

Agenda Item	9
Report No	HC/17/23

HIGHLAND COUNCIL

Committee:	Highland Council
Date:	29 June 2023
Report Title:	Annual accounts for the year to 31 March 2023, and Near-final revenue out-turn for the year.
Report By:	Head of Corporate Finance

1. Purpose/Executive Summary

- 1.1 This report presents the unaudited annual accounts for the year to 31 March 2023 for the Highland Council; Highland Charities Trust; Highland Council Charitable Trusts; and the Highland Council Pension Fund.
- 1.2 Section 7 of the CIPFA Financial Management Code identifies '*External Financing Reporting*' as one of the key standards in financial management. The annual accounts statements are seen as playing an integral part in the successful attainment of this standard. The reporting to the Council, and the publication of Accounts, allow stakeholders to use the Annual Accounts to understand how public money has been utilised.
- 1.3 All sets of Financial Accounts will be published on the Council website in advance of the Council meeting and will be available from the following website link:

https://www.highland.gov.uk/downloads/download/539/annual_accounts
- 1.4 This report also provides a revenue out-turn position for 2022/23, as reflected within the Annual Accounts for the year. The near-final position for the General Fund, which remains subject to external audit, was a net surplus against budget of £36.727m, which after movement to and from balances results in an increase of £51.256m in non-earmarked reserves. This includes the Loans Fund Principal Repayment 'holiday' agreed by the Council in March 2023 which represents a one-off credit to the 2022/23 position of £29.276m. Relative to the assumptions made at Quarter 3, and forecasts within the report to 2 March Council, the net position represents an improvement of £7.411m since that time.
- 1.5 At 2022/23 year-end, and again subject to external audit, the Council's non-earmarked reserves total £70.513m, and earmarked reserves £61.309m.

- 1.6 The level of reserves held need to be seen in the context of the Council having agreed its 2023/24 revenue budget on the basis of £23.270m of non-earmarked reserves being used to balance the budget. Members will recall from the budget report to Council on 2 March the significant financial challenge facing the Council and the need to address the Council's ongoing financial sustainability. That same report highlighted the risk of depletion of the Council's reserves if they are used on a continuing basis to balance the revenue budget, with a scenario within that report whereby reserves could be wholly depleted by 2026.

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 31 March 2023 and note that these will be presented to the appointed auditor by the prescribed date of the 30 June 2023.
- ii. Note the near final out-turn for the 2022/23 financial year, subject to audit, as set out in section 6 of this report.

3. Implications

- 3.1 **Resource (Budget and Staffing)** – there are no direct implications arising from this report, however the Annual Accounts and the financial information contained therein, represents detailed information relating to the Council's financial position.
- 3.2 **Legal** – the Council is required to complete and publish its draft Annual Accounts by 30 June, and this report and notices of inspection issued, fulfil the Council's obligations in this regard.
- 3.3 **Community (Equality, Poverty and Rural)** – there are no specific implications to highlight.
- 3.4 **Climate Change / Carbon Clever** – there are no specific implications to highlight.
- 3.5 **Risk (including Health & Safety risks arising from changes to plant, equipment, process or people)** - there are no specific implications to highlight. The Council's Annual Accounts are subject to External Audit, and the final audit report, when complete, will be considered by the Council's Audit and Scrutiny Committee.
- 3.6 **Gaelic** – there are no specific implications to highlight.

4. Annual Accounts 2022/23

- 4.1 The Annual Accounts summarise the transactions and provide the year end position for financial year 2022/23, the year ended 31 March 2023.
- 4.2 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).

- 4.3 The regulations require the unaudited accounts to be submitted to the appointed auditor no later than 30 June and require elected Members to consider the unaudited accounts at a meeting no later than the 31 August. Once audited, the Highland Council accounts and auditor's report will be taken to the Audit and Scrutiny Committee. For 2022/23 the Council's external auditor is Audit Scotland, taking over from Grant Thornton.
- 4.4 The audited accounts and auditor's report for the Highland Council Pension Fund will be presented to the next meeting of the Pensions Committee.
- 4.5 CIPFA's Financial Management Code identifies two key standards around external financial reporting namely:
- *'The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom';*
 - *'The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions'.*

5. Annual Accounts Documents

- 5.1 Due to their size, the accounts documents have not been appended to this report but will instead be made available on the Council's website at the link below prior to the Council meeting:

https://www.highland.gov.uk/downloads/download/539/annual_accounts

- 5.2 The management commentary section of the Council's accounts provides a high level overview of the Council's performance in the year. The management commentary is intended to assist with 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. Section 6 below, provides an overview of the financial performance of the year.
- 5.3 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 weblink.
- 5.4 As has been the case previously, a training session for Members on understanding the accounts will be scheduled to take place prior to the audited accounts being presented to the Audit and Scrutiny committee later this year.

6. Financial Performance and 2022/23 Out-turn

- 6.1 **Appendix 1** to this report provides analysis of the near-final out-turn for the year.
- 6.2 Of the net surplus against General Fund non-earmarked reserves, the following table provides some further analysis of the key movements in the year.

	Non-Earmarked Reserves £m
Service out-turn incl Joint Boards (net underspend)	4.889
Loans Charges (see paragraphs below):	
- Effect of Loans Fund principal repayment 'holiday'	29.276
- Effect of Loans Fund principal re-profile for pay award funding	-5.669
- Underlying Loans Charge underspend	2.081
- Underlying Interest and Investment income underspend	2.812
Loans charges sub-total	28.500
Unallocated budget and unallocated savings	-0.684
Sub-total Net 'Service' position	32.705
Contribution from Council tax on 2 nd homes and L-T empties	3.296
Council tax income in excess of budget	0.726
Net Surplus before movement in reserve balances	36.727
Use of non-earmarked reserves 2022/23	-4.414
Re-purposing of earmarked funds – returned to general reserves	18.942
Net Surplus on non-earmarked reserves	51.256

- 6.3 Members will recall from the report to Council on 2 March of this year, there was a multi-year financial forecast and projection of reserve levels. Based on the assumptions reflected within Appendix 10 of that report, there was a scenario whereby non-earmarked reserves were wholly depleted by 2026, if they continue to be used to balance the revenue budget. The improved reserves position for 2022/23 needs seen in that context, and on the understanding that current reserves are finite.
- 6.4 A significant contributory factor to the surplus for the year was related to the Loans Charges budget. Members will recall that in the 2 March 2023 budget report to Council it was agreed that the Council would “*implement a loans fund principal repayment holiday in 2022/23*”. This contributed £29.3m of one-off benefit in the 2022/23 financial year. This financial flexibility was introduced by Scottish Government during the pandemic and allowed councils to defer the ‘principal’ element of their 2022/23 loans charges, paying back the amount deferred over the period of the residual asset life or twenty years (whichever is lower). This was a one-off benefit and loan charge budgets in 2023/24 provide for, and future years will need make provision for, the repayment of the deferred principal amounts.
- 6.5 Another year end accounting adjustment relating to the Council’s loan charges was made in 2022/23. As part of Scottish Government funding to Councils for pay award funding, an element was provided via the Scottish Government General Capital Grant to Councils. For Highland, in 2022/23 the value of that element of the grant was £5.5m. Pay award costs are revenue costs, and therefore Scottish Government and Cipfa Directors of Finance worked together to issue guidance to Councils on existing permitted accounting treatments that would allow the pay award element of the capital grant, to indirectly offset these revenue costs. For Highland, this has necessitated some complex additional accounting adjustments to ensure that the Council could utilise the pay award element of the capital grant for its intended purpose, whilst avoiding a situation of pay award costs unnecessarily impacting negatively on the Council’s year-end position. The accounting treatment was discussed with Scottish Government and Audit Scotland in advance of implementation and involved a re-

profiling and accelerated write down of some loans fund debt principal payments (as well as the taking of the £29.3m 'holiday' referred to above). This has the net effect of increasing those loan charges in 2022/23 and allowing offset by General Capital Grant, and in turn the loan charges in 2023/24 and 2024/25 will be reduced by an amount equivalent to the re-profile into 2022/23. The effect on loan charge principal is neutral over the 3 years, but if not for this accounting adjustment, the Council would have been £5.5m worse off as a result. **Appendix 2** provides a more detailed explanation and illustration of the effect of the changes made.

- 6.6 The Housing Revenue Account out-turn position was a deficit for the year of £3.965m. The closing reserves position for the HRA is £3.909m.
- 6.7 **Appendix 3** provides a summarised description, per Service, in relation to the main contributory factors to the year-end outturn. The revenue and capital out-turn monitoring statements will be reported to the first Committees following the summer recess. This will provide for further detailed analysis and explanation of the out-turn position for the year.

Designation: Head of Corporate Finance

Date: 14 June 2023

Author: Brian Porter, Head of Corporate Finance and Carolyn Moir, Finance Manager

Background Papers:

General Fund: 1 April 2022 to 31 March 2023
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	Annual Budget £000	Year End Out-turn £000	Year End Variance £000
Table A: By Service			
Communities & Place	41,169	41,686	517
Depute Chief Executive	14,154	13,530	(624)
Education & Learning	235,107	232,486	(2,621)
Health, Wellbeing & Social Care	188,054	184,019	(4,035)
Infrastructure & Environment and Economy	39,461	39,862	401
Performance & Governance	6,130	6,473	343
Property & Housing	73,649	76,493	2,844
Resources & Finance	13,480	12,042	(1,438)
Welfare Services	13,476	13,410	(66)
Service Total	624,680	620,001	(4,679)
Valuation Joint Board	3,140	2,942	(198)
Hi Trans	91	91	0
Non Domestic Rates reliefs	671	659	(12)
Loan Charges	58,349	29,849	(28,500)
Unallocated Budget	378	0	(378)
Unallocated Corporate Savings	(1,062)	0	1,062
Total Net Service Position	686,247	653,542	(32,705)

General Fund Balances

	Earmarked balances £m	Non- earmarked balances £m	Total £m
(1) General Fund Balance at 1 April 2022	99.548	19.257	118.805
(Use of)/contribution to balances included in budget as agreed by Highland Council on 3 March 2022	(5.367)	0.000	(5.367)
Use of balances	(29.474)	(4.414)	(33.888)
Contribution to balances	15.545	0.000	15.545
Removal of earmarking	(18.942)	18.942	0.000
(2) Movement in balance	(38.238)	14.528	(23.710)
Net service underspend (see TABLE A above)	0.000	32.705	32.705
Appropriations to other reserves	0.000	3.296	3.296
Additional resources	0.000	0.000	0.000
Council tax	0.000	0.726	0.726
Rounding	(0.001)	0.001	0.000
(3) Net Surplus excluding movement in balance	(0.001)	36.728	36.727
(4) Net Surplus (being total of 2 plus 3 above)	(38.239)	51.256	13.017
(5) General Fund Balance at 31 March 2023 (being total of 1 plus 4 above)	61.309	70.513	131.822

Housing Revenue Account: 1 April 2022 to 31 March 2023

	Annual Budget £000	Year End Out-turn £000	Year End Variance £000
Staff Costs	13,701	13,088	(613)
Other Costs	22,846	27,830	4,984
Loan charges and interest	23,441	22,651	(790)
Gross Expenditure	59,988	63,569	3,581
House Rents	(56,093)	(55,886)	207
Other rents	(3,497)	(2,979)	518
Other income	(337)	(561)	(224)
Interest on Revenue Balances	(61)	(178)	(117)
Gross Income	(59,988)	(59,604)	384
Total HRA (surplus)/deficit for the year	0	3,965	3,965
HRA Closing Revenue Balance at 31/3/23			3,909

Appendix 2: Loan Charge Re-profiling and Use of an element of General Capital Grant to meet pay award costs.

Background:

There was £120m of Scottish Government capital funding provided to Councils across Scotland in both 2022/23 and 2023/24 financial years towards staff pay awards. For Highland the share of funding was £5.5m in 2022/23 and £5.4m in 2023/24.

Accounting Flexibilities:

The Scottish Government General Capital Grant terms and conditions specifically referenced the accounting flexibilities available to Local Government to allow the pay element of the capital grant to be utilised to the benefit of revenue budgets, and the meeting of pay award costs.

Specifically in relation to debt redemption (the principal element of loan charge costs) *“The capital grant may be used to provide funds for the repayment of the principal of loans.....An equivalent amount may be repurposed to meet the pay award.”*

Highland has exercised this flexibility in 2022/23.

With the Council also deciding to take another flexibility, the loans fund principal repayment ‘holiday’ in 2022/23, to the value of £29.276m, the Council has had to undertake a re-profile of its loan fund principal in year to ensure that both the ‘holiday’ and the flexibility regarding pay award can be taken.

Financial illustration:

The following table illustrates the effect of the re-profiling. It is neutral in loans fund principal terms over the 3 years, and if not for this adjustment, the Council would not have been able to offset pay award costs in 2022/23 against the capital grant and would have faced a negative impact on the revenue position.

	Loans Fund Principal Accelerated Write Down			
	22/23	23/24	24/25	Total
Loans Fund Principal Holiday Initial Credit	-£29.3	-	-	-£29.3
Effect of accelerated write down of principal	£5.7	-£3.8	-£1.8	-£0
Element of pay attributable to SG capital funding	£5.5	£5.4	-	£10.9
Capital Grant directed to revenue to offset pay	-£5.5	-£5.4	-	-£10.9
Net effect of above on revenue	-£23.6	-£3.8	-£1.8	-£29.3 *
*neutral effect over 3 years, but ensures that Capital Grant can be used to offset pay award costs.				

Appendix 3 – Service Variance Commentary

<p>Communities and Place</p> <p>Out-turn: £0.517m overspend</p>	<p>The net overspend position arose primarily due to increased Waste collection services and fuel costs, and also within fleet and the impact of increased costs for parts, hire and lease. These overspends were partly mitigated by underspends on staff costs and increased income across a number of activity headings. The main factor in the improvement from Q3 to Q4 was in relation to Waste and Recycling, where contract costs were lower than had been expected.</p>
<p>Depute Chief Executive</p> <p>Out-turn: £0.624m underspend</p>	<p>The underspend for the year was broadly as had been predicted at Q3 and was primarily in relation to ICT Services.</p>
<p>Education</p> <p>Out-turn: £2.621m underspend</p>	<p>The main factors in the underspend are the impact of teacher industrial action during the year, and savings and cost control measures across a range of budget headings including staffing costs. These have mitigated some pressure areas in relation to utility costs and in special schools. The additional teacher industrial action during Q4 is the main factor in the variance from Q3. The underspends arising from teacher industrial action are non-recurrent.</p>
<p>Health and Social Care</p> <p>Out-turn: £4.035m underspend</p>	<p>The main factors in the underspend, and the improvement from Q3 to Q4 were due to a significant level of staff vacancies, and underspend against Covid-19 pressure funding which was time limited funding and does not recur into 2023/24. These underspends offset pressure areas including looked after children.</p>
<p>Infrastructure, Environment and Economy</p> <p>Out-turn: £0.401m overspend</p>	<p>The net overspend position was as a result of increases in school transport contract costs, and winter maintenance albeit this was mitigated by offsetting underspends in other maintenance activity. There was a shortfall in income recovery in some aspects of the budget. These overspends were mitigated by an increase in income across a number of other activity headings. The main factors in the improvement from Q3 to Q4 was in relation to income, with significant additional income at year end from Planning and from Investment Properties.</p>
<p>Performance and Governance</p> <p>Out-turn: £0.343m overspend</p>	<p>The main factor in the overspend, and in the movement from Q3 was a shortfall in income, primarily related to a review of central support cost charging, and a pressure in the energy team budget as a consequence of not drawing down funding from earmarked reserves. This drawdown from reserves was not required due to the overall corporate revenue underspend position.</p>
<p>Property and Housing</p> <p>Out-turn: £2.844m overspend</p>	<p>The overspend against budget was as a result of a number of factors including utility costs for Council and HLH operated properties, revenue maintenance expenditure, and a shortfall in income recovery from capital and other project work. The year end position was broadly in line with the Q3 estimate, with the</p>

	main factors in movement being lower expenditure levels and increased income.
Resources and Finance Out-turn: £1.438m underspend	The main factors in the underspend, and the movement from the Q3 position were underspends against staffing budgets, and increased income particularly warrant income.
Welfare Out-turn: £0.066m underspend	There was a modest underspend at year end which was broadly as had been predicted at Q3.

Housing Revenue Account HRA Out-turn: £3.965m Overspend (deficit for year)	An overspend of £2.875m was predicted at Q3. Due to rising labour and material costs, an overspend on repairs and maintenance was the biggest factor in the year end deficit position. This was mitigated to an extent by underspends on supervision and management costs, and improvements by year end on loan charges, bad debt provisions and central support charges.
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