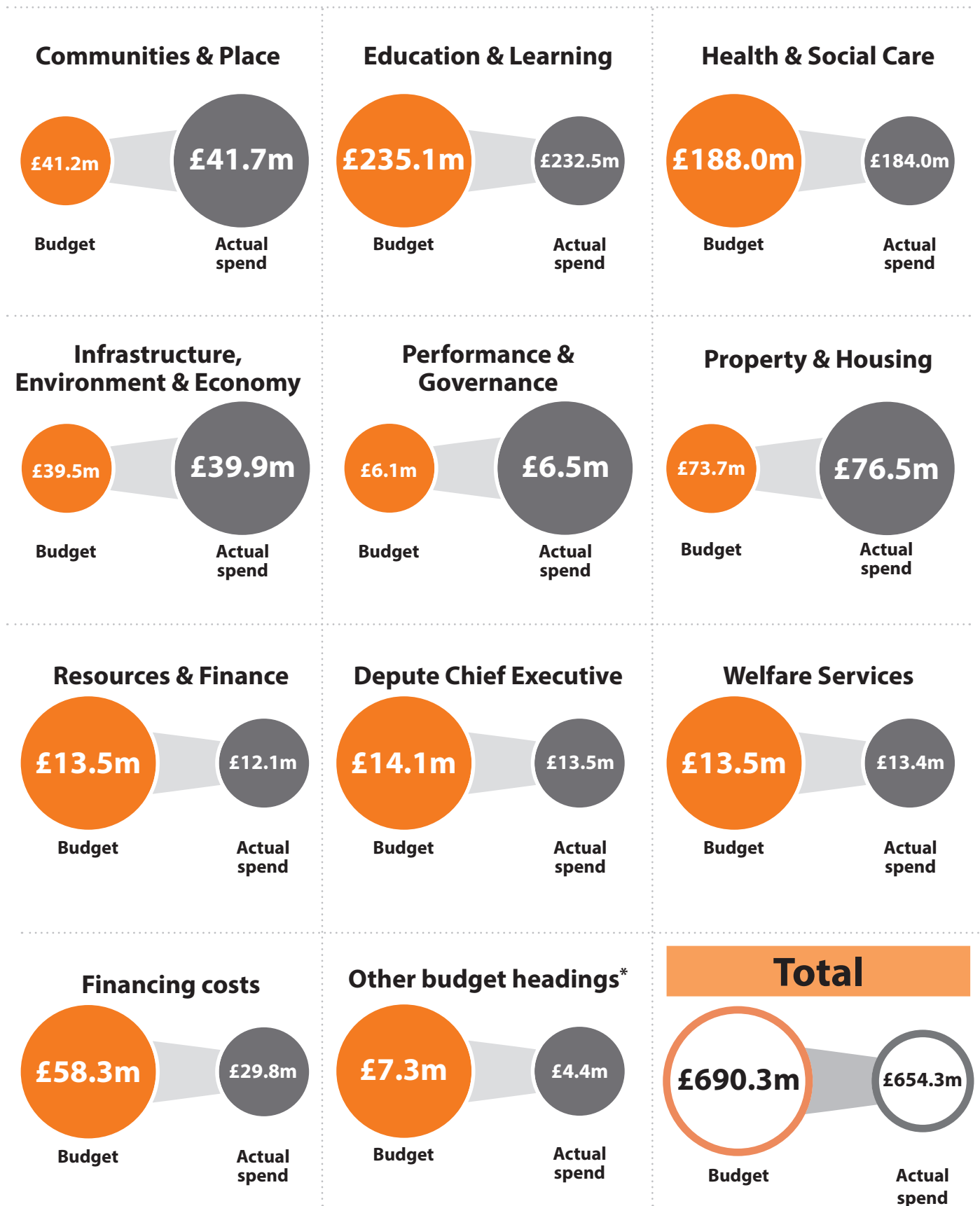
£36.7m

Overall increase in reserves

£13.0m

The difference between actual spend and funding in 2022/23 paid back into the Council's General Fund Earmarked and Non-Earmarked Reserves.

Year end position

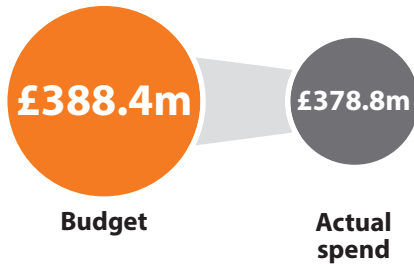


*includes NDR reliefs, Joint Board requisitions, unallocated budget and transfers to reserves.

Analysis of spend

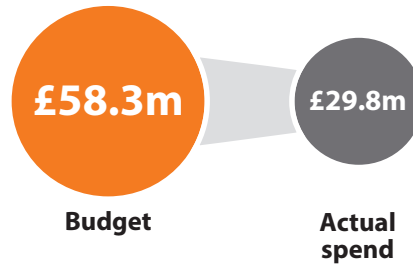
Staff costs

The cost of the Council's employees.



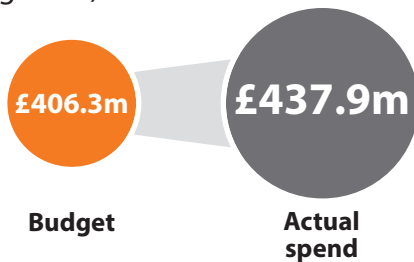
Financing costs

The cost of borrowing to finance capital investment.



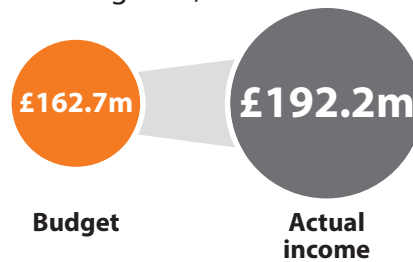
Other costs

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



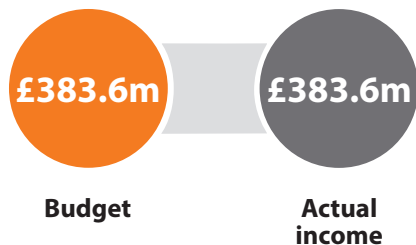
Service income

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

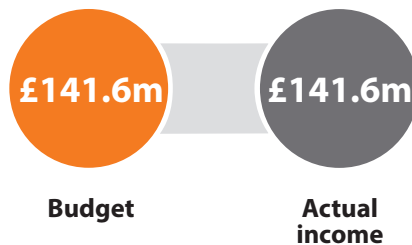


Council funding

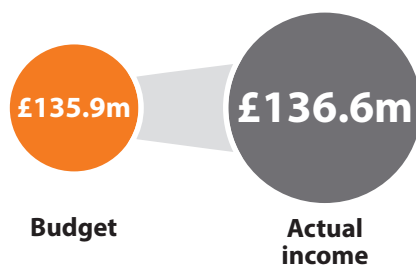
Revenue Support Grant



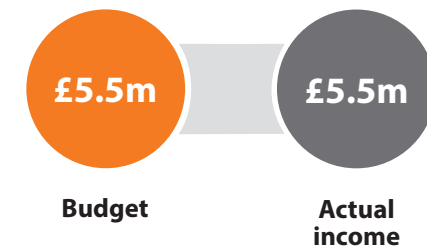
Non-Domestic Rates



Council Tax



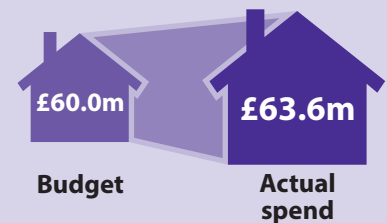
General Capital Grant for Pay Award



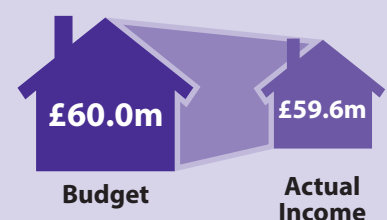
Housing revenue account

The Council owns 14,818 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

£70.5m

(2021/22 £19.3m)

Funds held as a general contingency.

General Fund Earmarked Reserve

£61.3m

(2021/22 £99.5m)

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

Insurance Fund

£3.9m

(2021/22 £3.1m)

Insurance for items not covered by external insurance policies.

Capital Fund

£18.5m

(2021/22 £13.8m)

To buy land for affordable housing provision (£17.1m, 21/22 £12.4m). Capital receipts available to finance future capital investment (£1.4m, 21/22 £1.4m)

HRA Reserve

£3.9m

(2021/22 £7.9m)

For spending on the Council's housing stock.

Capital Grants Unapplied

£14.4m

(2021/22 £10.0m)

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

Renewal and Repair Fund

£2.2m

(2021/22 £2.2m)

For specific types of repair and maintenance work.

Total Usable Reserves

£174.7m

(2021/22 £155.8m)

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

10.2%

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

Increase in General Fund Reserves during the year

-£4.4m

Agreed use of non-earmarked reserves.

-£35.1m

Use of earmarked balances for their specified purposes.

+£28.5m

Loans charges underspent added into the general fund non-earmarked reserve including the effect of principal repayment "holiday" and reprofiling.

+£8.2m

Service underspends and excess income in 2022/23 added into the general fund non-earmarked reserve.

+£15.8m

Increase in earmarked balances for specified additional funding streams received including developer contributions and crown estate income.

Net increase in General Fund reserves

+£13.0m

Note: Following a review of earmarked balances, £18.9m was repurposed and transferred into the general fund non-earmarked reserve.

Capital Outturn 22/23

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.

£155.1m Gross capital spend in 2022/23.

£48.3m Project specific capital income in 2022/23.

£106.8m Net capital spend in 2022/23.

£50.6m Underspend due to spend not meeting the profile assumed in the capital programme.

Projects with the largest capital spend in 2022/23:

Investment in school buildings

£28.7m (gross)



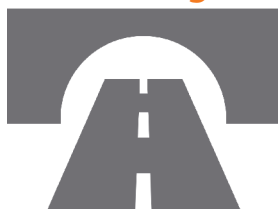
Investment in ferries & harbours

£30.5m (gross)



Investment in roads and bridges

£30.3m (gross)



Housing Revenue Account

£58.0m gross investment in housing stock in 2022/23



Funding of the Capital Programme

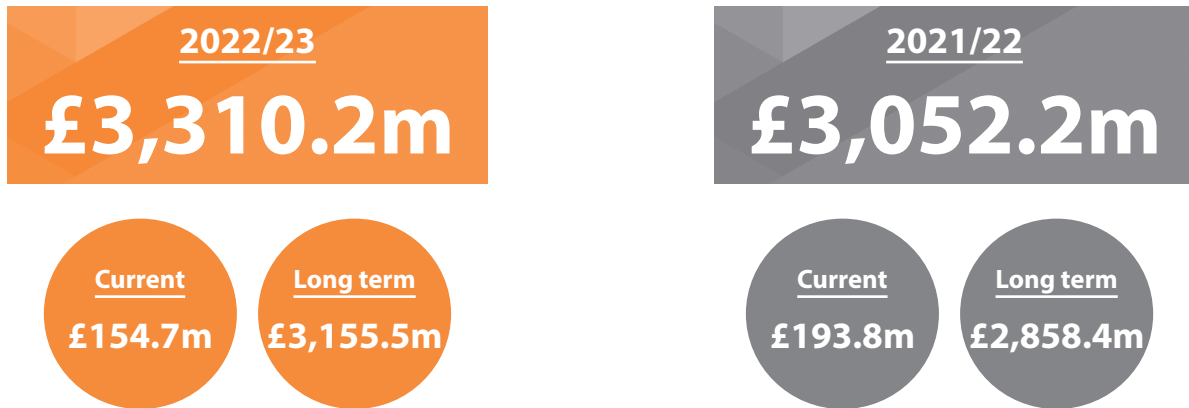
£67.7m of the 2022/23 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual treasury report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

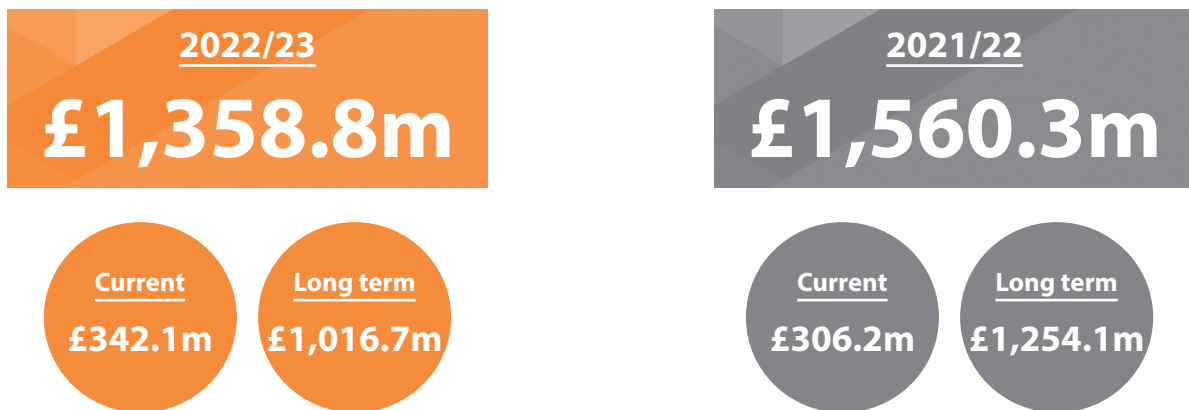
The Council's Balance Sheet shows its assets, liabilities and reserves.
More information on its component parts can be seen in the notes to the accounts.

Total Assets



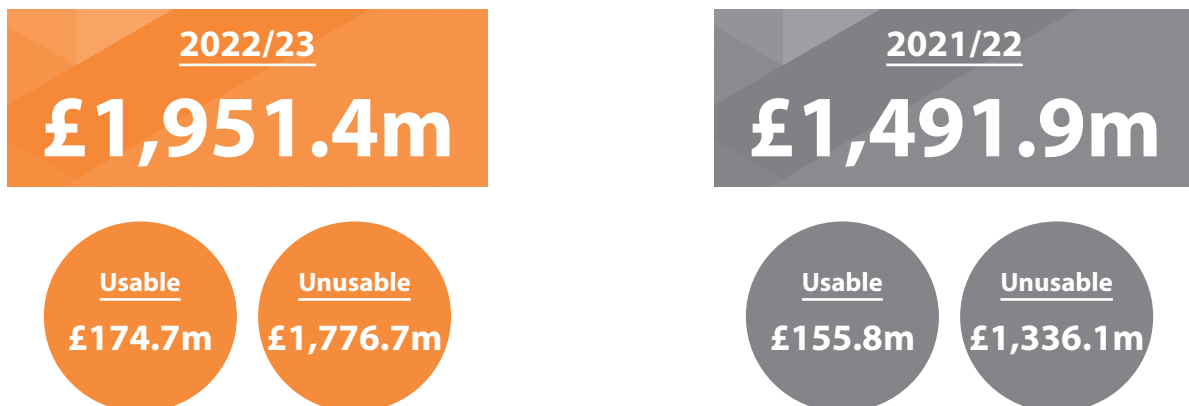
(Increase in long term assets due to revaluations and pensions asset and decrease in short term assets due to decrease in cash and cash equivalents held)

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

£558.2m



Infrastructure assets

£482.1m



Other assets

£271.5m



Other land and buildings

£1,633.5m



Short term debtors

£84.3m



Vehicles, plant and equipment

£56.2m



Pension Asset

£224.4m



4.55%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2021/22 9.34%).

Liabilities

Borrowing

-£1,057.9m



Finance leases

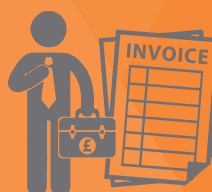
-£131.7m



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

Short term creditors
(excluding finance leases)

-£153.2m



Other liabilities

-£16.0m



Note: Financing costs were reduced in 2022/23 due to the effect of the loans fund principal repayment 'holiday' taken

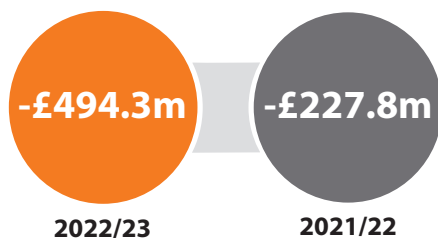
Group Accounts

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:



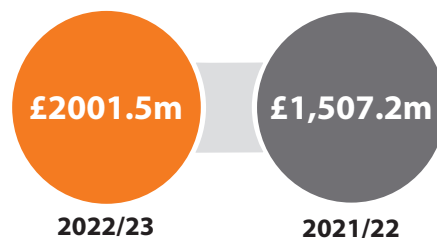
Key Group Financial Information

Total Comprehensive income and expenditure



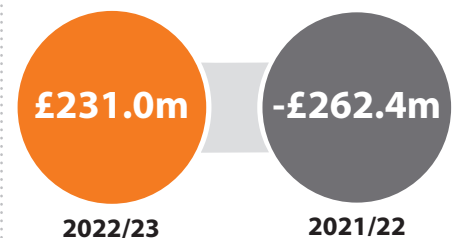
The overall change in total Group reserves calculated on an accounting basis.

Net assets and total reserves



Group assets less group liabilities.

Pension Asset/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 has 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

Council Performance

The new Council Programme for 2022-27 "Our Future Highland" was approved by Council on 08/12/22. The Corporate Plan which provides the framework to deliver and monitor the Council's Programme was then approved by the Council on 09/03/23. This will be underpinned by Service Plans which are presently being revised and will focus on improvement.

The 2021/22 performance reports related to the final year of the previous Corporate Plan. The annual report to Council in March 2023 outlined the data outturns for the Council's 100 SPIs. At the time of reporting, performance against target for 2021/22 could be calculated for 92 of the indicators, which are summarised below:

- 63 were performing on target or within the performance threshold;
- 29 indicator targets had not been achieved;
- Of the 27 indicator targets not achieved, 15 SPIs showed some improvement;
- 2 indicators did not have a set target for 2021/22.

The data was not available at the time to report performance for the final 6 indicators.



Note: The annual performance report is normally reported to Council in March each year and this provides the information relating to the previous financial year. This means that in March 2023, the 2021/22 performance was reported which also related to the final year of the previous Corporate Plan. The report to Council in March 2023 outlined the data outturns for the Council's 100 SPIs.

A snapshot of the Council's 34 Key Performance Indicators for 2021/22 is provided below:

Adult Services

- 7.5% of adult social care funding was allocated using direct payments or personalised managed budgets in Highland in 2021/22 (Scottish average: 8.2%). Highland was ranked 10th in Scotland.
- 55.8% of people aged 65+ with long term care needs were receiving care at home in Highland in 2021/22 (Scottish average: 62.3%). Highland was ranked 30th in Scotland.

Children's Services

- 67% of Highland secondary school pupils achieved 5 or more awards at SCQF level 5 or higher in 2021/22 (Scottish average 69%). Highland was ranked 20th in Scotland.
- The average number of Looked After Children accommodated by the Council out with Highland has continued to reduce each year with 24 reported for 2021/22.

Services

- The average Council spend per customer visit to a library in Highland in 2021/22 was £1.53 (Scottish average: £2.90). Highland was ranked 4th in Scotland.

Environmental Services

- The street cleanliness score for Highland was 93.7% in 2021/22 (Scottish average: 89.7%). Highland was ranked 7th in Scotland.
- 37.3% of household waste was recycled in 2022 (Scottish average 42.7%). Highland was ranked 26th in Scotland.

Housing Services

- In Highland, gross rent arrears as a percentage of total rent due was 5.5% in 2021/22 (Scottish average: 8.7%). Highland was ranked 5th in Scotland.
- The average time to re-let Council homes in 2021/22 was 35.49 days.

Corporate Services

- 49.8% of our procurement spend in 2021/22 was with local enterprises (Scottish average: 29.9%). Highland was ranked 2nd in Scotland.
- 96.5% of Council Tax owed in 2021/22 was collected by the Council (Scottish average: 95.7%). Highland was ranked 14th in Scotland.

Business and Development Services

- 2,208 businesses were supported by our Business Gateway and Economic Development services in 2021/22.

Road Services

- Energy consumption by our streetlights was 10.04 million kWh in 2021/22. This was slightly higher than the target to reduce this to less than 10 million kWh by March 2022. However, significant progress in reducing consumption has been made over the years.
- 36.7% of the road network in Highland should be considered for maintenance treatment (2021/22), compared to 38.7% in 2016/17.

Risks, Uncertainties and Future Developments

There are a number of risks, uncertainties and future developments which may impact the Council over the short, medium or longer term. The most significant of which are summarised in the table below.

The Council provides a quarterly update on its Corporate Risk Register to the Audit and Scrutiny Committee, with agendas and papers for meetings of this Committee available from the following link.

www.bit.ly/Audit-and-Scrutiny-Committee

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

www.audit-scotland.gov.uk/publications/local-government-in-scotland-overview-2023

Public Sector Finances There are significant pressures on public sector finances. There are expectations that in the coming years the Scottish Government budget, and in turn the funding provided to Local Government, will be under ongoing pressure. Around 80% of the Council's General Fund revenue funding is represented by funding from Scottish Government. Given Scottish Government budgets remain under pressure, and inflation remains high, it is likely that there will be an ongoing period of Local Government funding settlements which represent funding reductions in real terms. The extent to which Scottish Government funding has been ring-fenced to new or specific priorities has also placed added pressure on Councils in funding core service activity.

Inflation Inflation remains at relatively high levels and it was only in the latter stages of the 2022/23 financial year that there was signs of a very gradual easing of the headline Consumer Prices Index (CPI). Inflation continues to have an impact on the costs of service delivery, with food and fuel costs in particular facing significant increases. Large elements of the Council's expenditures are through multi-year contractual arrangements, and with these typically linked to inflation indexes, this has led to significant costs increases. School transport contracts being one such example. Cost pressures on capital works, and construction contracts are another pressure area. There is some degree of time lag also, due to supply chain and lead-time factors, which suggest that even with a very gradually easing of CPI, there is not an immediate impact on the costs of service delivery.

Pay Awards Pay awards settled during 2022/23 were at a level not seen in recent times, as a result of staff expectations and the cost of living impact. This has continued with pay settlements made for 2023/24. This has required significant additional funding from Local Government and Scottish Government. There remain residual risks for 2023/24 with a very significant staff group covered by Scottish Joint Council (SJC) negotiations, who have not accepted the pay offer made, and with Trade Unions consulting at the time of writing, or intending to, regarding strike action. High levels of inflation carry risks for pay awards beyond 2023/24. Pay costs account for approaching half of the Council's expenditure, and uplifts in pay represent embedded additional costs which require funding year on year.

Interest Rates Bank of England base rates have risen significantly over the past 12 months and forecasts suggest they have not yet reached their peak. Rising interest costs are reflected within the Loan Charge costs the Council provides for in its revenue budget. Rising interest rates put pressure not only on revenue budgets, but are a key consideration in relation to the Council's capital investment programme. The current capital programme is under review, with existing affordability issues based on the level of historic debt and the level of ongoing investment need, before the added risks of rising interest rates are considered. The Council needs ensure its capital programmes are affordable, prudent and sustainable.

Workforce Planning

The Council workforce is the core of its service delivery, with staff costs accounting for near half of all expenditure. Workforce planning is vital to ensure we have the correct actions in place to ensure we have the right people, with the right skills, in the right place and at the right time. The pressure on public sector finances also means we are in an environment of needing to reduce our overall staff headcount, but with the aim to do so in a planned and measured way which manages the process in terms of implications for service delivery, and our people. The Council faces workforce challenges, with some job roles, and some localities proving particularly difficult to retain staff or recruit into.

Adult Social Care and Care Home Sustainability

Across Scotland there are significant ongoing challenges in relation to the provision of Adult Social Care, and the sustainability of Independent Sector Adult Care Home provision. In Highland, the Council provides funding to NHS Highland to provide Adult Social Care through lead-agency arrangements. A range of risks and challenges are being faced, including staff retention and recruitment challenges, driven by market forces and relatively more attractive pay offers in the private sector. Increased reliance on Agency staffing across the sector, at substantially higher cost, continues to have very significant financial implications. Even with the use of agency staff, there are job roles and localities where service provision is being impacted due to lack of staffing. Within the Independent Adult Care Home Sector, a new National Care Home Contract (NCHC) rate has not been agreed for 2023/24, and a number of private/charity sector providers have sought additional sustainability payments. There have been a number of cases of Homes ceasing to operate, due to sustainability issues. In some situations this has led to the Council and NHS Highland having to step in and take over operations and staffing these previously contracted facilities, giving rise to additional revenue and sometimes capital costs.

Climate Change

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. This will have financial implications, as the cost of interventions may require difficult decisions around the prioritisation of spend unless such investments are self-financing.

Population and Demographic Change

The Council needs to ensure that its service delivery, and its planning for future service delivery, takes account of population change and responds to both challenges and opportunities that result. There are parts of the Highland which are seeing a significant decline in population numbers, contrasted with other parts of the Highland which are growing. This scenario gives rise to financial as well as service delivery challenges, with the need to often expand services in growing population areas, alongside the challenge and expectations around sustaining services in areas of declining population. Insofar as the majority of Scottish Government funding support is allocated to Councils based on population numbers, declining population numbers, and declines relative to other Councils, also give rise to funding risks.

Health and Safety including Road, Property and Asset condition

The Council has a vast range of assets, including roads, bridges and other infrastructure; and properties ranging from schools, depots, offices and leisure facilities amongst others. There are significant risks related to the Council's ability to ensure sufficient maintenance expenditure, and capital investment, for the purposes of Health and Safety, Condition and Compliance matters. In the event that the Council cannot reduce its asset numbers sufficiently, and/or increase the funding allocated to these risks, there is the potential that some assets may need taken out of service if they cannot be maintained in a safe and useable condition.

Best Value

Against the backdrop of the risks as outlined above, the Council must still ensure it delivers Best Value and is on a journey of continuous improvement.

Looking Ahead

The strong financial performance in 2022/23, ensures that the Council is moving forward into 2023/24 from a position of reserves being at a very positive level, and from a position in which reserves can continue to be used to support service change, redesign and investment.

This is however against a backdrop of unprecedented pressures on Local Government Finances, and in Highland a revenue budget for 2023/24 that is heavily reliant on use of reserves and other non-recurrent measures to balance that budget. Reports to Council during 2022/23 have highlighted to elected members the risks relating to the depletion of Council reserves, with ongoing use to balance revenue budgets which could see reserves wholly depleted by 2026/27.

The cost of living crisis remains a very real and current impact, with inflation and interest rates still at very high levels contrasted with recent years.

The potential announcement of a 'new deal' between Scottish Government and Cosla is welcome, and against a backdrop of unprecedented pressures on Public Sector Finances, provides an opportunity for improved engagement and joint working in advance of future grant settlements to Local Government.

The Council is progressing work on developing its medium-term financial strategy, to ensure there is a multi-year approach and the Council is on a financially sustainable position going forward. This will require significant change in the level and breadth of services the Council provides, and it will be necessary to make some difficult decisions to ensure that the Council's budgeted expenditures are in line with expected income levels.

Reserves are finite, and the Council will need to be prudent in its planning, and ensuring that use of reserves is aligned with its medium term financial strategy, and aligned with a clear plan of action including savings and cost reductions, to reach a position whereby future revenue budgets are not reliant on use of reserves.

Council reserves can also be used to support change, transformation and investment which in turn can assist with reducing cost or generating income in future years, to assist with budget setting. The Council has a number of initiatives and programmes underway. Examples include Asset Rationalisation, Roads Redesign, 'My Council' and In-house Bus Operations which report through the Council's Re-design Board. The Council is also focused on investment and income generation opportunities, with a particular focus on the scope for investment in renewables.

There are also a number of strategic opportunities which offer the prospect of significant economic and social benefit to the Highlands over the medium to longer-term. The award of Green Freeport status to the Inverness and Cromarty Firth Green Freeport represents a significant opportunity for investment, growth and job creation in the Highlands. The recent Scottish Government Bill on a Tourist Levy is something the Council has welcomed, and subject to passing of legislation, would provide the opportunity in future years for additional income to support the significant costs and infrastructure which our tourist visitors to the Highlands rely on.

Following the Local Government elections of May 2022, the Council has a new coalition Administration, and during the course of 2022/23 the Council has agreed a new Programme 'Our Future Highland' covering the period 2022 – 2027. A new Corporate Plan which underpins that programme and maps out the actions to deliver against it, was also agreed in the year.

There is much to be positive about, for those living, working, and visiting the Highlands, and the Council is focused on ensuring it continues to work hard to best meet the needs of its communities.

Kate Lackie
Interim Chief Executive

Raymond Bremner
Leader of the Council

Brian Porter CPFA
Interim 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 2022/23 (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 2023.

Brian Porter CPFA
Interim 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 2023 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code of Corporate Governance was approved by the Audit & Scrutiny Committee on 28/09/22. The basis of the 2022/23 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 2022/23 Code contains a total of 78 actions which are shown as complete or on target except for 2 actions which have some slippage. Both of these actions relate to the ongoing review of the Council's capital programme, and regular updates have been provided to Members.

The Council's corporate governance arrangements are subject to annual review by Internal Audit. The slippage noted above is not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

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 Legal and Governance has 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 recommending any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Head of Legal and 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.

In its response to the challenge of the pandemic the Council, its Members and Officers adapted quickly to the new remote model of formal meetings. All Council meetings continued to be held remotely throughout 2021 and into 2022. Formal meetings of the Council and its strategic committees have operated on a hybrid model since March 2022 and the practice is now well established. The Council ensures openness and transparency in decision making by ensuring all strategic meetings are open to the public and continue to be webcast. Recordings of all local Committees are uploaded to the Council's YouTube channel. Following a Council decision all Council and committee agendas and reports are now circulated electronically rather than on paper as well as being available on the Council website.

A wide ranging member training and development programme focussing on induction of new members but available to all members was put in place to commence in May 2022 and has continued across the year. In May 2023 following distribution and consideration of a survey of all Councillors it was agreed that a Members' Learning and Development Group be established. Recommendations from the Group will inform a future programme of training which will be considered in June 2023.

Separately and influenced to an extent by the recommendations from an Internal Audit report on Review of Local Democracy which was considered in September 2022 the Council has agreed to re-establish a Governance Review Working Group. The Group will undertake a review of the Council's existing governance arrangements and, subject to approval of group terms of reference in June 2023, be asked to make recommendations on matters such as changes to Standing Orders, Scheme of Delegation and committee composition.

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 HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

The Strategic Lead (Corporate Audit & Performance) (Chief Audit Executive) responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report and Annual Governance Statement 2022/23 to the Audit and Scrutiny Committee on 15/06/23. This report refers to 63 audit recommendations being made. 6 of these were classified as high grade within 5 audit reports and these are listed below.

- The absence of any formal contract arrangements for the purchase of fuel which due to the value, is contrary to Contract Standing Orders.
- Another audit also identified the failure to fully comply with procurement requirements in respect of a sample of capital projects examined. Examples identified included 1 project where quotes rather than tenders were obtained, and a contract award notice not being published.
- Review of the out of hours call handling service during recent storms showed that the performance was lower than expected and there was a need to ensure sufficient capacity when severe weather warnings had been received.
- It was identified that the Visitor Management Plans (VMP) did not contain key outcomes and there was no evaluation framework. In this case, whilst there are no further VMPs it was agreed with management that these principles would apply to any other similar funding programmes.
- 2 high grade recommendations were included in a whistleblowing investigation report considered in private by Committee and so no further details have been provided here. However, these will be followed up in the normal manner and reported accordingly to Committee.

There are no particular trends identified with regard to the audit recommendations and these are not considered to impact upon the audit opinion provided.

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.

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

Kate Lackie
Interim Chief Executive

REMUNERATION REPORT

Highland Council Remuneration Report

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.

Tables 1 to 7 in sections 1 and 3 of the Remuneration Report will be audited by Audit Scotland. The other parts of sections 1 and 3 and section 2 will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

1. Remuneration

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 2022/23 the remuneration for the Leader of Highland Council is £45,669. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council - and set out the maximum salary that can be paid to the Civic Head as £34,254, equivalent to 75% of the Leader's salary.

The regulations also set out the total 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 £511,316 for 2022/23 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 2022/23.

Following the local government election on 5 May 2022, a revised Senior Councillor structure and Scheme of Remuneration was agreed by Council on 9 June 2022. The report is available at the following link: https://www.highland.gov.uk/meetings/meeting/4626/highland_council (item 3b). The Scheme of Remuneration which applied prior to the election on 5 May 2022 is available at the link https://www.highland.gov.uk/meetings/meeting/4254/highland_council (item 18).

The total remuneration in 2022/23 for all councillors was £1,564,032. 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.

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 from being a Convener or Vice Convener of a Joint Board. For 2022/23 the remuneration for the Convener of the Valuation Joint Board is £24,467.

Table 1 : Remuneration of Senior Councillors and Conveners and Vice-Conveners of Joint Boards for 2022/23

The table below includes all Councillors who held a Senior Councillor role or the post of Convener or Vice Convener of the Highland & Western Isles Valuation Joint Board at any point during 2022/23. There were a number of changes in Senior Councillors within this period as a result of the local government election and formation of the new Council in May 2022 and the revised Senior Councillor structure agreed by Council on 9 June 2022.

The salary amount is the total salary paid to the Councillor in the year and includes basic pay for any period during which no Senior Councillor role was held. The 2022/23 full year equivalent (FYE) salary for the Senior Councillor role is shown in brackets. Where more than one Senior Councillor role is held at the same time the salary in respect of the highest remunerated role is payable.

Councillors are listed in alphabetical order.

2021/22	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2022/23		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
19,784	Andrew Baxter	Chair of Lochaber Committee (2022/23 FYE: £20,813)	23/06/17	05/05/22	2,014	-	2,014
27,999	Raymond Bremner	Leader of the Opposition (2022/23 FYE: £29,455) (Note 1)	01/10/20	05/05/22	42,697	-	42,697
		Chair of Caithness Committee (2022/23 FYE: £20,813) (Note 1)	29/06/21	05/05/22			
		Leader of the Council (2022/23 FYE: £45,669)	26/05/22				
n/a	Ian Brown	Leader of Inverness and Area (2022/23 FYE : £25,000)	08/06/22		23,990	-	23,990
n/a	Glynis Campbell-Sinclair	Chair of Housing and Property Committee (2022/23 FYE : £28,000)	09/06/22		26,408	-	26,408
22,833	Helen Carmichael	Leader of Inverness and Area (2022/23 FYE: £24,020)	19/06/17	05/05/22	2,325	-	2,325

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2021/22		2022/23					
Total £	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	Salary, Fees & Allowances £	Taxable Expenses £	Total £
32,560	Alasdair Christie	Depute Leader of the Council (2022/23 FYE : £34,254)	18/05/17	05/05/22	29,851	-	29,851
		Leader of the Opposition (2022/23 FYE : £30,000)	26/05/22				
n/a	Muriel Cockburn	Vice Chair of Health, Social Care and Wellbeing Committee (2022/23 FYE : £21,500)	09/06/22		21,136	253	21,389
43,412	Margaret Davidson	Leader of the Council (2022/23 FYE : £45,669)	18/05/17	05/05/22	4,420	-	4,420
28,164	John Finlayson	Chair of Education Committee (2022/23 FYE : £29,455 to 05/05/22, £28,000 from 09/06/22 to 29/06/22, £30,000 from 30/06/22) (Note 2)	09/12/19	05/05/22	28,870	204	29,074
			09/06/22				
n/a	David Fraser	Chair of Health, Social Care and Wellbeing Committee (2022/23 FYE : £28,000)	09/06/22		26,408	368	26,776
23,730	Laurie Fraser	Chair of Housing and Property Committee (2022/23 FYE : £29,455) (Note 3)	12/11/21	05/05/22	24,419	-	24,419
		Convener of Highland & Western Isles Valuation Joint Board (2022/23 FYE : £24,467) (Notes 3 & 4)	18/06/21	05/05/22			
			20/06/22				
	Vice Chair of Housing and Property Committee (2022/23 FYE : £21,500) (Note 3)	09/06/22					

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2021/22	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2022/23		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
19,784	Richard Gale	Chair of Sutherland County Committee (2022/23 FYE : £20,813) (Note 5)	15/11/18	05/05/22	19,691	25	19,716
n/a	Ken Gowans	Chair of Economy and Infrastructure Committee (2022/23 FYE : £28,000 from 09/06/22 to 29/06/22, £30,000 from 30/06/22) (Note 2)	09/06/22		27,913	300	28,213
27,999	Jimmy Gray	Chair of Corporate Resources Committee (2022/23 FYE : £29,455)	04/03/21	05/05/22	2,850	-	2,850
n/a	Michael Green	Vice Chair of Economy and Infrastructure Committee (2022/23 FYE : £21,500)	09/06/22		19,242	-	19,242
27,999	Allan Henderson	Chair of Communities and Place Committee (2022/23 FYE : £29,455)	09/12/19	05/05/22	2,850	-	2,850
32,941	Bill Lobban	Convener of the Council (2022/23 FYE : £34,254)	18/05/17 26/05/22	05/05/22	33,465	419	33,884
n/a	Derek Loudon	Chair of Corporate Resources Committee (2022/23 FYE : £28,000)	09/06/22		26,408	-	26,408
28,113	Graham MacKenzie	Chair of Audit and Scrutiny Committee (2022/23 FYE : £29,455)	06/09/18	05/05/22	27,364	396	27,760
		Chair of Communities and Place Committee (2022/23 FYE : £28,000)	09/06/22				
n/a	Drew Millar	Vice Chair of Education Committee (2022/23 FYE : £21,500)	09/06/22		19,242	-	19,242

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2021/22	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2022/23		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Hugh Morrison	Vice Chair of Communities and Place Committee (2022/23 FYE : £21,500)	09/06/22		21,136	-	21,136
n/a	Calum Munro	Vice Chair of Corporate Resources Committee (2022/23 FYE : £21,500)	09/06/22		21,136	102	21,238
27,999	Linda Munro	Chair of Health, Social Care and Wellbeing Committee (2022/23 FYE : £29,455)	09/12/19	05/05/22	2,850	-	2,850
19,995	Fiona Robertson	Chair of Easter Ross Area Committee (2022/23 FYE : £20,813)	13/03/20	05/05/22	2,014	-	2,014
27,999	Patricia Robertson	Chair of Economy and Infrastructure Committee (2022/23 FYE : £29,455)	09/12/19	05/05/22	24,931	-	24,931
		Chair of Audit and Scrutiny Committee (2022/23 FYE : £25,000)	09/06/22				
41,211	2021/22 remuneration for former Senior Councillors				n/a	n/a	n/a
452,522	Total				483,630	2,067	485,697

Notes:

1. Cllr Bremner held the two Senior Councillor posts of Leader of the Opposition and Chair of Caithness Committee from 1 April to 5 May 2022. He was remunerated at the rate applicable to the Leader of the Opposition post during this period.
2. The scheme of remuneration agreed by Council on 9 June 2022 included four Strategic Chairs with a salary of £28,000 and two Senior Strategic Chairs with a salary of £30,000. The Chairs of all six Strategic Committees appointed on 9 June 2022 were paid at the Strategic Chair rate until it was agreed by Council on 30 June 2022 that the Chair of the Education Committee and the Chair of the Economy and Infrastructure Committee be appointed as Senior Strategic Chairs.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

3. Cllr Fraser held the Senior Councillor post of Chair of Housing & Property Committee and the Joint Board Convener post of Convener of Highland & Western Isles Valuation Joint Board from 1 April 2022 to 5 May 2022. He was remunerated at the rate applicable to the Chair of Housing & Property Committee post during this period. From 20 June 2022 to 31 March 2023, when he held the posts of Vice Chair of Housing & Property Committee and Convener of Highland & Western Isles Valuation Joint Board, he was remunerated at the rate applicable to the Convener post.
4. £2,317 was recharged to Highland and Western Isles Valuation Joint Board in 2022/23 (2021/22: £2,218). This recharge represents the difference between the Convener salary and the Vice Chair of Housing & Property Committee salary for the period 20 June 2022 to 31 March 2023. There is no recharge in respect of the period from 1 April to 5 May 2022 as the post was held by Cllr Fraser concurrently with the higher remunerated post of Chair of Housing and Property Committee.
5. The Chairs of Caithness Committee, Easter Ross Area Committee, Lochaber Committee and Sutherland County Committee were included as Senior Councillor positions in the previous scheme of remuneration but are not included as Senior Councillor positions in the scheme of remuneration agreed by Council on 9 June 2022. Cllr Gale's re-appointment as Chair of Sutherland County Committee on 15 August 2022 is therefore not reflected in the table.
6. Four Highland councillors also sit on the Board of High Life Highland. These are non-remunerated positions.

Table 2 : Members' Allowances and Expenses

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

2021/22 £000		2022/23 £000
1,493	Remuneration	1,564
21	Travel and subsistence	104
17	All other expenses	16
1,531	Total	1,684

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/152 sets the amount of salary for the Chief Executive of Highland Council for the year 2022/23. Salaries of Highland Council Executive Chief Officers and the Depute Chief Executive are also based on Circular CO/152.

During the period to 1 February 2023 when the separate post of Depute Chief Executive was vacant, the Executive Chief Officer – Performance and Governance held 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.

Table 3 : Remuneration of Senior Employees for 2022/23

The tables below include details of the remuneration of the Senior Employees of Highland Council and of its subsidiary company High Life Highland Ltd. Only the remuneration which relates to the period during which a Senior Employee post was held is disclosed. Where a Senior Employee post was not held throughout the whole of 2022/23, the full year equivalent salary is shown in brackets.

Employees are listed in alphabetical order.

Table 3a : Highland Council Senior Employees

2021/22	Name	Senior Employee Position	2022/23	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
94,932	Liz Denovan	Executive Chief Officer – Resources and Finance (to 05/06/22) (2022/23 FYE : £99,469)	17,960	17,960
94,910	Fiona Duncan	Executive Chief Officer – Health and Social Care	99,469	99,469
n/a	Ed Foster	Head of Corporate Finance and Interim Section 95 Officer (from 06/06/22 to 08/03/23) (2022/23 FYE : £88,798) (Notes 1 & 2)	67,275	67,275
94,932	Nicky Grant	Executive Chief Officer - Education and Learning	99,469	99,469
94,932	Allan Gunn	Executive Chief Officer - Communities and Place	99,469	99,469
99,152	Kate Lackie	Executive Chief Officer – Performance and Governance and Depute Chief Executive (to 31/01/23) (2022/23 FYE : £109,469)	119,136	119,136
		Interim Chief Executive (from 01/02/23) (2022/23 FYE : £167,474)		

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2021/22	Name	Senior Employee Position	2022/23	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
94,932	Malcolm MacLeod	Executive Chief Officer – Infrastructure, Environment and Economy (to 31/01/23) (2022/23 FYE : £99,469) Interim Depute Chief Executive (from 01/02/23) (2022/23 FYE : £129,793)	104,523	104,523
170,993	Donna Manson	Chief Executive (to 15/02/23) (2022/23 FYE : £167,474) (Note 3)	150,803	150,803
80,271	Carron McDiarmid	Executive Chief Officer - Communities and Place (to 04/02/22)	n/a	n/a
n/a	Paul Nevin	Interim Executive Chief Officer - Performance and Governance (from 13/03/23) (2022/23 FYE : £99,469)	5,080	5,080
n/a	Brian Porter	Head of Corporate Finance and Interim Section 95 Officer (from 09/03/23) (2022/23 FYE : £88,798) (Notes 1 & 2)	5,490	5,490
94,932	Mark Rodgers	Executive Chief Officer – Property and Housing	99,469	99,469
n/a	Ruth Rountree Provan	Corporate Communications and Resilience Manager (from 01/02/23) (Notes 1, 2 & 4)	10,052	10,052
n/a	Tracey Urry	Interim Executive Chief Officer - Infrastructure, Environment and Economy (from 08/03/23) (2022/23 FYE : £99,469)	6,417	6,417
919,986	Total		884,612	884,612

Table 3b : High Life Highland Ltd Senior Employees

2021/22	Name	Senior Employee Position	2022/23	
Total Remuneration £			Salary, Fees & Allowances £	Total Remuneration £
93,841	Steve Walsh	Chief Executive, High Life Highland (Note 2)	98,324	98,324
93,841	Total		98,324	93,324

Notes:

1. 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.
2. 2022/23 remuneration includes accrual of back-pay due in respect of the 2022/23 pay award.
3. 2022/23 remuneration includes £3,765 paid to the Chief Executive in her role as Returning Officer for the Scottish Parliamentary Election in May 2021. (2021/22 : £11,294 for the Westminster Parliamentary Election in May 2021.)
4. As a result of a senior management restructure, the Corporate Communications and Resilience Manager reports directly to the Chief Executive with effect from 1 February 2023 and is therefore included as a Senior Employee from that date.
5. No payments of taxable expenses or compensation for loss of office payments were made to Senior Employees in 2022/23 (2021/22 : Nil).

Table 4 : General Disclosure by Pay Band

The number of Highland Council employees who received remuneration of £50,000 or more during the year are shown in the table below in bands of £5,000.

Number of Employees 2021/22	Remuneration Bands £	Number of Employees 2022/23
324	50,000 - 54,999	389
158	55,000 - 59,999	139
75	60,000 - 64,999	127
49	65,000 - 69,999	76
18	70,000 - 74,999	19
10	75,000 - 79,999	12
20	80,000 - 84,999	6
3	85,000 - 89,999	16
7	90,000 - 94,999	3
1	95,000 - 99,999	4
-	100,000 - 104,999	1
-	115,000 - 119,999	1
-	145,000 - 149,999	1
1	155,000 - 159,999	-

Table 5 : Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. There were no compulsory redundancies.

2021/22		Cost Band	2022/23	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
5	79,087	£0 - £20,000	6	84,717
		£20,001 - £40,000		
5	79,087	Total	6	84,717

2. Appointments

i) Councillors

Following the local government election and the formation of the new council in May 2022, the positions of Leader of the Council, Convener of the Council and Leader of the Opposition were appointed by Council on 26 May 2022. A revised Senior Councillor structure was agreed by Council on 9 June 2022, when most of the remaining Senior Councillors were appointed. The Leader of Inverness and Area Committee was appointed at the Inverness and Area Committee meeting of 8 June 2022.

The Highland Council Senior Councillor posts during 2022/23 were:

From 1 April 2022 to 5 May 2022

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 Caithness Committee
Chair of Easter Ross Area Committee
Chair of Lochaber Committee
Chair of Sutherland County Committee

May/June 2022 Appointments

Leader of the Council (appointed 26 May 2022)
Convener of the Council (appointed 26 May 2022)
Leader of the Opposition (appointed 26 May 2022)
Chair of Audit and Scrutiny Committee (appointed 9 June 2022)
Chair of Communities and Place Committee (appointed 9 June 2022)
Chair of Corporate Resources Committee (appointed 9 June 2022)
Chair of Education Committee (appointed 9 June 2022)
Chair of Economy and Infrastructure Committee (appointed 9 June 2022)
Chair of Health, Social Care and Wellbeing Committee (appointed 9 June 2022)
Chair of Housing and Property Committee (appointed 9 June 2022)
Leader of Inverness and Area (appointed 8 June 2022)
Vice Chair of Communities and Place Committee (appointed 9 June 2022)
Vice Chair of Corporate Resources Committee (appointed 9 June 2022)
Vice Chair of Education Committee (appointed 9 June 2022)
Vice Chair of Economy and Infrastructure Committee (appointed 9 June 2022)
Vice Chair of Health, Social Care and Wellbeing Committee (appointed 9 June 2022)
Vice Chair of Housing and Property Committee (appointed 9 June 2022)

ii) Senior Employees

The panel for the appointment of Executive Chief Officer level and above for permanent vacancies during 2022/23 comprised the Convener, Leader, two Senior Strategic Committee Chairs, Leader of the Opposition, Leader of the Scottish Conservative & Unionist Group and one additional member of the Opposition.

3. Pension Benefits – Councillors and Senior Employees

Pension benefits for councillors and senior employees are provided through the Local Government Pension Scheme (LGPS). There is one Senior Employee whose pension benefits include benefits provided through the Scottish Teachers' Superannuation Scheme. Further details of this scheme are available at the link <https://pensions.gov.scot/teachers/about-teachers-pensions/scottish-teachers-superannuation-scheme>.

The Local Government Pension Scheme (LGPS) 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.

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The scheme's normal retirement age for Councillors and employees is linked to the State Pension Age.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership.

The 2022/23 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2022/23
On earnings up to and including £23,000	5.50%
On earnings above £23,000 and up to £28,100	7.25%
On earnings above £28,100 and up to £38,600	8.50%
On earnings above £38,600 and up to £51,400	9.50%
On earnings above £51,400	12.00%

2021/22 contribution tiers and rates:

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%

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 2022/23 employer's contribution rate is 19% of pensionable pay (2021/22: 19%).

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.

Table 6 : Senior Councillor Pension Benefits

The accrued pension benefits as at 31 March 2023 for those Senior Councillors who were active members of the Local Government Pension Scheme during 2022/23 are shown in the table below, together with the contributions made by Highland Council to each Senior Councillor's pension during the year.

For responsibilities of each Senior Councillor, refer to the table on pages 25-28.

Councillors are listed in alphabetical order.

Pension Contributions 2021/22 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2022/23 £	Accrued Pension Benefits			
			As at 31/03/23		Difference from 31/03/22	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
3,746	Andrew Baxter (Note 1)	696	4	-	-	-
5,302	Raymond Bremner	7,833	3	-	1	-
n/a	Ian Brown	4,457	7	2	1	-
n/a	Glynis Campbell-Sinclair	4,869	4	-	1	-
6,166	Alasdair Christie	5,712	8	-	1	-
n/a	Muriel Cockburn	3,970	2	-	-	-
8,221	Margaret Davidson (Note 2)	1,527	10	70	(1)	67
5,302	John Finlayson	5,454	3	-	-	-
n/a	David Fraser	4,869	1	-	1	-
4,144	Laurie Fraser	5,041	8	6	1	1
3,746	Richard Gale	3,745	3	-	1	-
n/a	Ken Gowans	5,123	5	-	1	-
n/a	Michael Green	3,316	-	-	-	-
5,302	Allan Henderson (Note 2)	985	6	43	(1)	41

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Pension Contributions 2021/22 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2022/23 £	Accrued Pension Benefits			
			As at 31/03/23		Difference from 31/03/22	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
6,166	Bill Lobban	6,332	7	-	2	-
n/a	Derek Louden	4,869	3	-	1	-
5,302	Graham MacKenzie	5,199	6	-	1	-
n/a	Drew Millar	3,316	-	-	-	-
n/a	Hugh Morrison	3,970	5	-	1	-
n/a	Calum Munro	3,970	1	-	-	-
5,302	Linda Munro (Note 3)	985	7	2	1	-
3,746	Fiona Robertson (Note 1)	696	5	-	-	-
5,302	Patricia Robertson	4,784	4	-	1	-
7,903	2021/22 pension contributions for former Senior Councillors	n/a	n/a	n/a	n/a	n/a
75,650	Total	91,718	102	123	13	109

Notes:

1. Left on 5 May 2022. The pension benefits represent the value of deferred benefits.
2. Retired on 5 May 2022 and elected to convert annual pension to lump sum. The pension benefits are the amounts receivable from this date.
3. Retired on 5 May 2022. The pension benefits are the amounts receivable from this date.

Table 7 : Senior Employee Pension Benefits

The pension entitlements for the year to 31 March 2023 for those Senior Employees who were active members of the Local Government Pension Scheme during 2022/23 are shown in the tables below, together with the contributions made by Highland Council or High Life Highland Ltd to each Senior Employee's pension during the year.

For the position(s) held by each Senior Employee, refer to the tables on pages 31-33.

Employees are listed in alphabetical order.

Table 7a : Highland Council Senior Employees

Pension Contributions 2021/22 £	Senior Employee	Pension Contributions 2022/23 £	Accrued Pension Benefits			
			As at 31/03/23		Difference from 31/03/22	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
18,037	Liz Denovan (Note 1)	3,412	40	61	1	-
18,033	Fiona Duncan	18,899	38	42	5	2
n/a	Ed Foster (Note 2)	15,582	28	13	4	-
19,308	Nicky Grant (Note 3)	18,899	24	61	1	22
18,037	Allan Gunn	18,899	48	66	5	3
18,839	Kate Lackie	22,636	33	24	7	4
18,037	Malcolm MacLeod	19,859	43	50	6	4
30,343	Donna Manson (Note 4)	27,937	24	-	6	-
15,252	Carron McDiarmid	n/a	n/a	n/a	n/a	n/a
n/a	Paul Nevin	11,833	6	-	2	-
n/a	Brian Porter	16,609	38	42	4	2
18,037	Mark Rodgers	18,899	7	-	3	-
n/a	Ruth Rountree Provan	11,453	11	-	2	-
n/a	Tracey Urry	16,757	50	79	5	5
173,923	Total	221,674	390	438	51	42

Table 7b : High Life Highland Ltd Senior Employees

Pension Contributions 2021/22 £	Senior Employee	Pension Contributions 2022/23 £	Accrued Pension Benefits			
			As at 31/03/23		Difference from 31/03/22	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
17,830	Steve Walsh	18,331	14	0	4	0
17,830	Total	18,331	14	0	4	0

Notes:

1. Left on 5 June 2022. The pension benefits represent the value of deferred benefits.
2. Left on 8 March 2023. The pension benefits represent the value of deferred benefits..
3. Pension benefits include LGPS benefits from 1 August 2021 plus deferred benefits due from active membership of the Scottish Teachers' Superannuation Scheme to 31 July 2021. The information on the benefits from the teachers' scheme is provided by the Scottish Public Pensions Agency (SSPA). The SSPA calculation of accrued scheme benefits as at 31 March 2022 was based on active membership of the Scottish Teachers' Superannuation Scheme to 31 March 2015 and active membership of the Career Average Related Earnings (CARE) Scottish Teachers' Pension Scheme 2015 from 1 April 2015 to 31 July 2021 and therefore included both final salary benefits and CARE benefits. Following the Court of Appeal judgement which found that protections put in place on the introduction of the CARE scheme for members who were close to their retirement date discriminated against younger members, all members were moved to the CARE scheme from 1 April 2022 (for further information refer to <https://pensions.gov.scot/2015-remedy>). As a result, the SSPA calculation of accrued scheme benefits as at 31 March 2023 is based on active membership of the Scottish Teachers' Superannuation Scheme to 31 July 2021 and only final salary benefits apply.
4. Left on 15 February 2023. The pension benefits represent the value of deferred benefits.

4. Trade Union Facility Time Disclosures

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

Raymond Bremner
Leader of the Council

Kate Lackie
Interim 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 50/51 and in the Movements in Reserves Statement on page 45/46.

2021/22				2022/23			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
61,506	(56,898)	4,608	Council Housing – Housing Revenue Account	125,809	(58,467)	67,342	
60,303	(15,278)	45,025	Communities & Place	64,626	(15,381)	49,245	
277,457	(39,523)	237,934	Education & Learning	299,421	(40,378)	259,043	
173,913	(17,345)	156,568	Health & Social Care	207,686	(17,888)	189,798	
114,558	(48,258)	66,300	Infrastructure, Environment & Economy	120,362	(46,462)	73,900	
8,239	(1,619)	6,620	Performance & Governance	13,866	(5,678)	8,188	
104,773	(14,791)	89,982	Property & Housing	108,548	(17,956)	90,592	
27,247	(2,724)	24,523	Resources & Finance	23,630	(2,600)	21,030	
14,002	(10)	13,992	Depute Chief Executive*	14,822	(33)	14,789	
46,621	(35,759)	10,862	Welfare Services	46,841	(33,476)	13,365	
			Joint board requisitions				
2,889	-	2,889	Highland and Western Isles Valuation Joint Board	2,942	-	2,942	
91	-	91	Highland and Islands Transport Partnership	91	-	91	
891,599	(232,205)	659,394	Cost of Services Carried Forward	1,028,644	(238,319)	790,325	

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2021/22				2022/23			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
891,599	(232,205)	659,394	Cost of services brought forward		1,028,644	(238,319)	790,325
		11,800	Losses on the disposal of non-current assets				4,828
		54,089	Financing and investment income and expenditure	9			53,754
		(711,152)	Taxation and non-specific grant Income	10			(770,819)
		14,131	Deficit/(Surplus) on provision of services				78,088
		(121,562)	Deficit/(Surplus) on revaluation of non-current assets				(32,064)
		36,593	Impairment losses on non-current assets charged to the revaluation reserve				4,714
		(153,553)	Remeasurements of the net defined benefit liability				(510,252)
		(238,522)	Other comprehensive (income) and expenditure				(537,602)
		(224,391)	Total comprehensive (income) and expenditure				(459,514)

*The Depute Chief Executive service was formerly named the Transformation service within the annual accounts

MOVEMENT IN RESERVES STATEMENT 2021/22

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	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2021	96,969	11,802	2,181	1,710	22,123	11,225	146,010	1,121,507	1,267,517
Movement in reserves during 2021/22									
Total comprehensive income and expenditure	2,007	(16,138)	-	-	-	-	(14,131)	238,522	224,391
Adjustments to usable reserves permitted by accounting standards	8,757	230	-	-	-	-	8,987	(8,987)	-
Adjustments between accounting basis and funding basis under regulations (note 7)	3,570	11,980	-	-	969	-	16,519	(16,519)	-
Net increase/(decrease) before transfers to and other statutory reserves	14,334	(3,928)	-	-	969	-	11,375	213,016	224,391
Transfers to/from other statutory reserves	7,502	-	8	1,442	(9,247)	(1,255)	(1,550)	1,550	-
Increase/(decrease) in 2021/22	21,836	(3,928)	8	1,442	(8,278)	(1,255)	9,825	214,566	224,391
Balance at 31 March 2022	118,805	7,874	2,189	3,152	13,845	9,970	155,835	1,336,073	1,491,908

MOVEMENT IN RESERVES STATEMENT 2022/23

	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
Balance at 31 March 2022	118,805	7,874	2,189	3,152	13,845	9,970	155,835	1,336,073	1,491,908
Movement in reserves during 2022/23									
Total comprehensive income and expenditure	(2,278)	(75,810)	-	-	-	-	(78,088)	537,602	459,514
Adjustments to usable reserves permitted by accounting standards	10,351	228	-	-	-	-	10,579	(10,579)	-
Adjustments between accounting basis and funding basis under regulations (note 7)	(2,861)	71,617	-	-	12,190	-	80,946	(80,946)	-
Net increase/(decrease) before transfers to and other statutory reserves	5,212	(3,965)	-	-	12,190	-	13,437	446,077	459,514
Transfers to/from other statutory reserves	7,805	-	19	731	(7,542)	4,391	5,404	(5,404)	-
Increase/(decrease) in 2022/23	13,017	(3,965)	19	731	4,648	4,391	18,841	440,673	459,514
Balance at 31 March 2023	131,822	3,909	2,208	3,883	18,493	14,361	174,676	1,776,746	1,951,422

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'.

31/03/22 £000		Note	31/03/23 £000
2,804,691	Property, plant and equipment	27	2,873,561
7,006	Heritage assets	32	7,006
46,729	Long term debtors (net of impairment)	33	50,572
-	Pension Asset	23	224,370
<u>2,858,426</u>	Long term assets		<u>3,155,509</u>
6,456	Inventories		5,874
90,444	Short term debtors	34/35	84,258
96,075	Cash and cash equivalents	17	63,149
861	Assets held for sale		1,451
<u>193,836</u>	Current assets		<u>154,732</u>
(154,253)	Short term borrowing	41	(167,957)
(139,858)	Short term creditors	36	(160,312)
(681)	Cash and cash equivalents – bank overdraft	17	(334)
(3,006)	Provisions	37	(448)
(8,403)	Capital Grant Receipts in Advance	40	(13,021)
<u>(306,201)</u>	Current liabilities		<u>(342,072)</u>
(884,870)	Long term borrowing	41	(889,904)
(369,283)	Other long term liabilities	38	(126,843)
<u>(1,254,153)</u>	Long term liabilities		<u>(1,016,747)</u>
<u>1,491,908</u>	Net assets		<u>1,951,422</u>
155,835	Usable reserves	11	174,676
1,336,073	Unusable reserves	12	1,776,746
<u>1,491,908</u>	Total reserves		<u>1,951,422</u>

The unaudited annual accounts were issued on 30 June 2023

Brian Porter CPFA

Interim 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.

2021/22 £000		Note	2022/23 £000
(14,131)	Net surplus/(deficit) on the provision of services		(78,088)
136,370	Adjust net surplus on the provision of services for non-cash movements	13	258,783
(68,736)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	13	(105,184)
53,503	Net cash inflow from operating activities		75,511
(196,804)	Investing activities	15	(223,882)
126,064	Financing activities	16	115,792
(17,237)	Net increase or (decrease) in cash and cash equivalents		(32,579)
112,631	Cash and cash equivalents at 1 April 2022		95,394
95,394	Cash and cash equivalents at 31 March 2023	17	62,815

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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.

2021/22			2022/23			
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	
(19,369)	23,977	4,608	Council Housing – Housing Revenue Account	(18,507)	85,849	67,342
39,103	5,922	45,025	Communities & Place	41,686	7,559	49,245
217,464	20,470	237,934	Education & Learning	232,486	26,557	259,043
149,450	7,118	156,568	Health & Social Care	184,019	5,779	189,798
37,110	29,190	66,300	Infrastructure, Environment & Economy	39,862	34,038	73,900
5,036	1,584	6,620	Performance & Governance	6,473	1,715	8,188
83,326	6,656	89,982	Property & Housing	85,229	5,363	90,592
14,726	9,797	24,523	Resources & Finance	12,702	8,328	21,030
12,735	1,257	13,992	Depute Chief Executive	13,530	1,259	14,789
10,917	(55)	10,862	Welfare Services	13,410	(45)	13,365
2,980	-	2,980	Joint board requisitions	3,033	-	3,033
553,478	105,916	659,394	Cost of services carried forward	613,923	176,402	790,325

Expenditure and Funding Analysis (continued)

2021/22				2022/23			
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
553,478	105,916	659,394	Cost of services brought forward		613,923	176,402	790,325
(563,884)	(81,379)	(645,263)	Other Income and Expenditure		(615,170)	(97,067)	(712,237)
<hr/>					<hr/>		
(10,406)	24,537	14,131	Deficit/(Surplus)	2	(1,247)	79,335	78,088
		(108,771)	Opening General Fund and HRA Balance		(126,679)		
		(10,406)	Deficit/(surplus) on General Fund or HRA Balance in year		(1,247)		
		(7,502)	Transfers (from)/to reserves		(7,805)		
		<hr/>	Closing General Fund and HRA Balance at 31 March 2023*		<hr/>		
		(126,679)			(135,731)		

*For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement on page 45/46.

2. Note to Expenditure and Funding Analysis

Adjustments between Funding & Accounting Basis 2022/23

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	84,827	2,562	-	87,389	(1,540)	85,849
Communities & Place	3,019	5,061	(472)	7,608	(49)	7,559
Education & Learning	33,530	10,986	750	45,266	(18,709)	26,557
Health & Social Care	870	5,336	(506)	5,700	79	5,779
Infrastructure, Environment & Economy	23,975	5,552	111	29,638	4,400	34,038
Performance & Governance	-	1,780	(65)	1,715	-	1,715
Property & Housing	(416)	6,222	(6)	5,800	(437)	5,363
Resources & Finance	5,172	3,188	8	8,368	(40)	8,328
Depute Chief Executive	(162)	1,433	(12)	1,259	-	1,259
Welfare Services	-	-	-	-	(45)	(45)
Net Cost of Services	150,815	42,120	(192)	192,743	(16,341)	176,402
Other Income from the Expenditure and Funding Analysis	(113,550)	7,113	(6,971)	(113,408)	16,341	(97,067)
Total Adjustments	37,265	49,233	(7,163)	79,335	-	79,335

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 - (£18.703m), Harbours Trading Income and Expenditure - £4.371m, Expected Credit Losses on Financial Assets – (£2.010m).

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	22,461	2,799	-	25,260	(1,283)	23,977
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)	1,593	51	1,584	-	1,584
Property & Housing	460	6,825	68	7,353	(697)	6,656
Resources & Finance	6,245	3,740	(149)	9,836	(39)	9,797
Depute Chief Executive	-	1,183	74	1,257	-	1,257
Welfare Services	-	-	-	-	(55)	(55)
Net Cost of Services	78,575	46,105	(379)	124,301	(18,385)	105,916
Other Income from the Expenditure and Funding Analysis	(98,502)	7,361	(8,623)	(99,764)	18,385	(81,379)
Total Adjustments	(19,927)	53,466	(9,002)	24,537	-	24,537

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 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 23 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 2022/23 and its financial position at 31 March 2023. 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 2022/23 (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 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 Education & Learning and

Health & Social Care 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 as per the table below.

Description of Asset	Basis of valuation
Market quoted investments	Published bid market price ruling on the final day of the accounting period.
Quoted bonds	Quoted market value based on current yields.
Exchange traded pooled investments	Closing bid value on published exchanges.
Pooled investments – overseas unit trusts, property funds and alternative risk premia, unitised insurance policies (equities and bonds)	Closing bid price where bid and offer prices are published. Closing single price where single price published
Pooled investments – unlisted property funds	Financial statements or other market indicators.
Unquoted equity/ private debt	Comparable valuation of similar companies.
Unquoted commercial real estate debt	Valued by Fund Manager using accounting estimates and judgements from the fund's financial statement.

- 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 2022/23; and
- fair value through other comprehensive income (FVOCI) - not applicable to the Council for 2022/23.

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.

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.

The Council has no financial investment in any of its group subsidiaries or associates.

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)
- 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, Infrastructure, Environment and Economy 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.

Statutory Overrides – Infrastructure Assets

In response to concerns raised by audit bodies on the way local authorities in the UK account for their infrastructure assets and following an urgent consultation on the matter by CIPFA/LASAAC, the Scottish Government have produced a set of temporary statutory overrides that can be applied up to financial year 2023/24 until the matter can be resolved.

There are two optional statutory overrides available to local authorities below and the Council are applying both in the annual accounts.

Override 1 For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross carrying amount and accumulated depreciation for infrastructure assets.

Override 2 For the accounting periods from 1 April 2010 to 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be accounted for as a nil amount, and no subsequent adjustment can be made to the carrying amount of the asset with respect to that part.

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 General Fund and HRA.

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 39 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 2023/24 Code effective from 1 April 2023. There is therefore no impact on the 2022/23 financial statements.

- IFRS 16 Leases (only for those local authorities that have decided to adopt IFRS 16 in the 2023/24 year). Highland Council will not be adopting IFRS 16 in 2023/24.
- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

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 £319.815m) 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 2023 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 Valuations	<p>In making judgements on the measurements of assets at 31 March 2023, the Council place reliance on valuation information received from internal valuers as well as the District Valuer.</p> <p>A large proportion of assets are of a specialised nature reflecting an underlying DRC basis of valuation which is influenced by property build rates. 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>Any significant change in property market conditions may require certain assets (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 £163.350m</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 23.</p>
Fair Value Measurements	<p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (e.g. 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.

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2022/23	General Fund	Housing Revenue Account	Capital Fund	Capital Grants Unapplied Account	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation and impairment of non-current assets	61,831	84,599	-	-	146,430	(146,430)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(100,753)	(15,412)	-	-	(116,165)	116,165	-
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	8,353	10,340	-	-	18,693	(18,693)	-
Revenue expenditure funded by capital	12,655	-	-	-	12,655	(12,655)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for repayment of debt	(5,669)	(10,294)	-	-	(15,963)	15,963	-
Repayment of Finance Lease Creditors	(5,011)	-	-	-	(5,011)	5,011	-
Capital expenditure charged against the General Fund and HRA balances	(5,097)	-	-	-	(5,097)	5,097	-
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2022/23	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Capital Grants Unapplied Account £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Capital Fund							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(13,865)	-	13,865	-	-	-	-
Use of the capital fund to finance new capital expenditure	-	-	(1,675)	-	(1,675)	1,675	-
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,361)	(600)	-	-	(1,961)	1,961	-
Adjustments involving the Pensions Reserve							
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	77,380	4,992	-	-	82,372	(82,372)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(31,132)	(2,008)	-	-	(33,140)	33,140	-
Adjustments involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(192)	-	-	-	(192)	192	-
Total adjustments 2022/23	(2,861)	71,617	12,190	-	80,946	(80,946)	-

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2021/22	General Fund	Housing Revenue Account	Capital Fund	Capital Grants Unapplied Account	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation and impairment of non-current assets	54,566	22,381	-	-	76,947	(76,947)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(74,689)	(11,439)	-	-	(86,128)	86,128	-
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	5,061	10,496	-	-	15,557	(15,557)	-
Revenue expenditure funded by capital	20,180	-	-	-	20,180	(20,180)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
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	-
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

2021/22	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Capital Grants Unapplied Account £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Capital Fund							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,757)	-	3,757	-	-	-	-
Use of the capital fund to finance new capital expenditure	-	-	(2,788)	-	(2,788)	2,788	-
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,363)	(598)	-	-	(1,961)	1,961	-
Adjustments involving the Pensions Reserve							
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	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	-
Adjustments involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(379)	-	-	-	(379)	379	-
Total adjustments 2021/22	3,570	11,980	969	-	16,519	(16,519)	-

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 £13.017m (2021/22-£21.836m increase) comprises a decrease in earmarked balances of £38.239m (2021/22 - £45.986m increase) and an increase in non-earmarked balances of £51.256m (2021/22 - £24.150m decrease).

	Balance at 31/03/21 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/22 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/23 £000
Badaguish Outdoor Centre	460	-	-	-	460	-	-	-	460
Change Fund	2,420	(342)	1,166	-	3,244	(1,460)	1,606	-	3,390
Commercial Investment Fund	89	(15)	-	-	74	(74)	-	-	-
COVID-19	12,267	(4,814)	4,989	-	12,442	(11,583)	-	-	859
Developers' Contributions	7,022	(1,428)	3,176	24	8,794	(3,001)	2,833	223	8,849
Developing the Young Workforce	70	(35)	-	-	35	(35)	-	-	-
Devolved School Management	3,119	(26)	1,483	-	4,576	(2,366)	941	-	3,151
Education Transitional Funding	-	-	-	-	-	-	1,706	-	1,706
Elections	755	-	85	-	840	(595)	85	-	330
Funding for 2022/23 Non-recurring Budget Pressures	-	-	5,662	-	5,662	(5,662)	-	-	-
Grants and Match Funding	2,130	(1,097)	4,768	-	5,801	(4,038)	2,418	-	4,181
Green Freeport	-	-	-	-	-	-	300	-	300
High Life Highland	-	-	1,000	-	1,000	(608)	400	-	792
IT Investment Fund	1,244	(166)	-	-	1,078	-	170	-	1,248
Lease Premium Windfall	-	-	265	-	265	(265)	-	-	-
Local Car Parking Income	-	-	-	-	-	-	248	-	248
NHS Highland - COVID Response Fund & Investment Fund	5,600	(4,000)	14,796	-	16,396	(5,601)	-	-	10,795
Phase 1 Investment Fund	9,810	(2,387)	-	-	7,423	(3,535)	125	-	4,013
Phase 2 Investment Fund	-	(2,984)	8,750	-	5,766	(4,532)	-	-	1,234
Phase 3 Investment Fund	-	-	5,300	-	5,300	(3,791)	-	-	1,509
Phase 4 Investment Fund	-	-	8,000	-	8,000	(3,907)	44	-	4,137
Property (Health & Safety Issues etc)	-	-	2,400	-	2,400	(690)	-	-	1,710
Recycling Improvement Fund	-	-	-	-	-	-	273	-	273
Salix Recycling Fund	895	(2,629)	2,034	-	300	(490)	1,850	-	1,660

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

	Balance at 31/03/21	Transfers out	Transfers in	Interest on balances	Balance at 31/03/22	Transfers out	Transfers in	Interest on balances	Balance at 31/03/23
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Scottish Crown Estate	3,035	(823)	3,201	-	5,413	(905)	2,887	-	7,395
Skye Airstrip	187	-	-	-	187	(187)	-	-	-
Staffing Conditions and Development Fund	3,452	(609)	560	-	3,403	(751)	-	-	2,652
Walks to Water	76	-	-	-	76	-	-	-	76
Welfare Issues	931	(708)	390	-	613	(320)	48	-	341
Total	53,562	(22,063)	68,025	24	99,548	(54,396)	15,934	223	61,309

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

2021/22 £000		Note	2022/23 £000
(2,598)	Gains on trading operations	19	(3,116)
48,108	Interest payable and similar charges		51,409
7,190	Pensions net interest expense		6,952
(590)	Interest and investment income		(3,501)
1,979	Expected credit losses on financial assets		2,010
<u>54,089</u>			<u>53,754</u>

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

2021/22 £000		2022/23 £000
(406,990)	Revenue support grant	(383,618)
(131,247)	Council tax income	(136,667)
(106,967)	Non-Domestic rates	(141,565)
(65,948)	Capital grants and contributions	(103,510)
-	General capital grant for pay award	(5,459)
<u>(711,152)</u>		<u>(770,819)</u>

11. Balance Sheet – usable reserves

31/03/22 £000		31/03/23 £000
2,189	Renewal and Repair Fund (a)	2,208
13,845	Capital Fund (b)	18,493
3,152	Insurance Fund (c)	3,883
9,970	Capital Grants Unapplied (d)	14,361
118,805	General Fund (e)	131,822
7,874	Housing Revenue Account (e)	3,909
<u>155,835</u>		<u>174,676</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 repairs at leisure facilities
- to fund repairs at Inverness Campus North Bridge
- to fund unbudgeted maintenance and repairs of traffic lights and solar panels

(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
Balance at 31 March 2022	12,438	1,407	13,845
Transferred to General Fund	5,385	(12,190)	(6,805)
Transferred to Capital Adjustment account	(737)	12,190	11,453
Balance at 31 March 2023	17,086	1,407	18,493

(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 2022	9,970
Transferred from/(to) General Fund	(1,749)
Transferred from/(to) Capital Adjustment account	6,140
Balance at 31 March 2023	14,361

(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

31/03/22 £000		31/03/23 £000
584,947	Revaluation Reserve (a)	600,744
1,016,756	Capital Adjustment Account (b)	978,459
(15,357)	Financial Instruments Adjustment Account (c)	(13,396)
(236,650)	Pensions Reserves (d)	224,370
(13,623)	Employee Statutory Adjustment Account (e)	(13,431)
<u>1,336,073</u>		<u>1,776,746</u>

(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains revaluation gains which have accumulated since the creation of the reserve on 1 April 2007. Accumulated gains arising up to 31 March 2007 were consolidated into the balance on the Capital Adjustment Account.

2021/22 £000		£000	2022/23 £000
510,258	Balance at 1 April 2022		584,947
121,996	Upward revaluation of assets	65,430	
(434)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services	(33,366)	
(36,593)	Impairment losses not charged to the Surplus/Deficit on the Provision of services	(4,714)	
	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		27,350
(8,987)	Difference between fair value depreciation and historical cost depreciation		(10,579)
(1,232)	Accumulated gains on assets sold or scrapped	(947)	
(61)	Amount written off revaluation reserve	(27)	
(1,293)	Amount written off to the Capital Adjustment Account		(974)
<u>584,947</u>	Balance at 31 March 2023		<u>600,744</u>

(b) Capital Adjustment Account

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

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

2021/22 £000		2022/23 £000
979,306	Balance at 1 April 2022	1,016,756
(20,180)	Revenue Expenditure funded from capital under statute	(12,655)
(72,315)	Charges for depreciation on non-current assets	(76,428)
(4,632)	Revaluation losses on Property, Plant and Equipment	(70,003)
	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	(18,693)
<u>(15,557)</u>		<u>(177,779)</u>
(112,684)	Adjusting amounts written out of the Revaluation Reserve	
<u>1,293</u>		<u>974</u>
1,293	Net written out amount of the cost of non-current assets consumed in the year	974
	Capital Financing applied in the year	
6,663	Repayment of PPP creditors	5,011
2,788	Use of the Capital Fund to finance new capital expenditure	1,675
86,128	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	116,165
1,550	Use of the Capital Fund	737
-	Use of Capital Grants Unapplied Account	(6,140)
45,282	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances*	15,963
6,430	Capital expenditure charged against the General Fund and HRA balances	5,097
<u>148,841</u>		<u>138,508</u>
<u>1,016,756</u>	Balance at 31 March 2023	<u>978,459</u>

*Reduction in 2022/23 is due to the effects of the loans fund principal 'holiday' taken, this financial flexibility allowed for the option to defer the statutory repayment of debt in 2022/23.

(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.

2021/22 £000		2022/23 £000
(17,318)	Balance at 1 April 2022	(15,357)
1,955	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
6	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	6
<u>(15,357)</u>	Balance at 31 March 2023	<u>(13,396)</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.

2021/22 £000		2022/23 £000	£000
(336,737)	Balance at 1 April 2022		(236,650)
130,636	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	692,835	
25,740	Return on plan assets	(90,122)	
(2,823)	Other experience adjustments	(92,461)	
<u>153,553</u>	Total remeasurements of the net defined liability		510,252
(83,814)	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	(82,372)	
<u>30,348</u>	Employer's pension contributions and direct payments to pensioners payable in the year	<u>33,140</u>	
<u>(53,466)</u>			<u>(49,232)</u>
<u>(236,650)</u>	Balance at 31 March 2023		<u>224,370</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.

2021/22 £000		2022/23 £000
(14,002)	Balance at 1 April 2022	(13,623)
14,002	Settlement or cancellation of accrual made at the end of the preceding year	13,623
(13,623)	Amounts accrued at the end of the current year	(13,431)
(13,623)	Balance at 31 March 2023	(13,431)

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

2021/22 £000		2022/23 £000
	Non-cash items	
81,302	Depreciation	87,006
4,631	Impairments	70,003
15,557	Net book value of assets sold	18,693
53,466	IAS 19 transactions	49,232
(84)	Financial instruments adjustments	(85)
	Items on accruals basis	
(1,453)	Decrease/(increase) in inventories	582
(11,938)	Decrease/(increase) in debtors	10,569
(7,434)	(Decrease)/increase in creditors	25,341
2,323	(Decrease)/increase in provisions	(2,558)
136,370		258,783
£000		£000
	Items in investing & financing activities	
(65,948)	Capital grants credited to surplus/deficit on provision of services	(103,509)
(2,788)	Proceeds from sale of assets	(1,675)
(68,736)		(105,184)

14. Cash flow statement – operating activities

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

2021/22		2022/23
£000		£000
(557)	Interest received	(3,267)
48,325	Interest paid	49,959

15. Cash flow statement – investing activities

2021/22		2022/23
£000		£000
(187,194)	Purchase of property, plant and equipment	(217,812)
(10,477)	Other (payments)/receipts for investing activities	(11,705)
2,788	Proceeds from the sale of property, plant and equipment	1,675
(1,921)	Other (payments)/receipts from investing activities	3,960
(196,804)	Net cash flows from investing activities	(223,882)

16. Cash flow statement – financing activities

2021/22		2022/23
£000		£000
289,890	Cash receipts of short and long term borrowing	240,314
65,948	Other receipts from financing activities	103,509
(6,663)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(5,011)
(225,288)	Repayments of short and long term borrowing	(221,069)
2,177	Advance to/(from) group bodies	(1,951)
126,064	Net cash flows from financing activities	115,792

17. Cash flow statement – cash and cash equivalents

	At 1 April 2022	Cash flow	At 31 March 2023
	£000	£000	£000
Temporary investments	96,003	(32,919)	63,084
Cash in hand	72	(7)	65
Cash at bank	(681)	347	(334)
Total cash and cash equivalents	95,394	(32,579)	62,815

18. 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.

2022/23

	Communities & Place £000	Education & Learning £000	Health & Social Care £000	Infrastructure, Environment & Economy £000	Performance & Governance £000	Property & Housing £000	Resources & Finance £000	Depute Chief Executive £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(14,210)	(2,178)	(31)	(22,473)	(2,041)	(6,944)	(1,820)	-	(126)	(58,467)	(24,150)	(132,440)
Interest and investment income	(30)	-	(2)	-	-	-	-	-	-	-	(3,546)	(3,578)
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(136,667)	(136,667)
Government grants and contributions	(1,141)	(38,200)	(17,855)	(23,989)	(3,637)	(11,012)	(780)	(33)	(33,350)	-	(634,152)	(764,149)
Total income	(15,381)	(40,378)	(17,888)	(46,462)	(5,678)	(17,956)	(2,600)	(33)	(33,476)	(58,467)	(798,515)	(1,036,834)
Employee expenses	34,806	232,421	43,779	36,993	10,579	33,734	16,577	8,573	-	15,650	1,034	434,146
Other service expenses	26,397	30,970	162,698	48,154	3,287	72,163	1,871	6,216	46,841	25,332	30,945	454,874
Depreciation, amortisation and impairment	3,423	36,030	1,209	35,215	-	2,651	5,182	33	-	84,827	1,095	169,665
Interest payments	-	-	-	-	-	-	-	-	-	-	51,409	51,409
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	-	-	4,828	4,828
Total expenditure	64,626	299,421	207,686	120,362	13,866	108,548	23,630	14,822	46,841	125,809	89,311	1,114,922
(Surplus) or deficit on the provision of services	49,245	259,043	189,798	73,900	8,188	90,592	21,030	14,789	13,365	67,342	(709,204)	78,088

Expenditure & Income Analysed by Segment and Nature (continued)

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	Depute Chief Executive £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(13,024)	(648)	(36)	(19,394)	(1,482)	(6,224)	(1,523)	(10)	(126)	(56,898)	(17,511)	(116,876)
Interest and investment income	(30)	-	-	-	-	-	-	-	-	-	(593)	(623)
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(131,247)	(131,247)
Government grants and contributions	(2,224)	(38,875)	(17,309)	(28,864)	(137)	(8,567)	(1,201)	-	(35,633)	-	(579,905)	(712,715)
Total income	(15,278)	(39,523)	(17,345)	(48,258)	(1,619)	(14,791)	(2,724)	(10)	(35,759)	(56,898)	(729,256)	(961,461)
Employee expenses	33,744	217,493	42,661	31,738	7,736	30,644	16,273	6,154	-	14,751	978	402,172
Other service expenses	24,550	29,014	130,247	43,687	503	71,391	4,234	7,848	46,621	24,144	25,159	407,398
Depreciation, amortisation and impairment	2,009	30,950	1,005	39,133	-	2,738	6,740	-	-	22,611	928	106,114
Interest payments	-	-	-	-	-	-	-	-	-	-	48,108	48,108
Loss on disposal of non-current assets	-	-	-	-	-	-	-	-	-	-	11,800	11,800
Total expenditure	60,303	277,457	173,913	114,558	8,239	104,773	27,247	14,002	46,621	61,506	86,973	975,592
(Surplus) or deficit on the provision of services	45,025	237,934	156,568	66,300	6,620	89,982	24,523	13,992	10,862	4,608	(642,283)	14,131

19. 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 (STO) 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 2022/23 is as follows:

Fishery, Piers and Harbours	£000
Turnover	24,194
Expenditure	<u>(21,044)</u>
Surplus	3,150
Less internal surplus included in service net expenditure	10
Less interest on revenue balances	(44)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 9)	<u><u>3,116</u></u>
Three year surplus	
Financial Year	£000
2020/21	1,467
2021/22	2,598
2022/23	<u>3,116</u>
	<u><u>7,181</u></u>

The table above is presented exclusively to demonstrate that the STO has met the target of breaking even over a rolling three year period.

20. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2022/23 the Council collected £146.281m and received £141.565m contribution from the non-domestic rates pool (2021/22 collected £106.193m and received £106.967m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2022/23 the Council paid over £40.214m and received £0.765m for providing this service. During 2021/22 the Council paid over £38.002m and received £0.765m for providing this service.

Payments totalling £0.158m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2021/22 - £0.154m).

The Council issued COVID-19 related grants and payments on behalf of the Scottish Government during 2022/23 to the value of £0.172m. (2021/22 - £66.227m).

Cost of Living Support Payments to the value of £12.039m (2021/22 – nil) and Scottish Child Bridging Payments to the value of £2.195m (2021/22 – £2.584m) were also issued on behalf of the Scottish Government during 2022/23.

The Council issued energy support payments on behalf of the UK Government during 2022/23 £0.084m (2021/22 - nil) for Energy Bills Support Scheme Alternative Funding and £0.010m (2021/22 - nil) for Energy Bills Support Scheme Alternative Fuel.

21. External audit costs

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

2021/22 £000		2022/23 £000
442	Fees payable to Audit Scotland with regard to external audit services	494

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

22. 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 2022/23 the Council paid £25.748m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.0% of pensionable pay. The figures for 2021/22 were £24.982m and 23.0%. There were no contributions remaining payable at the year-end.

In 2022/23 the Council paid £1.456m to the Scottish Public Pensions Agency in respect of NHS retirement benefits, representing 20.9% of pensionable pay. The figures for 2021/22 were £1.567m 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 23.

23. 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 2022/23

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	Council		Group		Council and Group	
	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000
Comprehensive Income and Expenditure Statement						
Cost of services						
Current service cost	76,619	75,420	85,609	84,096	-	-
Past service cost (including curtailments)	5	-	12	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	76,624	75,420	85,621	84,096	-	-
Financing and investment (income) and expenditure	6,163	5,668	6,819	6,447	1,027	1,284
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total post employment benefits charged to the surplus or deficit on the provision of services	82,787	81,088	92,440	90,543	1,027	1,284

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2021/22 £000	Council 2022/23 £000	2021/22 £000	Group 2022/23 £000	2021/22 £000	Council and Group 2022/23 £000
Other post employment benefits charged to the comprehensive income and expenditure statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets excluding the amount included in the net interest expense	(25,740)	90,122	(26,707)	93,874	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	(119,247)	(669,814)	(127,895)	(716,734)	(1,072)	(9,623)
Actuarial (gains)/losses arising on changes in demographic assumptions	(9,964)	(12,847)	(10,409)	(13,351)	(353)	(551)
Experience adjustments	3,431	89,462	3,647	94,777	(608)	2,999
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	(151,520)	(503,077)	(161,364)	(541,434)	(2,033)	(7,175)

	Local Government Pension Scheme Council		Discretionary Benefits Arrangements Council	
	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000
Movement in reserves statement				
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(82,787)	(81,088)	(1,027)	(1,284)
Actual amount charged against the General Fund balance for pensions in the year				
Employers contributions payable to the scheme	27,561	30,316	2,787	2,824

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	
	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000
Present value of the defined benefit obligation	(1,790,667)	(1,285,254)	(1,880,516)	(1,344,661)	(48,972)	(40,257)
Fair value of pension fund assets	1,602,989	1,549,881	1,667,075	1,615,913	-	-
Net (liability)/asset arising from defined benefit obligation	(187,678)	264,627	(213,441)	271,252	(48,972)	(40,257)

The liabilities show the underlying commitments that the Council has in the long term to pay post-employment (retirement) benefits. The net asset to the Council in 2022/23 of £224.370m (Council LGPS net asset £264.627m less discretionary benefits arrangement net liability £40.257m) has a substantial impact on the net worth of the Council as recorded in the balance sheet.

Information about the defined benefit obligation

	Liability split 31/03/22		Liability split 31/03/23	
	£000	(%)	£000	(%)
Active members	876,105	48.9	584,664	45.5%
Deferred members	291,901	16.3	184,244	14.3%
Pensioner members	622,661	34.8	516,346	40.2%
Total	1,790,667	100.0	1,285,254	100.0

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	
	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000
Opening fair value of scheme assets	1,554,911	1,602,989	1,613,199	1,667,074	-	-
Interest income	30,991	43,168	32,222	44,982	-	-
Return on plan assets	25,740	(90,122)	26,707	(93,874)	-	-
Contributions by employer	27,561	30,316	30,756	33,803	2,787	2,824
Contributions by Scheme participants	8,617	9,445	9,624	10,542	-	-
Experience adjustments	-	-	-	-	-	-
Estimated benefits paid (net of transfers in)	(44,831)	(45,915)	(45,434)	(46,614)	(2,787)	(2,824)
Closing fair value of scheme assets	1,602,989	1,549,881	1,667,074	1,615,913	-	-

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

	Funded Liabilities: Local Government Pension Scheme Council		Funded Liabilities: Local Government Pension Scheme Group		Unfunded Liabilities: Discretionary Benefits Council and Group	
	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000	31/03/22 £000	31/03/23 £000
Opening defined benefit obligation	(1,838,883)	(1,790,667)	(1,926,321)	(1,880,516)	(52,765)	(48,972)
Current service cost	(76,619)	(75,420)	(85,609)	(84,096)	-	-
Past service cost	(5)	-	(12)	-	-	-
Interest cost	(37,154)	(48,836)	(39,041)	(51,429)	(1,027)	(1,284)
Contributions by scheme participants	(8,617)	(9,445)	(9,624)	(10,542)	-	-
Actuarial gains/(losses) from changes in financial assumptions	119,247	669,814	127,895	716,734	1,072	9,623
Actuarial gains/(losses) from changes in demographic assumptions	9,964	12,847	10,409	13,351	353	551
Experience adjustments	(3,431)	(89,462)	(3,647)	(94,777)	608	(2,999)
Estimated benefits paid (net of transfers in)	44,831	45,915	45,434	46,614	2,787	2,824
Unfunded pension payments	-	-	-	-	-	-
Closing value	(1,790,667)	(1,285,254)	(1,880,516)	(1,344,661)	(48,972)	(40,257)

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:

2021/22		2022/23
5%	Cash and cash equivalents	4%
	Equity Securities:	
	By industry type	
15%	Consumer	10%
8%	Manufacturing	4%
1%	Energy and utilities	0%
10%	Financial institutions	6%
5%	Health and care	5%
6%	Information technology	3%
1%	Other	1%
	Debt Securities:	
	By sector	
4%	Other	5%
7%	Corporate Bonds	7%
2%	UK Government	2%
7%	Private Equity	8%
	Property:	
11%	UK	10%
	Other Investment Funds:	
10%	Equity (pooled funds and unitised insurance policies)	21%
2%	Bonds	2%
1%	Hedge Funds	0%
5%	Commodities	0%
0%	Infrastructure	6%
0%	Other	6%
<u>100%</u>	Total	<u>100%</u>

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

31 March 2022	Fair value of pension fund assets	31 March 2023
1,427,951	Equity Instruments	1,250,578
175,038	Quoted in an active market	299,303
<u>1,602,989</u>	Not quoted in an active market	<u>1,549,881</u>
	Total equity instruments	<u>1,549,881</u>

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2020.

The significant assumptions used by the actuary have been:

	2021/22	2022/23
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	20.8	20.4
• Women	23.3	23.1
Longevity at 65 for future pensioners (years)		
• Men	22.0	21.6
• Women	25.3	25.0
Rate of inflation	3.20%	2.95%
Rate of increase in salaries	4.00%	3.75%
Rate of increase in pensions	3.20%	2.95%
Rate for discounting fund liabilities	2.70%	4.75%
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%	22,823
1 year increase in member life expectancy	4%	53,020
0.1% increase in the Salary Increase Rate	0%	2,072
0.1% increase in the Pension Increase Rate (CPI)	2%	21,086

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 82% of the Fund's investments in active management and 18% 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 2024 will be approximately £30.232m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years 2022/23 (19.0 years 2021/22).

24. 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. High Life 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:

2022/23	Contributors	Pensioners	Deferred Pensioners
Highland Council	8,394	8,203	6,014
Scheduled Bodies	3,093	2,494	2,375
Admitted Bodies	2,344	1,374	1,260
Total	13,831	12,071	9,649
2021/22			
Highland Council	8,252	7,861	5,989
Scheduled Bodies	3,028	2,383	2,368
Admitted Bodies	2,333	1,245	1,189
Total	13,613	11,489	9,546

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/>.

25. 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 40.

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 2022/23 is shown in the remuneration report.

Alasdair Rhind Funeral Directors Ltd had debts of £0.025m owed to the Council at 31st March 2023.

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 £1.557m (2021/22 £1.454m) 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 2022/23 Highland Council paid NHS Highland £139.013m (2021/22 £105.328m) for the provision of integrated adult services and NHS Highland made payment of £11.299m (2021/22 £11.362m) to Highland Council in respect of integrated children's services

There was a short term debtor to the Council of £11.843m (2021/22 £14.362m) and a short term creditor to the Council of £20.898m (2021/22 £16.070m) from NHS bodies at year end.

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 Highland Council paid a total of £19.945m (2021/22 £20.143m) in management fees to High Life Highland in the year.

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)

Highland Opportunity Limited (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 Highland Council has a short term creditor of £1.172m (2021/22 £1.511m) for the balance of their loan funding.

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

Financial Year End	Net Assets £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
31 March 2022	10	(5)	(5)
31 March 2021	15	(6)	(6)

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

Company	Nature of business
Highland Opportunity (Investments) Limited	Investment

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

	Net assets (Liabilities) £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
Year ended 31 March 2022			
Highland Opportunity (Investments) Limited	2,017	25	25
Year ended 31 March 2021			
Highland Opportunity (Investments) Limited	1,992	(30)	(30)

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.

The Highland Council has a short term creditor of £0.179m (2021/22 £0.448m) for Pathfinder North balances.

Hub North Scotland Ltd

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

26. 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:

31/03/22 £000		31/03/23 £000
3,443	Not later than one year	3,715
10,566	Later than one year and not later than five years	10,829
<u>99,123</u>	Later than five years	<u>100,290</u>
<u>113,132</u>		<u>114,834</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:

31/03/22 £000		31/03/23 £000
1,262	Not later than one year	1,631
1,557	Later than one year and not later than five years	2,829
<u>156</u>	Later than five years	<u>98</u>
<u>2,975</u>		<u>4,558</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 £1.681m (2021/22 £1.326m).

27. Property, plant and equipment

a) Property, plant and equipment

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2022	573,429	1,592,981	195,145	-	8,162	8,691	104,469	2,482,877	322,374
Additions	30,271	29,115	9,862	-	528	9	105,096	174,881	455
Revaluation increases recognised in the surplus/deficit of services	-	4,228	-	-	-	9	-	4,237	-
Revaluation decreases recognised in the surplus/deficit of services	(84,399)	(16,002)	-	-	-	(29)	-	(100,430)	(10)
Revaluation increases recognised in the Revaluation Reserve	-	46,125	-	-	-	395	-	46,520	9,140
Revaluation decreases recognised in the Revaluation Reserve	-	(43,421)	-	-	-	(125)	-	(43,546)	(12,144)
Derecognition – disposals	(11,293)	(107)	(2,106)	-	-	(46)	(5,918)	(19,470)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications Assets reclassified (to)/from Held for Sale	50,225	27,606	-	-	-	(2,279)	(75,552)	-	-
	-	(5,087)	-	-	-	40	-	(5,047)	-
At 31 March 2023	558,233	1,635,438	202,901	-	8,690	6,665	128,095	2,540,022	319,815

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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	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2022	-	2,048	135,518	-	-	-	28	137,594	-
Depreciation charge	24,404	29,416	12,990	-	-	9	-	66,819	5,555
Revaluation increases recognised in the surplus/deficit of services	(24,399)	(3,305)	-	-	-	(5)	-	(27,709)	-
Revaluation increases recognised in the Revaluation Reserve	-	(26,221)	-	-	-	(4)	-	(26,225)	(5,555)
Derecognition – disposals	(5)	(1)	(1,854)	-	-	-	-	(1,860)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(6)	-	-	-	-	-	(6)	-
At 31 March 2023	-	1,931	146,654	-	-	-	28	148,613	-
Net book value									
At 31 March 2023	558,233	1,633,507	56,247	482,152	8,690	6,665	128,067	2,873,561	319,815
At 31 March 2022	573,429	1,590,933	59,627	459,408	8,162	8,691	104,441	2,804,691	322,374

Temporary statutory overrides 1 and 2 as per the policy on page 62 have been applied in respect to Infrastructure Assets so that only net book value (NBV) is shown. Please see note 27b for reconciliations of movements within NBV to match total PPE total of £2,873,561 as shown on the balance sheet above.

Comparative Movements in 2021/22

	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	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment (restated) £000
Cost or valuation									
As At 1 April 2021	541,000	1,442,186	184,006	-	7,443	8,759	137,973	2,321,367	293,728
Additions	22,480	43,046	11,590	-	723	8	64,467	142,314	478
Revaluation increases recognised in the surplus/deficit of services	10,004	14,803	-	-	-	25	-	24,832	-
Revaluation decreases recognised in the surplus/deficit of services	(32,181)	(20,979)	-	-	-	(56)	-	(53,216)	-
Revaluation increases recognised in the Revaluation Reserve	-	103,104	-	-	-	226	-	103,330	28,168
Revaluation decreases recognised in the Revaluation Reserve	-	(43,792)	-	-	-	(197)	-	(43,989)	-
Derecognition - disposals	(11,257)	(964)	(451)	-	(4)	-	(1,648)	(14,324)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	43,383	56,918	-	-	-	228	(96,323)	4,206	-
Assets reclassified (to)/from Held for Sale	-	(1,341)	-	-	-	(302)	-	(1,643)	-
At 31 March 2022	573,429	1,592,981	195,145	-	8,162	8,691	104,469	2,482,877	322,374

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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	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2021	-	3,220	121,727	-	-	-	30	124,977	-
Depreciation charge	21,978	26,449	14,187	-	-	19	-	62,633	4,937
Revaluation increases recognised in the surplus/deficit of services	(21,980)	(1,978)	-	-	-	(6)	-	(23,964)	-
Revaluation increases recognised in the Revaluation Reserve	-	(25,623)	-	-	-	(13)	-	(25,636)	(4,937)
Derecognition – disposals	-	(15)	(396)	-	-	-	-	(411)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Reclassifications	2	-	-	-	-	-	(2)	-	-
Assets reclassified (to)/from Held for Sale	-	(5)	-	-	-	-	-	(5)	-
At 31 March 2022	-	2,048	135,518	-	-	-	28	137,594	-
Net book value									
At 31 March 2022	573,429	1,590,933	59,627	459,408	8,162	8,691	104,441	2,804,691	322,374
At 31 March 2021	541,000	1,438,966	62,279	437,403	7,443	8,759	137,943	2,633,793	293,728

b) Property, plant and equipment movement in net book value

2021/22				2022/23		
Infrastructure assets	Other Property, plant and equipment	Total Property, plant and equipment		Infrastructure assets	Other Property, plant and equipment	Total Property, plant and equipment
£000	£000	£000		£000	£000	£000
437,403	2,196,390	2,633,793	Net book value at 1 April 2022	459,408	2,345,283	2,804,691
44,880	142,314	187,194	Additions	42,931	174,881	217,812
-	(4,420)	(4,420)	Revaluations recognised in surplus/deficit of services	-	(68,484)	(68,484)
-	84,977	84,977	Revaluations recognised in revaluation reserve	-	29,199	29,199
(4,206)	4,206	-	Reclassifications	-	-	-
-	(1,638)	(1,638)	Reclassifications (to)/from held for sale	-	(5,041)	(5,041)
-	(13,913)	(13,913)	Derecognition - disposals	-	(17,610)	(17,610)
-	-	-	Derecognition - other	-	-	-
(18,669)	(62,633)	(81,302)	Depreciation	(20,187)	(66,819)	(87,006)
459,408	2,345,283	2,804,691	Net book value at 31 March 2023	482,152	2,391,409	2,873,561

c) Property, plant and equipment revaluations

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 year 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	-	-	56,246	482,153	8,690	-	128,067	675,156
Asset Last Revalued								
FY 2022/23	558,233	544,250	-	-	-	6,665	-	1,109,148
FY 2021/22	-	508,035	-	-	-	-	-	508,035
FY 2020/21	-	249,908	-	-	-	-	-	249,908
FY 2019/20	-	330,564	-	-	-	-	-	330,564
FY 2018/19	-	750	-	-	-	-	-	750
Total cost or valuation	558,233	1,633,507	56,246	482,153	8,690	6,665	128,067	2,873,561

28. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2023, for the acquisition of property, plant and equipment, was £159.764m (31 March 2022 £92.822m). Details of the major commitments by contract or project are as follows:

Contract or Project	2022/23 £m
Tain 3-18 New School Campus	58.854
HRA Housing - Council House New Builds	40.885
Uig Harbour Redevelopment	20.900
Inverness Castle Redevelopment	16.902
Miscellaneous projects with an individual commitment less than £0.5m	7.205
Fleet Capital Commitments	4.785
Strathconon Primary School Extension	1.792
HRA Windows & Doors Replacements – All Areas	1.563
Caol & Lochyside Flood Prevention Scheme	1.540
Obsdale Primary School Windows & Doors Replacements	1.119
Corran Ferry	1.057
Dingwall Town Hall Refurbishment	0.896
Ness Castle Primary School	0.866
Grantown Primary School New Kitchen & Dining Block	0.786
Kingussie High School Kitchen Works	0.614
	159.764

29. 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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2021/22 £000		2022/23 £000
1,157,744	Opening capital financing requirement	1,218,092
1,816	Opening balance adjustment	-
	Capital investment	
187,194	Property, Plant and Equipment	217,812
20,180	Revenue Expenditure funded from capital under statute	12,655
	Sources of finance	
(2,788)	Capital receipts	(1,675)
(1,550)	Capital Fund	(737)
-	Evergreen Infrastructure Fund	-
(86,127)	Government grants and other contributions	(116,165)
	Sums set aside from revenue	
(6,430)	- direct revenue contributions	(5,097)
(45,282)	- loans fund principal	(15,963)
-	Evergreen Infrastructure Fund Loans	-
(2)	House loans	(2)
(6,663)	Reduction in Finance Lease Creditors (PPP)	(5,011)
<u>1,218,092</u>	Closing capital financing requirement	<u>1,303,909</u>
	Explanation of movements in the year	
60,350	Increase in underlying need to borrow (supported by government financial assistance)	85,820
(2)	Decrease in underlying need to borrow (unsupported by government financial assistance)	(2)
<u>60,348</u>	Increase/(decrease) in capital financing requirement	<u>85,818</u>

The opening capital financing requirement balance in 2021/22 was 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:

On Balance Sheet	Fixed	Variable
Public Works Loans Board	√	√
European Investment Bank	√	√
Market (long-term)	√	√
Market (temporary)	√	√
Market (LOBOs)	√	√
Stock issues	√	√
Local temporary	√	√
Local Bonds	√	x
Overdraft	√	√
Negotiable Bonds	√	√
Internal (capital receipts and revenue balances)	√	√
Commercial Paper	√	x
Medium Term Notes	√	x
Leasing (not operating leases)	√	√
Deferred Purchase	√	√

30. 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 2022/23 was £4.250m. (2021/22 £4.038m). 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 2023 until July 2027 amounts to £15.463m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £5.167m 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 2022/23 was £22.690m. (2021/22 £21.850m). 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 £336.891m. 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 £100.240m 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 2022/23 the Annual Service Charge amounted to £4.765m. (2021/22 £4.688m). The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £90.597m 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 £75.174m 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 27.

Liabilities arising from PFI and similar contracts

2021/22 £000		2022/23 £000
(143,388)	As at 1 April 2022	(136,725)
6,663	Repaid in year	5,011
<u>(136,725)</u>	As at 31 March 2023	<u>(131,714)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2023 (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	7,123	9,430	15,387	31,940
within 2 to 5 years	31,920	31,588	64,634	128,142
within 6 to 10 years	39,996	26,311	81,867	148,174
within 11 to 15 years	43,969	10,198	74,786	128,953
within 16 to 20 years	8,706	1,129	6,835	16,670
	<u>131,714</u>	<u>78,656</u>	<u>243,509</u>	<u>453,879</u>

31. IFRS 13 Fair Value Measurement

Details of the Council's Corporate Surplus Assets and Assets Held for Sale and information about the fair value hierarchy as at 31 March 2023 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/23 £000
Buildings – Corporate Surplus	287	287
Buildings – Held for Sale	717	717
Land – Corporate Surplus	6,378	6,378
Land – Held for Sale	733	733
	<u>8,115</u>	<u>8,115</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. Page 119 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 Council'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 Council'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 44d).

32. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
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>
Balance at 1 April 2022	6,290	716	7,006
Revaluations	-	-	-
Balance at 31 March 2023	<u>6,290</u>	<u>716</u>	<u>7,006</u>

33. Long term debtors

31/03/22 £000		31/03/23 £000
11,713	Scottish Police Authority	11,215
4,428	Scottish Fire and Rescue Service	4,063
22,327	Landbanking fund advances	34,120
7,186	Evergreen Infrastructure fund advances	100
1,075	Other loans	1,074
<u>46,729</u>	Long term debtors (net of impairment)	<u>50,572</u>

34. Short term debtors

31/03/22 £000		Note	31/03/23 £000
31,697	Central government bodies		37,648
402	Other local authorities		544
14,362	NHS bodies		11,843
8	Public corporations		40
<u>31,317</u>	Other entities and individuals		<u>29,784</u>
77,786			79,859
(5,885)	Impairment Allowance	43	(5,812)
<u>71,901</u>	Total (net of impairment)		<u>74,047</u>
(6,262)	Prepayments included in debtors		(7,828)
<u>65,639</u>	Total Financial Assets Current Debtors	42	<u>66,219</u>

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

35. Debtors for Local Taxation

31/03/22				31/03/23		
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
4,921	10,550	15,471	Less than one year	4,815	3,379	8,194
7,259	1,514	8,773	One to two years	7,081	1,260	8,341
7,285	1,632	8,917	Three to five years	7,608	1,529	9,137
20,736	499	21,235	More than five years	21,889	820	22,709
40,201	14,195	54,396		41,393	6,988	48,381
(31,141)	(4,712)	(35,853)	Impairment Allowance	(33,663)	(4,507)	(38,170)
9,060	9,483	18,543	Total (net of impairment)	7,730	2,481	10,211

36. Short term creditors

31/03/22 £000		Note	31/03/23 £000
14,143	Central government bodies		21,144
345	Other local authorities		372
16,070	NHS bodies		20,898
6,370	Finance lease (PFI) creditors		7,123
102,930	Other entities and individuals		110,775
139,858	Total		160,312
(10,735)	Tax and social security creditors included above		(7,687)
(15,561)	Receipts in advance included above		(11,762)
113,562	Total Financial Liabilities Current Creditors	43	140,863

37. Provisions

	Note	At 1/4/22 £000	Increase / (Decrease) in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/3/23 £000
Short term						
Equal Pay	1	222	-	(7)	-	215
Insurance	2	-	-	-	-	-
Building						
Dilapidations	3	284	233	-	(284)	233
Legal Disputes	4	2,500	-	(685)	(1,815)	-
		3,006	233	(692)	(2,099)	448

- (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

38. Long Term Liabilities

31/03/22 £000		31/03/23 £000
236,650	Pension Liability	-
130,356	Finance lease (PFI) creditors	124,592
<u>2,277</u>	Other long term creditors	<u>2,251</u>
<u>369,283</u>		<u>126,843</u>

39. Contingent liabilities

Mallaig Harbour Authority

The Council has guaranteed a 25 year loan from the Public Works Loan Board (PWLB) 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 2023 is £0.033m (31 March 2022 £0.064m).

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 £0.233m 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, 2021/22 and 2022/23 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.

Scottish Wide Area Network (SWAN)

The Council uses SWAN for meeting the provision of its Wide Area Network ICT requirement. The contract for SWAN is procured nationally (Scotland wide). The first SWAN contract expired for new business on 31 March 2023 but has a 3 year transition period (to 31 March 2026) to allow time for existing sites to transition to a successor contract. The Council has agreed to participate in the second SWAN contract and is currently developing its transition plan to move sites onto this successor SWAN contract. The final future costs, and phasing of these future costs, will not be known until after this transition plan has been finalised and agreed.

40. Grant income

The Comprehensive Income and Expenditure Statement in 2022/23 includes the following grants, contributions and donations:

2021/22 £000		2022/23 £000
	Credited to Taxation and non-specific grant income	
386,770	Revenue support grant	383,618
20,220	Revenue support grant - COVID-19 redeterminations	-
-	General capital grant for pay award	5,459
106,967	Non-Domestic rates	141,565
65,948	Capital grants and contributions	103,510
579,905		634,152
	Credited to services	
35,631	Housing Benefits	33,311
25,573	Early Learn/Childcare	23,906
20,180	Capital grants and contributions	12,655
4,517	Pupil Equity Funding	4,908
4,106	Scottish Futures Trust - Wick Schools	4,110
3,725	Criminal Justice Grant	3,707
3,201	Crown Estates	2,887
2,640	Developers Contributions	2,833
-	Ukrainian Refugees	2,238
2,813	Energy Efficiency Scotland	2,136
3,504	COVID-19 Related Grants	1,802
-	Teacher Pay Award	1,438
500	Salix Financing	1,250
-	Community Mental Health & Wellbeing	1,205
1,047	Challenge Fund	1,093
1,035	Rural Tourism Infrastructure	1,086
-	Wick Airport	1,030
1,099	Sport Scotland	1,012
910	Gaelic	910
-	Ferries	897
-	Sustrans	663
-	Community Led Local Development	643
-	Strategic Equity Fund	624
320	Milk & Healthy Snack Scheme	525
547	Family Nurse Partnership	480
-	Adult Employ Service	460
442	SAC - Education for LAC	434
572	EMA Co-ordination	420
1,063	European Grants and Contributions	385
-	UK Shared Prosperity	337
-	Unaccompanied Asylum Seeking Children	265
-	Parental Employability Support	258
-	Long Term Unemployment	238
227	Paths for All	222
-	Community Renewal	216
238	CJS Caledonian System	214

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2021/22 £000		2022/23 £000
216	Vehicles Insurance Claim	206
417	Syrian Refugees	58
1,220	Attainment Challenge	42
399	Belwin & Regional Economic Partnership	-
360	City Centre Recovery	-
<u>696,407</u>	Total	<u>745,256</u>

Not included within the breakdown above but included within government grants and contributions in note 18 is £12.239m from NHS for commissioned child health (2021/22 £11.037m) and £6.654m in other non-material grants and contributions (2021/22 £5.271m)

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:

2021/22 £000		2022/23 £000
	Grants Received in Advance (Capital Grants)	
4,000	Gaelic Grant <i>c/f</i>	4,000
-	- Place Based Investment Programme 22/23	1,704
1,733	Place Based Investment Programme 21/22	1,086
-	- Highlands & Islands Infrastructure Fund	936
-	- Tain Campus Gaelic Unit	800
725	Carse RCGF funding in advance	725
-	- Broadford Primary School Gaelic Unit	599
556	VDLF	556
975	Town Centre Fund	498
-	- Rural Tourism Infrastructure Fund	390
-	- Play Parks Community Group Contributions	259
321	Community Links Plus	232
-	- Active Travel	227
-	- CO2 Monitors	222
-	- Zero Carbon Cultural Regeneration	217
-	- UK Shared Prosperity Fund	177
-	- Moll Road MOWI	125
-	- Travelling Peoples Sites	122
65	Morvern RCGF funding in advance	55
-	- Glenmore Public Convenience	26
-	- Police Scotland CCTV	20
-	- Nairn Academy	20
-	- Electric Vehicles	11
-	- Scottish Futures Trust	10
4	Digital Inclusion	4
24	Corpach Marina RCGF funding in advance	-
<u>8,403</u>	Total	<u>13,021</u>

41. Financial instrument balances

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

Financial Assets										
Non-Current		Current		Total		Non-Current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2022	2022	2022	2022	2022		2023	2023	2023	2023	2023
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	46,729	96,003	65,639	208,371	Amortised cost	-	50,572	63,084	66,219	179,875
<hr/>					Total Financial Assets	<hr/>				
-	46,729	96,003	65,639	208,371		-	50,572	63,084	66,219	179,875
<hr/>					Non-financial assets	<hr/>				
-	-	72	24,805	24,877		224,370	-	65	18,039	242,474
<hr/>					Total	<hr/>				
-	46,729	96,075	90,444	233,248		224,370	50,572	63,149	84,258	422,349
<hr/>						<hr/>				

Non-financial assets held under non-current investments consist of the pension asset shown on the balance sheet. 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 34/35.

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Financial Liabilities										
Non-Current		Current		Total		Non-Current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2022	2022	2022	2022	2022		2023	2023	2023	2023	2023
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
884,870	132,506	154,253	113,562	1,285,191	Amortised cost	889,904	126,742	167,957	140,863	1,325,466
884,870					Total	889,904				
132,506					Financial	126,742				
154,253					Liabilities	167,957				
113,562						140,863				
1,285,191						1,325,466				
					Non-financial					
-	236,777	681	26,296	263,754	liabilities	-	101	334	19,449	19,884
884,870					Total	889,904				
369,283						126,843				
154,934						168,291				
139,858						160,312				
1,548,945						1,345,350				

Non-financial liabilities held under non-current creditors consist of a prepayment. Non-financial liabilities held under current creditors consist of receipts in advance and tax and social security creditors as shown in note 36. Non-financial liabilities held under current borrowings consist of cash held at bank as shown in note 17.

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.

2021/22 £000		2022/23 £000
6,942	Balance at 1 April 2022	6,222
8,225	Nominal value of new loans made in the year	12,108
(1,268)	Loans repaid in the year	(394)
78	Fair value adjustment re interest uncharged in year	78
(7,755)	Other movements – transfer to interest bearing loans	(11,711)
6,222	Balance at 31 March 2023	6,303

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 2022/23 this was 3.46%.

Loans to Inverness Airport Business Park Limited

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

2021/22 £000		2022/23 £000
1,175	Balance at 1 April 2022	1,175
-	Fair value adjustment re interest uncharged in year	-
1,175	Balance at 31 March 2023	1,175
(1,175)	Impairment Loss Allowance	(1,175)
-	Balance net of impairment at 31 March 2023	-

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%.

42. 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:

2021/22 Surplus or Deficit on the Provision of Services £000		2022/23 Surplus or Deficit on the Provision of Services £000
	Net (gains)/losses on:	
1,979	Financial assets measured at amortised cost	2,010
<u>1,979</u>	Total (gains)/losses	<u>2,010</u>
	Interest revenue:	
(590)	Financial assets measured at amortised cost	(3,501)
<u>(590)</u>	Total interest revenue	<u>(3,501)</u>
48,108	Interest expense	51,409

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.

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.

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 2023 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 PFI, 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 and are shown below
- 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

31/03/22			31/03/23	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
791,464	922,966	PWLB debt	779,712	648,407
126,432	192,455	Market loan	131,438	134,604
112,061	111,917	Temporary loans	139,498	139,498
		Loans Fund advances to group		
9,166	9,166	bodies	7,213	7,213
130,356	184,516	PFI	124,592	151,329
2,150	2,150	Long Term Creditors	2,150	2,150
113,562	113,562	Short Term Creditors	140,863	140,863
<u>1,285,191</u>	<u>1,536,732</u>	Financial liabilities	<u>1,325,466</u>	<u>1,224,064</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

31/03/22			31/03/23	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
96,003	96,003	Call accounts	63,084	63,084
-	-	Fixed term deposits	-	-
46,729	46,729	Long term debtors	50,572	50,572
65,639	65,639	Short term debtors	66,219	66,219
<u>208,371</u>	<u>208,371</u>	Financial assets	<u>179,875</u>	<u>179,875</u>

43. Nature and extent of risks arising from financial instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council

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

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

Credit risk

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

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

2021/22				Asset Class: Financial Assets Held at Amortised Cost	2022/23			
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
3,061	2,099	1,175	6,335	Opening balance as at 1 April 2022	3,180	2,705	1,175	7,060
				Transfers:				
(996)	(258)	-	(1,254)	Amounts written off	(1,391)	(692)	-	(2,083)
1,115	864	-	1,979	Other changes	647	1,363	-	2,010
<u>3,180</u>	<u>2,705</u>	<u>1,175</u>	<u>7,060</u>	As at 31 March 2023	<u>2,436</u>	<u>3,376</u>	<u>1,175</u>	<u>6,897</u>

The Council has the following exposure to credit risk as at 31 March 2023:

	Credit risk rating	Gross carrying amount
	%	£000s
Significant increase in credit risk since initial recognition		
Inverness Airport Business Park Limited Soft Loan	100.00	1,175
Simplified Approach		
Customers	27.99	8,702
Rent	63.06	5,354
Landbank Fund Soft Loans	0.00	6,303
Deposits with Banks	0.00	63,084
Total		84,618

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. Customer balances considered to be past due can be analysed by age as follows:

31/03/22		31/03/23
£000		£000
4,924	Less than three months	5,140
776	Three to six months	240
450	Six to twelve months	372
4,366	More than twelve months	2,950
10,516	Total	8,702

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 2023, 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>(631)</u>
Impact on Income and Expenditure Account	<u>(266)</u>
 Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	 <u><u>8,860</u></u>

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

Price risk

The Council does not invest in equity shares.

Foreign exchange risk

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

Liquidity Risk

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

The maturity structure of financial liabilities is as follows:

31/03/2022		Liquidity risk	31/03/2023	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Financial Liabilities				
		Public Works Loans Board	779,712	779,599
791,464	791,352	Market Loans	131,438	129,806
126,432	124,806	Temporary Loans	139,498	138,000
112,061	112,000	Internal Loans Fund		
		Advances	7,213	7,213
9,166	9,166	PFI and similar contracts	124,592	124,592
130,356	130,356	Long term creditor	2,150	2,150
2,150	2,150	Short term creditor	140,863	140,863
113,562	113,562			
<u>1,285,191</u>	<u>1,283,392</u>		<u>1,325,466</u>	<u>1,322,223</u>
Maturity				
267,815	266,481	Less than 1 year	308,820	306,037
31,081	31,081	Between 1 and 2 years	13,453	13,453
90,717	90,717	Between 2 and 5 years	129,268	129,267
114,648	114,648	Between 5 and 10 years	116,132	116,132
780,930	780,465	More than 10 years	757,793	757,334
<u>1,285,191</u>	<u>1,283,392</u>		<u>1,325,466</u>	<u>1,322,223</u>

44. 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 as well as the town of Wick. 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.

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 44d) to the accounts. Investment properties are not depreciated but are revalued annually. Gains and losses on revaluation are recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment applies to gains and losses on disposal.

The Community Empowerment (Scotland) Act 2015 places new obligations on Councils with regards to the recording and use of Common Good assets. The Council is required to prepare and publish a register of all Common Good properties and make it publicly available. Public consultation on the proposed register closed on 5th June 2019. The Act also requires local authorities to publish any proposals and consult with community bodies before disposing of or changing the use of Common Good assets.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2021/22				2022/23		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
1,898	(317)	1,581	Inverness	2,529	(251)	2,278
58	(28)	30	Nairn	91	(42)	49
8	-	8	Tain	24	(5)	19
125	(2)	123	Dornoch	24	(6)	18
146	(135)	11	Dingwall	12	-	12
3	-	3	Fortrose	2	-	2
1	-	1	Cromarty	1	-	1
2	-	2	Invergordon	4	-	4
-	-	-	Wick	2	(13)	(11)
2,241	(482)	1,759	Cost of services	2,689	(317)	2,372
		(1,647)	Financing and investment income and expenditure (note 44b)			(2,252)
		<u>(393)</u>	Capital Grants and Contributions			<u>-</u>
		(281)	(Surplus)/Deficit on provision of services			120
		327	Deficit/(surplus) on revaluation of heritage assets			<u>-</u>
		327	Other comprehensive income and expenditure			<u>-</u>
		46	Total comprehensive (income) and expenditure			120

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

MOVEMENT IN RESERVES STATEMENT 2021/22	Revenue Reserves	Capital Fund	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	Account £000	£000
Balance at 31 March 2021	8,329	120	4,078	34,338	46,865
Movement in reserves during 2021/22					
Total Comprehensive Income and Expenditure	281	-	(327)	-	(46)
Adjustments between accounting and funding basis (note 44a)	(892)	-	-	892	-
Net increase/(decrease) before transfers to other statutory reserves	(611)	-	(327)	892	(46)
Transfers between statutory reserves	-	-	-	-	-
Net increase/(decrease)	(611)	-	(327)	892	(46)
Balance at 31 March 2022	7,718	120	3,751	35,230	46,819

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

MOVEMENT IN RESERVES STATEMENT 2022/23	Revenue Reserves	Capital Fund	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2022	7,718	120	3,751	35,230	46,819
Movement in reserves during 2022/23					
Total Comprehensive Income and Expenditure	(120)	-	-	-	(120)
Adjustments between accounting and funding basis (note 44a)	(386)	-	-	386	-
Net increase/(decrease) before transfers to other statutory reserves	(506)	-	-	386	(120)
Transfers between statutory reserves	-	-	-	-	-
Net increase/(decrease)	(506)	-	-	386	(120)
Balance at 31 March 2023	7,212	120	3,751	35,616	46,699

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 March 2023**

31/03/22 £000		Notes	31/03/23 £000
208	Property, Plant and Equipment	44d)	257
4,043	Heritage Assets	44d)	4,043
34,722	Investment Properties	44d),44f)	35,060
8	Intangible Assets	44g)	7
6,223	Investments	44h)	5,505
45,204	Long Term Assets		44,872
1,906	Cash and cash equivalents	44i)	1,928
98	Sundry debtors		165
2,004	Current Assets		2,093
(389)	Sundry creditors		(266)
(389)	Current Liabilities		(266)
1,615	Net current assets		1,827
46,819	Net assets		46,699
7,838	Usable Reserves	44j)	7,332
38,981	Unusable Reserves	44k)&44l)	39,367
46,819	Total Reserves		46,699

CASH FLOW STATEMENT

31/03/22 £000		Notes	31/03/23 £000
281	Net surplus/(deficit) on the provision of services		(120)
858	Adjust net surplus/(deficit) on the provision of services for non-cash movements	44o)	280
(393)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	44o)	-
<u>746</u>	Net cash inflow/(outflow) from operating activities		<u>160</u>
(1,721)	Investing activities	44p)	(138)
393	Financing activities	44q)	-
<u>(582)</u>	Net increase/(decrease) in cash and cash equivalents		<u>22</u>
2,488	Cash and cash equivalents at 1 April 2022		1,906
<u><u>1,906</u></u>	Cash and cash equivalents at 31 March 2023	44i)	<u><u>1,928</u></u>

NOTES TO THE COMMON GOOD FUNDS ACCOUNTS

44a) Movement in Reserves Statement – Adjustment between accounting and funding basis

2022/23	Capital Adjustment Account £000	Total 2022/23 £000
Revaluation of investment properties	(251)	(251)
Capital grants and contributions	-	-
Capital expenditure funded from revenue	668	668
Depreciation and amortisation	(31)	(31)
	386	386
2021/22	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

44b) Comprehensive income and expenditure statement – Financing and investment income and expenditure

2021/22 £000		2022/23 £000
(204)	Interest and investment income and expenditure	(321)
(2,529)	Rental income	(2,906)
277	Property costs	284
809	(Surplus)/deficit on revaluation of investment properties	251
(55)	(Gains)/losses on valuation of financial assets	289
55	(Gains)/ losses on derecognition of financial assets	151
(1,647)		(2,252)

44c) Operating leases

Common Good Fund as lessor

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

2021/22 £000		2022/23 £000
<u>2,521</u>	Lease income received in year	<u>2,699</u>

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

31/03/22 £000		31/03/23 £000
2,494	Within one year	2,410
8,804	Later than one year and not later than five years	8,481
<u>92,487</u>	Later than five years	<u>97,467</u>
<u>103,785</u>		<u>108,358</u>

44d) Non-current assets

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

Movements in 2022/23

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 1 April 2022	34,722	4,043	241	39,006
Additions	589	-	79	668
Revaluations	(251)	-	-	(251)
As at 31 March 2023	<u>35,060</u>	<u>4,043</u>	<u>320</u>	<u>39,423</u>
Accumulated depreciation				
As at 1 April 2022	-	-	33	33
Depreciation charge	-	-	30	30
As at 31 March 2023	<u>-</u>	<u>-</u>	<u>63</u>	<u>63</u>
Net book value				
As at 31 March 2023	<u>35,060</u>	<u>4,043</u>	<u>257</u>	<u>39,360</u>
As at 31 March 2022	<u>34,722</u>	<u>4,043</u>	<u>208</u>	<u>38,973</u>

Investment Properties – Fair Value Measurement

Valuation Techniques used to Determine Fair Values for Investment Properties

- Kenny Forbes (MRICS), Property Manager, Infrastructure, Environment and Economy Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31 March 2023, 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.

44e) Related Parties

During the period the Council incurred £0.122m 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 £0.319m in rental income.

44f) 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:

31/03/22 £000	Investment Property at Fair Value	31/03/23 £000
	Common Good Fund	
24,556	Inverness	24,371
8,300	Nairn	8,300
358	Tain	362
609	Dornoch	1,088
235	Dingwall	275
171	Fortrose	171
58	Cromarty	58
10	Grantown-on-Spey	10
425	Wick	425
<u>34,722</u>		<u>35,060</u>

44g) Intangible assets

2021/22 £000		2022/23 £000
9	Fishing Licence – Tain As at 1 April 2022	8
(1)	Amortisation	(1)
<u>8</u>	As at 31 March 2023	<u>7</u>

44h) Long Term Investments

31/03/22			31/03/23	
Cost £000	Valuation £000		Cost £000	Valuation £000
3,675	5,635	Inverness - Managed portfolio	3,393	4,947
509	588	Nairn – Managed portfolio	514	558
<u>4,184</u>	<u>6,223</u>		<u>3,907</u>	<u>5,505</u>

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

31/03/22			31/03/23	
Cost £000	Valuation £000	Units Held	Cost £000	Valuation £000
1,918	3,877	Equities	1,780	3,447
1,437	1,438	Bonds	1,275	1,203
170	170	Cash	35	35
150	150	Alternative	303	262
<u>3,675</u>	<u>5,635</u>	Total	<u>3,393</u>	<u>4,947</u>

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

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

31/03/22 Units Held			31/03/23 Units Held	
Cost £000	Valuation £000		Cost £000	Valuation £000
369	446	Equities	365	422
71	69	Bonds	71	62
33	33	Cash	42	42
36	40	Alternative	36	32
<u>509</u>	<u>588</u>	Total	<u>514</u>	<u>558</u>

44i) Cash and cash equivalents

31/03/22 £000		31/03/23 £000
<u>1,906</u>	Balance with Highland Council Loans Fund	<u>1,928</u>
<u>1,906</u>	Total	<u>1,928</u>

44j) Usable Reserves

Common Good Funds

Revenue Funds	Balance at 1/04/22 £000	Movement 2022/23 £000	Balance at 31/03/23 £000
Inverness	5,911	(647)	5,264
Nairn	748	45	793
Tain	224	(4)	220
Dornoch	255	31	286
Dingwall	280	21	301
Fortrose	162	23	185
Cromarty	48	4	52
Invergordon	82	1	83
Wick	8	20	28
Total	<u>7,718</u>	<u>(505)</u>	<u>7,212</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 1/04/22 £000	Movement 2022/23 £000	Balance at 31/03/23 £000
Inverness	1,960	(406)	1,554
Nairn	79	(34)	44
Total	<u>2,039</u>	<u>(440)</u>	<u>1,598</u>

Capital Fund	Balance at 01/04/2022 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2023 £000
Tain	120	-	120
	<u>120</u>	<u>-</u>	<u>120</u>

44k) Unusable Reserves

Revaluation Reserve	Balance at 31/03/22 £000	Revaluations 2022/23 £000	Balance at 31/03/23 £000
Fund			
Inverness	1,784	-	1,784
Nairn	60	-	60
Tain	94	-	94
Dornoch	22	-	22
Fortrose	254	-	254
Invergordon	1,485	-	1,485
Wick	52	-	52
Total	3,751	-	3,751

44l) Capital Adjustment Account

Fund	Balance at 31/03/22 £000	Revaluations 2022/23 £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/23 £000
Inverness	24,573	(774)	-	668	(15)	24,452
Nairn	8,492	-	-	-	(15)	8,477
Tain	658	4	-	-	(1)	661
Dornoch	609	479	-	-	-	1,088
Dingwall	235	40	-	-	-	275
Fortrose	170	-	-	-	-	170
Cromarty	58	-	-	-	-	58
Grantown-on-Spey	10	-	-	-	-	10
Wick	425	-	-	-	-	425
Total	35,230	(251)	-	-	(32)	35,616

44m) Financial Instrument balances

Categories of Financial Instruments

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

Financial Assets						Financial Assets				
Non-Current		Current		Total		Non-Current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2022	2022	2022	2022	2022		2023	2023	2023	2023	2023
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
6,223	-	-	-	6,223	Fair value through profit or loss	5,505	-	-	-	5,505
-	-	1,906	98	2,004	Amortised cost	-	-	1,928	165	2,903
6,223	-	1,906	98	8,227	Total Financial Assets	5,505	-	-	-	5,505
Financial Liabilities						Financial Liabilities				
Non-Current		Current		Total		Non-Current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2022	2022	2022	2022	2022		2023	2023	2023	2023	2023
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	-	-	389	389	Amortised cost	-	-	-	266	266
-	-	-	389	389	Total Financial Liabilities	-	-	-	266	266

44n) 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:

2021/22		2022/23
Surplus or Deficit on the Provision of Services £000		Surplus or Deficit on the Provision of Services £000
	Net (gains)/losses on:	
	Financial assets measured at fair value through profit or loss	441
-		
-	Total (gains)/losses	441
	Interest revenue:	
	Financial assets measured at amortised cost	(321)
(204)		
(204)	Total interest revenue	(321)

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	31/03/22	31/03/23
Fair Value through Profit and Loss			£000	£000
Investment portfolios held with Adam and Co	Level 1	Unadjusted quoted prices in active markets for identical investments	6,223	5,505
Total			6,223	5,505

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.

44o) Cashflow statement – Adjustments for non-cash movements

2021/22 £000		2022/23 £000
	Non-cash items	
20	Depreciation and impairments	31
809	Revaluation of investment properties	251
(166)	Revaluation of investments	188
	Items on accruals basis	
(95)	(Increase)/decrease in debtors	(67)
290	Increase/(decrease) in creditors	(123)
-	(Increase)/decrease in inventories	-
858		280
	Items in investing & financing activities	
393	Capital grants credited to surplus/deficit on provision of services	-
393		-

44p) Cashflow statement – investing activities

2021/22 £000		2022/23 £000
-	Proceeds from long term investments	530
(26)	Purchase of property, plant and equipment	(79)
(1,695)	Purchase of investment properties	(589)
(1,721)		(138)

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.

44q) Cashflow statement – financing activities

2021/22 £000		2022/23 £000
393	Other receipts from financing activities	-
393		-

45. 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 2023

2021/22				2022/23		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
16	11	77	Incoming resources	62	23	415
(63)	(4)	(74)	Expenditure resources	(54)	(3)	(225)
(47)	7	3	Net incoming / (outgoing) resources before other recognised gains & losses	8	20	190
(47)	7	3	Net Movement in Funds	8	20	190
2,520	925	2,058	Reconciliation of Funds			
2,473	932	2,061	Total Funds brought forward at 1 April	2,473	932	2,061
			Total Funds carried forward at 31 March	2,481	952	2,251

BALANCE SHEET AS AT 31 MARCH

31 March 2022				31 March 2023		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	6	1,215	Non current assets			
			Investments	67	5	1,436
			Current assets			
1,613	926	842	Debtor – Highland Council Loans Fund	2,414	947	815
-	-	4	Debtor – Other debtors	-	-	-
<u>1,613</u>	<u>926</u>	<u>846</u>		<u>2,414</u>	<u>947</u>	<u>815</u>
2,473	932	2,061	Net assets	2,481	952	2,251
2,250	666	976	Capital funds	2,292	681	1,198
223	266	1,085	Revenue funds	189	271	1,053
<u>2,473</u>	<u>932</u>	<u>2,061</u>	Total funds	<u>2,481</u>	<u>952</u>	<u>2,251</u>

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 2023 the balances and investments held are as follows:

31 March 2022					31 March 2023		
Fund Balance £000	Investments at cost £000	Investments at valuation £000	Charity	Scottish Charity Number	Fund Balance £000	Investments at cost £000	Investments at valuation £000
140	1	2	Highland Charities Trust	SC044714	136	1	2
2,333	859	2,766	Highland Council Charitable Trusts	SC025079	2,345	66	1,787
<u>2,473</u>	<u>860</u>	<u>2,768</u>	Total Charitable Trusts		<u>2,481</u>	<u>67</u>	<u>1,789</u>

EDUCATIONAL TRUST FUNDS

Highland Council administers 41 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2023 the balances and investments held are as follows:

31 March 2022				31 March 2023		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
531	6	373	Inverness Royal Academy Educational Trust	546	5	340
128	-	28	Manson Bequest – Nairn and Ardclach	129	-	24
98	-	38	Manson Bequest – Keiss	100	-	32
64	-	-	Other Educational Trusts	65	-	-
47	-	-	META MacBean - Kingussie HS	48	-	-
30	-	-	Howard Doris fund – Plockton High School	30	-	-
23	-	-	George Kerr Bequest	23	-	-
11	-	-	Miss B G Angus Executory	11	-	-
932	6	439	Total Educational Trusts	952	5	396

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 2022				31 March 2023		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
689	680	1,424	Inverness Burial Grounds Fund	832	819	1,362
626	535	1,025	Inverness Benevolent Funds	733	617	951
158	-	-	Inverness – Other Trust Funds	161	-	-
143	-	-	Ross and Cromarty Trust Funds	145	-	-
138	-	-	Caithness Trust Funds	140	-	-
133	-	-	Lochaber Trust Funds	62	-	-
93	-	-	Nairn Trust Funds	94	-	-
50	-	-	Social Work Amenity Funds	52	-	-
22	-	-	Sutherland Trust Funds	23	-	-
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
2,061	1,215	2,449	Total other trust funds	2,251	1,436	2,313

46. Events after Reporting Period

The unaudited annual accounts were issued by the Head of Corporate Finance on 30 June 2023. 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 2023 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.

2021/22 £000		2022/23 £000	£000
	Income		
(55,454)	Dwelling rents (gross)	(57,002)	
(812)	Non-dwelling rents (gross)	(776)	
(632)	Other income	(689)	
<u>(56,898)</u>			(58,467)
	Expenditure		
23,378	Repairs and maintenance	25,033	
13,039	Supervision and management	13,484	
22,611	Depreciation and impairment of non-current assets	84,827	
<u>2,478</u>	Other expenditure	<u>2,465</u>	
61,506			125,809
4,608	Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement		67,342
4,608	Net (income)/expenditure from HRA services		67,342
10,496	Loss on disposal of non-current assets	10,340	
11,385	Interest payable and similar charges	12,357	
(598)	Amortisation of premiums and discounts	(600)	
(32)	Interest and investment income	(178)	
435	Pension net interest	421	
(11,439)	Capital Grants and contributions	(15,412)	
<u>1,283</u>	Impairment of debtors	<u>1,540</u>	
11,530			8,468
16,138	(Surplus)/Deficit on HRA services		75,810

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2021/22 £000		2022/23 £000	£000
(11,802)	Balance on HRA at 1 April 2022		(7,874)
16,138	(Surplus)/Deficit for the year on HRA Income and Expenditure Statement		75,810
	Adjustments to usable reserves permitted by accounting standards		(228)
(230)	Historic depreciation element		
	Adjustments between accounting basis and funding basis under statute		
(10,496)	Loss on sale of HRA non-current assets	(10,340)	
150	Capital expenditure funded by the HRA	-	
(10,346)			(10,340)
	Transfer to the Capital Adjustment Account		
(22,381)	- Depreciation and impairment	(84,599)	
11,944	- repayment of debt	10,294	
11,439	- Capital grants and contributions	15,412	
1,002			(58,893)
(3,234)	HRA share of contributions to the Pensions Reserve		(2,984)
598	HRA share of transfer from the Financial Instruments Adjustment Account		600
(7,874)	Balance on HRA at 31 March 2023		(3,909)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/22 £000		31/03/23 £000
2,748	Current tenants	3,604
<u>611</u>	Former tenants	<u>785</u>
<u><u>3,359</u></u>	Total	<u><u>4,389</u></u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.087m (2021/22 £1.344m) have been netted off against rental income.

3. Impairment of debtors

In 2022/23 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/22 £000		31/03/23 £000
1,957	Rent arrears	2,550
<u>525</u>	Sundry debts	<u>392</u>
<u><u>2,482</u></u>		<u><u>2,942</u></u>

4. Housing Stock

The Council's housing stock was as follows

31/03/22 Number	Type of House	31/03/23 Number
222	1 apartment	218
3,782	2 apartment	3,863
6,001	3 apartment	6,081
4,184	4 apartment	4,234
383	5 apartment	393
24	6 apartment	25
1	7 apartment	1
2	8 apartment	2
<u>1</u>	10 apartment	<u>1</u>
<u><u>14,600</u></u>		<u><u>14,818</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.

2021/22 £000		2022/23 £000
166,547	Gross Council Tax levied and contributions in lieu	173,928
(13,084)	Council Tax Reduction Scheme	(13,326)
(18,717)	Other discounts and reductions	(19,845)
(2,574)	Write off of uncollectable debts and allowances for impairment	(2,680)
(925)	Adjustments for prior years Council Tax and Community Charge	(1,410)
131,247	Net Council Tax income per the Comprehensive Income and Expenditure Statement	136,667

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

Calculation of the Council Tax base 2022/23

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	47	(5)	(1)	41	200/360	23
A	19,517	(1,258)	52	(2,481)	(427)	15,403	240/360	10,269
B	23,365	(1,123)	56	(2,634)	(457)	19,207	280/360	14,938
C	24,482	(810)	(7)	(2,405)	(571)	20,689	320/360	18,390
D	19,903	(489)	51	(1,512)	(466)	17,487	360/360	17,487
E	19,562	(251)	(91)	(1,154)	(459)	17,607	473/360	23,134
F	9,777	(108)	(55)	(414)	(197)	9,003	585/360	14,630
G	4,638	(55)	(48)	(158)	(144)	4,233	705/360	8,290
H	341	(17)	(5)	(7)	(32)	280	882/360	686
Total	121,585	(4,111)	-	(10,770)	(2,754)	103,950		107,847
							Council Tax Reduction	(9,710)
							Contributions in lieu	172
							Provision for non-collection (1.89%)	(1,858)
							Council tax base	96,451

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

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

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 2022/23 was £1,372.30.

From 1 April 2017 the Scottish Government changed the basis on which properties are assessed for Council Tax and this increased the charge for Council Tax properties that are banded E to H. The Highland Council had no discretion in this matter and must apply these increases to the Council Tax charges from 1 April 2017. Householders living in properties in Bands A-D are not affected by this increase. Based on the Council Tax base available to Highland Council the Band D charge for 2022/23 was £1,372.30

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 2022/23:

Band A (disabled band reduction)	£762.39
Band A	£914.87
Band B	£1,067.34
Band C	£1,219.82
Band D	£1,372.30
Band E	£1,803.05
Band F	£2,229.99
Band G	£2,687.42
Band H	£3,362.14

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.

2021/22 £000		2022/23 £000
192,102	Gross rates levied and contributions in lieu	196,473
(74,863)	Reliefs and other deductions	(46,327)
(1,004)	Write-off of uncollectible debts and allowance for impairment	(1,184)
116,235	Net Non-Domestic Rate Income (NNDR)	148,962
(10,042)	Adjustment to previous years' national Non-Domestic rates	(2,681)
106,193	Contribution to Non-Domestic Rate Pool	146,281

NOTES TO THE NON-DOMESTIC RATE ACCOUNT

Non-Domestic Rate Income as reported under taxation and non-specific grant income on the CIES comprises income assigned to the Highland Council by the Scottish Government from the national non-domestic rates pool.

106,967	Non-Domestic Rate Income credited to CIES	141,565
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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 2022/23 was 49.8p Rateable Value equal to or less than £51,000, 51.1p Rateable Value between £51,001 and £95,000 and 52.4p Rateable Value greater than £95,000

THE HIGHLAND COUNCIL UNAUDITED ANNUAL ACCOUNTS 2022/23

Highland Council Rateable Values

1 April 2022			1 April 2023	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,687	63,986	Shops	2,659	63,305
965	27,312	Public houses and hotels	963	27,644
1,729	28,648	Offices	1,716	28,180
2,818	48,927	Industrial subjects	2,826	47,995
6,295	29,334	Leisure, entertainment, caravans and holiday sites	6,563	30,211
312	5,231	Garages and petrol stations	299	5,515
2,486	28,764	Cultural, sporting subjects, education and training	2,468	28,910
1,078	16,375	Public service subjects	1,061	15,368
2,098	133,985	Miscellaneous	2,128	134,681
20,468	382,562	Total	20,683	381,809

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.

2021/22				2022/23			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
61,506	(56,898)	4,608	Council Housing – Housing Revenue Account		125,809	(58,467)	67,342
75,858	(24,552)	51,306	Communities & Place		84,325	(28,063)	56,262
277,457	(39,523)	237,934	Education & Learning		299,421	(40,378)	259,043
173,913	(17,345)	156,568	Health & Social Care		207,686	(17,888)	189,798
114,558	(48,258)	66,300	Infrastructure, Environment & Economy		120,362	(46,462)	73,900
10,313	(2,100)	8,213	Performance & Governance		16,624	(6,110)	10,514
104,503	(14,791)	89,712	Property & Housing		108,230	(17,956)	90,274
27,247	(2,724)	24,523	Resources & Finance		23,630	(2,600)	21,030
14,002	(10)	13,992	Depute Chief Executive		14,822	(33)	14,789
46,621	(35,759)	10,862	Welfare Services		46,841	(33,476)	13,365
			Joint Board Requisitions:				
2,889	-	2,889	Highlands and Western Isles Valuation Joint Board		2,942	-	2,942
91	-	91	Highland and Islands Transport Partnership		91	-	91
908,958	(241,960)	666,998	Cost of Services Carried Forward		1,050,783	(251,433)	799,350

THE HIGHLAND COUNCIL GROUP UNAUDITED ANNUAL ACCOUNTS 2022/23

908,958	(241,960)	666,998	Cost of Services Brought Forward		1,050,783	(251,433)	799,350
		11,800	Other operating expenditure				4,828
		54,091	Financing and investment income and expenditure	6			53,263
		(711,545)	Taxation and non-specific grant income				(770,819)
		21,344	Deficit on provision of services				86,622
		552	Associates accounted for on an equity basis				514
		21,896	Group Deficit				87,136
		(121,284)	(Surplus) or deficit on revaluation of non-current assets				(32,064)
		36,593	Impairment losses on non-current assets charged to the revaluation reserve				4,714
		(163,397)	Remeasurements of the net defined liability				(548,609)
		(1,611)	Share of other comprehensive income and expenditure of associates				(5,434)
		(249,699)	Other comprehensive income and expenditure				(581,393)
		(227,803)	Total Comprehensive Income and Expenditure				(494,257)

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	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2021	96,969	11,802	2,181	1,710	22,123	11,225	146,010	1,121,507	1,267,517
Movement in reserves during 2021/22									
Total comprehensive income and expenditure	22,015	(16,138)	-	-	-	-	5,877	238,522	244,399
Adjustments to usable reserves permitted by accounting standards	8,757	230	-	-	-	-	8,987	(8,987)	-
Adjustments between accounting basis and funding basis under regulations(note 7 in Council accounts)	3,570	11,980	-	-	969	-	16,519	(16,519)	-
Adjustments between Group accounts and Council accounts	(20,008)	-	-	-	-	-	(20,008)	-	(20,008)
Net increase/(decrease) before transfers to and other statutory reserves	14,334	(3,928)	-	-	969	-	11,375	213,016	224,391
Transfers to/from other statutory reserves	7,502	-	8	1,442	(9,247)	(1,255)	(1,550)	1,550	-
Increase/(decrease) in 2021/22	21,836	(3,928)	8	1,442	(8,278)	(1,255)	9,825	214,566	224,391
Balance at 31 March 2022	118,805	7,874	2,189	3,152	13,845	9,970	155,835	1,336,073	1,491,908

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.

GROUP 2021/22	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2021 brought forward	1,267,517	16,616	(4,708)	1,279,425
Movement in reserves during 2021/22				
Total Comprehensive Expenditure and Income	244,399	(17,655)	1,059	227,803
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Adjustments between Group accounts and Council accounts	(20,008)	20,008	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	224,391	2,353	1,059	227,803
Increase/(decrease) in 2021/22	224,391	2,353	1,059	227,803
Balance at 31 March 2022 carried forward	1,491,908	18,969	(3,649)	1,507,228

GROUP MOVEMENT IN RESERVES STATEMENT 2022/23

	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
Balance at 31 March 2022	118,805	7,874	2,189	3,152	13,845	9,970	155,835	1,336,073	1,491,908
Movement in reserves during 2022/23									
Total comprehensive income and expenditure	17,488	(75,810)	-	-	-	-	(58,322)	537,602	479,280
Adjustments to usable reserves permitted by accounting standards	10,351	228	-	-	-	-	10,579	(10,579)	-
Adjustments between accounting basis and funding basis under regulations(note 7 in Council accounts)	(2,861)	71,617	-	-	12,190	-	80,946	(80,946)	-
Adjustments between Group accounts and Council accounts	(19,766)	-	-	-	-	-	(19,766)	-	(19,766)
Net increase/(decrease) before transfers to and other statutory reserves	5,212	(3,965)			12,190		13,437	446,077	459,514
Transfers to/from other statutory reserves	7,805	-	19	731	(7,542)	4,391	5,404	(5,404)	-
Increase/(decrease) in 2022/23	13,017	(3,965)	19	731	4,648	4,391	18,841	440,673	459,514
Balance at 31 March 2023	131,822	3,909	2,208	3,883	18,493	14,361	174,676	1,776,746	1,951,422

GROUP MOVEMENT IN RESERVES STATEMENT 2022/23

GROUP 2022/23	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2022 brought forward	1,491,908	18,969	(3,649)	1,507,228
Movement in reserves during 2022/23				
Total Comprehensive Expenditure and Income	479,280	10,057	4,920	494,257
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Adjustments between Group accounts and Council accounts	(19,766)	19,766	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	459,514	29,823	4,920	494,257
Increase/(decrease) in 2022/23	459,514	29,823	4,920	494,257
Balance at 31 March 2023 carried forward	1,951,422	48,792	1,271	2,001,485

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.

31/03/22 £000			31/03/23 £000
2,805,504	Property, plant & equipment		2,874,775
32,856	Investment Properties	7	32,671
8,851	Heritage Assets		8,851
-	Investments in associates		1,271
6,223	Long term investments		5,505
-	Pension Asset	8	230,995
46,729	Long term debtors (net of impairment)		50,572
<u>2,900,163</u>	Long term assets		<u>3,204,640</u>
6,576	Inventories		6,001
91,348	Short term debtors		84,952
96,097	Cash and cash equivalents		63,171
861	Assets held for sale		1,451
<u>194,882</u>	Current assets		<u>155,575</u>
(153,554)	Short term borrowing		(167,302)
(138,608)	Short term creditors		(160,878)
(681)	Cash and cash equivalents – bank overdraft		(334)
(3,006)	Provisions		(448)
(8,403)	Capital Grants Receipts in Advance		(13,021)
<u>(304,252)</u>	Current liabilities		<u>(341,983)</u>
(884,870)	Long term borrowing		(889,904)
(395,046)	Other long term liabilities		(126,843)
(3,649)	Liabilities in associates		-
<u>(1,283,565)</u>	Long term liabilities		<u>(1,016,747)</u>
<u>1,507,228</u>	Net assets		<u>2,001,485</u>
130,072	Usable reserves	9	181,301
1,336,073	Unusable reserves	HC 12	1,776,746
41,083	Share of group and associate reserves		43,438
<u>1,507,228</u>	Total reserves		<u>2,001,485</u>

The unaudited annual accounts were issued on 30 June 2023.

Brian Porter CPFA
Interim 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.

2021/22 £000		2022/23 £000
(21,344)	Net (deficit)/surplus on the provision of services	(86,622)
143,584	Adjust net (deficit)/surplus on provision of services for non-cash movements	267,317
<u>(68,736)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(105,184)</u>
53,504	Net cash inflow from operating activities	75,511
(196,804)	Investing activities	(223,882)
<u>126,064</u>	Financing activities	<u>115,792</u>
(17,236)	Net increase or decrease in cash and cash equivalents	(32,579)
<u>112,652</u>	Cash and cash equivalents at 1 April 2022	<u>95,416</u>
<u>95,416</u>	Cash and cash equivalents at 31 March 2023	<u>62,837</u>

NOTES TO THE GROUP ACCOUNTS

1. Accounting policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 55-66 and per the Common Good's policies on page 126 for Investment Property. Detailed notes to the Group Accounts have been provided only where transactions or balances are materially different to the Council's Accounts. Note 23 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 2023 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 UK continues to experience uncertain market condition and high inflation. Nevertheless, at the Valuation date property markets remain relatively stable and are functioning at levels where adequate levels of market evidence exist upon which to base opinions of value.	<p>Any significant change in property market conditions 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 £50.063m. 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 asset is an increase in long term assets and the pension reserve of £6.625m. The group defined benefit pension scheme disclosures have been shown alongside the Council figures in note 23.

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 2022/23	(Surplus)/deficit on provision of services £000	Net assets/(liabilities) £000
High Life Highland	7,796	7,961
Inverness Common Good	768	31,502
Nairn Common Good Fund	(30)	9,329
	<u>8,534</u>	<u>48,792</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 2022/23 were as follows:

Results for the year	Deficit on provision of services £000	Net assets/(liabilities) £000
Highland and Western Isles Joint Valuation Board	552	1,516
Highland and Islands Transport Partnership	193	158
	<u>745</u>	<u>1,674</u>

Group share	%	Deficit on provision of services £000	Net (liabilities) £000
Highland and Western Isles Joint Valuation Board	80.0	442	1,212
Highland and Islands Transport Partnership	37.5	72	59
		<u>514</u>	<u>1,271</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

2021/22 £000		2022/23 £000
(2,598)	Gains on trading operations	(3,116)
48,108	Interest payable and similar charges	51,409
7,846	Pensions net interest expense	7,731
(773)	Interest and investment income	(3,802)
(2,138)	Rental income	(2,466)
275	Property costs	282
1,392	(Surplus)/Deficit on revaluation of investment properties	775
1,979	Expected credit losses on financial assets	2,010
(55)	(Gains)/Losses on valuation of financial assets	289
55	(Gains)/Losses on derecognition of financial assets	151
<u>54,091</u>		<u>53,263</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
Gross book value			
As at 1 April 2022	24,556	8,300	32,856
Additions	589	-	589
Revaluations	(774)	-	(774)
As at 31 March 2023	<u>24,371</u>	<u>8,300</u>	<u>32,671</u>
Net book value			
As at 31 March 2023	<u>24,371</u>	<u>8,300</u>	<u>32,671</u>
As at 31 March 2022	<u>24,556</u>	<u>8,300</u>	<u>32,856</u>

8. Pension Asset

The Group pension asset is comprised as follows:

	Highland Council £000	Subsidiaries (HLH) £000	Total £000
Pension asset	224,370	6,625	230,995
As at 31 March 2023	<u>224,370</u>	<u>6,625</u>	<u>230,995</u>

9. Reserves

Pension reserve

The Group Pension reserve comprises the Council's Pension reserve held as an unusable reserve and the share of group pension reserves held as a usable reserve. Details of the Pension liability is disclosed in Note 23 of the Council Accounts.

	31 March 2022 £000	31 March 2023 £000
Highland Council – Pension Reserve	(236,650)	224,370
Share of group pension reserve	(25,763)	6,625
As at 31 March 2023	<u>(262,413)</u>	<u>230,995</u>

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 2022 £000	31 March 2023 £000
Share of group and associate reserves (MIRS)	15,320	50,063
Adjust for share of group and associate pension reserve	25,763	(6,625)
Share of group and associate usable reserves	<u>41,083</u>	<u>43,438</u>

Total group usable reserves

	31 March 2022 £000	31 March 2023 £000
Highland Council – usable reserves	155,835	174,676
Share of group pension reserve	(25,763)	6,625
Group usable reserves	<u>130,072</u>	<u>181,301</u>

10. Events after the Balance Sheet date

The unaudited annual accounts were issued by the Head of Corporate Finance on 30 June 2023. Where events taking place before this date provided information about conditions existing at 31 March 2023 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 241 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.