

Agenda Item	18
Report No	HC/29/19

HIGHLAND COUNCIL

Committee: Highland Council

Date: 27 June 2019

Report Title: Annual Accounts for the year to 31st March 2019

Report By: Head of Corporate Finance and Commercialism

1. Purpose/Executive Summary

- 1.1 This report presents the unaudited annual accounts for the year to the 31st March 2019 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 £2.3m for the year but with non-earmarked balances decreasing by £0.7m to £7.9m (or 1.4% of the revenue budget).
- 1.4 The Highland Council Pension Fund shows a surplus of £115.1m for the year and net assets as at the 31st March 2019 of £1,999.0m.

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 2019 and note that these will be presented to the appointed auditor by the prescribed date of the 30th June 2019.

3. Annual Accounts 2018/19

- 3.1 The Annual Accounts summarise the transactions and provide the year end position for financial year 2018/19- the year ended 31st March 2019.
- 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 19th September 2019.
- 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 8th 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 2019 the general fund non-earmarked reserve stands at £7.925m, a decrease of £0.637m over the year. In total, useable reserves have decreased by £5.519m to £66.470m. 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 23rd May 2019. Links to those reports can be found in the background papers section of this report.

6. Highland Council Pension Fund Year End Position

- 6.1 At 31st March 2019 the Pension Fund had net assets of £1.999.0m as can be seen in the Net Assets Statement on page 35 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: 18th June 2019

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/75279/item_5_corporate_revenue_near_final_monitoring_report_201819

https://www.highland.gov.uk/download/meetings/id/75280/item_6_corporate_capital_near_final_revenue_monitoring_report_201819

Annual Accounts

Aithris Chunntasan

2018/19

Unaudited



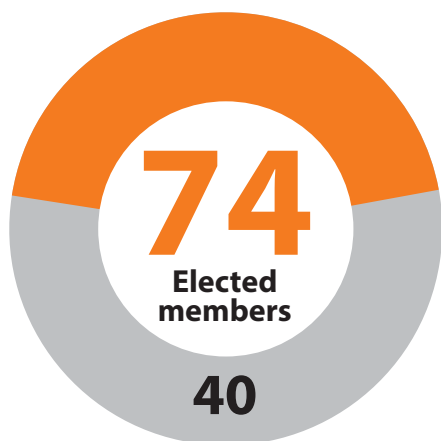
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Management Commentary

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

About The Highland Council



Coalition Administration of Independent, Liberal Democrat, and Labour.



235,180
Population (mid 2017)

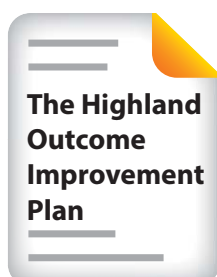
Council Services



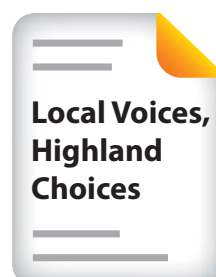
The service structures will be changing in 2019/20 to better help the Council deliver its vision and objectives

Council Priorities

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



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



How the Council measures its programme's actions.



www.highland.gov.uk/our-priorities

Council Highlights 2018/19

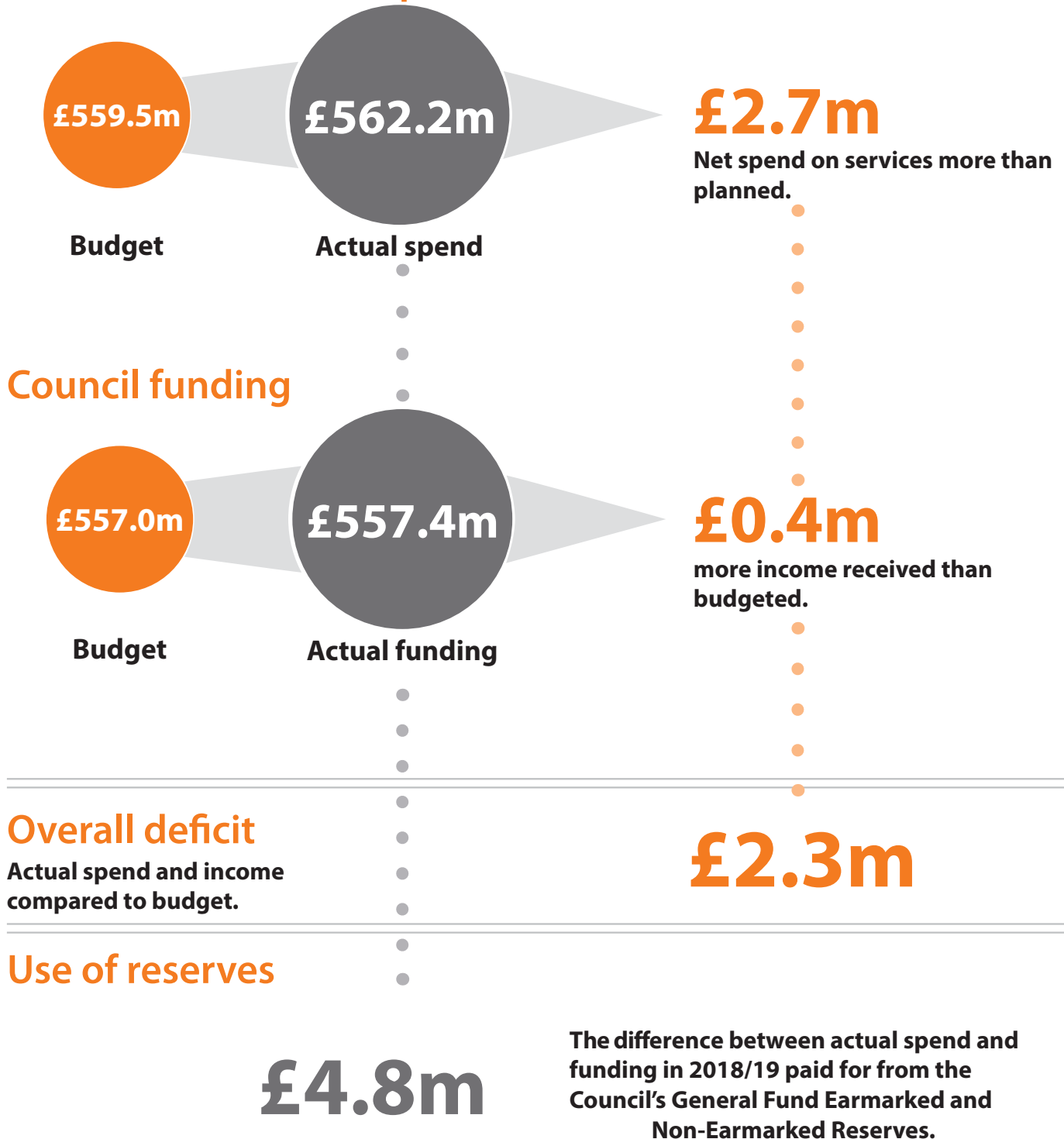
'Your Voice, Your Council, Your Future'	Adoption of a new budget setting approach with over 50 engagement sessions with communities and a 2 day cross party Members seminar
3 Year Revenue Budget	A revenue budget covering 2019/20 to 2021/22 was approved in February 2019
Local Voices, Highland Choices	Refreshed Council programme with 51 commitments under 6 priority themes approved
'A Sustainable Highland'	Corporate change programme approved in February 2019
'A Connected Highland'	22 strategic improvement priorities agreed in March 2019
Newton Rooms	First Newton rooms, for STEM subjects, opened in Thurso and Lochaber
Raining's Stairs Development	Completion of award-winning affordable housing development in central Inverness
FW2040	Creation of draft masterplan for Fort William and Lochaber
Tourism Funding	Successful £1.1m bid to Rural Tourism Infrastructure Fund
High-fi	Free Wifi rolled out to 15 towns across the Highland region
New Chief Executive	Donna Manson appointed in October 2018
Schools Investment	Bun-sgoil Ghàidhlig Phort Rìgh opens
Schools Investment	Contract awarded for replacement Alness Academy in November 2018
Schools Investment	Completion of Phase 1 works at Inverness High School

General Fund Revenue Outturn 2018/19

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

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

General fund service spend



Commentary on the Year End Position

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

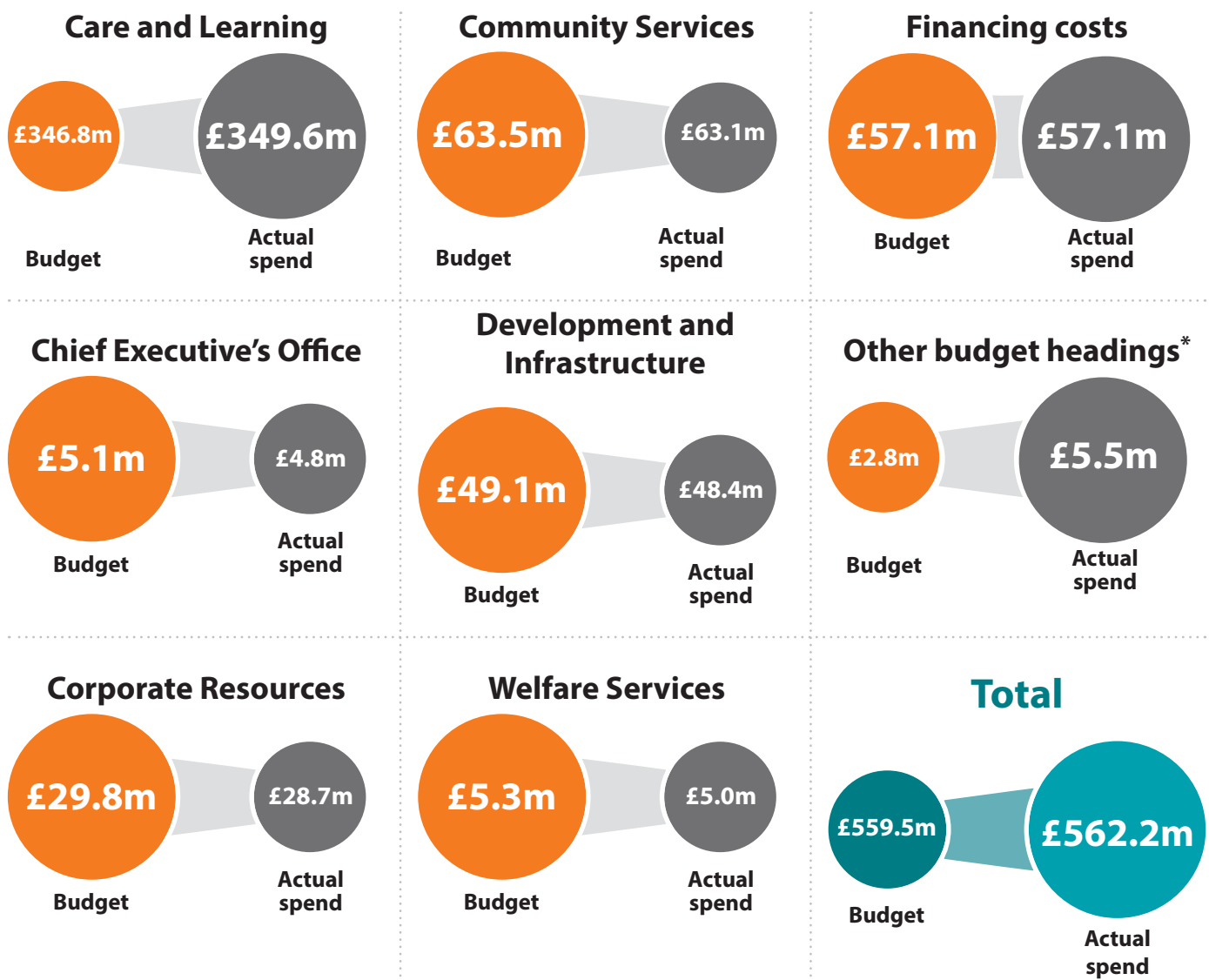
The overall position was considerably better than had been forecast in the earlier part of the year due to spending controls around recruitment and discretionary spend that were put into place during the year. These controls remain in place going into the new financial year.

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

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

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

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

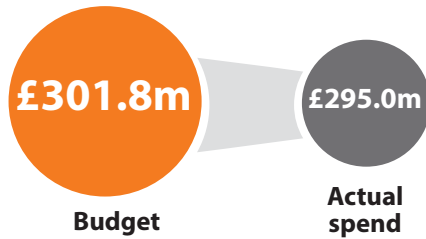


*includes NDR reliefs, joint board requisitions, unallocated savings and transfers to reserves.

Analysis of spend

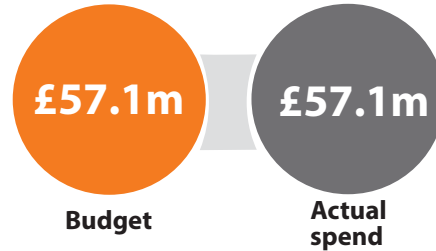
Staff costs

The cost of the Council's employees.



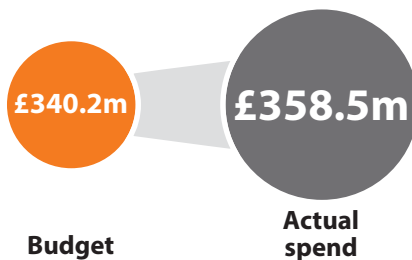
Financing costs

The cost of borrowing to finance capital investment.



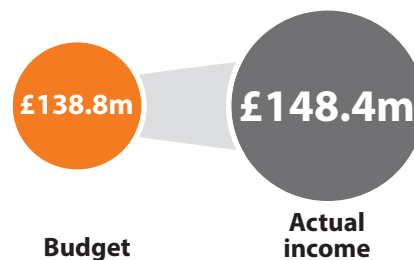
Other costs

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



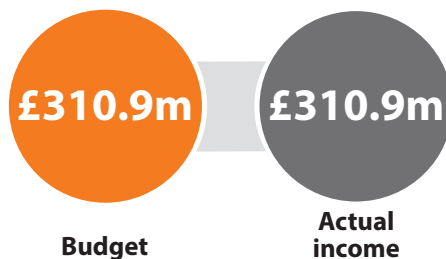
Service income

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



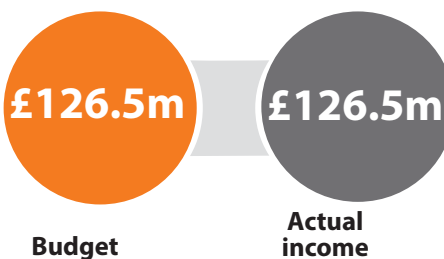
Council funding

Revenue Support Grant

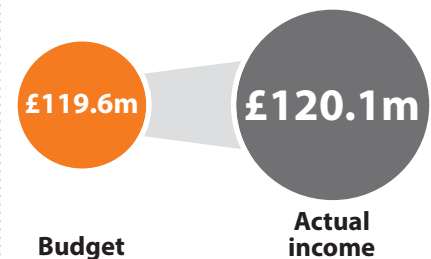


Funding direct from the Scottish Government.

Non-Domestic Rates



Council Tax

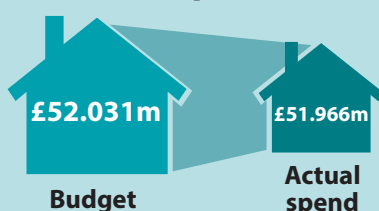


Housing revenue account

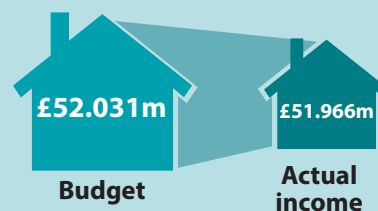


The Council owns 14,052 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated. The surplus for the year was used to fund capital expenditure.

Spend



Income



Council Reserves

The Council holds funds in a number of usable reserves:

General Fund Non-Earmarked Reserve

£7.9m

(2017/18 £8.6m)

Funds held as a general contingency.

Capital Fund

£24.9m

(2017/18 £25.0m)

To buy land for affordable housing provision.

Insurance Fund

£2.3m

(2017/18 £2.3m)

Insurance for items not covered by external insurance policies.

Capital Grants Unapplied

£8.6m

(2017/18 £9.2m)

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

General Fund Earmarked Reserve

£12.4m

(2017/18 £16.5m)

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

Renewal and Repair Fund

£1.7m

(2017/18 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2017/18 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2017/18 £1.4m)

Capital receipts available to finance future capital expenditure

Total Useable Reserves

£66.5m

(2017/18 £72.0m)

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

1.4%

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

Use of General Fund Revenue Reserves During the Year

-£2.3m

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

-£9.6m

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

Net use of General Fund reserves

-£4.8m

+£1.6m

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

+£5.5m

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

Capital Outturn 2018/19

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

£96.2m

Actual capital spend in 2018/19

£14.3m

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

Projects with the largest capital spend in 2018/19:

Investment in school buildings

£24.9m



Investment in sport, community and leisure facilities

£5.1m



Investment in roads and bridges

£8.7m



Housing Revenue Account

£42.0m investment in housing stock in 2018/19



Funding of the Capital Programme

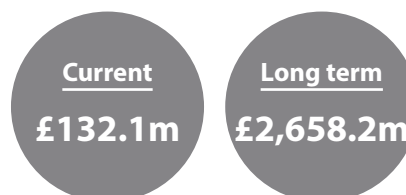
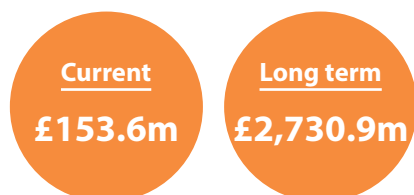
£50.3m of the 2018/19 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

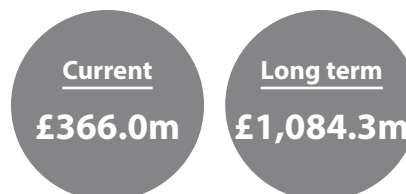
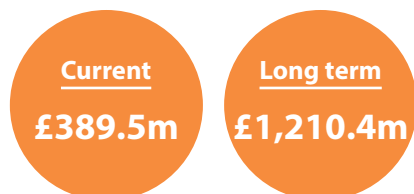
The Council's Balance Sheet shows its assets, liabilities and reserves.
More information on its component parts can be seen in the notes to the accounts.

Total Assets



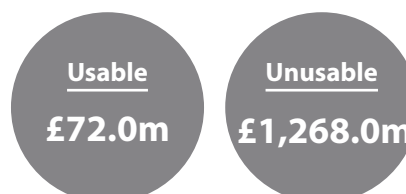
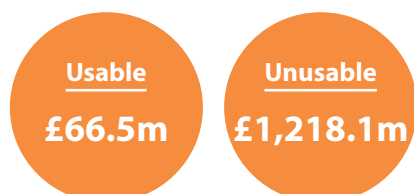
(Increase in long term assets due to capital investments and revaluations and increase in short term assets due to increase in cash and cash equivalents held)

Total Liabilities



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

Total Reserves



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

Details of Assets and Liabilities

Long term assets

Council houses

£884.5m



Infrastructure assets

£423.5m



Other assets

£116.4m



Other land and buildings

£1,236.3m



Vehicles, plant and equipment

£70.2m



Liabilities

Borrowing

-£986.2m



Pensions liability

-£329.5m



Finance leases

-£154.8m



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

Short term creditors
(excluding finance leases)

-£109.9m



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

Other liabilities

-£19.5m



10.16%

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

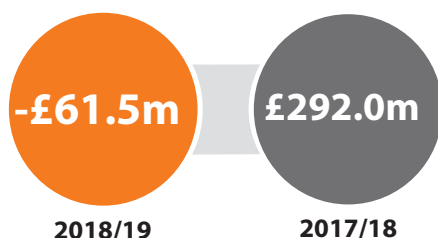
Group Accounts

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



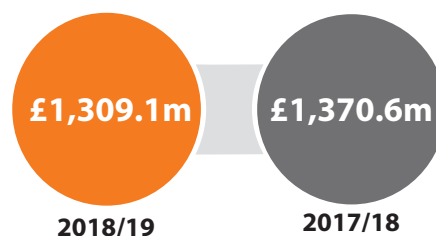
Key Group Financial Information

Total Comprehensive income and expenditure



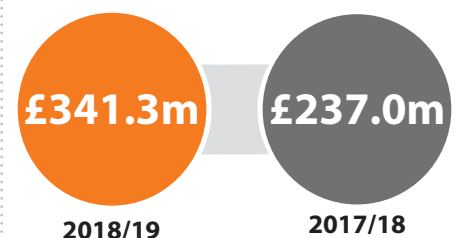
The overall change in total Group reserves calculated on an accounting basis.

Net assets and total reserves



Group assets less group liabilities.

Pension Liability



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

Performance Management

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

The Council's Code of Corporate Governance is approved annually by the full Council. The approach to performance management is underpinned by the Council's Values: **Supporting, Listening, Valuing, Delivering, Improving, Partnering and Open**

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

The key annual performance reports are:

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

Visit: www.highland.gov.uk/performance

Local and National Statutory Performance Indicators 2017/18

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

Indicators that have shown a change of:



Care and Learning

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

Corporate Resources

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

Community Services

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

Development and Infrastructure

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

Indicators that have shown a change of:



Care and Learning

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

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

Community Services

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

Development and Infrastructure

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

Risks, Uncertainties and Future Developments

2019/20 Budget

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

Reserves

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

Grant Funding

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

Demographic Change and Demand for Services

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

Geopolitical Factors

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

Capital Investment

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

Pay Inflation and Pension Cost Increases

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

Changes in Senior Staff

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

Waste

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

Declining Satisfaction with Council Services

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

Looking Ahead

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

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

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

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

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

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

Donna Manson
Chief Executive

Margaret Davidson
Leader of the Council

Edward Foster
Head of Corporate Finance and
Commercialism