

HIGHLAND COUNCIL

Committee:	Highland Council
Date:	28 th June 2018
Report Title:	Annual Accounts for the year to 31 st March 2018
Report By:	Director of Corporate Resources/Depute Chief Executive

1. Purpose/Executive Summary

- 1.1 This report presents the unaudited annual accounts for the year to the 31st March 2018 for the Highland Council, Highland Charities Trust, Highland Council Charitable Trusts and the Highland Council Pension Fund.
- 1.2 Copies of the full accounts documents can be found on the Council website- www.highland.gov.uk/accounts
- 1.3 The Highland Council's General Fund shows a deficit of £1.1m for the year but with non-earmarked balances decreasing to £8.6m (or 1.6% of the revenue budget).
- 1.4 The Highland Council Pension Fund shows a surplus of £118.9m for the year and net assets as at the 31st March 2018 of £1,883.8m.

2. Recommendations

- 2.1 Members are asked to:
 - i. Receive the unaudited Annual Accounts for the Highland Council, Highland Charities Trust, Highland Charitable Trust and the Highland Council Pension Fund for the year ended 31st March 2018 and note that these will be presented to the appointed auditor by the prescribed date of the 30th June 2018.

3. Annual Accounts 2017/18

- 3.1 The Annual Accounts summarise the transactions and provide the year end position for financial year 2017/18- the year ended 31st March 2018.
- 3.2 The Council is required to prepare annual accounts under the Local Authority Accounts (Scotland) Regulations 2014 and in accordance with proper accounting practices. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (The Code). The Code is based on International Financial Reporting Standards (IFRS)
- 3.3 The regulations require the unaudited accounts to be submitted to the appointed auditor no later than the 30th June and require elected members to consider the unaudited accounts at a meeting no later than the 31st August. Once audited, the accounts will be taken to the Audit and Scrutiny Committee, along with the auditor's report, on the 20th September 2018.
- 3.4 The audited accounts and auditor's report for the Highland Council Pension Fund will be presented to the Pensions Committee and Board on the 9th August.

4. Accounts documents

- 4.1 Due to their size the accounts documents have not been appended to this report but can instead be found on the Council's website: www.highland.gov.uk/accounts
- 4.2 As a high level overview of the Council's performance in the year the management commentary section of the Council's accounts can be seen at **Appendix 1**. 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.
- 4.3 The Council's key financial statements, including the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet, Cash Flow Statement, Remuneration Report and Annual Governance Statement, along with supporting notes, can be seen in the full accounts document via the above web link.

5. Highland Council Year End Position

- 5.1 The Council's accounts show that as at the 31st March 2018 the general fund non-earmarked reserve stands at £8.562m, a decrease of £2.801m over the year. In total, useable reserves have increased by £6.194m to £72.813m, primarily due to an increase in the level of funds specifically held for capital investment in housing related projects. A summary of reserves can be seen on page seven of the accounts.
- 5.2 Near-final corporate revenue and capital monitoring statements were presented to the Corporate Resources Committee on the 24th May 2018.

6. Highland Council Pension Fund Year End Position

- 6.1 At 31st March 2018 the Pension Fund had net assets of £1,883.8m as can be seen in the Net Assets Statement on page 36 in the Pension Fund accounts.
- 6.2 The increase in net assets over the year was principally due to investment returns and increases in the value of investments.
- 6.3 The pension fund undergoes a triennial actuarial valuation. The last such valuation was undertaken for the Fund's position as at 31st March 2017 and revealed that the Fund's assets were sufficient to meet 101% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date.

7. Implications

- 7.1 Resource implications are as outlined in this report.
- 7.2 There are no specific Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications.

Designation: Director of Corporate Resources / Depute Chief Executive

Date: 22th June 2018

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background

Papers: https://www.highland.gov.uk/download/meetings/id/73672/item_5_corporate_revenue_near_final_monitoring_report_20718

Annual Accounts

Aithris Chunntasan

2017/18

Unaudited

Contents

Management Commentary	2
Statement of Responsibilities for the Annual Accounts.....	15
Annual Governance Statement.....	16
Independent Auditor’s Report.....	19
Remuneration Report.....	20
Comprehensive Income and Expenditure Statement.....	36
Movement in Reserves Statement 2016/17.....	38
Movement in Reserves Statement 2017/18.....	39
Balance Sheet.....	40
Cash Flow Statement	42
Accounting Policies and Notes to the Accounts.....	43
Housing Revenue Account Income and Expenditure Statement.....	114
Statement of Movement on the Housing Revenue Account.....	115
Notes to the Housing Revenue Account.....	116
Council Tax Income Account	117
Non-Domestic Rate Account.....	119
Common Good Funds Accounts.....	121
Charitable, Educational and Other Trust Funds Accounts	133
Group Accounts.....	139
Glossary.....	151

Management Commentary

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

About The Highland Council



Coalition Administration of Independent, Liberal Democrat, and Labour.



235,180
Population (mid 2017)

Council Services



Council Priorities

The Council's plans and priorities agreed with the Highland Community Planning Partnership and the Scottish Government.



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



How the Council measures its programme's actions.



www.highland.gov.uk/our-priorities

Council Highlights 2017/18

Council elections

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



Schools investment

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

Modern Apprentices

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

Chromebooks

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



Office rationalisation

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

Commission on Highland democracy

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

Digital connectivity

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

Local Voices, Highland Choices

A new Council programme approved.

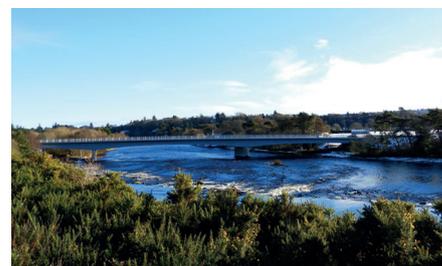


New capital programme

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

West Link

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



City-Region Deal

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

Local voices | Highland choices
Guthan ionadail | roghainnean Gàidhealach

The Highland Council Programme
Prògram Chomhairle na Gàidhealtachd
2017-2022

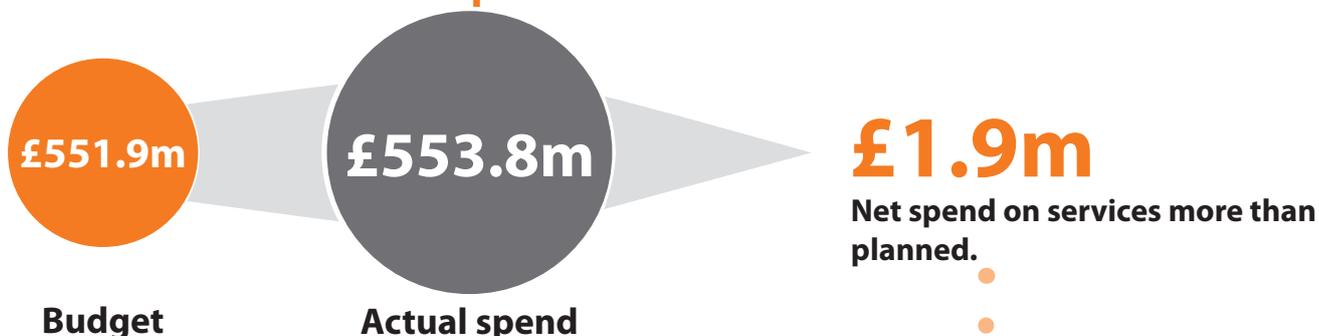
www.highland.gov.uk

General Fund Revenue Outturn 2017/18

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

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

General fund service spend



Council funding



Overall deficit

Actual spend and income compared to budget.

£1.1m

Use of reserves

£1.0m

The difference between actual spend and funding in 2017/18 paid for from the Council's General Fund Earmarked and Non-Earmarked Reserves.

Commentary on year end position

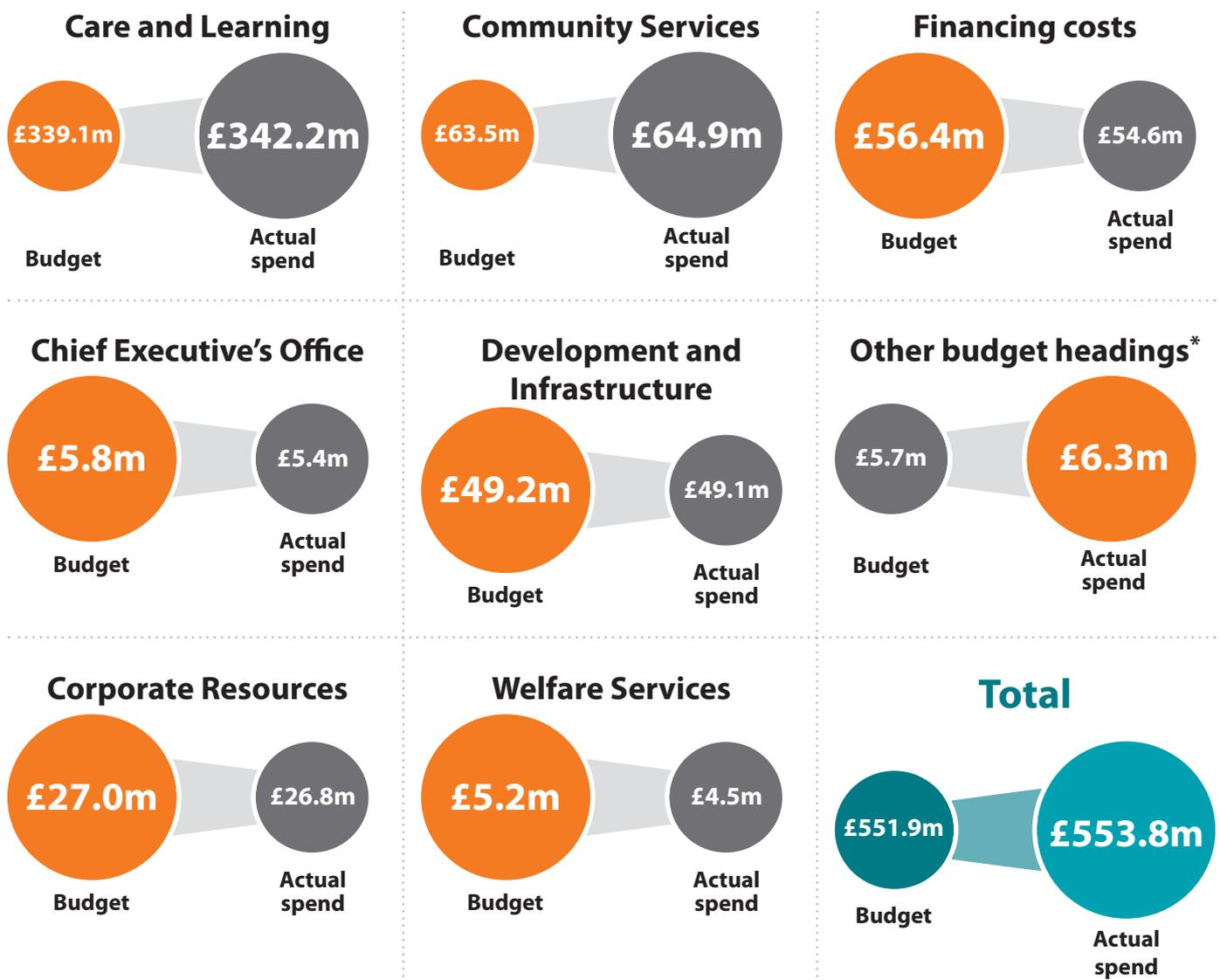
2017/18 was the first time in a number of years the Council has recorded an annual deficit which further illustrates the increasing difficulty all local authorities face in balancing their budgets in an environment of rising costs and flat or falling government funding.

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

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

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

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

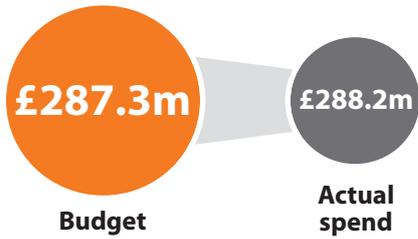


*includes NDR reliefs, joint board requisitions, welfare services, unallocated savings and transfers to reserves

Analysis of spend

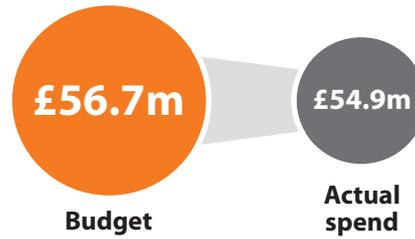
Staff costs

The cost of the Council's employees.



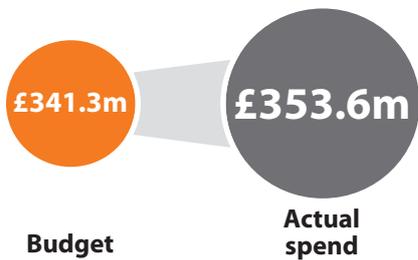
Financing costs

The cost of borrowing to finance capital investment.



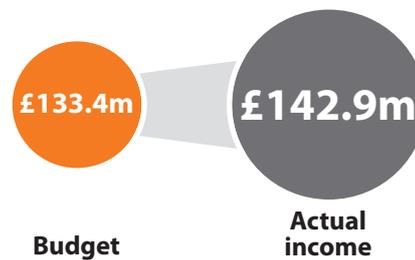
Other costs

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



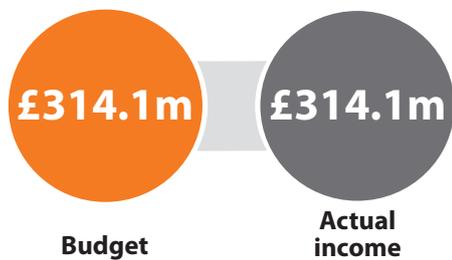
Service income

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



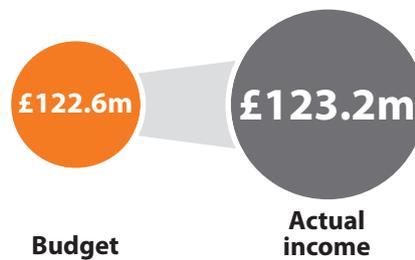
Council funding

Revenue Support Grant

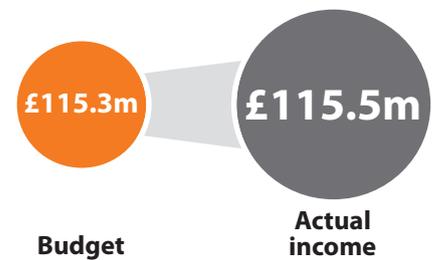


Funding direct from the Scottish Government.

Non-Domestic Rates



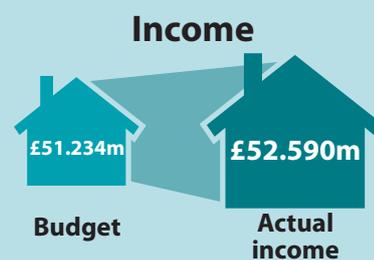
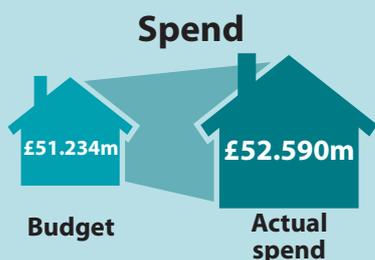
Council Tax



Housing revenue account



The Council owns 13,929 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated. The surplus for the year was used to fund capital expenditure.



Council Reserves

The Council holds funds in a number of usable reserves:

General Fund Non-Earmarked Reserve

£8.6m

(2016/17 £11.4m)

Funds held as a general contingency.

Capital Fund

£25.0m

(2016/17 £27.2m)

To buy land for affordable housing provision.

Insurance Fund

£2.3m

(2016/17 £3.0m)

Insurance for items not covered by external insurance policies.

Capital Grants Unapplied

£10.0m

(2016/17 £0m)

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

General Fund Earmarked Reserve

£16.5m

(2016/17 £14.6m)

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

Renewal and Repair Fund

£1.7m

(2016/17 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2016/17 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2016/17 £1.4m)

Capital receipts available to finance future capital expenditure.

Total Useable Reserves

£72.8m

(2016/17 £66.6m)

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

1.6%

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

Use of useable revenue reserves during the year

-£1.1m

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

-£3.4m

Use of earmarked balances for their specified purposes

Net use of General Fund reserves

-£1.0m

+£1.6m

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

+£1.9m

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

Capital Outturn 2017/18

Capital expenditure represents money spent by the Council for buying, upgrading, or significantly enhancing assets, such as schools, other buildings, roads and IT equipment. The difference between capital and revenue expenditure is that the Council receives the benefits from capital expenditure over a period exceeding one year.

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

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

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

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

Investment in school buildings

£23.1m



Investment in sport, community and leisure facilities

£7.6m



Investment in roads and bridges

£16.3m



Housing Revenue Account

£38.1m investment in housing stock in 2017/18



Funding of the Capital Programme

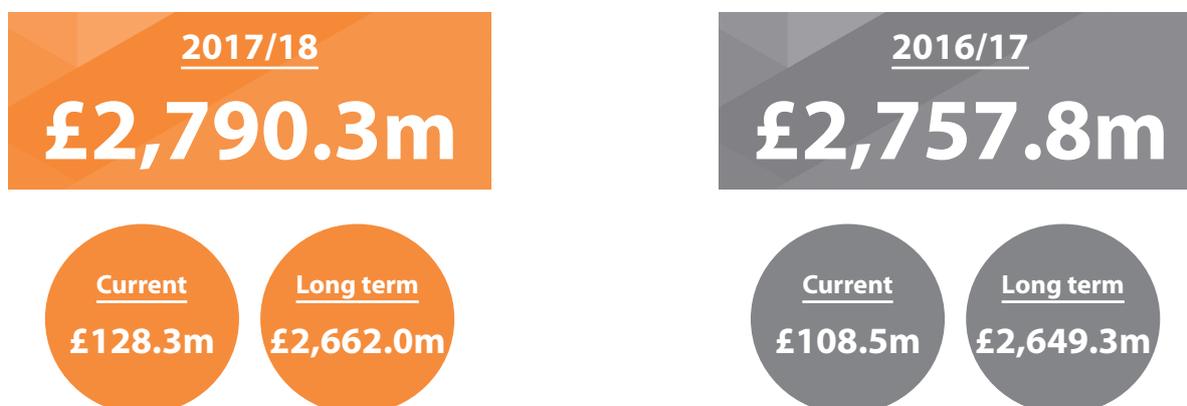
£49.4m of the 2017/18 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

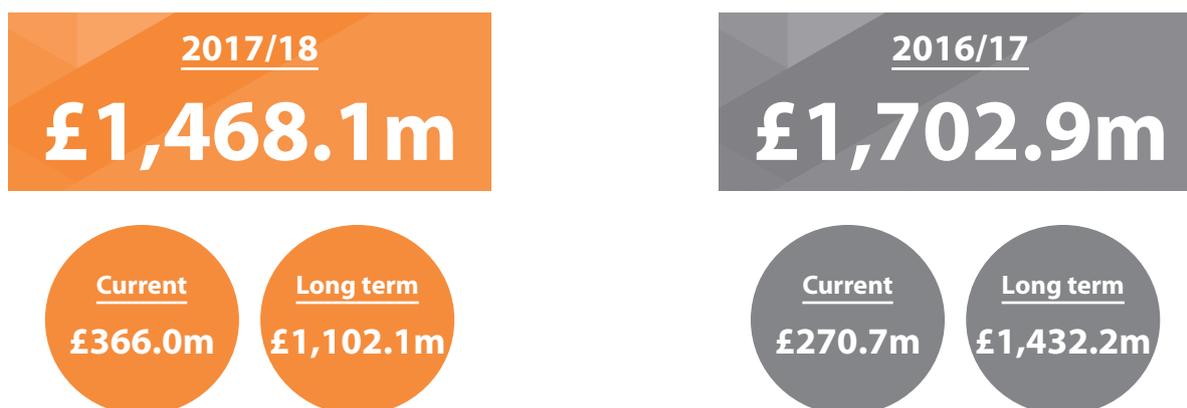
The Council's Balance Sheet shows its assets, liabilities and reserves.
More information on its component parts can be seen in the notes to the accounts.

Total Assets



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

Total Liabilities



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

Total Reserves



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

Details of Assets and Liabilities

Long term assets

Council houses

£868.4m



Infrastructure assets

£409.6m



Other assets

£118.5m



Other land and buildings

£1,198.7m



Vehicles, plant and equipment

£66.8m



Liabilities

Borrowing

-£942.9m



Pensions liability

-£247.9m



Finance leases

-£161.5m



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

Short term creditors

-£103.3m



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

Other liabilities

-£12.5m



9.86%

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

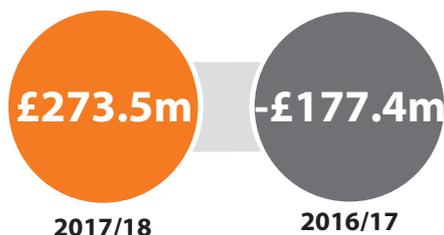
Group Accounts

The Council has interests in other organisations which, under accounting regulations, have to be incorporated into the group accounts. These show the combined figures for all the following entities:



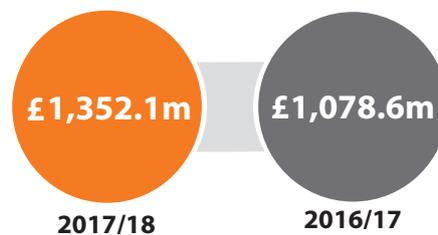
Key Group Financial Information

Total Comprehensive income and expenditure



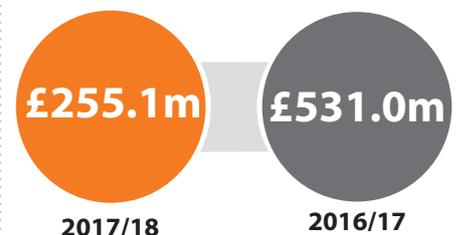
The overall change in total Group reserves calculated on an accounting basis.

Net assets and total reserves



Group assets less group liabilities.

Pension Liability



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

Performance Management

Reporting on performance is a key part of the Council's governance process and is set out in the Corporate Performance Framework.

The Council's Code of Corporate Governance is approved annually by the full Council. The approach to performance management is underpinned by the Council's Values:

Supporting, Listening, Valuing, Delivering, Improving, Partnering and Open

Visit: www.highland.gov.uk/performance

The Council has a range of performance indicators, some of which cover local priorities and others which are national indicators that can be compared with other local authorities.

The key annual performance reports are:

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

Local and National Statutory Performance Indicators 2016/17

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

Indicators that have shown a change of:



Care and Learning

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

Corporate Resources

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

Community Services

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

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

Development and Infrastructure

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

Indicators that have shown a change of:



Care and Learning

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

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

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

Community Services

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

Corporate Resources

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

Risks, Uncertainties and Future Developments

2018/19 budget

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

Demographic change and demand for services

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

Geopolitical factors

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

Asset condition

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

Reserves

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

Pay

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

Grant Funding

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

Changes in senior staff

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

Satisfaction with Council Services

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

Workforce

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

Looking Ahead

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

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

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

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

Steve Barron
Chief Executive
20th September 2018

Margaret Davidson
Leader of the Council
20th September 2018

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