

Agenda Item	14
Report No	HC/21/17

## HIGHLAND COUNCIL

**Committee:** Highland Council

**Date:** 29<sup>th</sup> June 2017

**Report Title:** Annual Accounts for the year to 31<sup>st</sup> March 2017

**Report By:** Director of Finance

### 1. Purpose/Executive Summary

- 1.1 This report presents the unaudited annual accounts for the year to the 31st March 2017 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](http://www.highland.gov.uk/accounts)
- 1.3 The Highland Council's General Fund shows a surplus of £1.8m for the year but with non-earmarked balances decreasing to £11.4m (or 2.0% of the revenue budget).
- 1.4 The Highland Council Pension Fund shows a surplus of £295.6m for the year and net assets as at the 31st March 2017 of £1,764.9m.

### 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 2017 and note that these will be presented to the appointed auditor by the prescribed date of the 30th June 2017.

### **3. Annual Accounts 2016/17**

- 3.1 The Annual Accounts summarise the transactions and provide the year end position for financial year 2016/17- the year ended 31st March 2017.
- 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 28th September.
- 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 31<sup>st</sup> 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](http://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 31<sup>st</sup> March 2017 the general fund non-earmarked reserve stands at £11.363m, a decrease of £0.290m over the year. In total, useable reserves have reduced by £8.492m to £66.579m. A summary of reserves can be seen on page six of the accounts.
- 5.2 Near-final corporate revenue and capital monitoring statements were presented to the Corporate Resources Committee on the 14th June. At that meeting Members agreed to earmark £1.644m of the general fund non-earmarked reserve reducing the available balance to £9.720m or 1.73% of the annual revenue budget.

## **6. Highland Council Pension Fund Year End Position**

- 6.1 At 31st March 2017 the Pension Fund had net assets of £1,764.9m as can be seen in the Net Assets Statement on page 33 in the Pension Fund accounts.
- 6.2 The considerable 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 31<sup>st</sup> March 2014 and revealed that the Fund's assets were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date.
- 6.4 Work has commenced on the latest such valuation for the position as at 31st March 2017. The outcome of that work will influence the future rate at which individual employers contribute to the fund.

## **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 Finance

Date: 20<sup>th</sup> June 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers:

Corporate Revenue Near Final Monitoring Report for 2016/17 and Corporate Capital Near Final Monitoring Report for 2016/17, items 7 and 8, Corporate Resources Committee, 14th June 2017.

# Annual Accounts

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## Aithris Chunntasan

2016/17

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.

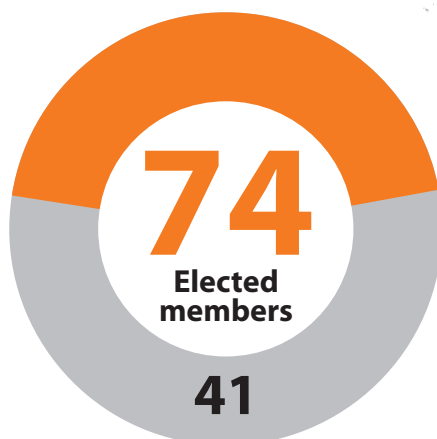
## About The Highland Council

Before May 2017 elections



Minority Independent Administration

After May 2017 elections

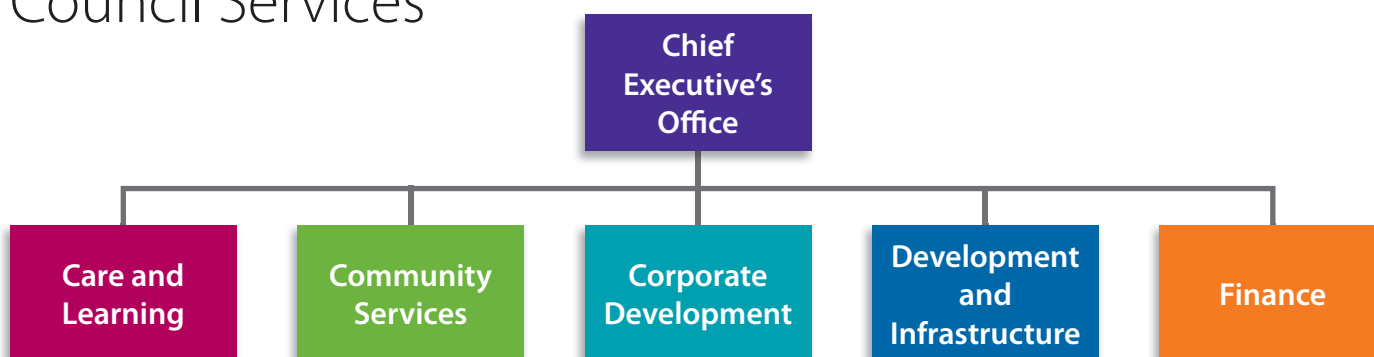


Independent, Liberal Democrat, Labour Coalition Administration



234,110  
Population (mid 2015)

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

The new administration is expected to publish its programme in the Autumn of 2017.

# Council Highlights 2016/17

During the year the Council achieved the following in line with its priorities:

## New schools

The new Inverness Royal Academy, Noss Primary school and Caol Joint Campus Primary schools opened to pupils during the year.



## Localism

9 Community Partnerships established across Highland. With responsibility shared across the partner agencies, these local groups provide a focus for local discussion, engagement with communities and identifying priorities for the local area.

## Digital First

42% of Council service transactions are now delivered on-line. Apply Once, a new online form designed to help customers to work out which council benefits they may be entitled to, has launched.

## Local Priorities for Roads

Decision making on the roads maintenance budget transferred to the 8 local area committees from April 2016.

## Kingussie Council Offices

The refurbishment, conversion and extension of the grade B listed former courthouse in Kingussie provides new office space for Council staff.

## ICT

ICT Service re-procurement completed. New contract awarded which will deliver investment and improvements in our ICT infrastructure including in schools.

## Inverness West Link

Ongoing work includes the new bridge over the River Ness, the Canal Parks enhancement and golf course construction. Stage 1 is scheduled to be open to traffic in December 2017.



## City-Region Deal

Opening of the Inverness Castle Viewpoint, the first of the £315m City-Region Deal projects to reach completion.



## Shared Commercial and Procurement Service

Launch of the shared service with Aberdeen City and Aberdeenshire Councils. This service will play a key role in addressing some of the financial challenges facing all three councils.

## Affordable Housing

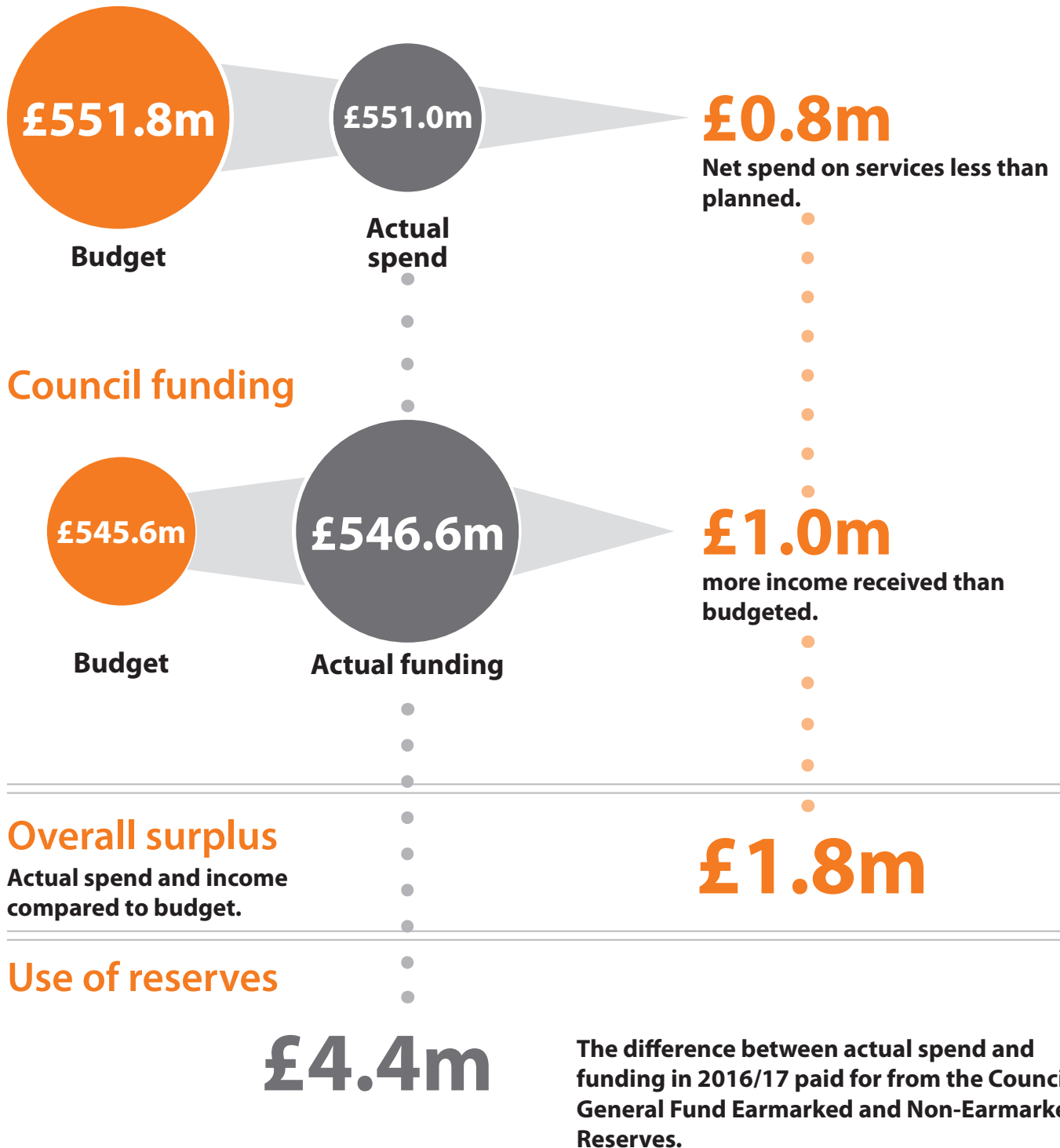
Significant projects ongoing at Lochside School, Tweeddale House, Midmills and Stratton. £9m infrastructure loan fund agreed with the Scottish Government to enable further investment to unlock strategic housing sites.



# General Fund Revenue Outturn 2016/17

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1<sup>st</sup> April to 31<sup>st</sup> 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 new expenditure and funding analysis statement in the accounts reconciles this position to the comprehensive income and expenditure statement.

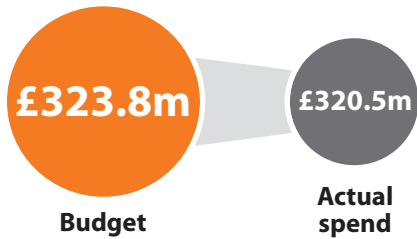
## General fund service spend



## Analysis of spend

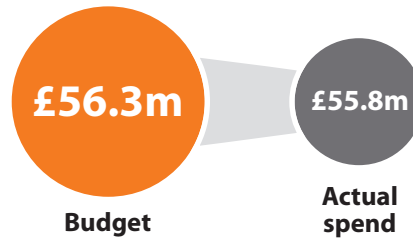
### Staff costs

The cost of the Council's employees.



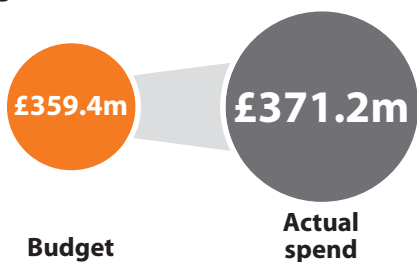
### Financing costs

The cost of borrowing to finance capital investment.



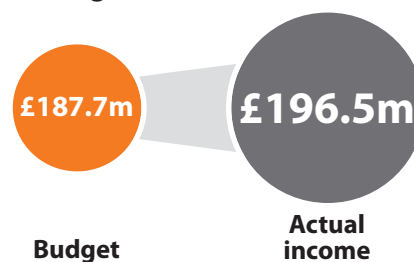
### Other costs

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



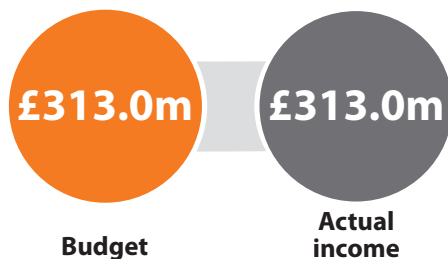
### Service income

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



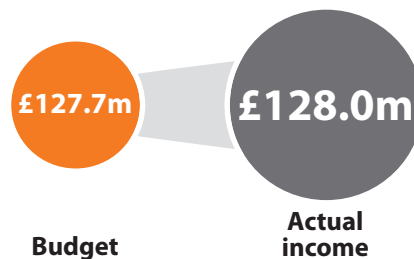
## Council funding

### Revenue Support Grant

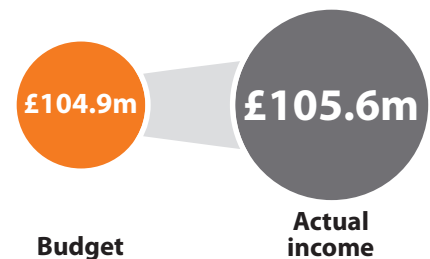


Funding direct from the Scottish Government.

### Non-Domestic Rates



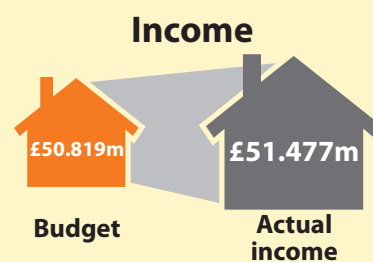
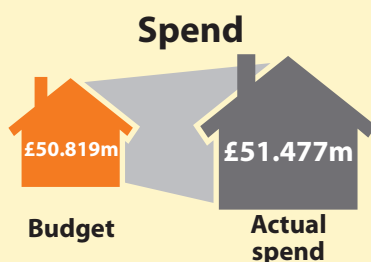
### Council Tax



## Housing revenue account



The Council owns 13,957 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

**£11.4m**

(2015/16 £11.7m)

Funds held as a general contingency.

## Capital Fund

**£27.2m**

(2015/16 £30.6m)

To buy land for affordable housing provision.

## Insurance Fund

**£3.0m**

(2015/16 £2.7m)

Insurance for items not covered by external insurance policies.

## General Fund Earmarked Reserve

**£14.6m**

(2015/16 £18.7m)

Funds held for specific purposes such as school DSM balances, developers contributions for future projects, strategic change and development, IT investment.

## Renewal and Repair Fund

**£1.7m**

(2015/16 £1.7m)

For specific types of repair and maintenance work.

## HRA Reserve

**£7.3m**

(2015/16 £7.3m)

For spending on the Council's housing stock.

## Capital Receipts Reserve

**£1.4m**

(2015/16 £2.4m)

Capital receipts available to finance future capital expenditure.

## Total Useable Reserves

**£66.6m**

(2015/16 £75.1m)

**See notes 5 and 11 in the accounts for more details on these reserves.**

**2.0%**

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

# Use of useable revenue reserves during the year

**-£2.3m**

Agreed use of general fund balance to fund one-off costs arising during the year, mostly to facilitate staffing reductions.

**+£0.6m**

Reduction in equal pay provision moved into general fund balance.

**+£2.7m**

Increase in earmarked balances from 2016/17 service budgets, mainly school DSM and developer contributions.

**-£7.2m**

Use of earmarked balances for their specified purposes.

**+£1.8m**

Service underspends and excess income in 2016/17 added into general fund non-earmarked reserve.

**Total use of revenue reserves**

**-£4.4m**

## Capital Outturn 2016/17

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.

**£105.4m** Actual capital spend in 2016/17 (excluding HRA).

**£28.3m** Capital expenditure planned for 2016/17 but delayed until later years.

**£7.9m** Overspend on capital projects delivered in the year.

### Projects with the largest capital spend in 2016/17:

Investment in school buildings

**£24.0m**



Investment in sport, community and leisure facilities

**£9.9m**



Investment in roads and bridges

**£29.4m**



Housing Revenue Account

**£32.2m** investment in housing stock in 2016/17



### Funding of the Capital Programme

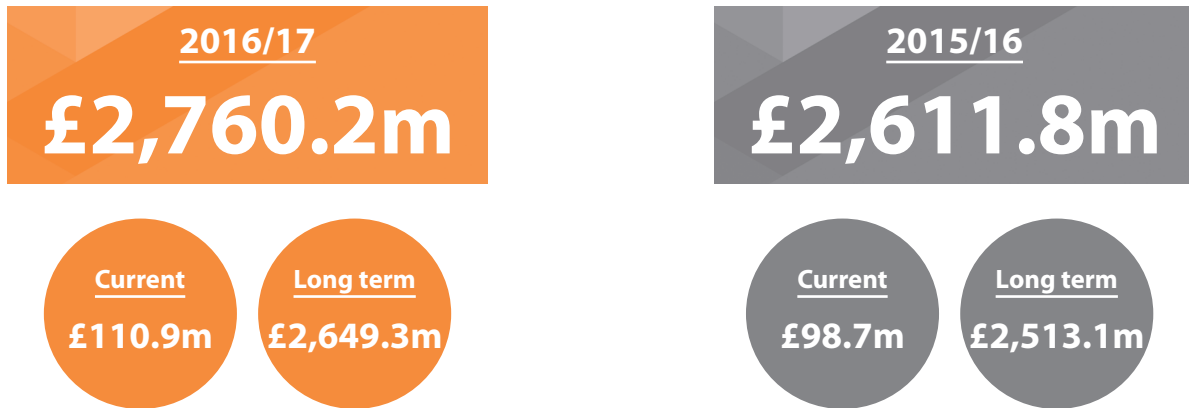
**£74.9m** of the 2016/17 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual report and strategy statement:

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

# Assets and Liabilities

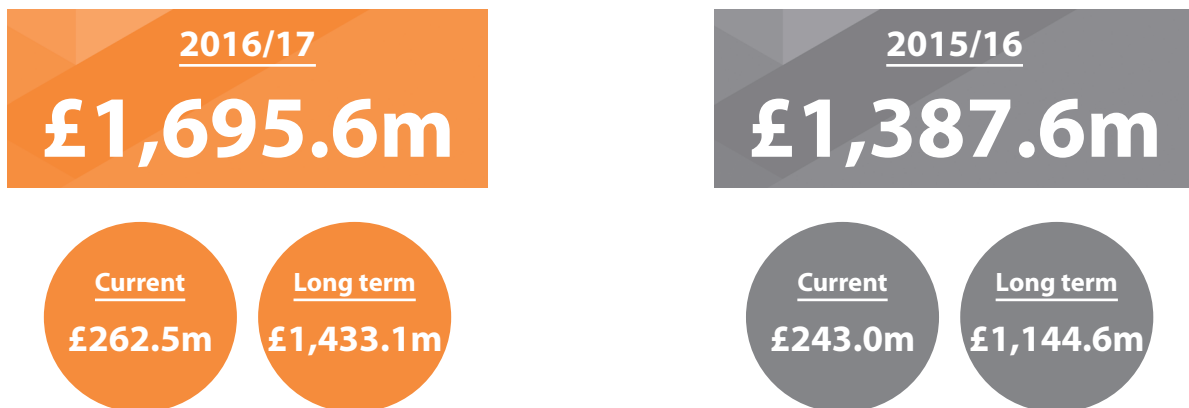
The Council's Balance Sheet shows its assets, liabilities and reserves. More information on its component parts can be seen in the notes to the accounts.

## Total Assets



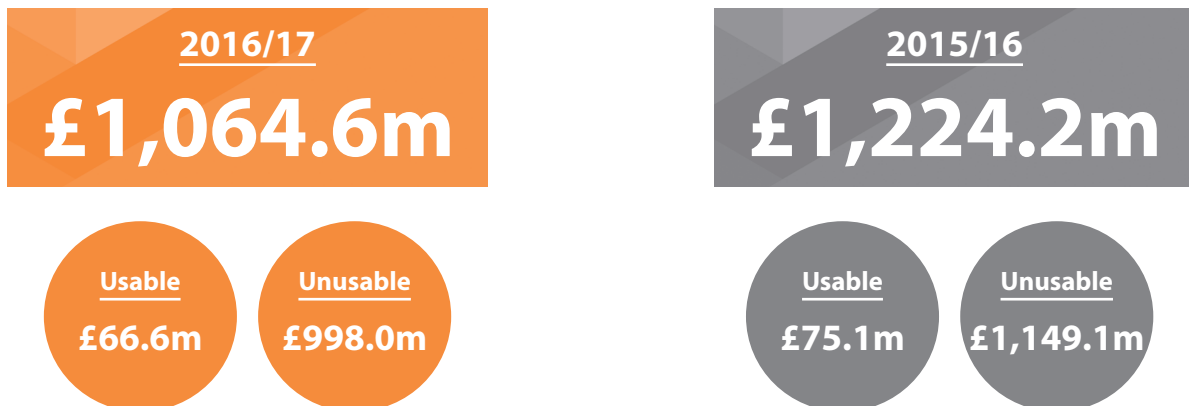
(increase in long term assets due to capital investment and asset revaluations)

## Total Liabilities



(increase in long term liabilities due to increase in pension liability and financing the increase in long term assets)

## 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

**£860.9m**



Infrastructure assets

**£395.5m**



Other assets

**£197.5m**



Other land and buildings

**£1,130.6m**



Vehicles, plant and equipment

**£64.8m**



## Liabilities

Borrowing

**-£893.1m**



Pensions liability

**-£520.1m**



Finance leases

**-£165.6m**



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

Short term creditors

**-£107.1m**



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

Other liabilities

**-£9.7m**



**9.93%**

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2015/16 9.66%).

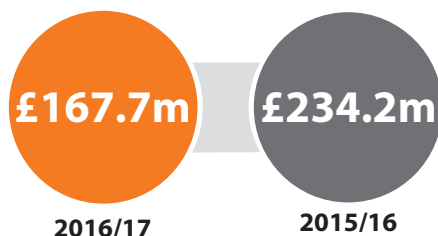
# Group Accounts

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:



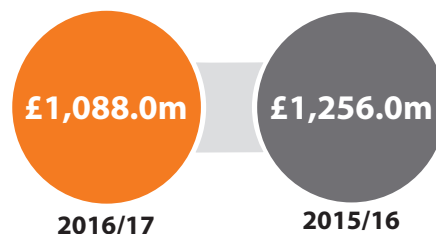
## Key Group Financial Information

### Total Comprehensive income and expenditure



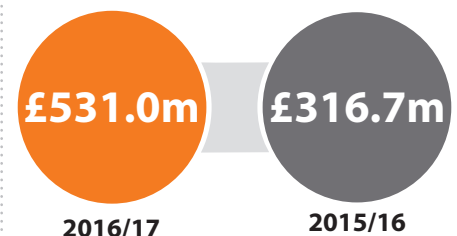
The overall change in total Group reserves calculated on an accounting basis.

### 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 Resources Committee. 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
- National Statutory Performance Indicators
- Citizen's Panel Performance and Attitudes Survey
- Local Government Benchmarking

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

## Local and National Statutory Performance Indicators 2015/16

The latest year's Statutory Performance Indicators for 2015/16 demonstrate improved performance on the year. This is a positive report of improving performance overall. 75% of our Statutory Performance Indicators have improved by 5% or more in the year 2015/16 which compares to 74% in the previous year's figures. There is improvement across all Council services and High Life Highland.

Indicators that have shown a change of:



### Care and Learning

- The average tariff score for S4-S6 pupils in the top quintile increased from **1045** to **1177**.
- The time taken between a Looked After Child being accommodated and permanency decreased from **15 months** to **9.7 months**.

### Community Services

- Street Lighting - the cost of maintenance per street lighting unit reduced from **£24.83** to **£15.39**.
- The average time taken to complete emergency repairs improved from **9.1 hours** to **7.9 hours**.
- The average number of hours on site for domestic noise complaints requiring attendance on site reduced from **146** to **53.5**.

### Development & Infrastructure

- The cost per Business

Supported has reduced from **£817.77** to **£655.51**.

- The cost per Film Industry Enquiry has reduced from **£244.00** to **£191.00**.

### Finance and Corporate

- The cost of Non Domestic Rates collection per chargeable property reduced from **£20.68** to **£17.75**.
- The cost of the Council's democratic core per 1,000 population reduced from **£42,432** to **£35,338**.

Indicators that have shown a change of:



### Care and Learning

- The net cost of parks and open spaces per 1,000 population increased from **£12,561.00** to **£17,351.00**.
- The cost per pre-school registration has increased from **£2,864.66** to **£3,679.87**.
- The number of offence based referrals to the

Scottish Children's Reporters Administration (SCRA) increased from **343** to **423**.

### Community Services

- The cost of environmental health per 1,000 population increased from **£16,924.00** to **£18,914.00**.
- The cost of maintenance per kilometre of road has increased from **£4,734** to **£6,411**.
- Housing – the average time taken to re-let homes increased from **40.9 days** to **48.2 days**.

### Development & Infrastructure

- Planning - the cost per planning application increased from **£3,425.50** to **£4,286.70**.

### Finance and Corporate

- The unit cost of creditors invoices increased from **£1.14** to **£1.30**.
- The percentage of sundry debtors collected during the year reduced from **94.21%** to **79.01%** between 2014/15 and 2015/16.



# Looking Ahead

Pressures on public sector finances, and the Council in particular, will continue for the foreseeable future. Our five year financial model outlines a range of funding scenarios, but suggests the Council may have to find new savings of £30m each year for the next five years.

National ring fencing of budgets to protect service areas such as Education and Social Care may require budget cuts of a third to a half for “unprotected” service areas. This will place enormous pressures on the Council to maintain services and requires robust financial and workforce strategies to address these challenges.

The cumulative impact of savings over recent years means that the identification of new savings will be even more challenging. The Council needs to move away from single year budgets and restore a three to five year financial plan, linked to the incoming Administration’s policy priorities. Key to this is Service Redesign and Service and Committee restructure.

The Council does however have a strong record of financial management and budgetary control, and this provides reassurance that there are appropriate controls in place to manage budgets.

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## Risks, Uncertainties and Future Developments

### Brexit

Brexit and other macroeconomic and political issues may affect the government funding we receive, cause inflationary cost increases, increase our cost of borrowing or have a direct impact on our workforce.

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### Scottish Government Grant Settlement

The last few years have seen a one-year grant settlement which is not conducive to longer term planning. Our scenario planning makes assumptions about future grant levels but we would like to have greater certainty.

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### Service reductions

Reductions in frontline services will be needed to balance budgets in future years as we cannot continue to protect them at the expense of professional, technical and administrative resources. The Council needs to deliver all services as efficiently and effectively as possible and explore new options for service delivery and income generation.

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### Capital programme

The Council needs to review its capital spending priorities and ensure its capital plan is affordable. This will be extremely challenging given known issues that need to be addressed, particularly in relation to the school estate and roads infrastructure.

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### Reserves

With the General Fund non-earmarked reserve at 2% of the annual revenue budget the Council is vulnerable to unforeseen events and has limited means to effect transformational change.

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### 2017/18 budget

New savings of £10.7m require to be delivered in addition to previously agreed savings of £6.4m. The Council also agreed to increase Council Tax by 3%.

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### Steve Barron

Chief Executive  
28<sup>th</sup> September 2017

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### Margaret Davidson

Leader of the Council  
28<sup>th</sup> September 2017

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### Derek Yule

Director of Finance  
28<sup>th</sup> September 2017