

Annual Accounts

Aithris Chunntasan

2019/20

Awaiting Approval

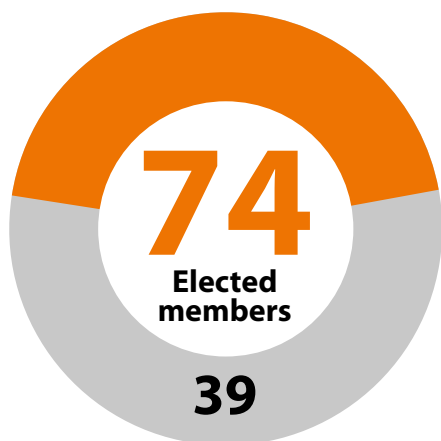
Contents

Management Commentary	2
Statement of Responsibilities for the Annual Accounts.....	19
Annual Governance Statement.....	20
Remuneration Report.....	24
Independent Auditors Report.....	42
Comprehensive Income and Expenditure Statement.....	46
Movement in Reserves Statement 2018/19.....	48
Movement in Reserves Statement 2019/20.....	49
Balance Sheet.....	50
Cash Flow Statement.....	52
Accounting Policies and Notes to the Accounts.....	53
Housing Revenue Account Income and Expenditure Statement.....	137
Statement of Movement on the Housing Revenue Account.....	138
Notes to the Housing Revenue Account.....	139
Council Tax Income Account.....	140
Non-Domestic Rate Account.....	142
Common Good Funds Accounts.....	145
Charitable, Educational and Other Trust Funds Accounts.....	161
Group Accounts.....	167
Glossary.....	181

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.



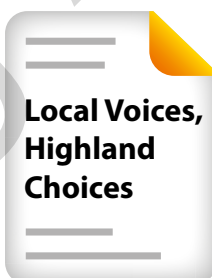
235,540
Population (mid 2019)

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.



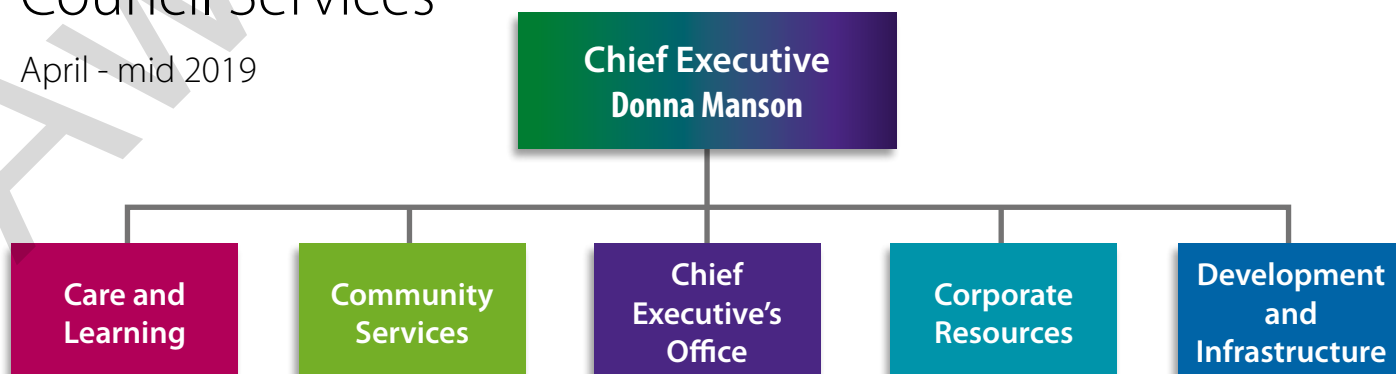
How the Council measures and sets targets for its political, strategic and improvement priorities.



www.highland.gov.uk/our-priorities

Council Services

April - mid 2019



Council Services

Mid 2019 - March 2020



The Impact of Covid-19

Since the emergence of Covid-19 in the early part of calendar year 2020 the world has been turned on its head. The global pandemic is now affecting nearly every aspect of our daily lives which in turn significantly impacts on the Council and the services it provides.

In an ordinary year the contents of these accounts would be the cause for much positivity—a significant underspend in financial year 2019-20 allowing for reserves to be significantly replenished and a sustainable budget set for 2020-21 intended to further rebuild reserves and allow for investment in local priorities.

The level of uncertainty that Covid-19 had brought to our health, safety, future economic prospects, ability to provide services and finances is enormous and means that any review of the Council's current financial position and future outlook has to be caveated with the description 'subject to the impact of Covid-19'. Stated simply we cannot forecast with

any certainty what the future may hold. Things we think now will be significant issues may not affect us at all, whereas things we are not even able to conceive currently may have the biggest impact of all.

This section of the management commentary merely wishes to highlight to the reader three key areas for consideration as a result of Covid-19 namely:

- **The potential impact on our operations and finances**
- **The impact on our governance arrangements**
- **The impact on these financial statements.**

The Impact of Covid-19

Impact on operations and finances

The immediate impact of Covid-19 and initial lockdown meant huge upheaval in the provision of Council services. Many innovative ways of providing services have emerged with online service provision coming to the fore and significant numbers of staff working from home. Certain essential services cannot be provided digitally and Council staff have responded positively to identifying new ways of working to ensure the safe provision of services. At the time of writing, lockdown restrictions are beginning to ease and the Council is actively planning for how services will be provided during the recovery period. As a direct result of this crisis it will not be possible to provide all services at the planned performance levels.

Given the significant levels of uncertainty about what will happen in the coming months the Council cannot say what the financial impact will be, save that it will be significant and of a scale not seen before. A scenario modelling exercise has shown a potential worst-case adverse impact of £97m on the Council's 2020/21 budget due to foregone income, cost and demand increases, requirements to provide new or enhanced services and challenges in delivering planned savings.

Impact on governance arrangements

On the 18th March emergency powers were invoked by the Chief Executive in order to allow timely decisions to be taken in response to Covid-19. An Officer Gold group for decision making has been established with the recommendations of that group first passed through an Elected Member Gold group for political oversight. All decisions taken under emergency powers are published on the Council's website and separately communicated to all elected members. The Council has also published an Effective Governance: Good Practice Instruction Note that contains measures and processes to ensure clear governance in relation to Covid-19 decisions.

All formal Council and Committee meetings were postponed from 17th March onwards with a phased introduction of meetings beginning from early June.

Impact on financial statements

Covid-19 has impacted on the figures reported in these financial statements. Given the wider economic uncertainty the assumptions used to support any figures that are estimated may not prove to be accurate. Best efforts have been made to make prudent assumptions but in the current times it is very difficult to know what is or is not prudent. The area most affected by this material uncertainty is asset valuations, but there may also be impacts across any areas which require assumptions or estimates to be made, such as the provision made for bad debts.

Going concern

Given the impact of Covid-19 the Council has to consider the issue of going concern. As highlighted above the impact on the Council's finances is expected to be significant. Due to the increased levels of the Council's reserves, additional funding provided by government and expenditure controls the Council has put in place, together with the potential for further government intervention to support finances across the local authority sector the Council believes it remains a going concern.

2019-20 the year in review

Delivering Savings and financial sustainability

£7.6m underspend in 19/20 bringing reserves close to the target level. Over £18m of savings delivered in-year.

Change Fund

£2.5m change fund established to fund a transformation plan and support the delivery of savings.

Education Transformation

Launch of the Council's new Education Transformation programme to deliver better educational outcomes for young people.

New housing

Completion of housing project on former Midmills college site in Inverness, part of over £50m of housing investment in year.



Commencement of West Link Stage 2

Commencement of the final stage of the West Link project to build the additional swing bridge and roundabout.



Completion of Chromebook rollout

Over 20,000 Chromebooks given to Highland pupils to support learners to acquire key technology and life skills.



White Bridge

Completion of the final phase of the project to provide a new crossing of the River Nairn.



Salix Loan

£3.5m interest-free loan from Salix Finance to invest in energy efficiency measures secured. The Council now has the capacity to generate over 500,000kwh of energy every year.

Senior Management Restructure

A restructure of senior management and services to drive change, reduce costs and break down silos is almost complete.

New Communications and Engagement Strategy

A New Communications and Engagement strategy was approved to drive improvement, leadership and culture change within the Council.

Best Value Assurance Report

A Best Value Assurance Report (BVAR) of the Council was conducted by the Council's external auditors Audit Scotland and Grant Thornton during 2019 with the final report considered by the Accounts Commission Board on 9th January 2020 and published on 23rd January 2020. The report was then considered by The Highland Council on 12th March 2020 when an improvement plan was agreed in response to the findings.

Accounts Commission findings focused on a view that the Council had made limited progress since the last Best Value audit in 2010. In particular there was concern the Council was not demonstrating that it is financially sustainable, had a poor record of meeting budget gaps, and thus it was critical to meet the forecasted budget gap of up to £77.3 million in the two years from 2020/21. Overall the Council was not seen as demonstrating all aspects of Best Value, but it was acknowledged that there has been an increase in the pace of the change required to do this.

The Council needs to improve its self-evaluation to be clearer about how it can improve. The BVAR findings also flagged poor service performance, including the priority area of education and that difficult decisions lie ahead for the Council, requiring effective leadership and elected members continuing to work constructively together with officers and communities. The ownership and involvement of all staff in continuous improvement was seen as another vital element in moving forward.

Key areas of the Council's Improvement Plan include:

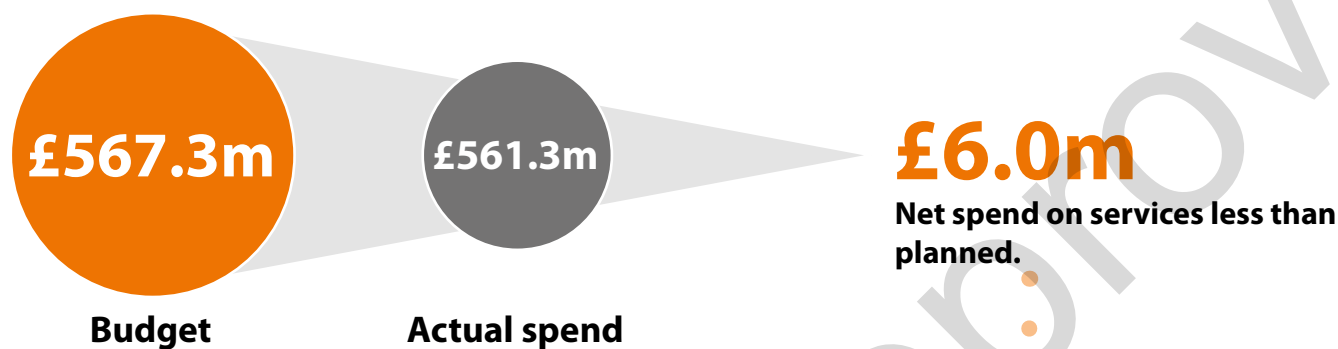
- Developing a medium-term financial plan;
- Delivering the Council's Change Programme;
- Implementing the Staff Communications and Engagement Strategy;
- Implementing a new service planning process based on data analysis to better inform improvement activity;
- Performance review meetings with all primary and secondary head teachers;
- Reviewing the Council's approach to self-assessment and improve sharing of best practice;
- Review the effectiveness of the Council's new governance arrangements;
- Deliver an Improvement Programme to support organisational restructure;
- Establish a new programme of development for the Council's senior leadership team;
- Develop a Members training and development programme which supports their scrutiny role.

General Fund Revenue Outturn 2019/20

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1st April 2019 to 31st March 2020.

It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. Note 19 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 surplus

Actual spend and income compared to budget.

£7.6m

Overall increase in reserves

£15.4m

The difference between actual spend and funding in 2019/20 paid back into the Council's General Fund Earmarked and Non-Earmarked Reserves.

Commentary on the year end position

Financial performance in 2019/20 was overwhelmingly positive with an annual surplus of £7.6m recorded.

This surplus was added to the general fund non-earmarked reserve, almost doubling the level of that reserve to £15.4m. In percentage terms this reserve represents around 2.7% of the 2019/20 revenue budget, slightly below the 3% target level approved by Council. Overall, general fund reserves increased by £9.1m over the year.

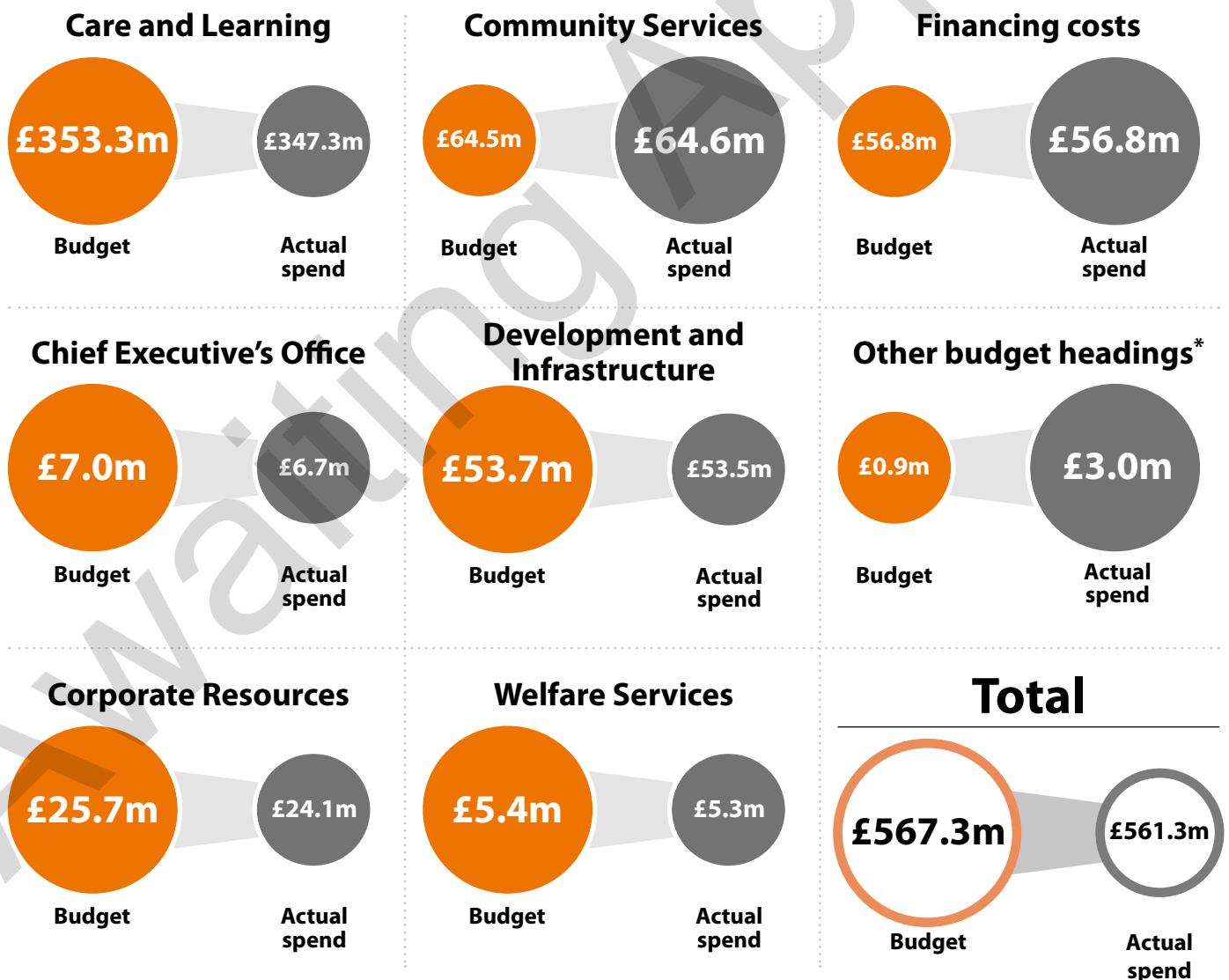
The overall position improved steadily over the course of the year as spending controls around recruitment and discretionary spend continued to take effect. These controls have been tightened further going into the new financial year in light of the Covid-19 crisis.

In order to deliver a balanced budget in 2019/20 the delivery of budget savings or increased

income to the value of £24.6m was required. Of this total target £17.7m was assessed as fully delivered, £3.9m as partially delivered and £3m as not delivered. The Council does continue to face challenges in fully delivering all planned savings and plans to remedy this are included in the Council's Improvement Plan.

All services delivered an underspend in year, with the exception of Community Services where a very minor overspend was recorded. The impact of Covid-19 on service budgets in 2019/20 was very limited as lockdown only came into place in late March. More detail on our 2019/20 outturn was reported to our June Corporate Resources committee.

Areas of persistent budget pressure and unachievable historic savings targets were addressed as part of the 2020/21 budget process to ensure a stable budget base going forward.

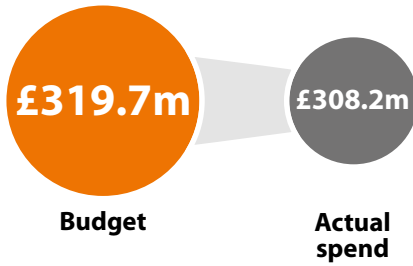


*includes NDR reliefs, joint board requisitions, unallocated savings and transfers to reserves.

Analysis of spend

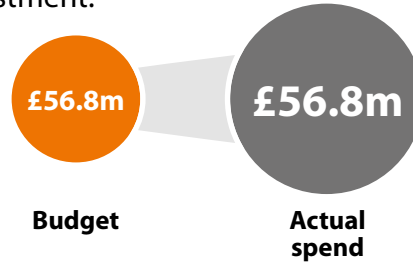
Staff costs

The cost of the Council's employees.



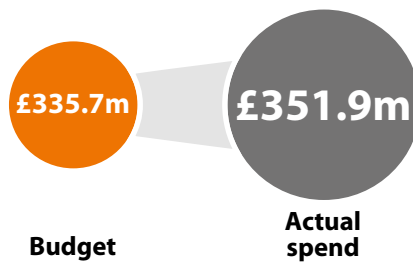
Financing costs

The cost of borrowing to finance capital investment.



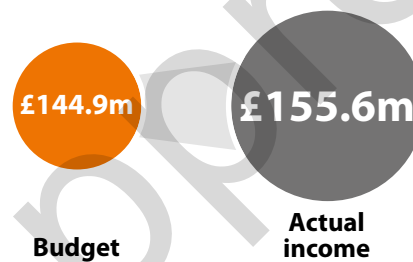
Other costs

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



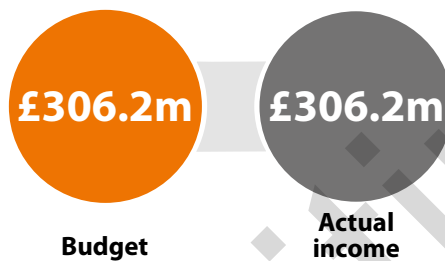
Service income

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

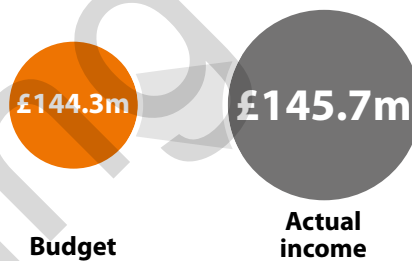


Council funding

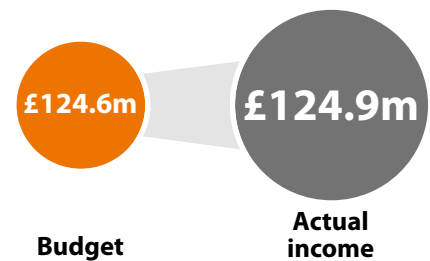
Revenue Support Grant



Non-Domestic Rates



Council Tax

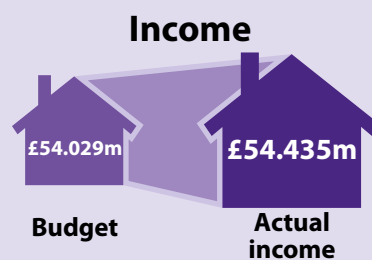
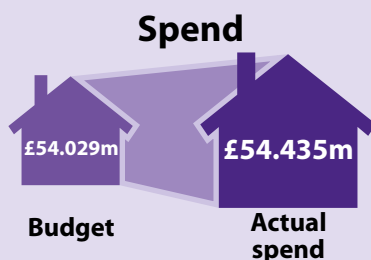


Funding direct from the Scottish Government.

Housing revenue account



The Council owns 14,177 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

£15.4m

(2018/19 £7.9m)

Funds held as a general contingency.

Capital Fund

£22.4m

(2018/19 £24.9m)

To buy land for affordable housing provision.

Insurance Fund

£1.9m

(2018/19 £2.3m)

Insurance for items not covered by external insurance policies.

Capital Grants Unapplied

£5.2m

(2018/19 £8.6m)

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

General Fund Earmarked Reserve

£20.3m

(2018/19 £12.4m)

Funds held for specific purposes, more details at note 9.

Renewal and Repair Fund

£1.7m

(2018/19 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2018/19 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2018/19 £1.4m)

Capital receipts available to finance future capital expenditure.

Total Useable Reserves

£75.6m

(2018/19 £66.5m)

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

2.7%

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

Increase in General Fund Reserves during the year

+£7.6m

Service underspends and excess income in 2019/20 added into the general fund non-earmarked reserve

-£4.4m

Use of earmarked balances for their specified purposes

+£12.2m

Increase in earmarked balances for specified additional funding streams received, developer contributions and 2019/20 service budgets

Net increase in General Fund reserves

+£15.4m

Capital Outturn 2019/20

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.

£104.3m Actual capital spend in 2019/20.

£14.3m Underspend due to spend not meeting the profile assumed in the capital programme.

Projects with the largest capital spend in 2019/20:

Investment in school buildings

£40.5m



Investment in ICT

£9.7m



Investment in roads and bridges

£11.8m



Housing Revenue Account

£42.0m investment in housing stock in 2019/20



Funding of the Capital Programme

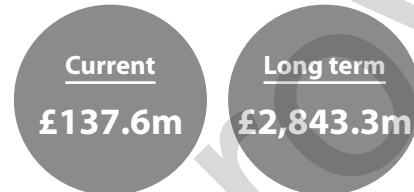
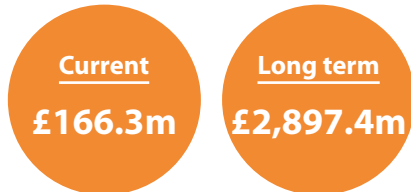
£56.3m of the 2019/20 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual treasury report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

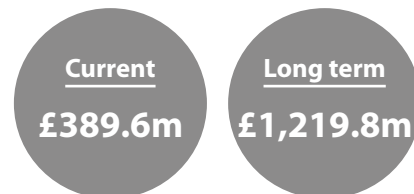
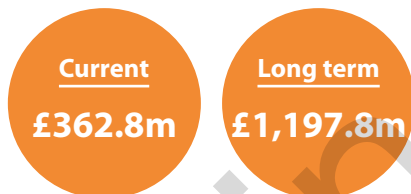
The Council's Balance Sheet shows its assets, liabilities and reserves.
More information on its component parts can be seen in the notes to the accounts.

Total Assets



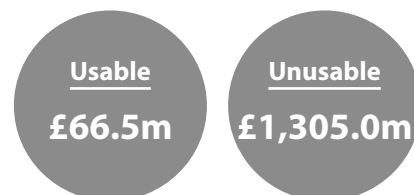
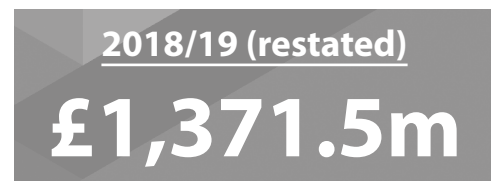
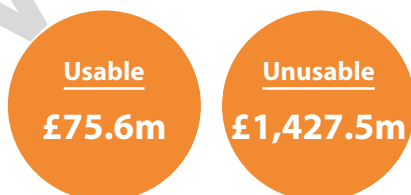
(Increase in long term assets due to capital investments and revaluations and increase in short term assets due to increase in cash and cash equivalents held)

Total Liabilities



(Decrease in long term liabilities due to decrease in pensions liability.
Decrease in short term liability due to decrease 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

£746.3m



Infrastructure assets

£437.1m



Other assets

£186.9m



Other land and buildings

£1,456.6m



Vehicles, plant and equipment

£70.5m



Liabilities

Borrowing

-£1,040.6m



Finance leases

-£148.8m



Pensions liability

-£230.3m



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

Short term creditors
(excluding finance leases)

-£109.0m



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

Other liabilities

-£31.9m



10.28%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2018/19 10.16%).

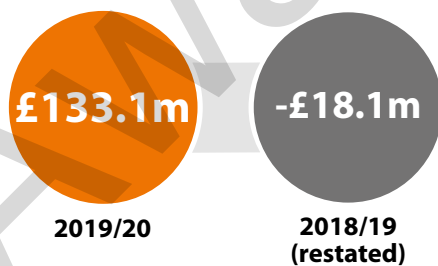
Group Accounts

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:



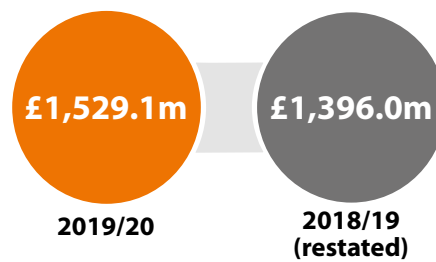
Key Group Financial Information

Total Comprehensive income and expenditure



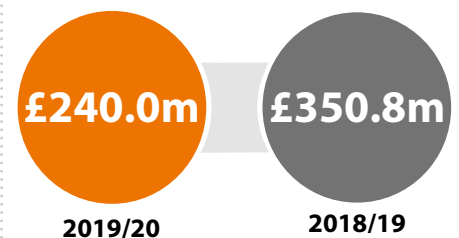
The overall change in total Group reserves calculated on an accounting basis.

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 2018/19

The latest year's Statutory Performance Indicators (SPI's) for 2018/19 have been analysed in a new way focusing on performance against target. In the first year of this approach there were 136 indicators where performance against target for 2018/19 could be calculated, 96 (70.6%) were on target or performance was within an agreed performance threshold and for 40 (29.4%) there was no significant progress in improving performance.

Indicators which show local improvement by 10% or more between 2017/18 and 2018/19 are:



Children's Services

- Attainment (5+ awards at SCQF Level 5) by children from deprived backgrounds increased from 31% to 35% (CHN6).
- Attainment (5+ awards at SCQF Level 6) by children from deprived backgrounds increased from 9% to 12% (CHN7).
- The school exclusion rate (per 1,000 pupils) decreased from 22.7 to 19.9 (CHN20a).

Cultural and Leisure Services

- The net cost per visit to museums decreased from £2.19 to £1.49 (C&L3a).
- The net cost of parks and open spaces (per 1,000

population) has decreased from £5,285 to £1,303 (C&L4a).

- The number of virtual visits to libraries per 1,000 population increased from 3,606 to 4,470.

Environmental Services

- High risk food businesses inspected for food hygiene increased from 85% to 97%.
- Cost of waste collection per premises decreased from £62.82 to £48.63 (ENV1a).
- Cost of waste disposal per premises decreased from £97.66 to £85.40 (ENV2a).

Housing Services

- The average number of new affordable homes built increased from 290 to 408 per annum.
- Council housing rent loss through voids decreased from 1.03% to 0.78% (HSN2).

Corporate Services

- The gender pay gap (Council employees) has decreased from 7.7% to 5.8% (CORP3c).
- Cost of sundry debtors per debtors account issued decreased from £3.83 to £3.06.

Business and Development Services

- The Council's carbon emissions decreased from 53,665 tonnes CO₂e to 45,076 tonnes CO₂e.
- The number of Consultations responded to by the Historic Environment and Forestry teams increased from 1,285 to 1,420.
- The number of businesses supported by the Council Economic Development department and Business Gateway increased from 1,191 to 1,802.

Indicators where local performance has decreased by 10% or more between 2017/18 and 2018/19 are:



Children's Services

- The gross cost of Children's residential units (per bed per week) has increased from £3,379 to £4,661 (CHN8a).
- The cost of Looked After Children (per child per week) in the community increased from £197 to £254 (CHN8b).
- Attainment – overall average total tariff scores by pupils from deprivation quintile 2 (pupils living in the 20% of communities ranked in the second most deprived tier across Scotland) decreased from 683 to 575 points (CHN12c).
- Attainment – overall average total tariff scores by pupils from deprivation quintile 3 (pupils living in the 20% of communities ranked in the third most deprived tier across Scotland) decreased from 882 to 789 points (CHN12d).

- The number of foster carers decreased from 144 to 127.
- The number of persistent young offenders with 5+ referrals increased from 7 to 14.
- The number of offence-based referrals to the Scottish Children's Reporter Administration increased from 429 to 523.
- The average number of looked after children accommodated by the Council out with Highland increased from 34 to 39.

Road Services

- The cost of maintenance per km road increased from £5,306 to £6,560 (ENV4a).

Environmental Services

- Cost of Trading Standards, Money Advice, and Citizen Advice per 1,000 population increased from £2,049 to £2,573 (ENV5a).

Housing

- The average time homeless families spent in temporary accommodation increased from 172 days to 225 days.

Corporate Services

- The accident injury rate for Council employees increased from 145 to 219.
- Cost of internal audit per £m of expenditure increased from £627.36 to £726.12.
- Cost of the procurement section as a percentage of the net revenue budget increased from 0.1% to 0.12%.
- The cost per member of the Council pension scheme increased from £24.40 to £33.10.

Business and Development Services

- The percentage of unemployed people assisted into work decreased from 4.8% to 4.1% (ECON1).
- The cost of Economic Development and Tourism per 1,000 population increased from £40,777 to £63,866 (ECON6).

Risks, Uncertainties and Future Developments

As stated earlier in this management commentary the level of uncertainty brought about by Covid-19 is unprecedented and that uncertainty will pervade every aspect of the Council's operations and finances. Many existing risks will be exacerbated by Covid-19 and new risks will emerge. The Council is updating its risk register to try to reflect this changing world. The risks below are considered the most significant at this time:

Short-Term Financial sustainability	The Council is facing pressures on its budget like never before. The budget set in March 2020 required the delivery of £16m of savings; due to Covid-19 a potential in-year budget gap of up to £97m has been identified.
Medium-term financial planning	The Council is developing its medium-term planning but this will be incredibly challenging to do with any accuracy due to significant uncertainties about future income levels from Government and locally raised income.
Staff health and wellbeing	The Covid-19 crisis has brought increased risk to both the physical and mental health of our staff. Our workforce planning is encompassing both wellbeing issues as well as ensuring we have flexible, skilled staff focussed on delivering Council priorities.
Ability to sustain services	In the immediate response to Covid-19 and the lockdown period the Council has had to focus its financial and staffing resources towards the provision of essential services. Continued pressures on our staff and budgets may mean some service levels need to reduce or some services cease entirely.
Demand for services	As our ability to provide services may become more constrained the likely demand for those services will increase. Already demographic factors are placing pressures on adult services and the impact of Covid-19 may be felt across a wide range of health, social care and welfare services.
Wider economic factors	All forecasters agree the negative economic impact of Covid-19 will be significant and these will impact severely on the Council and its communities. A weakened local economy will likely result in lower levels of income for the Council alongside increased demands on our expenditure.
Brexit	The impacts of Brexit may be similar to other risks identified here, impacting on our funding, our staffing and our local economy. The loss of EU funding will reduce the economic and social programmes of the Council and its partners.
Capital investment	We know that our assets require a significant level of investment to be brought to an appropriate standard. Our ability to invest in our roads, schools, infrastructure and property will be constrained by our budget challenges.
NHS Highland Partnership Agreement Renewal	As a result of Covid-19 the period to review the partnership agreement has been extended. Financial and operational challenges in the provision of adult social care will be magnified by the impact of the Covid-19 pandemic.
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.

Looking Ahead

The key factor underpinning the future outlook for the Council is uncertainty, and uncertainty of a level never before faced by the Council. The rest of this management commentary has tried to capture, at a high level, some of the most important factors to understanding the impact of Covid-19 on the Council - they are many, significant, and wide-ranging.

The Council's focus is now beginning to shift from the immediate response to Covid-19 to the medium and longer term recovery of the Council. Our vision of being Ambitious, Sustainable and Connected remains as true now as before Covid-19 appeared and those key concepts will underpin our recovery work. Our recovery is based around 11 key areas of activity which are as outlined below:

- Restoring Political Governance
- Lockdown Agility (Returning to Work)
- Supporting the Recovery of the Highland Economy
- Community Empowerment
- Leadership, Culture and Performance
- IT transformation
- Digital transformation
- Service Redesign
- Workforce Planning and Development
- Asset Management
- Financial Recovery Strategy

As part of the Council's recovery we also need to keep sight of areas in which we already knew we needed to make improvements, as identified in through our Best Value Assurance Report and the Improvement Plan we developed in response. We are clear of the need to ensure that our Recovery Plan and Improvement Plan are complimentary and help us continue on our path of improving the Council.

As a final note we must pay tribute to all of our Council staff who have selflessly continued to support the people of the Highlands over the last year. It is you who make this organisation what it is and we thank you all for your dedication.

Donna Manson
Chief Executive
28th January 2021

Margaret Davidson
Leader of the Council
28th January 2021

Liz Denovan
Executive Chief Officer
Resources and Finance
28th January 2021

Ambitious

Sustainable

Connected

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The Council's Responsibilities

The Council is required to:

- (i) make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In the Highland Council that officer is the Executive Chief Officer for Resources and Finance;
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- (iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- (iv) Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Audit and Scrutiny Committee at its meeting on 28 January 2021.

Signed on behalf of Highland Council

Margaret Davidson
Leader of the Council
28 January 2021

The Executive Chief Officer for Resources and Finance's Responsibilities

The Executive Chief Officer for Resources and Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

In preparing the Annual Accounts, the Executive Chief Officer for Resources and Finance has:-

- (i) selected suitable accounting policies and then applied them consistently,
- (ii) made judgements and estimates that were reasonable and prudent, and
- (iii) complied with legislation
- (iv) complied with the local authority Code (in so far as is compatible with legislation).

The Executive Chief Officer for Resources and Finance has also:-

- (i) kept adequate accounting records which were up to date, and
- (ii) taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2020.

Liz Denovan CPFA
Executive Chief Officer for Resources and Finance
28 January 2021

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on our website.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated annually.

The Purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2020 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code of Corporate Governance was agreed by Council in June 2019. The basis of the 2019/20 Local Code is the Framework and Guidance issued by CIPFA and SOLACE which identifies seven core principles, each with a number of sub-principles. The core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the authority's capacity including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The progress in delivering the actions set out in the Code is monitored quarterly through the Council's Performance Management System. All actions identified from the 2018/19 Code have either been completed or are on target.

Review of Effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Head of Corporate Governance has been given responsibility for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation
- reviewing the operation of the Local Code of Corporate Governance in practice
- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Head of Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

All Service directors have reviewed the arrangements in their services and reported on their assessment of the effectiveness of the control arrangements in place.

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the 2019/20 Local Code during this year has not identified any control weaknesses in these arrangements.

Emergency governance arrangements were put in place in March as a result of Covid-19 outbreak. This included suspending Council and Committees unless there was an urgent business requirement for these to take place.

The Council's Scheme of Delegation to Officers provides for the Chief Executive to exercise the Council's powers in emergency situations, in consultation with appropriate Officials and/ or Members. A Member Gold Covid-19 Group has been established which meets at least twice a week with the first meeting on 19/03/20. In the interests of transparency, a decision log recording those matters determined under the emergency governance arrangements is published on the Council's website.

A formal report, setting out all of the decisions taken under emergency governance arrangements were brought to the meeting of the Full Council on 25/06/20 for homologation. Members at the meeting:

- (i) HOMOLOGATED the decisions as set out in Appendix 1;
- (ii) NOTED the progress that had been made in resuming the Council's governance structures; and
- (iii) APPROVED the resumption of Council approved policies and services to pre-Covid arrangements in line with Government guidelines and Public Health advice.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (the Standards). Section 2450 of the Standards states that "the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition the annual report must incorporate:

- The opinion
- The summary of work that supports that opinion; and
- A statement on conformance with the Standards and the results of the quality assurance and improvement programme"

The Corporate Audit Manager's responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report and Annual Governance Statement (AGS) 2019/20 to the Audit and Scrutiny Committee on 24/09/20.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The action tracking process also allows for revision of the agreed action target dates. All actions were either satisfactorily implemented or revised target dates were agreed. Six-monthly reports providing an update on the results of the action tracking process are provided to the Audit & Scrutiny Committee.

The 2019/20 Internal Annual Report and Annual Governance Statement refers to a total of 73 audit recommendations being made and of these, 21 were classified as high grade. The majority (16) of the high graded recommendations appeared in reports which had the opinion of Limited Assurance, this included 3 control weakness reports. These reports follow fraud investigations and address the control weaknesses that allowed the fraud to occur and the actions required to address these and improve the systems of internal control.

All actions have been satisfactorily implemented except for 1 which remains outstanding as it has a target date of 30/09/20. This will be action tracked in the normal manner after this date. The control weakness reports relate to individual establishments across different Services and no systematic failures were identified. As a result these do not impact upon the audit opinion provided below.

Last year's AGS referred to 2 audit reports and updates are provided below:

Inverness and Highland City Region Deal (CRD)

The CRD is a tripartite agreement between the Council, UK and Scottish Governments with a funding package of £53.1m. The audit report contained the opinion of limited assurance due to a number of issues particularly the need to strengthen the governance arrangements.

This was followed-up and the agreed management actions have all been satisfactorily completed including improved governance arrangements agreed by the then EDI Committee on 16/05/19. These changes will enable more effective Member scrutiny and monitoring of the CRD given its importance to the Council and significant financial sums involved.

Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2017/18

The scheme required carbon use to be reported and internally audited on an annual basis. This audit report contained the opinion of limited assurance for the fourth consecutive year. This was due to concerns about the accuracy and completeness of the information reported, and the failure to implement previously agreed management actions.

2018/19 year was the final year of the scheme before it was abolished and replaced by the climate change levy. The audit review of the 2018/19 compliance included following up the 2017/18 audit's action plan to ensure that this was implemented as agreed.

The 2018/19 audit report contains the opinion of "reasonable assurance". Whilst this is an improvement on previous years, it is of concern that some of the audit findings have been reported in previous years. However, since this was the final year of the Scheme, no further audit recommendations have been necessary.

The Covid-19 pandemic has affected completion of the 2019/20 audit plan which has resulted in more audit days being carried forward into 2020/21 than expected. Furthermore, as the Council is presently still operating in the emergency stage, Internal Audit activity has been limited. At this time, it is not known when full activities will commence including completion of the carried forward audits. Therefore, the audit opinion below has the caveat that this is based upon the work completed up to 19/03/20.

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2020.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Scrutiny Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Significant Governance Issues

The issues reported on the City/ Region Deal have been satisfactorily addressed as detailed above.

Inverness and Nairn Common Good Funds

- No significant weaknesses were identified.

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Transport Partnership

- No significant weaknesses were identified.

High Life Highland

- No significant weaknesses were identified.

Margaret Davidson

Leader of the Council

28 January 2021

Donna Manson

Chief Executive

28 January 2021

REMUNERATION REPORT

Highland Council Remuneration Report

All information disclosed in sections 1 and 3 below will be audited by Grant Thornton UK LLP. The other sections of the Remuneration Report will be reviewed by Grant Thornton UK LLP to ensure that they are consistent with the financial statements.

The Remuneration Report provides information on Senior Councillors of the Highland Council and Senior Employees of the Highland Council and its subsidiary company High Life Highland.

1. Remuneration Arrangements

i) Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of councillors, for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure and receives a higher salary.

The framework for councillor pay arose from the work of the Scottish Local Authorities Remuneration Committee (SLARC) which was established under the Local Governance (Scotland) Act 2004 to advise Scottish Ministers on the payment by local authorities of councillor remuneration, pensions and expenses.

The salary that is to be paid to the Leader of the Council is set out in the regulations. For 2019/20 the remuneration for the Leader of Highland Council is £40,765. The regulations permit the Council to remunerate a Civic Head – this role is the Convener in Highland Council in 2019/20 - and set out the maximum salary that can be paid to a Senior Councillor and to the Civic Head as £30,575, equivalent to 75% of the Leader's salary.

The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have, excluding the Leader and the Civic Head. The total amount payable by the Council for remuneration of all of its Senior Councillors cannot exceed £456,416 for 2019/20 and the total number of Senior Councillors permitted is 19. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The total remuneration in 2019/20 for all councillors was £1,408,559 (2018/19: £1,371,982). The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

The current Scheme of Remuneration for the Leader, Convener, Depute Council Leader and Senior Councillors was agreed by Council on 12 March 2020, with some provisions backdated to 9 December 2019 when council agreed a revised committee structure. This scheme replaces the previous scheme which was agreed by Council on 1 June 2017 and updated as a result of a Council decision on 14 December 2017. The report setting out the current Scheme of Remuneration is available at https://www.highland.gov.uk/meetings/meeting/4254/highland_council (item 18).

In addition to the Senior Councillors of the Council the regulations also set out the remuneration payable to councillors with the responsibility of Convener or Vice Convener of a Joint Board. The regulations require the remuneration to be paid by the Council of which the Convener or Vice Convener is a member. The council is also required to pay any pension contributions arising from the Convener or Vice Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice Convener of a Joint Board.

Remuneration of Senior Councillors and Conveners and Vice-Conveners of Joint Boards for 2019/20

Councillors are listed in alphabetical order.

The salary listed is the whole salary paid to the Councillor in the year and includes basic pay for any period where no Senior Councillor role was held.

Where a Senior Councillor role was not held throughout 2019/20, the full year equivalent (FYE) salary for the role is shown in brackets.

2018/19	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2019/20		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
n/a	Gordon Adam	Chair of Dingwall, Black Isle and Seaforth Committee (2019/20 FYE : £18,578) (Note 1)	13/03/20		17,527	373	17,900
23,734	Andrew Baxter	Chair of Lochaber Committee	23/06/17		18,578	0	18,578
20,857	Helen Carmichael	Provost and Leader of Inverness and Area	19/06/17		21,441	25	21,466
29,742	Alasdair Christie	Depute Leader of the Council	18/05/17		30,575	0	30,575
n/a	Ian Cockburn	Joint Leader of the Opposition (2019/20 FYE : £21,881) (Note 2)	09/05/19		21,419	480	21,899
40,002	Margaret Davidson	Leader of the Council	18/05/17		40,765	180	40,945
25,915	John Finlayson	Chair of Care, Learning and Housing Committee (2019/20 FYE : £26,292)	13/12/18	08/12/19	26,292	4,298	30,590
		Chair of Education Committee (2019/20 FYE : £26,292)	09/12/19				
17,399	Richard Gale	Chair of Sutherland County Committee	15/11/18		18,578	0	18,578

THE HIGHLAND COUNCIL ANNUAL ACCOUNTS 2019/20

2018/19	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2019/20		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
21,245	Jimmy Gray	Convener of Highland & Western Isles Valuation Joint Board (Note 3)	27/06/17		21,840	0	21,840
28,650	Allan Henderson	Chair of Environment, Development and Infrastructure Committee (2019/20 FYE : £26,292)	01/06/17	08/12/19	26,292	2,479	28,771
		Chair of Communities and Place Committee (2019/20 FYE : £26,292)		09/12/19			
31,727	Bill Lobban	Convener of the Council	18/05/17		30,575	1,818	32,393
21,995	Graham MacKenzie	Chair of Audit and Scrutiny Committee	06/09/18		26,292	114	26,406
25,576	Alister Mackinnon	Chair of Corporate Resources Committee	01/06/17		26,292	0	26,292
20,857	Hugh Morrison	Vice Chair of Environment, Development and Infrastructure Committee (2019/20 FYE : £21,441) (Note 4)	01/06/17	08/12/19	20,203	4,925	25,128
21,912	Linda Munro	Vice Chair of Care, Learning & Housing Committee (2019/20 FYE : £21,441) (Note 4)	25/10/18	08/12/19	22,954	1,474	24,428
		Chair of Health, Social Care and Wellbeing Committee (2019/20 FYE : £26,292)		09/12/19			
22,980	Matthew Reiss	Vice Chair of Corporate Resources Committee (2019/20 FYE : £21,441) (Note 4)	15/12/17	08/12/19	20,548	2,467	23,015
		Chair of Caithness Committee (2019/20 FYE : £18,578) (Note 5)		19/05/18			

THE HIGHLAND COUNCIL ANNUAL ACCOUNTS 2019/20

2018/19	Senior Councillor/ Joint Board Convener	Responsibility	Start Date	End Date	2019/20		
Total £					Salary, Fees & Allowances £	Taxable Expenses £	Total £
20,857	Fiona Robertson	Chair of Ross and Cromarty Committee (2019/20 FYE : £21,441)	19/06/17	12/03/20	21,295	0	21,295
		Chair of Easter Ross Area Committee (2019/20 FYE : £18,578)	13/03/20				
20,857	Patricia Robertson	Vice Chair of Environment, Development and Infrastructure Committee (2019/20 FYE : £21,441) (Note 4)	01/06/17	08/12/19	22,954	0	22,954
		Chair of Economy & Infrastructure Committee (2019/20 FYE : £26,292)	09/12/19				
25,793	Maxine Smith	Leader of the Opposition (2019/20 FYE : £26,292)	18/05/17	08/05/19	22,343	175	22,518
		Joint Leader of the Opposition (2019/20 FYE : £21,881) (Note 2)	09/05/19				
n/a	Ben Thompson	Chair of Housing & Property Committee (2019/20 FYE : £26,292)	09/12/19		20,221	0	20,221
49,716	2018/19 remuneration for former Senior Councillors				n/a	n/a	n/a
469,814	Total				476,984	18,808	495,792

For notes to the table, refer to page 28.

Notes to table on page 27:

1. Remunerated as Senior Councillor post from 13 March 2020 following the agreement of the new scheme of remuneration by Council on 12 March 2020.
2. From 9 May 2019 the two Joint Leaders of the Opposition each received remuneration equal to a councillor salary plus 50% of the difference between a councillor salary and the agreed salary for the Leader of the Opposition.
3. £4,370 was recharged to Highland and Western Isles Valuation Joint Board in 2019/20 (2018/19: £4,251).
4. Vice Chairs of Strategic Committees remunerated as Senior Councillor roles to 8 December 2019.
5. No additional 2019/20 remuneration received for the role of Chair of Caithness Committee during the period 1 April to 8 December 2019 as it was held concurrently with the role of Vice Chair of Corporate Resources Committee.
6. Four Highland councillors also sit on the Board of High Life Highland. These are non-remunerated positions.

Members' Allowances and Expenses

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

2018/19 £000		2019/20 £000
1,372	Remuneration	1,409
186	Travel and Subsistence	161
21	All Other Expenses	21
<u>1,579</u>	Total	<u>1,591</u>

ii) Senior Employees

The salary of the Chief Executive is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) of Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Highland Council for the year 2019/20. Salaries of the Chief Operating Officer (post vacant during 2019/20) and Executive Chief Officers are also based on Circular CO/150.

The Highland Council meeting of 7 September 2017 agreed to appoint a Director to the additional role of Depute Chief Executive, with an additional responsibility payment of £5,000 per annum.

The salary of the Chief Executive of High Life Highland is based on national terms and conditions and agreed by the Board of High Life Highland following full evaluation of the post and comparison with similar organisations.

Remuneration for Senior Employees for 2019/20 is shown in the table on the following page.

Remuneration of Senior Employees for 2019/20

Where a post was not held throughout the whole of 2019/20, the full year equivalent salary for the role is shown in brackets.

2018/19			2019/20		
(restated) Total Remuneration £			Senior Employee	Position	Salary, Fees & Allowances £
67,556	Donna Manson	Chief Executive (Note 2)	169,559		169,559
94,250	Steve Barron	Chief Executive (to 14/11/18) (2018/19 FYE : £147,899) (Note 3)	n/a		n/a
120,762	Derek Yule	Depute Chief Executive & Director of Corporate Resources (to 30/06/19) (2019/20 FYE : £124,235)	31,059		31,059
64,966	William Alexander	Director of Care & Learning (to 31/10/18) (2018/19 FYE : £111,371)	n/a		n/a
53,524	Sandra Campbell	Interim Director of Care & Learning (to 31/05/19) (2019/20 FYE : £119,235)	19,872		19,872
115,762	William Gilfillan	Director of Community Services (to 07/06/19) (2019/20 FYE : £119,235) (Note 4)	22,191	95,701	117,892
				Plus annual compensation of £2,910	
115,762	Stuart Black	Director of Development & Infrastructure (to 30/09/19) (2019/20 FYE : £119,235)	100,047		100,047
		Executive Chief Officer - Transformation and Economy (from 01/10/19 to 02/02/20) (2019/20 FYE : £91,196) (Note 5)			

2018/19	Senior Employee	Position	2019/20		
(restated) Total Remuneration £			Salary, Fees & Allowances £	Compensation for Loss of Employment £	Total Remuneration £
79,024	Carron McDiarmid	Head of Policy & Reform (to 17/06/19) (2019/20 FYE : £81,390)	89,099		89,099
		Interim Chief Officer, Resources - Community Services (from 18/06/19 to 30/09/19) (2019/20 FYE : £91,196)			
		Executive Chief Officer - Communities and Place (from 01/10/19 to 31/03/20) (2019/20 FYE : £91,196)			
n/a	Lesley Weber	Executive Chief Officer – Health and Social Care (from 25/09/19) (2019/20 FYE : £91,196)	47,118		47,118
n/a	Malcolm MacLeod	Executive Chief Officer – Infrastructure and Environment (from 07/10/19) (2019/20 FYE : £91,196)	44,127		44,127
n/a	Kate Lackie	Executive Chief Officer – Performance and Governance (from 19/08/19 to 31/03/20) (2019/20 FYE : £91,196)	56,385		56,385
n/a	Mark Rodgers	Executive Chief Officer – Property and Housing (from 03/02/20) (2019/20 FYE : £91,196)	14,675		14,675
n/a	Liz Denovan	Executive Chief Officer - Resources and Finance (from 13/08/19) (2019/20 FYE : £91,196)	57,856		57,856
n/a	Allan Gunn	Interim Chief Officer, Resources & Transformation (from 20/05/19) (2019/20 FYE : £91,196)	78,939		78,939
28,307	James Vance	Head of Education and Chief Education Officer (to 11/10/19) (2019/20 FYE : £81,390) (Notes 6 and 8)	45,443		45,443

2018/19	Senior Employee	Position	2019/20		
(restated) Total Remuneration £			Salary, Fees & Allowances £	Compensation for Loss of Employment £	Total Remuneration £
n/a	Nicky Grant	Head of Education and Chief Education Officer (from 14/10/19) (2019/20 FYE : £81,390) (Note 6)	37,851		37,851
36,136	Karen Ralston	Head of Children's Services and Chief Social Work Officer (Notes 6 and 9)	80,062		80,062
n/a	Ed Foster	Head of Corporate Finance and Interim Section 95 Officer (from 01/07/19 to 12/08/19) (2019/20 FYE : £81,390) (Note 6)	9,408		9,408
79,024	Stewart Fraser	Head of Corporate Governance (to 18 August 2019) (2019/20 FYE : £81,390) (Notes 6 and 7)	31,068		31,068
53,617	Ruth Cleland	Corporate Communications and Resilience Manager (Note 6)	55,219		55,219
87,512	Ian Murray	Chief Executive, High Life Highland (to 31/08/19) (2019/20 FYE : £90,137)	37,557		37,557
n/a	Steve Walsh	Chief Executive, High Life Highland (from 02/09/19) (2019/20 FYE : £87,364)	50,719		50,719
996,202	Total		1,078,254	95,701	1,173,955

No payments of taxable expenses were made in 2019/20. For notes to the table, refer to page 32.

Notes to table on page 31:

1. 2018/19 figures restated to include James Vance and Karen Ralson who were omitted from the 2018/19 remuneration report.
2. 2019/20 remuneration includes £8,853 paid to the Chief Executive in her role as Returning Officer for the European Election in May 2019 and £6,629 in her role as Returning Officer for the Westminster Parliamentary Election in December 2019.
3. 2018/19 remuneration includes £2,168 paid to the former Chief Executive in his role as Returning Officer for the Westminster Parliamentary Election in June 2017.
4. The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 make provision for authorities to make discretionary payments to local government employees to pay compensation for premature retirement. William Gilfillan has been credited with 2 years additional period of service (the credited period). A person who has been granted a credited period is entitled to receive compensation in the form of a lump sum and is also entitled to receive annual compensation. Both the lump sum and annual compensation is included within the compensation for loss of employment category.
5. 2019/20 salary includes preserved allowance of £9,507.
6. Included as Senior Employees as posts are politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989.
7. As a result of the senior management restructure, the Head of Corporate Governance post ceased to report directly to the Chief Executive from 19 August 2019 so no longer meets the definition of "politically restricted by reason of section 2 (1) (a) (b) or (c) of the Local Government & Housing Act 1989".
8. 2019/20 remuneration includes 2018/19 backdated pay of £2,341. An overpayment of back pay of £136 is due to be recovered in 2020/21.
9. 2019/20 remuneration includes 2018/19 backdated pay of £1,092.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2019/20	2018/19
50,000 - 54,999	254	154
55,000 - 59,999	143	76
60,000 - 64,999	95	29
65,000 - 69,999	36	13
70,000 - 74,999	10	6
75,000 - 79,999	12	16
80,000 - 84,999	15	-
85,000 - 89,999	5	1
90,000 - 94,999	-	1
95,000 - 99,999	1	1
100,000 - 104,999	1	-
105,000 - 109,999	-	-
110,000 - 114,999	-	-
115,000 - 119,999	1	2
120,000 - 124,999	-	1
125,000 - 129,999	-	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	-	-
145,000 - 149,999	-	-
150,000 - 154,999	1	-

Employee numbers in 2019/20 bandings reflect the 2018/19 backdated teachers' pay award which was not agreed and paid until 2019/20.

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. The 2019/20 figures include 3 employees who were members of the Highland Council Pension Fund and entitled to immediate pension on leaving the Council (2018/19: 3). The gross actuarial cost of these exit packages is £0.482m (2018/19: £0.067m) and the net savings, on an actuarial basis, are £1.763m (2018/19: £0.289m).

2018/19		Cost Band	2019/20	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
17	87,979	£0 - £20,000	3	11,946
1	35,843	£20,001 - £40,000	-	-
2	99,279	£40,001 - £60,000	-	-
-	-	£60,001 - £80,000	-	-
-	-	£80,001 - £100,000	-	-
-	-	£100,001 - £150,000	-	-
-	-	£150,001 - £200,000	-	-
-	-	£200,001 - £250,000	-	-
-	-	£250,001 - £300,000	-	-
-	-	£300,001 - £350,000	-	-
-	-	£350,001 - £400,000	-	-
-	-	£400,001 - £450,000	-	-
-	-	£450,001 - £500,000	1	475,529
20	223,101	Total	4	487,475

2. Appointments

i) Councillors

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. The Leader of the Council, Convener of the Council, Depute Leader of the Council and Leader of the Opposition were appointed by Council on 18 May 2017 with further Senior Councillor appointments on 1 June 2017. Following the 2019 governance review, Chairs of the new strategic committees were appointed by Council on 9 December 2019. The Chairs of Area Committees are appointed at the relevant area committee, with the appointments approved at the next Council meeting.

The Senior Councillor posts held in the Council during 2019/20 were:

To 9 December 2019

Leader of the Council
Convener of the Council
Depute Leader of the Council
Leader of the Opposition
Chair of Audit and Scrutiny Committee
Chair of Care, Learning and Housing Committee
Chair of Corporate Resources Committee
Chair of Environment, Development and Infrastructure Committee
Vice Chair of Care, Learning and Housing Committee (2 posts)
Vice Chair of Corporate Resources Committee
Vice Chair of Environment, Development and Infrastructure Committee (2 posts)
Leader of Inverness and Area
Chair of Caithness Committee
Chair of Lochaber Committee
Chair of Ross and Cromarty Committee (to 12 March 2020)
Chair of Sutherland County Committee

From 9 December 2019

Leader of the Council
Convener of the Council
Depute Leader of the Council
Leader of the Opposition
Chair of Audit and Scrutiny Committee
Chair of Communities and Place Committee
Chair of Corporate Resources Committee
Chair of Education Committee
Chair of Economy and Infrastructure Committee
Chair of Health, Social Care and Wellbeing Committee
Chair of Housing and Property Committee
Leader of Inverness and Area
Chair of Black Isle, Dingwall and Seaforth Committee (from 13 March 2020)
Chair of Caithness Committee
Chair of Lochaber Committee
Chair of Easter Ross Area Committee (from 13 March 2020)
Chair of Sutherland County Committee

ii) Senior Employees

The recruitment panel for Head of Service and Executive Chief Officer appointments comprises the Chair and Vice Chair of Corporate Resources Committee, the Chair and Vice-Chair of the relevant Strategic Committee (or the Leader and Depute Leader of the Council where the Chief Executive's Office or Corporate Resources Service is involved), Dr I Cockburn, Mr G MacKenzie and Mr D Loudon.

The panel for the appointment of the Chief Executive and Chief Operating Officer (post vacant during 2019/20) comprises the Convener, Leader, Depute Leader, Strategic Committee Chairs, Leader of the Opposition, Leader of the Scottish Conservative Group, Leader of the Labour Group and Dr I Cockburn.

3. Pension Benefits – Councillors and Senior Employees

Pension benefits for councillors and senior employees are generally provided through the Local Government Pension Scheme (LGPS). The 2019/20 remuneration report also includes two senior employees whose pension benefits are provided through the Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015.

i) Local Government Pension Scheme (LGPS)

The pension scheme is a funded pension scheme consisting of payments from members of the scheme as well as the employer.

From 1 April 2015 pension benefits for both Councillors and local government employees are based on career average pay. The pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living. The total of the revalued pay is then divided by the period of membership to calculate the career average pay, and is the value used to calculate the pension benefits. Benefits built up to 31 March 2015 are protected and based on final pay.

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

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

The 2019/20 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2019/20
On earnings up to and including £21,800	5.50%
On earnings above £21,800 and up to £26,700	7.25%
On earnings above £26,700 and up to £36,600	8.50%
On earnings above £36,600 and up to £48,800	9.50%
On earnings above £48,800	12.00%

2018/19 contribution tiers and rates:

Pensionable pay	Contribution rate 2018/19
On earnings up to and including £21,300	5.50%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.50%
On earnings above £35,700 and up to £47,600	9.50%
On earnings above £47,600	12.00%

From 1 April 2015, the contribution rate for scheme members who work part-time is based on their actual pay, rather than the equivalent whole-time pay rate.

The 2019/20 employer's contribution rate is 19.5% of pensionable pay (2018/19: 19.5%).

For service from 1 April 2009, there is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of career average pay and years of pensionable service for service from 1 April 2015 and 1/60th of final pensionable pay and years of pensionable service for service from 1 April 2009 to 31 March 2015. For service to 31 March 2009, the accrual rate guarantees a pension based on 1/80th and a lump sum based on 3/80th of final pensionable pay and years of pensionable service.

The value of the accrued benefits for active members of the pension scheme has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age, without exercising any option to commute pension entitlement into a lump sum and without any adjustment for the effects of future inflation.

Where pension benefits have been transferred, the pension figures shown in the following tables relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current appointment.

ii) Scottish Teachers' Superannuation Scheme

The Scottish Teachers' Superannuation Scheme closed to new members on 31 March 2015. Benefits in the scheme are worked out on a final salary basis and members receive a pension based on their reckonable service and final pensionable pay.

The scheme is administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Further details of the scheme are available at <https://pensions.gov.scot/teachers/about-teachers-pensions/scottish-teachers-superannuation-scheme>.

iii) Scottish Teachers' Pension Scheme 2015

Members of the Scottish Teachers' Superannuation Scheme automatically joined this scheme on 1 April 2015 unless they had protection. Benefits are worked out on a Career Average Revalued Earnings (CARE) basis using earnings in each year and revaluing them to take account of inflation. The normal retirement age is the member's State Pension age.

The scheme is administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Further details of the scheme are available at <https://pensions.gov.scot/teachers/about-teachers-pensions/scottish-teachers-pension-scheme-2015>.

Senior Councillor Pension Benefits

The pension entitlements for the year to 31 March 2020 for those Senior Councillors who are active members of the Local Government Pension Scheme are shown in the table below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Councillors are listed in alphabetical order.

For responsibilities of each Senior Councillor, refer to the table on pages 25-27.

Pension Contributions 2018/19 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2019/20 £	Accrued Pension Benefits			
			As at 31/03/20		Difference from 31/03/19 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
n/a	Gordon Adam	3,399	1	0	n/a	n/a
4,587	Andrew Baxter	3,614	3	0	0	0
5,798	Alasdair Christie	5,949	5	0	1	0
n/a	Ian Cockburn	4,097	1	0	n/a	n/a
7,730	Margaret Davidson	7,931	8	2	1	0
4,266	John Finlayson	5,115	1	0	0	0
3,313	Richard Gale	3,676	1	0	0	0
4,986	Allan Henderson	5,115	5	2	1	0
5,798	Bill Lobban	5,949	4	0	1	0
4,126	Graham MacKenzie	5,115	3	0	1	0
4,986	Alister Mackinnon	5,115	4	0	1	0
4,066	Hugh Morrison	3,995	3	0	0	0
3,714	Linda Munro	4,388	5	2	1	0
4,066	Matthew Reiss	4,044	3	0	1	0

Pension Contributions 2018/19 £	Senior Councillor/ Joint Board Convener	Pension Contributions 2019/20 £	Accrued Pension Benefits			
			As at 31/03/20		Difference from 31/03/19 (Note 1)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
4,066	Fiona Robertson	4,172	4	0	1	0
4,066	Patricia Robertson	4,388	1	0	0	0
4,986	Maxine Smith	4,417	4	0	1	0
n/a	Ben Thompson	3,792	2	0	n/a	n/a
8,796	2018/19 pension contributions for former Senior Councillors	n/a	n/a	n/a	n/a	n/a
79,350	Total	84,271	58	6	10	0

Notes :

1. The figures in the "Difference from 31/03/19" columns represent the difference between the unrounded pension benefits as at 31 March 2020 and the unrounded pension benefits as at 31 March 2019, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2020 and as at 31 March 2019 results in a marginally higher or lower difference.

Senior Employee Pension Benefits

The pension entitlements of Senior Employees for the year to 31 March 2020 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

For the position(s) held by each Senior Employee, refer to the table on pages 29-31.

(restated) Pension Contributions 2018/19 £	Senior Employee	Pension Contributions 2019/20 £	Accrued Pension Benefits			
			As at 31/03/20		Difference from 31/03/19 (Note 2)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
13,173	Donna Manson	30,045	12	0	10	0
23,549	Derek Yule (Note 3)	6,056	62	131	(1)	6
18,722	Sandra Campbell (Note 3)	3,875	5	31	(3)	31
22,574	William Gilfillan (Note 3)	4,327	43	194	(6)	110
22,574	Stuart Black	19,509	58	104	3	3
15,410	Carron McDiarmid	17,374	42	73	6	8
n/a	Lesley Weber	9,188	1	0	n/a	n/a
n/a	Malcolm MacLeod	16,796	30	42	n/a	n/a
n/a	Kate Lackie	15,632	19	16	n/a	n/a
n/a	Mark Rodgers	2,862	0	0	n/a	n/a
n/a	Liz Denovan	11,282	1	0	n/a	n/a
n/a	Allan Gunn	17,526	37	60	n/a	n/a
12,776	James Vance (Note 4)	17,279	23	47	2	3
n/a	Nicky Grant (Note 4)	16,213	16	31	n/a	n/a
13,591	Karen Ralston	15,612	39	72	5	8
n/a	Ed Foster	15,871	20	12	n/a	n/a
15,410	Stewart Fraser	15,871	35	54	3	2

(restated) Pension Contributions 2018/19 £	Senior Employee	Pension Contributions 2019/20 £	Accrued Pension Benefits			
			As at 31/03/20		Difference from 31/03/19 (Note 2)	
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
10,455	Ruth Cleland	10,768	6	0	1	0
17,065	Ian Murray (Note 3)	7,324	35	233	(11)	145
n/a	Steve Walsh	16,349	6	0	n/a	n/a
30,624	2018/19 pension contributions for former Senior Employees	n/a	n/a	n/a	n/a	n/a
215,923	Total	269,759	490	1,100	9	316

Notes :

1. 2018/19 figures restated to include James Vance and Karen Ralson who were omitted from the 2018/19 remuneration report.
2. The figures in the "Difference from 31/03/19" columns represent the difference between the unrounded pension benefits as at 31 March 2020 and the unrounded pension benefits as at 31 March 2019, rounded to the nearest £1,000. In a small number of cases, basing the calculation on the rounded pension benefits as at 31 March 2020 and as at 31 March 2019 results in a marginally higher or lower difference.
3. Retired during 2019/20 and elected to commute pension to increase lump sum retirement grant.
4. Member of the Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015. Accrued pension benefits information provided by Scottish Public Pensions Agency.

4. Trade Union Facility Time Disclosures

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require public sector employers to publish the following information for financial year 2019/20.

a) Relevant union officials

Number of employees who were union officials	Full time equivalent employee number for Highland Council
64	7,803

Note: the headcount figure for relevant union officials includes all stewards and school based reps who are elected by their peers to provide first line support for members.

b) Percentage of time spent on facility time

Percentage of time	Number of employees
0%	36
1% - 50%	24
51% - 99%	1
100%	3

c) Percentage of pay bill spent on facility time

Total cost of facility time	£400,023
The total pay bill	£320,144,695
Percentage of the total pay bill spent on facility time	0.125%

d) Paid Trade Union Activities

Time spent on paid trade union activities as percentage total paid time	6.60%
---	--------------

Margaret Davidson
Leader of the Council
28 January 2021

Donna Manson
Chief Executive
28 January 2021

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of The Highland Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of The Highland Council and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Council Comprehensive Income and Expenditure Statement, Council Movement in Reserves Statement, Council Balance Sheet, Council Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Non-Domestic Rate Account, the Council Tax Income Account, the Common Good Funds Comprehensive Income and Expenditure Statement, the Common Good Funds Movement in Reserves Statement, the Common Good Funds Balance Sheet, Common Good Funds Cash-Flow Statement, the Charitable, Educational and Other Trust Funds Income and Expenditure Account, the Charitable, Educational and Other Trust Funds Movement in Reserves Statement, the Charitable, Educational and Other Trust Funds Balance Sheet, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash-Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is four years. We are independent of the Council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – effects of Covid 19 on the valuation of land and buildings

We draw attention to Note 7 to the financial statements, which describes the assumptions made about future and other major sources of estimation uncertainty in relation to land and building valuations. Our opinion is not modified in respect of this matter.

Emphasis of matter effects of Covid 19 on the Group valuation of Investment Property

We draw attention to Note 2 to the Group financial statements, which describes the assumptions made about future and other major sources of estimation uncertainty in relation to Investment Property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Chief Officer for Resources and Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Executive Chief Officer for Resources and Finance and The Highland Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Chief Officer for Resources and Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Chief Officer for Resources and Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Chief Officer for Resources and Finance is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Highland Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report

The Executive Chief Officer for Resources and Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report. In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Joanne Brown for and on behalf of Grant Thornton UK LLP
110 Queen Street
Glasgow
G1 3BX
Date:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulation; which may differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis on page 50/51 and in the Movements in Reserves Statement on page 44/45.

2018/19 (restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
49,523	(52,699)	(3,176)	Council Housing – Housing Revenue Account	46,954	(55,020)	(8,066)
385,709	(30,302)	355,407	Care & Learning	420,441	(41,333)	379,108
117,731	(26,919)	90,812	Community Services	117,295	(16,025)	101,270
8,549	(2,297)	6,252	Chief Executives	10,105	(1,919)	8,186
55,467	(3,181)	52,286	Corporate Resources	36,111	(2,785)	33,326
99,240	(39,402)	59,838	Development & Infrastructure	121,840	(53,049)	68,791
44,452	(39,499)	4,953	Welfare Services	42,852	(37,597)	5,255
			Joint board requisitions			
2,484	-	2,484	Highland and Western Isles Valuation Joint Board	2,694	-	2,694
91	-	91	Highland and Islands Transport Partnership	91	-	91
763,246	(194,299)	568,947	Cost of Services Carried Forward	798,383	(207,728)	590,655

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2018/19 (restated)				2019/20			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
763,246	(194,299)	568,947	Cost of services brought forward		798,383	(207,728)	590,655
		611	Losses on the disposal of non-current assets				5,090
		54,299	Financing and investment income and expenditure	10			58,503
		(618,791)	Taxation and non-specific grant Income	11			(648,555)
		5,066	Deficit on provision of services				5,693
		(89,365)	Surplus on revaluation of non-current assets				(39,571)
		23,605	Impairment losses on non-current assets charged to the revaluation reserve				44,471
		72,755	Remeasurements of the net defined benefit liability				(142,198)
		6,995	Other comprehensive (income) and expenditure				(137,298)
		12,061	Total comprehensive (income) and expenditure				(131,605)

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

MOVEMENT IN RESERVES STATEMENT 2018/19 (restated)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council tax and dwelling rents for the year. The Increase/(decrease) line shows the movement in the year for the various reserves and funds following those adjustments.

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2018 (restated)	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,311,601	1,383,590
Movement in reserves during 2018/19										
Total comprehensive income and expenditure	(3,899)	(1,167)	-	-	-	-	-	(5,066)	(6,995)	(12,061)
Adjustments between accounting basis and funding basis under regulations (note 8)	(60)	1,167	105	-	-	-	-	1,212	(1,212)	-
Net increase/(decrease) before transfers to and other statutory reserves	(3,959)	-	105	-	-	-	-	(3,854)	(8,207)	(12,061)
Transfers to/from other statutory reserves	(804)	-	(105)	5	(6)	(128)	(627)	(1,665)	1,665	-
Increase/(decrease) in 2018/19	(4,763)	-	-	5	(6)	(128)	(627)	(5,519)	(6,542)	(12,061)
Balance at 31 March 2019	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,305,059	1,371,529

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

MOVEMENT IN RESERVES STATEMENT 2019/20

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2019 (restated)	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,305,059	1,371,529
Movement in reserves during 2019/20										
Total comprehensive income and expenditure	(10,981)	5,288	-	-	-	-	-	(5,693)	137,298	131,605
Adjustments between accounting basis and funding basis under regulations (note 8)	21,485	(5,288)	711	-	-	-	-	16,908	(16,908)	-
Net increase/(decrease) before transfers to and other statutory reserves	10,504	-	711	-	-	-	-	11,215	120,390	131,605
Transfers to/from other statutory reserves	4,903	-	(711)	-	(421)	(2,521)	(3,352)	(2,102)	2,102	-
Increase/(decrease) in 2019/20	15,407	-	-	-	(421)	(2,521)	(3,352)	9,113	122,492	131,605
Balance at 31 March 2020	35,706	7,328	1,407	1,678	1,912	22,355	5,197	75,583	1,427,551	1,503,134

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is unusable reserves i.e. those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services when the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

01/04/18 £000 (restated)	31/03/19 £000 (restated)		Note	31/03/20 £000
2,646,237	2,778,472	Property, plant and equipment	30	2,830,841
8,536	8,558	Heritage assets	35	7,058
730	820	Long term investments	44	398
46,216	55,482	Long term debtors (net of impairment)	36	59,082
<u>2,701,719</u>	<u>2,843,332</u>	Long term assets		<u>2,897,379</u>
954	473	Short term intangible assets		-
10,006	15,013	Short term investments		-
4,151	4,522	Inventories		4,666
55,365	53,486	Short term debtors	37/38	68,455
60,803	63,503	Cash and cash equivalents	18	91,528
880	611	Assets held for sale		1,627
<u>132,159</u>	<u>137,608</u>	Current assets		<u>166,276</u>
(247,795)	(256,466)	Short term borrowing	44	(217,601)
(108,075)	(115,960)	Short term creditors	39	(115,652)
(1,083)	(801)	Provisions	40	(726)
(9,005)	(16,364)	Capital Grant Receipts in Advance	43	(28,791)
<u>(365,958)</u>	<u>(389,591)</u>	Current liabilities		<u>(362,770)</u>
(695,078)	(729,722)	Long term borrowing	44	(822,964)
(389,252)	(490,098)	Other long term liabilities	41	(374,787)
<u>(1,084,330)</u>	<u>(1,219,820)</u>	Long term liabilities		<u>(1,197,751)</u>
<u>1,383,590</u>	<u>1,371,529</u>	Net assets		<u>1,503,134</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

BALANCE SHEET (CONTINUED)

01/04/2018 £000 (restated)	31/03/19 £000 (restated)		Note	31/03/20 £000
1,407	1,407	Capital Receipts Reserve		1,407
1,673	1,678	Renewal and Repair Fund		1,678
25,004	24,876	Capital Fund		22,355
2,339	2,333	Insurance Fund		1,912
9,176	8,549	Capital Grants Unapplied		5,197
25,062	20,299	General Fund		35,706
7,328	7,328	Housing Revenue Account		7,328
71,989	66,470	Usable reserves	12	75,583
548,626	602,102	Revaluation Reserve		584,234
(230,144)	(338,925)	Pensions Reserve		(230,288)
1,027,863	1,073,681	Capital Adjustment Account		1,101,441
(25,141)	(21,234)	Financial Instruments Adjustment Account		(19,275)
(9,603)	(10,565)	Employee Statutory Adjustment Account		(8,561)
1,311,601	1,305,059	Unusable reserves	13	1,427,551
1,383,590	1,371,529	Total reserves		1,503,134

The unaudited annual accounts were issued on 25 June 2020 and the audited accounts were authorised for issue on 28 January 2021.

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

Liz Denovan CPFA
Executive Chief Officer for Resources and Finance
28 January 2021

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year. This statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council.

2018/19 (restated) £000		Note	2019/20 £000
(5,066)	Net surplus/(deficit) on the provision of services		(5,693)
121,461	Adjust net surplus on the provision of services for non-cash movements	14	114,885
(61,321)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14	(73,132)
<u>55,074</u>	Net cash inflow from operating activities		<u>36,060</u>
(152,045)	Investing activities	16	(142,935)
99,671	Financing activities	17	134,900
<u>2,700</u>	Net increase or (decrease) in cash and cash equivalents		<u>28,025</u>
60,803	Cash and cash equivalents at 1 April 2019		63,503
<u><u>63,503</u></u>	Cash and cash equivalents at 31 March 2020	18	<u><u>91,528</u></u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1.	Expenditure and Funding Analysis	54
2.	Note to Expenditure and Funding Analysis.....	56
3.	Prior period adjustment – property, plant and equipment.....	59
4.	Accounting policies	62
5.	Accounting Standards issued but not yet adopted	74
6.	Critical judgements in applying accounting policies	74
7.	Assumptions made about the future and other major sources of estimation uncertainty.....	75
8.	Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations.....	77
9.	Movement in Reserve Statement – transfers to/from earmarked reserves.....	82
10.	Comprehensive Income and Expenditure Statement – Financing and investment income and expenditure	83
11.	Comprehensive Income and Expenditure Statement – Taxation and non specific grant income.....	83
12.	Balance Sheet – usable reserves	84
13.	Balance Sheet – unusable reserves	85
14.	Cash flow statement – Adjustments to surplus/deficit on the provision of services	88
15.	Cash flow statement – operating activities	89
16.	Cash flow statement – investing activities	89
17.	Cash flow statement – financing activities	89
18.	Cash flow statement – cash and cash equivalents.....	89
19.	Service Income and Expenditure	90
20.	Segmental Income	92
21.	Expenditure & Income Analysed by Segment and Nature	93
22.	Trading operations	95
23.	Agency Services	95
24.	External audit costs.....	96
25.	Pension schemes accounted for as defined contribution schemes.....	96
26.	Defined benefit pension schemes.....	97
27.	Local Government Pension Scheme	107
28.	Related parties	108
29.	Operating Leases.....	111
30.	Property, plant and equipment.....	112
31.	Capital commitments	117
32.	Capital expenditure and capital financing	117
33.	Private finance initiatives and similar contracts	119
34.	IFRS 13 Fair Value Measurement	120
35.	Heritage assets	121
36.	Long term debtors.....	121
37.	Short term debtors	121
38.	Debtors for Local Taxation.....	122
39.	Short term creditors	122
40.	Provisions.....	122
41.	Long Term Liabilities	123
42.	Contingent liabilities	123
43.	Grant income	125
44.	Financial instrument balances	127
45.	Financial instrument gains and losses.....	130
46.	Nature and extent of risks arising from financial instruments.....	131
47.	Events after Reporting Period.....	136

1. Expenditure and Funding Analysis

This statement shows for the Council, how annual expenditure is used and funded from resources (government grants, rents, Council tax and business rates); in comparison with those resources consumed or earned, in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19 (restated)			2019/20		
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000	Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
(17,933)	14,757	(3,176)	(20,050)	11,984	(8,066)
349,646	5,761	355,407	347,281	31,827	379,108
63,083	27,729	90,812	64,574	36,696	101,270
4,805	1,447	6,252	6,680	1,506	8,186
29,353	22,933	52,286	24,776	8,550	33,326
50,919	8,919	59,838	58,299	10,492	68,791
4,978	(25)	4,953	5,305	(50)	5,255
2,575	-	2,575	2,785	-	2,785
487,426	81,521	568,947	489,650	101,005	590,655

Expenditure and Funding Analysis (continued)

2018/19				2019/20		
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000	Note	Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
487,426	81,521	568,947	Cost of services brought forward	489,650	101,005	590,655
(483,467)	(80,414)	(563,881)	Other Income and Expenditure	(500,154)	(84,808)	(580,904)
<hr/>				<hr/>		
3,959	1,107	5,066	Deficit/(Surplus)	(10,504)	16,197	5,693
		(32,390)	Opening General Fund and HRA Balance	(27,627)		
		3,959	Deficit/(surplus) on General Fund or HRA Balance in year	(10,504)		
		804	Transfers from reserves	(4,903)		
		<hr/>	Closing General Fund and HRA Balance at 31 March 2020*	<hr/>		
		(27,627)		(43,034)		

*For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

2. Note to Expenditure and Funding Analysis

Adjustments between Funding & Accounting Basis 2019/20

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Differences	Total Statutory Adjustments	Other (non statutory) Adjustments	Total Adjustments
	£000	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	12,248	1,670	-	13,918	(1,934)	11,984
Care & Learning	42,855	11,009	(2,471)	51,393	(19,566)	29,431
Community Services	29,593	4,927	93	34,613	2,083	39,696
Chief Executives	254	1,245	8	1,507	(1)	1,506
Corporate Resources Development & Infrastructure	7,896	459	194	8,537	1	5,644
Welfare Services	4,965	5,679	173	10,817	(325)	10,492
	-	-	-	-	(50)	(50)
Net Cost of Services	97,811	24,989	(2,003)	120,797	(19,792)	101,005
Other Income from the Expenditure and Funding Analysis	(105,225)	8,572	(7,947)	(104,600)	19,792	(84,808)
Total Adjustments	(7,414)	33,561	(9,950)	16,197	-	16,197

Other (non statutory) Adjustments are items which are included in service outturns but are reported under Financing and Investment Income and Expenditure in the CIES. These comprise: PPP Unitary Charge - (£19.490m), Harbours Trading Income and Expenditure - £2.596m, Expected Credit Losses on Financial Assets – (£2.898m).

Adjustments between Funding & Accounting Basis 2018/19 (restated)

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Differences	Total Statutory Adjustments	Other (non statutory) Adjustments	Total Adjustments
£000	£000	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	15,426	1,206	-	16,632	(1,875)	14,757
Care & Learning	17,728	7,921	515	26,164	(20,403)	5,761
Community Services	21,998	3,577	63	25,638	2,091	27,729
Chief Executives	686	758	-	1,444	3	1,447
Corporate Resources Development & Infrastructure	11,134	11,791	8	22,933	-	22,933
Welfare Services	4,452	4,096	377	8,925	(6)	8,919
	-	-	-	-	(25)	(25)
Net Cost of Services	71,424	29,349	963	101,736	(20,215)	81,521
Other Income from the Expenditure and Funding Analysis	(96,753)	6,677	(10,553)	(100,629)	20,215	(80,414)
Total Adjustments	(25,329)	36,026	(9,590)	1,107	-	1,107

Other (non statutory) Adjustments are items which are included in service outturns but are reported under Financing and Investment Income and Expenditure in the CIES. These comprise: PPP Unitary Charge - (£20.382m), Harbours Trading Income and Expenditure - £2.997m, Expected Credit Losses on Financial Assets – (£2.829m).

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.
- Note 26 provides further explanations of IAS 19 entries.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under taxation and non specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

3. Prior period adjustment – property, plant and equipment

The 2018/19 opening balance for property, plant and equipment has been adjusted upward by £43.554 million. The adjustment relates to valuations of Council dwellings and other land and buildings as follows:

- In between formal valuation years the Council incurred material expenditure on Council dwellings but did not undertake a revaluation of the carrying value of these assets to ensure they were appropriately valued at EUV-SH. The overall carrying value of Council dwellings were not reassessed for potential impairment between formal valuation years and that additions in historic cost were not written out as part of the revaluation in the previous formal revaluation year (2015/16). Consequently, the Council instructed the internal valuer to undertake a valuation of Council dwellings, including subsequent expenditure, as at 31 March 2018 and 31 March 2019. This resulted in an impairment / downward revaluation of these assets. The impact on opening Council dwellings as at 1 April 2018 was £116.432 million. This includes a reclassification between Council Dwellings and Assets Under Construction £20.526 million. The impact on previously reported Council dwellings as at 31 March 2019 was a downward revaluation of £125.344 million of which £19.942 million was transferred to Assets Under Construction.
- The Council's 2019/20 valuation identified material movements in the valuation of OLB that related to prior year revaluations. The error arose as the Council's valuation cycle did not take into account market movements which resulted in material increases in the current value of buildings which were not subject to revaluation. The Council instructed the valuer to undertake a valuation of OLB as at 31 March 2018 and 2019 and identified that the carrying value of OLB was understated by £139.460 million as at 31 March 2018 and £203.280 million at 1 March 2019. The 2018/19 opening balance adjustment also includes a write back of accumulated depreciation incorrectly charged after assets had been revalued and included within the 2017/18 closing balances and 2018/19 opening balances.

The overall effect of the prior period adjustment is as follows:

- The opening balance against property, plant and equipment on the 2018/19 Balance Sheet has increased by £43.554 million. This resulted in an increase in the revaluation reserve of £13.837 million and an increase in the capital adjustment account of £29.717 million.

The fully restated opening balance sheet at 1 April 2018 is provided on pages 46/47.

The adjustments that have been made to that Balance Sheet over the one presented at 31st March 2018 are as follows:

Effect on opening Balance Sheet at 1 April 2018

	Opening balances as as at 1 April 2018 £000	Restated at 1 April 2018 £000	Restatement £000
Property, plant and equipment	2,602,683	2,646,237	43,554
Long term assets	2,658,165	2,701,719	43,554
Net assets	1,340,036	1,383,590	43,554
Usable reserves	71,989	71,989	-
Unusable reserves:			
Revaluation Reserve	534,789	548,626	13,837
Capital Adjustment Account	998,146	1,027,863	29,717
Total Reserves	1,340,036	1,383,590	43,554

During 2018/19, the changes in the carrying amounts of Council dwellings and other land and buildings resulted in a decrease in depreciation of £3.562m and a decrease in impairments of £16.449m. Surplus on revaluation of non-current assets increased by £34.313m.

The fully restated Comprehensive Income and Expenditure Statement and Movement in Reserves Statement are on pages 42-45. The adjustments that have been made to the statements over the versions published in the 2018/19 audited accounts are as follows:

Comprehensive Income and Expenditure Statement

	31 March 2019 £000	31 March 2019 restated £000	Restatement £000
Net Expenditure			
Housing Revenue Account	5,766	(3,176)	(8,942)
Care & Learning	366,532	355,407	(11,125)
Community Services	90,756	90,812	56
Net Cost of Services	588,958	568,947	(20,011)
Deficit on provision of services	25,077	5,066	(20,011)
Surplus on revaluation of non-current assets	(35,600)	(89,365)	(53,765)
Impairment losses on non-current assets charged to revaluation reserve	4,153	23,605	19,452
Other Comprehensive (income) and expenditure	41,308	6,995	(34,313)
Total comprehensive (income) and expenditure	66,385	12,061	(54,324)
Usable Reserves	Balance previously stated £000	Restated £000	Restatement £000
Balance at 31 March 2018	71,989	-	71,989
Total Comprehensive Income and Expenditure	(25,077)	(5,066)	20,011
Adjustments between accounting basis and funding basis under regulation	21,223	1,212	(20,011)
Transfers to/from other statutory reserves	(1,665)	(1,665)	-
Increase/(decrease in year)	(5,519)	(5,519)	-
Balance at 31 March 2019	66,470	66,470	-

Movement in Reserves Statement

	Balance previously stated £000	Restated £000	Restatement £000
Unusable Reserves			
Balance at 31 March 2018	1,268,047	1,311,601	43,554
Total Comprehensive Income and Expenditure	(41,308)	(6,995)	34,313
Adjustments between accounting basis and funding basis under regulation	(21,223)	(1,212)	20,011
Transfers to/from other statutory funds	1,665	1,665	-
Increase/(decrease in year)	(60,866)	(6,542)	54,324
Balance at 31 March 2019	1,207,181	1,305,059	97,878

The resulting restated Balance Sheet for 31 March 2019 is provided on page 46/47. The adjustments that have been made to that Balance Sheet over the version published in the 2018/19 audited accounts are as follows:

Effect on Balance Sheet at 31 March 2019

	As previously stated 31 March 2019	As restated at 31 March 2019	Restatement
	£000	£000	£000
Property, plant and equipment	2,680,594	2,778,472	97,878
Long term assets	2,745,454	2,843,332	97,878
Net assets	1,273,651	1,371,529	97,878
Usable reserves	66,470	66,470	-
Unusable reserves:			
Revaluation Reserve	554,682	602,102	47,420
Capital Adjustment Account	1,023,223	1,073,681	50,458
Total Reserves	1,273,651	1,371,529	97,878

Effect on Cash Flow Statement at 31 March 2019

	As previously stated 31 March 2019	As restated at 31 March 2019	Restatement
	£000	£000	£000
Net surplus/(deficit) on the provision of services	(25,077)	(5,066)	20,011
Adjust net deficit on the provision of services for non-cash movements	141,472	121,461	(20,011)
Net cash inflow from operating activities	55,074	55,074	-
Net increase or (decrease) in cash and cash equivalents	2,700	2,700	-

Note 1 Expenditure and Funding Analysis, 2018/19 adjustments for capital purposes have been restated to reflect the impact on the net cost of services and overall deficit on provision of services.

Note 8 Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations reversal of items debited or credited to the Comprehensive Income and Expenditure Statement figures have been restated.

Note 14 Cash flow statement – Adjustments to surplus/deficit on the provision of services has been adjusted to reflect the impact on depreciation and impairments.

Note 31 Expenditure & Income Analysed by Segment and Nature figures have been restated.

4. Accounting policies

Explanations are provided for the basis of the figures included within the Accounts and the policies adopted particularly where there is more than one acceptable basis. Notes are included to provide details of certain aspects contained within the financial statements.

General principles

The Annual Accounts summarise the transactions of the Council for the financial year 2019/20 and its financial position at 31 March 2020. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of income and expenditure

The accounts have been prepared on an accruals basis in accordance with the Code of Practice.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Expenses in relation to services received (including those rendered by officers of the Council) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates) income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

Prior period adjustments and changes in accounting policies and estimates and errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening general fund balances and comparative amounts for the prior period.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which are repayable on demand and form an integral part of the Council's cash management.

Accounting for the costs of the Carbon Reduction Commitment Scheme

For accounting periods to 31 March 2019, the Council was required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council was required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide was emitted (i.e. as energy was used), a liability and an expense were recognised. The liability was discharged by surrendering allowances. The liability was measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council was recognised and reported in the costs of the Council's services and was apportioned to services on the basis of energy consumption. The CRC scheme closed on 31 March 2019 and as sufficient allowances have been surrendered to meet all prior year obligations there is no liability included in the 2019/20 annual accounts.

Charges to revenue for non-current assets

Council Services are debited with the following amounts to record the cost of holding non current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Council is not required to raise Council Tax to cover depreciation, revaluation or impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to loans fund principal charges. Depreciation, revaluation and impairment losses are therefore replaced by loans fund principal charges in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Employee benefits

Short term employee benefits such as wages, salaries and paid annual leave for current employees, are recognised as an expense in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Employee Statutory Adjustment Account.

Termination benefits are amounts payable either as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or following an employee's decision to accept voluntary redundancy. These benefits are charged to the Comprehensive Income and Expenditure Statement on an accruals basis when the Council is demonstrably committed to terminating the employment of an employee.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner during the year and not the amount calculated according to the relevant accounting

standards. Appropriations are made in the Movements in Reserves Statement to and from the Pension Reserve to remove the notional charges for pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Retirement benefits

Teachers are admitted to the Teachers Superannuation Scheme, which is administered by the Scottish Government. Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The arrangements for both the Teachers' and NHS Schemes mean that assets and liabilities cannot be attributed specifically to the Council.

Both schemes are therefore accounted for as if they were defined contribution schemes – no liability for future payments of benefits is recognised in the Balance Sheet and the Care & Learning Services line in the Comprehensive Income and Expenditure Statement is charged with employer's contributions payable to Teachers and NHS pensions in the year.

Employees of the Council are admitted to The Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit Career Average Revalued Earnings (CARE) scheme. In addition the Council has liabilities for discretionary pension payments outside the main scheme.

Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The assets of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value.
- The liabilities of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method which assesses the present value of the future payments that will be made in relation to retirement benefits earned to date, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service accrued in the year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Resources expenditure.
- Net interest on the defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements of the net defined benefit liability (asset) comprising:

- The return on plan assets – excluding amounts included in net interest on the net pensions liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Highland Council Pension Fund

- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers and former NHS employees) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective

interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL) - not applicable to the Council for 2019/20; and
- fair value through other comprehensive income (FVOCI) - not applicable to the Council for 2019/20.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost on a lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

Fair Value Levels

As per IFRS 13 Fair Value is calculated using the appropriate level in the fair value hierarchy below.:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices. Where this is not possible, level 2 inputs are considered.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments. Where this is not possible, level 3 inputs are considered.

- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

Soft Loans

The Council has made loans to organisations mainly to provide for affordable housing (soft loans). When these are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Capital Grants in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Any unused grants are earmarked within the General Fund to finance the expenditure when it arises.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement.

Interests in companies and other entities

Where the Council has a material interest in subsidiaries, associates or joint ventures the Council will prepare Group Accounts in compliance with the Code. An interest is where the Council has either ownership of share capital or has rights to benefit from the capital of the entity. An interest also covers situations where the Council has the right to benefit from surpluses, a liability to contribute to losses, or an obligation to contribute to debts or expenses in the winding up of an entity. In assessing whether the interest is material or not an assessment will be made as to the influence and control which the Council exerts over the entity, not solely the financial interest or ownership.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Operating Leases

The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, generally meaning that rentals are charged when they become payable.

The Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

Property, plant and equipment

Assets that have physical substance and are held for use in the supply of services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Classification as a non-current asset is subject to a de minimus level of £0.006m for vehicles, plant and machinery and £0.020m for all other assets.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – historical cost
- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Components – historical cost
- Operational leased assets – market value
- All other assets – current value, determined the amount that would be paid for the asset in its existing use (existing use value - EUV)
- Corporate surplus assets and assets held for sale - fair value as determined by IFRS 13

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued as at 31 March sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, and as a minimum at least once every five years. These revaluations are carried out by in-house valuers and are overseen by Kenny Forbes (MRICS), Property Manager, Development and Infrastructure Service.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, unless the increase is reversing a previous impairment loss or previous revaluation decrease charged to the Surplus or Deficit on the Provision of Services on the same asset.

Where decreases in value are identified, the revaluation loss is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped together.
- Only assets with a gross book value of £3.0m and over will be considered for componentisation.
- Of those assets, for the purpose of determining a “significant” component of an asset, components with a value of 20% in relation to the overall value of the asset or over £0.5m will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Where assets no longer meet the criteria to be classified as held for sale they will be revalued at existing use value and reclassified to Property, Plant and Equipment. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against Council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction and assets held for sale).

Depreciation is calculated on the following bases:

- Council dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer, ranging from 20 years to 60 years.
- Vehicles, plant and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, ranging from 3 years to 40 years.
- Infrastructure – straight-line allocation over 30 years for roads and 60 years for all other assets.

Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Balances held for impairment losses are also similarly depreciated with the balance being adjusted each year with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost. This is to ensure that the balance is reflecting the maximum permissible reversal allowable to the Comprehensive Income and Expenditure Statement in future years in the event of a revaluation gain.

Heritage assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include various works of art, civic regalia and museum collections.

The Council's heritage assets consist of:

- Museum collections which include various collections held at a number of museums such as Inverness Museum and Art Gallery and the Highland Folk Museum.
- Works of Art & Civic Regalia including works of art held at various locations across the Highlands as well as various pieces of Highland Provost's Regalia.
- The values for these heritage assets are based on valuations for insurance purposes. This is carried out internally; with most valuations reflecting valuation work undertaken by Sotheby's in 2013 which continues to be considered the most relevant valuation for these assets.
- The Highland Council also has a number of special collections of rare books with the Charles Fraser-Mackintosh collection and the Kirk Session Library being the largest of these collections. Due to relaxations in the Code in relation to the measurement of heritage assets, these are not recognised on the balance sheet as there is no information on the cost or value of these collections and the cost of obtaining this would outweigh the benefits to the users of the financial statements.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairments.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

Intangible assets

Expenditure on identifiable non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as a result of past events (for example computer software) is capitalised when it will bring benefits to the Council for more than one financial year.

The balance is amortised to the Comprehensive Income and Expenditure Statement over its useful life. The amortisation basis is reviewed on an annual basis to ensure any impairment is identified.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'cost of services' in the Comprehensive Income and Expenditure Statement. These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

Private Finance Initiative (PFI) and Similar Contracts

Highland Council has three PFI and similar contracts which are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non current PFI assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than

probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 42 to the accounts.

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to be included in against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then reduced by a transfer into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in Note 13.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

5. Accounting Standards issued but not yet adopted

The following accounting standards will be adopted within the 2020/21 Code effective from 1 April 2020. There is therefore no impact on the 2019/20 financial statements.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (clarification that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method)
- Annual improvements to IFRS Standards 2015-2017 cycle
 - IFRS 3 Business Combinations (A company remeasures its previously held interest in a joint operation when it obtains control of the business.)
 - IFRS 11 Joint Operations (A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.)
 - IAS 12 Income Taxes (A company accounts for all income tax consequences of dividend payments in the same way.)
 - IAS 23 Borrowing Costs (A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.)
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement. (If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement)

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by The Code:

- IFRS 16 Leases will require local authorities that are lessees to recognise these leases on their balance sheets as right-of-use assets along with the corresponding lease liabilities, except for low value and short-term leases. As a result of the current Covid-19 response CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022.

6. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 5, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events (see Note 7). The critical judgements made in the Annual Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council is deemed to control the services provided under the Public Private Partnership arrangements that it has for the PPP1, PPP2 and Wick Campus Projects, and also to control the residual value of the schools at the end of the agreement. The accounting policies for PPP schemes and similar contracts have been applied to the arrangement and the schools (net value £293.037m) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

7. Assumptions made about the future and other major sources of estimation uncertainty

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £7.718m for every year that useful lives had to be reduced.
Covid-19 Impact on Valuations	<p>The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value.</p> <p>The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Annual Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market.</p>	<p>Any significant change in market valuations would require categories of asset (in particular Other Land and Building and Surplus Property) to be revalued and would therefore impact on the asset valuations on the Council balance Sheet.</p> <p>The risk of movement is uncertain and an upwards or downwards revaluation in future years is possible. It is estimated a change in value of 10% in the Other Land and Building asset category would adjust the total value of plant, property and equipment by £146.084m</p>
Arrears	At 31 March 2020 the Council had a balance of sundry debtors of £11.448m. A review of balances suggested that an allowance for impairment of £4.376m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of the amount of doubtful debts would require an additional impairment to be made. An increase of 1% on impairment would require an additional £0.114m of an allowance.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in mortality rates and expected returns on pension fund assets.	The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in Note 25.
Service Concession Arrangement (PPP1)	The Council has a contract with Community Schools (Highlands) Limited (the "contractor") to provide Operational Facilities which requires the contractor to provide 4 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at January in each year.	The indexation adjustment includes an efficiency factor which for 2019/20 resulted in indexation being applied to approximately 82% of the Unitary Charge. If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £25,873 in 2019/20.
Service Concession Arrangement (PPP2)	The Council has a contract with Alpha Schools (Highland) Limited (the "contractor") to provide Operational Facilities which requires the contractor to provide 10 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPIX as at January in each year.	The indexation adjustment applies to 48% of the Unitary Charge as per the terms of the Project Agreement. If RPIX should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £104,048 in 2019/20.
Service Concession Arrangement (Wick Campus Project)	The Council has a contract with Hub North Scotland (Wick) Limited (the "contractor") to provide an Operational Facility which is a campus including Primary School, High School and Community Facilities. The contract regulates price revisions over the period of the service arrangements. The Annual Service Payment is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at February each year.	The indexation adjustment applies to 18% of the Annual Service Payment as per the terms of the Project Agreement. If RPI should have increased by 1% more than it actually did the full year Annual Service Payment would have increased by a further £9,108 in 2019/20.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Fair Value Measurements	<p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value.</p>	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.</p>

8. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2019/20	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	88,117	15,642	-	103,759	(103,759)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(71,219)	(13,136)	-	(84,355)	84,355	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statement	3,879	3,211	-	7,090	(7,090)	-
Revenue expenditure funded by capital	12,512	-	-	12,512	(12,512)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(30,311)	(9,244)	-	(39,555)	39,555	-
Repayment of Finance Lease Creditors	(5,989)	-	-	(5,989)	5,989	-
Capital expenditure charged against the General Fund and HRA balances	(1,469)	(3,395)	-	(4,864)	4,864	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,000)	-	2,000	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,289)	(1,289)	1,289	-

2019/20

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,412)	(546)	-	(1,958)	1,958	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	57,680	3,863	-	61,543	(61,543)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(26,299)	(1,683)	-	(27,982)	27,982	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,004)	-	-	(2,004)	2,004	-
Total adjustments 2019/20	21,485	(5,288)	711	16,908	(16,908)	-

2018/19 (restated)	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	58,898	19,317	-	78,215	(78,215)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(63,571)	(7,893)	-	(71,464)	71,464	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statement	1,706	171	-	1,877	(1,877)	-
Revenue expenditure funded by capital	10,142	-	-	10,142	(10,142)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(29,497)	(7,611)	-	(37,108)	37,108	-
Repayment of Finance Lease Creditors	(6,645)	-	-	(6,645)	6,645	-
Capital expenditure charged against the General Fund and HRA balances	(1,834)	(3,891)	-	(5,725)	5,725	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,266)	-	1,266	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,161)	(1,161)	1,161	-

2018/19	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(3,385)	(522)	-	(3,907)	3,907	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	59,736	3,212	-	62,948	(62,948)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(25,306)	(1,616)	-	(26,922)	26,922	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	962	-	-	962	(962)	-
Total adjustments 2018/19	(60)	1,167	105	1,212	(1,212)	-

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

9. Movement in Reserve Statement – transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves. The increase in General Fund of £15.407m (2018/19- £4.763m decrease) comprises an increase in earmarked balances of £7.881m (2018/19 - £4.126m decrease) and an increase in non-earmarked balances of £7.526m (2018/19 - £0.637m decrease).

	Balance at 31/03/18 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/19 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/20 £000
2018/19 Government Funding Received 2017/18	1,626	(1,626)	-	-	-	-	-	-	-
Badaguish Outdoor Centre	460	-	-	-	460	-	-	-	460
Business Rates Incentivisation Scheme (BRIS)	-	-	-	-	-	-	1,095	-	1,095
Business Loans Scotland	222	-	-	-	222	(222)	-	-	-
Central Energy Efficiency Fund	459	(459)	-	-	-	-	-	-	-
Change Fund	-	-	-	-	-	(1,183)	2,500	-	1,317
Commercial Investment Fund	-	-	100	-	100	(11)	-	-	89
Council Redesign	24	(52)	40	-	12	(12)	-	-	-
Covid19 Response	-	-	-	-	-	-	185	-	185
Developers' Contributions	2,214	(2,289)	4,912	43	4,880	(1,458)	3,044	81	6,547
Developing the Young Workforce	193	(123)	-	-	70	-	-	-	70
Devolved School Management	4,356	(910)	-	-	3,446	(557)	-	-	2,889
Grants and Match Funding	1,137	(669)	11	-	479	(70)	1,746	-	2,155
Inverness Royal Academy Gaelic Extension	154	(154)	-	-	-	-	-	-	-
IT Investment Fund	2,873	(2,482)	128	-	519	-	-	-	519
Local Elections	-	-	85	-	85	-	85	-	170
Pathfinder	351	(351)	-	-	-	-	-	-	-
Salix Recycling Fund	-	-	-	-	-	(630)	2,000	-	1,370
Scottish Crown Estate	-	-	-	-	-	-	1,292	-	1,292
Skye Airstrip	-	-	-	-	-	-	187	-	187
Strategic Change and Development Fund	1,756	(436)	100	-	1,420	-	-	-	1,420
Walks to Water	126	-	-	-	126	-	-	-	126
Welfare Issues	549	(118)	124	-	555	(275)	84	-	364
Total	16,500	(9,669)	5,500	43	12,374	(4,418)	12,218	81	20,255

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

2018/19 £000		Note	2019/20 £000
(1,859)	Gains on trading operations	22	(1,409)
47,837	Interest payable and similar charges		49,790
6,604	Pensions net interest expense		8,469
(1,112)	Interest and investment income		(1,244)
2,829	Expected credit losses on financial assets		2,897
<u>54,299</u>			<u>58,503</u>

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

2018/19 £000		2019/20 £000
(310,870)	Revenue support grant	(306,184)
(120,063)	Council tax income	(124,870)
(126,537)	Non-Domestic rates	(145,658)
(61,321)	Capital grants and contributions	(71,843)
<u>(618,791)</u>		<u>(648,555)</u>

12. Balance Sheet – usable reserves

(a) The Capital Receipts Reserve represents capital receipts available to finance capital expenditure in future years.

(b) The Council operates a Renewal and Repair fund for the following purposes:

- to fund ground maintenance work undertaken on private land adopted by the Council
- to fund purchases of new museum pieces for Inverness Museum
- to fund repairs to the artificial pitch at Tain Royal Academy Community Complex
- to fund repairs at leisure centres

(c) The Council operates a Capital fund for a Landbanking initiative relating to the provision of affordable social housing throughout the Highlands.

The movements in the Capital Fund are detailed below.

	Total £000
Balance at 31 March 2019	24,876
Transferred to General Fund	(1,435)
Transferred to Capital Adjustment account	(1,086)
Balance at 31 March 2020	<u>22,355</u>

(d) Using powers in Schedule 3 of the Local Government Scotland Act 1975 the Council has established an Insurance Fund to meet uninsured losses or surpluses. This fund enables the Council to self insure General Fund properties against a number of risks.

(e) The Council operates an Evergreen Housing Infrastructure Fund to support and accelerate the delivery of housing in the Highland Council area. The balance of this fund is held in the Capital Grants Unapplied account.

The movements in the Capital Grants Unapplied account are detailed below.

	Total £000
Balance at 31 March 2019	8,549
Transferred to General Fund	(2,337)
Transferred to Capital Adjustment account	(1,015)
Balance at 31 March 2020	<u>5,197</u>

(f) Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 8 and 9.

13. Balance Sheet – unusable reserves

31/03/19		31/03/20
£000		£000
(restated)		
602,102	Revaluation Reserve (a)	584,234
1,073,681	Capital Adjustment Account (b)	1,101,441
(21,234)	Financial Instruments Adjustment Account (c)	(19,275)
(338,925)	Pensions Reserves (d)	(230,288)
(10,565)	Employee Statutory Adjustment Account (e)	(8,561)
<u>1,305,059</u>		<u>1,427,551</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

(a) Revaluation Reserve

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

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

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

2018/19		2019/20
£000		£000
(restated)		
548,626	Balance at 1 April 2019	602,102
90,042	Upward revaluation of assets	41,987
(677)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of services	(2,416)
(23,606)	Impairment losses not charged to the Surplus/Deficit on the Provision of services	(44,471)
65,759	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services	(4,900)
(10,704)	Difference between fair value depreciation and historical cost depreciation	(10,708)
(941)	Accumulated gains on assets sold or scrapped	(752)
(638)	Amount written off revaluation reserve	(1,508)
(12,283)	Amount written off to the Capital Adjustment Account	(12,968)
<u>602,102</u>	Balance at 31 March 2020	<u>584,234</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

(b) Capital Adjustment Account

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

Note 8 provides details of the source of all the transactions posted to the account, apart from any involving other reserves.

2018/19 £000 (restated)		2019/20 £000
1,027,864	Balance at 1 April 2019	1,073,681
(10,142)	Revenue Expenditure funded from capital under statute	(12,512)
(68,071)	Charges for depreciation on non-current assets	(71,548)
(10,144)	Revaluation losses on Property, Plant and Equipment	(32,212)
	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(7,090)
<u>(1,877)</u>		<u>(123,362)</u>
(90,234)	Adjusting amounts written out of the Revaluation Reserve	
<u>12,283</u>		<u>12,968</u>
12,283	Net written out amount of the cost of non-current assets consumed in the year	12,968
	Capital Financing applied in the year	
6,645	Repayment of PPP creditors	5,989
1,161	Use of the Capital Receipts Reserve to finance new capital expenditure	1,289
71,464	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	84,355
1,047	Use of the Capital Fund	1,086
618	Use of Capital Grants Unapplied Account	1,015
37,108	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	39,556
5,725	Capital expenditure charged against the General Fund and HRA balances	4,864
<u>123,768</u>		<u>138,154</u>
<u>1,073,681</u>	Balance at 31 March 2020	<u>1,101,441</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2018/19 £000		2019/20 £000
(25,141)	Balance at 1 April 2019	(21,234)
1,952	Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,952
1,955	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	7
<u>(21,234)</u>	Balance at 31 March 2020	<u>(19,275)</u>

(d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £000		2019/20 £000	£000
(230,144)	Balance at 1 April 2019		(338,925)
(116,274)	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	214,989	
46,031	Return on plan assets	(83,442)	
(2,512)	Other experience adjustments	10,651	
<u>(72,755)</u>	Total remeasurements of the net defined liability		142,198
(62,948)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(61,543)	
26,922	Employer's pension contributions and direct payments to pensioners payable in the year	27,982	
<u>(36,026)</u>			<u>(33,561)</u>
<u>(338,925)</u>	Balance at 31 March 2020		<u>(230,288)</u>

(e) Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

2018/19 £000		2019/20 £000
(9,603)	Balance at 1 April 2019	(10,565)
9,603	Settlement or cancellation of accrual made at the end of the preceding year	10,565
(10,565)	Amounts accrued at the end of the current year	(8,561)
<u>(10,565)</u>	Balance at 31 March 2020	<u>(8,561)</u>

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

2018/19 £000 (restated)		2019/20 £000
	Non-cash items	
68,071	Depreciation	71,548
10,144	Impairments	32,210
715	Net book value of assets sold	7,090
36,026	IAS 19 transactions	33,561
(1,522)	Financial instruments adjustments	56
	Items on accruals basis	
(371)	Decrease/(increase) in inventories	(143)
3,452	Decrease/(increase) in debtors	(12,423)
5,227	(Decrease)/increase in creditors	(16,940)
(282)	(Decrease)/increase In provisions	(74)
<u>121,461</u>		<u>114,885</u>
£000	Items in investing & financing activities	£000
(61,321)	Capital grants credited to surplus/deficit on provision of services	(71,843)
-	Proceeds from sale of assets	(1,289)
<u>(61,321)</u>		<u>(73,132)</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

15. Cash flow statement – operating activities

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

2018/19 £000		2019/20 £000
(273)	Interest received	(414)
52,842	Interest paid	66,299

16. Cash flow statement – investing activities

2018/19 £000		2019/20 £000
(146,320)	Purchase of property, plant and equipment	(167,634)
7,339	Other receipts for investing activities	7,469
481	Sale of short term intangibles	473
1,161	Proceeds from the sale of property, plant and equipment	1,289
(5,007)	(Purchase)/sale of long and short-term investments	15,013
(9,699)	Other (payments)/receipts from investing activities	454
(152,045)	Net cash flows from investing activities	(142,935)

17. Cash flow statement – financing activities

2018/19 £000		2019/20 £000
328,000	Cash receipts of short and long term borrowing	440,719
61,321	Other receipts from financing activities	71,843
(6,645)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(5,989)
(282,860)	Repayments of short and long term borrowing	(372,285)
(145)	Other payments for financing activities	612
99,671	Net cash flows from financing activities	134,900

18. Cash flow statement – cash and cash equivalents

	At 1 April 2019 £000	Cash flow £000	At 31 March 2020 £000
Temporary investments	63,503	27,546	91,049
Cash in hand	70	2	72
Cash at bank	(70)	477	407
Total cash and cash equivalents	63,503	28,025	91,528

19. Service Income and Expenditure

These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's services recorded in the monitoring reports for the year is as follows:

Revenue Outturn Position – General Fund

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1 April 2019 to 31 March 2020. It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. The table below provides a summary of the year end actual expenditure compared to the annual budget.

General Fund Services 2019/20

	Budget £000	Actual £000	Over/(Under) £000
Care and Learning	353,263	347,281	(5,982)
Chief Executive's Office	6,995	6,680	(315)
Corporate Resources	25,744	24,106	(1,638)
Community Services	64,454	64,574	120
Development and Infrastructure	53,705	53,506	(199)
Welfare Services	5,444	5,306	(138)
Non Domestic Rates reliefs	671	670	(1)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2,704	2,694	(10)
Highland and Islands Transport Partnership	91	91	-
Financing			
Loan Charges	57,087	57,656	569
Interest and Investment Income	(330)	(838)	(508)
Unallocated Savings	(2,066)	-	2,066
Total General Fund Services	567,762	561,726	(6,036)
Appropriations to/from Reserves			
Repairs & Renewals Fund	-	-	-
Insurance Fund	(421)	(421)	-
Affordable Housing	-	-	-
Amount to be funded from Taxpayers and General Fund Balance	567,341	561,305	(6,036)
Funding			
Revenue Support Grant	(306,184)	(306,184)	-
Non-domestic Rates	(144,335)	(145,658)	(1,323)
Council Tax	(124,622)	(124,870)	(248)
Increase in General Fund in the year	(7,800)	(15,407)	(7,607)

Budget figures are provided for information purposes only and are not subject to audit.

20. Segmental Income

Income received on a segmental basis is analysed below:

**Segmental Income
2019/20**

	Income from Services £000	Internal Recharges £000	Total Income from External Customers/Service Users £000	Adjustments £000	Gross Income £000
Services					
HRA	55,020	-	55,020		55,020
Care and Learning	41,389	(377)	41,012	321	41,333
Chief Executive's Office	2,278	(359)	1,919		1,919
Corporate Resources	7,072	(4,333)	2,739	46	2,785
Community Services	88,683	(56,342)	32,341	(16,316)	16,025
Development and Infrastructure	51,266	(11,202)	40,064	12,985	53,049
Welfare Services	37,597	-	37,597		37,597
Total Income analysed on a segmental basis	283,305	(72,613)	210,692	(2,964)	207,728

**Segmental Income
2018/19**

	Income from Services £000	Internal Recharges £000	Total Income from External Customers/Service Users £000	Adjustments £000	Gross Income £000
Services					
HRA	52,699	-	52,699	-	52,699
Care and Learning	30,698	(670)	30,028	274	30,302
Chief Executive's Office	2,353	(56)	2,297	-	2,297
Corporate Resources	7,540	(4,982)	2,558	623	3,181
Community Services	92,230	(48,208)	44,022	(17,103)	26,919
Development and Infrastructure	47,428	(18,201)	29,227	10,175	39,402
Welfare Services	39,499	-	39,499	-	39,499
Total Income analysed on a segmental basis	272,447	(72,117)	200,330	(6,031)	194,299

Adjustments: Community Services – Trading Income included in note 22 – (£16,316,000 - 1920); (£17,103,000 – 1819). Development and Infrastructure – Capital Grants credited to services £13,232,000 - 1920; £10,287,000 – 1819. Landbanking income (£246,000 - 1920); (£112,000 – 1819). Other services – Capital Grants credited to services.

21. Expenditure & Income Analysed by Segment and Nature

The Council's expenditure and income is analysed as follows. These figures include statutory adjustments as per the analysis in note 2 to the accounts.

2019/20

	Care & Learning £000	Chief Executive £000	Corporate Resources £000	Community Services £000	Development & Infrastructure £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(15,725)	(1,711)	(2,739)	(15,612)	(29,915)	(36,901)	(55,020)	(1,409)	(159,032)
Interest and investment income	(1)	-	-	(30)	-	-	-	(1,244)	(1,275)
Income from Council Tax								(124,870)	(124,870)
Government grants and contributions	(25,607)	(208)	(46)	(383)	(23,134)	(696)	-	(523,685)	(573,759)
Total income	(41,333)	(1,919)	(2,785)	(16,025)	(53,049)	(37,597)	(55,020)	(651,208)	(858,936)
Employee expenses	227,456	8,470	16,374	37,166	39,614	-	7,638	8,469	345,187
Other service expenses	149,001	1,381	11,770	50,531	64,485	42,852	23,674	5,682	349,376
Depreciation, amortisation and impairment	43,984	254	7,967	29,598	17,741	-	15,642	-	115,186
Interest payments	-	-	-	-	-	-	-	49,790	49,790
Loss on disposal of non-current assets	-	-	-	-	-	-	-	5,090	5,090
Total expenditure	418,045	10,105	36,111	117,295	121,840	42,852	46,954	69,032	864,629
(Surplus) or deficit on the provision of services	376,712	8,186	33,326	101,270	68,791	5,255	(8,066)	(582,176)	5,693

Expenditure & Income Analysed by Segment and Nature (continued)

2018/19 (restated)

	Care & Learning £000	Chief Executive £000	Corporate Resources £000	Community Services £000	Development & Infrastructure £000	Welfare Services £000	HRA £000	Costs not included in a Service £000	Total £000
Fees, charges and other service income	(15,714)	(2,020)	(2,558)	(26,390)	(21,860)	(38,810)	(52,699)	(1,859)	(161,910)
Interest and investment income	(1)	-	-	(31)	-	-	-	(1,112)	(1,144)
Income from Council Tax	-	-	-	-	-	-	-	(120,063)	(120,063)
Government grants and contributions	(14,587)	(277)	(623)	(498)	(17,542)	(689)	-	(498,728)	(532,944)
Total income	(30,302)	(2,297)	(3,181)	(26,919)	(39,402)	(39,499)	(52,699)	(621,762)	(816,061)
Employee expenses	216,727	6,175	28,874	38,063	33,578	-	7,007	6,604	337,028
Other service expenses	150,703	1,688	14,436	56,630	51,848	44,452	23,199	5,404	348,360
Depreciation, amortisation and impairment	18,279	686	12,157	23,038	13,814	-	19,317	-	87,291
Interest payments	-	-	-	-	-	-	-	47,837	47,837
Loss on disposal of non-current assets	-	-	-	-	-	-	-	611	611
Total expenditure	385,709	8,549	55,467	117,731	99,240	44,452	49,523	60,456	821,127
(Surplus) or deficit on the provision of services	355,407	6,252	52,286	90,812	59,838	4,953	(3,176)	(561,306)	5,066

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

22. Trading operations

The Council has 1 trading operation which operates in a commercial environment. In accordance with the Local Government (Scotland) Act 2003 the significant trading operation is required to break even over a rolling three year period.

Details of significant trading operation**Fishery, Piers and Harbours**

The Harbour organisation trades commercially with vessels from the home and foreign fishing fleet. Transport piers are used by commercial ferry operators who pay dues for the use of the facilities. The target is to break even after depreciation.

Summary of Financial Results

A summary of the financial results of the trading operation for 2019/20 is as follows:

Fishery, Piers and Harbours	£000
Turnover	16,325
Expenditure	(14,888)
Surplus	<u>1,437</u>
Less internal surplus included in service net expenditure	(18)
Less interest on revenue balances	(10)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 10)	<u><u>1,409</u></u>
Three year surplus	
Financial Year	£000
2017/18	2,532
2018/19	1,859
2019/20	<u>1,409</u>
	<u><u>5,800</u></u>

The Local Government in Scotland Act 2003 requires the Significant Trading Organisation (STO) to break even over a rolling three year period. The table above is presented exclusively to demonstrate that the STO met this target.

23. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2019/20 the Council collected £134.804m and received £143.240m contribution from the non-domestic rates pool (2018/19 collected £140.723m and received £126.537m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2019/20 the Council paid over £36.409m and received £0.755m for providing this service. During 2018/19 the Council paid over £35.543m and received £0.755m for providing this service.

Payments totalling £0.145m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2018/19 - £0.143m).

24. External audit costs

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

2018/19 £000		2019/20 £000
<u>412</u>	Fees payable to Audit Scotland with regard to external audit services	<u>433</u>

No fees were payable to Audit Scotland, or the appointed auditor Grant Thornton UK LLP in respect of any other services in either year.

25. Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by The Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The Scheme provides eligible employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Teachers' and NHS Schemes are technically defined benefit schemes. However, the Schemes are unfunded and The Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of these Annual Accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20 the Council paid £21.700m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.0% of pensionable pay. The figures for 2018/19 were £16.350m and 17.2%. There were no contributions remaining payable at the year-end.

In 2019/20 the Council paid £1.14m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 20.9% of pensionable pay. The figures for 2018/19 were £0.848m and 14.9%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' and NHS schemes. These costs are accounted for on a defined benefit basis and are included in the information presented in Note 26.

26. Defined benefit pension schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The authority has two post employment arrangements:

- The Local Government Pension Scheme, administered locally by The Highland Council Pension Fund – this is a funded defined benefit career average earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- The Highland Council Pension Fund scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Highland Council. Policy is determined in accordance with the Pensions Fund Board Regulations. The investment managers of the fund are appointed by the Investment Committee.
- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to post employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	Council 2019/20 £000	2018/19 £000	Group 2019/20 £000	Council and Group 2018/19 £000	2019/20 £000
Comprehensive Income and Expenditure Statement						
Cost of services						
Current service cost	47,029	55,767	52,288	61,973	-	-
Past service cost (including curtailments)	9,315	(2,693)	9,747	(2,985)	-	-
	56,344	53,074	62,035	58,988	-	-
Financing and investment (income) and expenditure	5,196	7,150	5,416	7,495	1,408	1,319
Total post employment benefits charged to the surplus or deficit on the provision of services	61,540	60,224	67,451	66,483	1,408	1,319
Other post employment benefits charged to the comprehensive income and expenditure statement						
Remeasurement of the net defined benefit liability comprising:						

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	Council 2019/20 £000	2018/19 £000	Group 2019/20 £000	2018/19 £000	Council and Group 2019/20 £000
Return on plan assets excluding the amount included in the net interest expense	(46,031)	83,442	(46,292)	86,643	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	114,660	(156,425)	116,178	(164,360)	1,614	(1,744)
Actuarial (gains)/losses arising on changes in demographic assumptions	-	(55,131)	-	(57,009)	-	(1,689)
Experience adjustments	-	(8,646)	(98)	(9,019)	2,512	(2,005)
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	68,629	(136,760)	69,788	(143,745)	4,126	(5,438)

	Local Government Pension Scheme Council		Local Government Pension Scheme Group		Discretionary Benefits Arrangements Council and Group	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Movement in reserves statement						
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(61,540)	(60,224)	(67,451)	(66,483)	(1,408)	(1,319)
Actual amount charged against the General Fund balance for pensions in the year						
Employers contributions payable to the scheme	24,158	25,123	27,080	28,257	2,764	2,859

Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	Council		Group		Council and Group	
	31/03/19 £000	31/03/20 £000	31/03/19 £000	31/03/20 £000	31/03/19 £000	31/03/20 £000
Present value of the defined benefit obligation	(1,610,166)	(1,450,016)	(1,656,960)	(1,496,642)	(56,325)	(49,347)
Fair value of pension fund assets	1,327,566	1,269,075	1,362,085	1,305,971	-	-
Net liability arising from defined benefit obligation	(282,600)	(180,941)	(294,875)	(190,671)	(56,325)	(49,347)

Information about the defined benefit obligation

	Liability split 31/03/20		Duration Years	Liability split 31/03/20		Duration Years
	£000	(%)		£000	(%)	
Active members	730,791	50.5	23.4	756,856	50.7	23.4
Deferred members	208,384	14.4	22.5	225,434	15.1	22.5
Pensioner members	507,935	35.1	11.9	511,446	32.2	11.9
Total	1,447,110	100	18.1	1,493,736	100	18.1

The durations are weighted averages as at the last formal valuation date 31 March 2017.

Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/03/19 £000	31/03/20 £000	31/03/19 £000	31/03/20 £000	31/03/19 £000	31/03/20 £000
Opening fair value of scheme assets	1,255,799	1,327,566	1,284,827	1,362,085	-	-
Interest income	33,775	31,780	34,606	32,690	-	-
Return on plan assets	46,031	(83,442)	47,161	(85,774)	-	-
Contributions by employer	24,158	25,123	27,080	28,257	2,764	2,859
Contributions by Scheme participants	7,214	7,576	8,108	8,526	-	-
Estimated benefits paid (net of transfers in)	(39,411)	(39,528)	(39,697)	(39,813)	(2,764)	(2,859)
Closing fair value of scheme assets	1,327,566	1,269,075	1,362,085	1,305,971	-	-

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

	Funded Liabilities: Local Government Pension Scheme Council		Funded Liabilities: Local Government Pension Scheme Group		Unfunded Liabilities: Discretionary Benefits Council and Group	
	31/03/19	31/03/20	31/03/19	31/03/20	31/03/19	31/03/20
	£000	£000	£000	£000	£000	£000
Opening defined benefit obligation	(1,432,388)	(1,610,166)	(1,468,228)	(1,656,960)	(53,555)	(56,325)
Current service cost	(47,029)	(55,767)	(52,228)	(61,973)	-	-
Past service cost	(9,315)	2,693	(9,747)	2,985	-	-
Interest cost	(38,971)	(38,930)	(40,022)	(40,185)	(1,408)	(1,319)
Contributions by scheme participants	(7,214)	(7,576)	(8,108)	(8,526)	-	-
Actuarial gains/(losses) from changes in financial assumptions	(114,660)	156,425	(116,178)	162,274	(1,614)	1,744
Actuarial gains/(losses) from changes in demographic assumptions	-	55,131	-	57,009	-	1,689
Experience adjustments	-	8,646	99	9,020	(2,512)	2,005
Estimated benefits paid (net of transfers in)	39,411	39,528	39,697	39,813	-	-
Unfunded pension payments	-	-	-	-	2,764	2,859
Closing value	(1,610,166)	(1,450,016)	(1,656,960)	(1,496,642)	(56,325)	(49,347)

Analysis of Pension Fund's Assets

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

2018/19		2019/20
2%	Cash and cash equivalents	6%
	Equity Securities:	
	By industry type	
16%	Consumer	16%
9%	Manufacturing	8%
3%	Energy and utilities	2%
12%	Financial institutions	9%
3%	Health and care	5%
5%	Information technology	5%
2%	Other	1%
	Debt Securities:	
	By sector	7%
7%	Corporate	9%
8%	Government	
5%	Private Equity	6%
3%	Property Debt	3%
	Property:	
9%	UK	9%
	Other Investment Funds:	
16%	Equity (pooled funds and unitised insurance policies)	14%
-	Bonds	-
<u>100%</u>	Total	<u>100%</u>

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

Fair value of pension fund assets		
31 March 2019 £000		31 March 2020 £000
	Equity Instruments	
1,222,143	Quoted in an active market	1,153,123
105,423	Not quoted in an active market	115,952
<u>1,327,566</u>	Total equity instruments	<u>1,269,075</u>

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2017. The significant assumptions used by the actuary have been:

	2018/19	2019/20
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	21.9	21.0
• Women	24.3	23.2
Longevity at 65 for future pensioners (years)		
• Men	23.3	22.0
• Women	26.1	24.8
Rate of inflation	2.5%	1.9%
Rate of increase in salaries	3.5%	2.8%
Rate of increase in pensions	2.5%	1.9%
Rate for discounting fund liabilities	2.4%	2.3%
Take up option to convert annual pension into retirement lump sum (pre 2009)	50.0%	50.0%
Take up option to convert annual pension into retirement lump sum (post 2009)	75.0%	75.0%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption changes while all the other assumptions remain constant. The methods and types of assumption used in preparing the sensitivity analysis below did not change from that used in the previous period.

	Impact on the Defined Benefit Obligation in the Fund	
	Approximate % decrease/increase to Employer Liability	Approximate monetary amount (£000)
Rate of increase in salaries (increase or decrease by 0.5%)	2	22,704
Rate of increase in pensions (increase or decrease by 0.5%)	8	122,296
Rate for discounting fund liabilities (increase or decrease by 0.5%)	10	146,947

Asset and Liability Matching Strategy

The Highland Council Pension fund has an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing.

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas and some Private Equity. However, the portfolio has also invested in Index-Linked Gilts, Property, Property Debt, UK Bonds, Overseas Bonds, Private Equity and Cash. This diverse range of investments is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

With 80% of the Fund's investments in active management and 20% in index tracking (passive), it is intended that an efficient balance is met between risk and return in light of liability profile and the funding level.

Impact on the Authority's Cash Flow

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be conducted at 31 March 2020.

The actuaries have estimated that employer contributions for the year to 31 March 2021 will be approximately 24.771m.

The weighted average duration of the defined benefit obligation for scheme members is 18.0 years 2019/20 (18.1 years 2018/19).

27. Local Government Pension Scheme

Highland Council is the administering authority for The Highland Council Pension Fund which provides pensions for those employees of The Highland Council, Comhairle Nan Eilean Siar and of other scheduled and admitted bodies which are eligible to join it.

The following scheduled and admitted bodies are members of The Highland Council Pension Fund:

Scheduled Bodies

- | | |
|---|---------------------------------------|
| 1. The Highland Council | 7. HITRANS |
| 2. Comhairle Nan Eilean Siar | 8. Inverness College |
| 3. Highland and Western Isles Valuation Joint Board | 9. Lews Castle College |
| 4. Scottish Fire & Rescue Service | 10. Scottish Police Authority |
| 5. Highlands of Scotland Tourist Board | 11. Scottish Police Service Authority |
| 6. Western Isles Tourist Board | 12. The North Highland College |

Admitted Bodies (have applied and been accepted to participate in an LGPS fund under the terms of an 'Admission Agreement')

- | | |
|--|---|
| 1. Bord Na Gaidhlig | 10. Highlife Highland |
| 2. An Comunn Gaidhealach | 11. Inverness Harbour Trust |
| 3. Cromarty Firth Port Authority | 12. Morrison FM |
| 4. Eden Court Theatre | 13. NHS Highland |
| 5. Wipro Holdings (UK) Limited | 14. Skills Development Scotland |
| 6. Forth & Oban Limited | 15. Stornoway Port Authority |
| 7. Hebridean Housing Partnership | 16. University of the Highlands & Islands |
| 8. Highland Blindcraft | 17. Sight Action |
| 9. Highland & Islands Enterprise (HIE) | |

The following table shows the number of contributors, pensioners and deferred pensioners:

2019/20	Contributors	Pensioners	Deferred Pensioners
Highland Council	7,518	7,341	5,800
Scheduled Bodies	3,070	2,191	2,178
Admitted Bodies	2,232	1,015	1,040
Total	12,820	10,547	9,018
2018/19			
Highland Council	7,330	7,047	5,821
Scheduled Bodies	2,957	2,089	2,134
Admitted Bodies	2,312	899	1,020
Total	12,599	10,035	8,975

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of Governance being the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme Amendment (Scotland) Regulations 2010.

The Fund is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008, the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008. It is contracted out of the State Second Pension. From 1 April 2015 pension benefits for both Councillors and local government employees are based on career average pay.

The actuaries have advised that there are risks and uncertainties associated with the use of assumptions. IAS 19 requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As a result, the figures illustrated above are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Council's obligations to the Fund. Also, the balance sheet position may change significantly due to relative changes in the equity and bond markets at the reporting date.

The main risk to the employer is that it determines assumptions that are more prudent (for example a lower net discount rate, higher longevity) than its peers, leading to a relatively poorer reported financial position. The Council has considered the requirement for a best estimate set of assumptions and a commercial need not to overstate the pension liabilities.

As the administering authority, Highland Council is required to publish a pension fund annual report including a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices. The pension fund annual report is available at <http://www.highlandpensionfund.org/> or from Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

28. Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

The Scottish Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits).

An analysis of significant government grants received during the year is set out in Note 43.

Members

Elected Members have influence on the financial and operating policies of the Council through membership of Committees or Sub – Committees, subject to the declaration of interests provisions within the Councillors Code of Conduct.

The total of members' allowances paid in 2019/20 is shown in the remuneration report.

Alasdair Rhind Funeral Directors Ltd had debts of £0.028m owed to the Council at 31st March 2020.

Valuation Joint Board and Highland and Islands Transport Partnership

Highland Council is a constituent authority of the Highland and Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership. The net expenditure shown in the Comprehensive Income and Expenditure Statement represents the Council's requisition or proportion of the costs of these organisations.

The Joint Board and Transport Partnership are deemed to be associates of The Highland Council, and are included on this basis in the Group Accounts.

Further information on the Joint Board and the Transport Partnership can be found in each body's Annual Accounts available upon request from the Executive Chief Officer for Resources and Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX and the Highland Council website.

Pension Fund

The Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and other scheduled and admitted bodies which are eligible to join.

The Council charged the Pension Fund £1.315m (2018/19 £1.370m) for expenses incurred in administering the Pension Fund in the year.

NHS Highland

From 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. Under the partnership agreement effective from that date, Highland Council is the lead agency for the delivery of integrated children's services and NHS Highland lead agency for integrated adult services. In 2019/20 Highland Council paid NHS Highland £100.636m (2018/19- £94.250m) for the provision of integrated adult services and NHS Highland made payment of £10.681m (2018/19 - £9.656m) to Highland Council in respect of integrated children's services.

Entities controlled or significantly influenced by the Council

During the year Highland Council had two subsidiary companies as detailed below. Copies of the Accounts can be obtained from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

High Life Highland

High Life Highland (HLH) is a charitable company limited by guarantee which was incorporated along with its wholly owned subsidiary High Life Highland (Trading) CIC on 1 October 2011 to deliver community learning and leisure services on behalf of The Highland Council. The Highland Council is the sole member of the company.

The results of High Life Highland have been consolidated in the group accounts.

The following related companies have not been consolidated in the Group Accounts as they are considered immaterial:

Highland Opportunity Limited (HOL)

HOL provides financial assistance and advice to businesses to protect and expand employment. It is a company limited by guarantee with the liability of the Council limited to £100. During 2016/17 the Council took over delivery of some of the services previously provided by HOL.

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

Financial Year End	Net Assets £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
31 March 2019	29	(4)	(4)
31 March 2018	33	6	6

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

Company	Nature of business
Highland Opportunity (Investments) Limited	Investment

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

	Net assets (Liabilities) £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
Year ended 31 March 2019			
Highland Opportunity (Investments) Limited	2,202	(14)	(14)
Year ended 31 March 2018			
Highland Opportunity (Investments) Limited	2,216	46	6

Pathfinder North and Swan

The provision of Wide Area Network (WAN) service to the Highland Council has been through partnership arrangements with other Local Authorities. The Highland Council is the lead partner in the Local Authority partnership arrangements acting on behalf of Argyll & Bute Council, Orkney Islands Council, Moray Council, Angus Council and Comhairle nan Eilean Siar.

These partnership arrangements cover the SWAN contractual arrangements with Capita Business Services Ltd, the WAN service provider, as these have now fully replaced the original Pathfinder North contract.

Hub North Scotland Ltd

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

29. Operating Leases

Highland Council as Lessor

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

31/03/19 £000		31/03/20 £000
3,072	Not later than one year	3,272
9,047	Later than one year and not later than five years	10,617
<u>73,369</u>	Later than five years	<u>93,673</u>
<u>85,488</u>		<u>107,562</u>

Highland Council as Lessee

The future minimum lease payments due under non-cancellable leases in future years are:

31/03/19 £000		31/03/20 £000
1,155	Not later than one year	1,155
1,881	Later than one year and not later than five years	2,143
<u>1,003</u>	Later than five years	<u>703</u>
<u>4,039</u>		<u>4,001</u>

The total future minimum sublease payments expected to be received under non-cancellable subleases at the Balance Sheet date is £0.006m.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.244m (2018/19 £1.325m).

30. Property, plant and equipment

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2019	817,308	1,445,907	163,451	553,817	7,159	8,976	71,540	3,068,158	293,217
Additions	28,628	27,197	16,772	30,735	74	-	64,228	167,634	119
Revaluation increases recognised in the surplus/deficit of services	-	22,705	-	-	-	81	-	22,786	882
Revaluation decreases recognised in the surplus/deficit of services	(568)	(60,177)	-	-	-	(359)	-	(61,104)	-
Revaluation increases recognised in the Revaluation Reserve	-	47,138	-	-	-	1,745	-	48,883	8,866
Revaluation decreases recognised in the Revaluation Reserve	(56,381)	(33,889)	-	-	-	(161)	-	(90,431)	(156)
Derecognition – disposals	(209)	(46)	(2,136)	-	-	-	-	(2,391)	-
Derecognition – other	(3,481)	70	-	-	-	-	-	(3,411)	-
Reclassifications	14,293	18,049	-	-	-	(1,040)	(31,302)	-	60
Assets reclassified (to)/from Held for Sale	-	(4,062)	-	-	-	(855)	295	(4,622)	-
At 31 March 2020	799,590	1,462,892	178,087	584,552	7,233	8,387	104,761	3,145,502	302,988

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2019	59,646	6,320	93,226	130,359	-	126	9	289,686	-
Depreciation charge	14,712	23,287	16,430	17,112	-	7	-	71,548	4,412
Revaluation increases recognised in the surplus/deficit of services	-	(6,031)	-	-	-	(11)	-	(6,042)	-
Revaluation increases recognised in the Revaluation Reserve	(20,829)	(17,060)	-	-	-	(133)	-	(38,022)	(4,412)
Derecognition – disposals	(11)	-	(2,060)	-	-	-	-	(2,071)	-
Derecognition – other	(232)	-	-	-	-	-	-	(232)	-
Reclassifications	9	(48)	-	-	-	18	21	-	-
Assets reclassified (to)/from Held for Sale	-	(206)	-	-	-	-	-	(206)	-
At 31 March 2020	53,295	6,262	107,596	147,471	-	7	30	314,661	-
Net book value									
At 31 March 2020	746,295	1,456,630	70,491	437,081	7,233	8,380	104,731	2,830,841	302,988
At 31 March 2019	757,662	1,439,587	70,225	423,458	7,159	8,850	71,531	2,778,472	293,217

Comparative Movements in 2018/19 (restated)

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2018	797,576	1,345,555	145,945	523,732	6,408	12,767	60,517	2,892,500	271,546
Additions	36,449	33,587	18,755	30,085	751	1,207	25,486	146,320	2,217
Revaluation increases recognised in the surplus/deficit of services	-	14,570	-	-	-	21	-	14,591	-
Revaluation decreases recognised in the surplus/deficit of services	(432)	(14,550)	-	-	-	(6,706)	-	(21,688)	-
Revaluation increases recognised in the Revaluation Reserve	-	67,359	-	-	-	412	-	67,771	19,454
Revaluation decreases recognised in the Revaluation Reserve	(18,437)	(5,459)	-	-	-	(587)	-	(24,483)	-
Derecognition - disposals	(877)	(390)	(1,249)	-	-	-	(401)	(2,917)	-
Derecognition – other	(3,853)	-	-	-	-	-	(64)	(3,917)	-
Reclassifications	6,882	5,684	-	-	-	1,432	(13,998)	-	-
Assets reclassified (to)/from Held for Sale	-	(449)	-	-	-	430	-	(19)	-
At 31 March 2019	817,308	1,445,907	163,451	553,817	7,159	8,976	71,540	3,068,158	293,217

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2018	45,625	7,352	79,105	114,164	-	9	8	246,263	-
Depreciation charge	14,256	22,148	15,347	16,195	-	125	-	68,071	4,548
Revaluation increases recognised in the surplus/deficit of services	-	(298)	-	-	-	(378)	-	(676)	-
Revaluation increases recognised in the Revaluation Reserve	-	(22,302)	-	-	-	(149)	-	(22,451)	(4,548)
Derecognition - disposals	(42)	(18)	(1,226)	-	-	-	-	(1,286)	-
Derecognition - other	(193)	-	-	-	-	-	-	(193)	-
Reclassifications	-	(520)	-	-	-	519	1	-	-
Assets reclassified (to)/from Held for Sale	-	(42)	-	-	-	-	-	(42)	-
At 31 March 2019	59,646	6,320	93,226	130,359	-	126	9	289,686	-
Net book value									
At 31 March 2019	757,662	1,439,587	70,225	423,458	7,159	8,850	71,531	2,778,472	293,217
At 31 March 2018	751,951	1,338,203	66,840	409,568	6,408	12,758	60,509	2,646,237	271,546

The following table outlines the progress of the Council's 5 year rolling programme of valuations. The Council has carried out a desktop exercise in 2019/20 as part of the valuation process to adjust the values of assets valued under the DRC method by yearly changes in build rates and is satisfied that the carrying value not subject to revaluation would not be materially different than what would be their value if revalued in the year.

In 2019/20 as part of a better working practice, the 5 year rolling programme was reorganised to provide a more even level of valuations over the 5 year cycle and to help highlight any market trends within a certain year that may trigger a review over a whole category of assets. Due to overlap between the new and the previous programme the actual assets revalued will be greater than the number in each year of the new programme for the first 5 cycle.

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000
Carried at historical cost	-	-	70,491	437,081	7,233	-	104,731	619,536
Asset Last Revalued								
FY 2019/20	241,666	1,002,523	-	-	-	8,380	-	1,252,569
FY 2018/19	-	61,135	-	-	-	-	-	61,135
FY 2017/18	-	152,042	-	-	-	-	-	152,042
FY 2016/17	-	90,391	-	-	-	-	-	90,391
FY 2015/16	504,629	150,539	-	-	-	-	-	655,168
Total cost or valuation	746,295	1,456,630	70,491	437,081	7,233	8,380	104,731	2,830,841

31. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2020, for the acquisition of property, plant and equipment, was £60.323m (31 March 2019 £78.166m). Details of the major commitments by contract or project are as follows:

Contract or Project	2019/20 £m
HRA Housing - Council House New Builds	30.284
Alness Academy	8.456
Miscellaneous projects with an individual commitment less than £0.5m	7.816
Westlink	3.727
Inverness High School	2.314
Window & Door Replacements - Inverness	1.691
Merkinch Primary School	1.651
Legacy Projects	1.500
ICT Capital Commitments	1.313
Roof Replacements-Caithness and Ross & Cromarty	1.004
Local Full Fibre Network	0.567
	<u>60.323</u>

32. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

THE HIGHLAND COUNCIL ANNUAL ACCOUNTS 2019/20

2018/19 £000		2019/20 £000
1,096,530	Opening capital financing requirement	1,132,521
	Capital investment	
146,320	Property, Plant and Equipment	167,634
10,142	Revenue Expenditure funded from capital under statute	12,512
	Sources of finance	
(1,161)	Capital receipts	(1,289)
(1,047)	Capital Fund	(1,086)
(618)	Evergreen Infrastructure Fund	(1,015)
(71,464)	Government grants and other contributions	(84,355)
	Sums set aside from revenue	
(5,725)	- direct revenue contributions	(4,864)
(37,108)	- loans fund principal	(39,556)
4,619	Evergreen Infrastructure Fund Loans	1,015
(1,322)	House loans & NHT	(167)
(6,645)	Reduction in Finance Lease Creditors (PPP)	(5,989)
<u>1,132,521</u>	Closing capital financing requirement	<u>1,175,681</u>
	Explanation of movements in the year	
37,313	Increase in underlying need to borrow (supported by government financial assistance)	43,167
(1,322)	Decrease in underlying need to borrow (unsupported by government financial assistance)	(167)
<u>35,991</u>	Increase/(decrease) in capital financing requirement	<u>43,000</u>

Finance will only be raised in accordance with the Local Government in Scotland Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

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

33. Private finance initiatives and similar contracts

Community Schools (Highlands) Ltd

The Council signed a PFI Project Agreement with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this project in 2019/20 was £3.932m (2018/19 £3.868m). This charge covers the cost of the use of the school plus an amount relating to the transfer of the asset to the Council at the end of the contract.

The total amount payable under the contract from April 2020 until July 2027 amounts to £25.345m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £9.817m over the remaining term of the contract.

Alpha Schools (Highland) Ltd

The Council signed a 30 year Project Agreement with Alpha Schools (Highland) Ltd on the 30 March 2006 for the provision of 11 schools.

The annual unitary charge for this project in 2019/20 was £21.402m (2018/19 £21.149m). This charge covers the cost of the use of the schools plus an amount relating to the transfer of the assets to the Council at the end of the contract.

The total amount of unitary charge payable by the Council over the remaining term of the contract term is estimated to be £368.648m at current prices. The Council receives Revenue Support of £7.160m pa from the Scottish Government towards these costs. This support is estimated to amount to £121.720m over the remaining term of the contract.

Hub North Scotland (Wick) Limited

The Council signed a 25 year Design, Build, Finance and Maintain (DBFM) Project Agreement with Hub North Scotland (Wick) Limited on the 19th December 2014 for the provision of a Wick Community Campus comprising Primary School, High School, Public Library and Swimming Pool.

Under the DBFM Project Agreement Hub North Scotland (Wick) Limited construct the facility and carry out certain maintenance obligations during the operational phase using their own funding. Hub North Scotland (Wick) Limited will recover their costs through an indexed Annual Service Charge (ASC) payable by the Council over the 25 years.

In 2019/20 the Annual Service Charge amounted to £4.652m (2018/19 £4.630m). The total amount of Annual Service Charge payable by the Council over the remaining term of the contract is estimated to be £100.343m at current prices.

During the 25 year term of the Project Agreement the Council will receive financial support of £4.069m per annum from the Scottish Government towards the funding of the Annual Service Charge. This support is estimated to amount to £87.380m over the remaining contract term.

Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 30.

Liabilities arising from PFI and similar contracts

2018/19 £000		2019/20 £000
(161,456)	As at 1 April 2019	(154,811)
6,645	Repaid in year	5,989
<u>(154,811)</u>	As at 31 March 2020	<u>(148,822)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due	Repayment of liability £000	Interest £000	Service Charges £000	Total £000
within one year	6,652	10,616	12,297	29,565
within 2 to 5 years	24,607	36,198	52,735	113,540
within 6 to 10 years	41,873	34,944	79,079	155,896
within 11 to 15 years	43,232	19,673	82,981	145,886
within 16 to 20 years	28,158	4,644	42,035	74,837
within 21 to 25 years	4,300	278	2,625	7,203
	<u>148,822</u>	<u>106,353</u>	<u>271,752</u>	<u>526,927</u>

34. IFRS 13 Fair Value Measurement

Details of the authority's Corporate Surplus Assets and Assets Held for Sale and information about the fair value hierarchy as at 31 March 2020 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/20 £000
Buildings – Corporate Surplus	318	318
Buildings – Held for Sale	708	708
Land – Corporate Surplus	16,283	16,283
Land – Held for Sale	919	919
	<u>18,228</u>	<u>18,228</u>

The fair value for the properties has been based on the comparable method of valuation, which is a market approach using current market conditions and recent transactions and other relevant information for similar assets in the Highland Council area. The inputs are derived through market transactions of other properties actively exchanged through sales and leasing. The level of observable inputs are tangible transactions, leading to the properties being categorised at Level 2 in the fair value hierarchy. Note 7 explains the valuation techniques used in estimating fair value.

In estimating the value of the properties, that stated value does represent their highest and best use value in their current use.

The fair value of the authority's Corporate Surplus Assets and Assets Held for Sale is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. The authority's valuation experts work closely with finance officers reporting directly to the Chief Financial Officer on a regular basis regarding all valuation matters.

Details of the Common Good Funds' Investment properties held at fair value are shown in the Common Good accounts (Note 6).

35. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2018	6,290	2,246	8,536
Revaluations	-	22	22
Balance at 31 March 2019	<u>6,290</u>	<u>2,268</u>	<u>8,558</u>
Balance at 1 April 2019	6,290	2,268	8,558
Revaluations	-	(1,500)	(1,500)
Balance at 31 March 2020	<u>6,290</u>	<u>768</u>	<u>7,058</u>

36. Long term debtors

31/03/19 £000		31/03/20 £000
13,221	Scottish Police Authority	12,710
5,832	Scottish Fire and Rescue Service	5,324
13,871	Landbanking fund advances	17,642
5,443	Evergreen Infrastructure fund advances	6,458
16,033	National Housing Trust	15,870
1,082	Other loans	1,078
<u>55,482</u>	Long term debtors (net of impairment)	<u>59,082</u>

37. Short term debtors

31/03/19 £000 (restated)		Note	31/03/20 £000
12,906	Central government bodies		16,932
414	Other local authorities		550
2,615	NHS bodies		2,793
9	Public corporations		8
<u>32,897</u>	Other entities and individuals		<u>33,743</u>
48,841			54,026
(9,646)	Impairment Allowance	46	(10,156)
<u>39,195</u>	Total (net of impairment)		<u>43,870</u>
(4,999)	Prepayments included in debtors		(7,037)
<u>34,196</u>	Total Financial Assets Current Debtors	44	<u>36,833</u>

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

38. Debtors for Local Taxation

31/03/19				31/03/20		
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
4,697	7,645	12,342	Less than one year	4,739	17,063	21,802
5,990	2,823	8,813	One to two years	6,147	2,083	8,230
6,612	739	7,351	Three to five years	7,381	1,290	8,671
19,021	268	19,289	More than five years	18,627	130	18,757
<u>36,320</u>	<u>11,475</u>	<u>47,795</u>		<u>36,894</u>	<u>20,566</u>	<u>57,460</u>
(28,664)	(4,840)	(33,504)	Impairment Allowance	(28,356)	(4,519)	(32,875)
<u>7,656</u>	<u>6,635</u>	<u>14,291</u>	Total (net of impairment)	<u>8,538</u>	<u>16,047</u>	<u>24,585</u>

39. Short term creditors

31/03/19 £000		Note	31/03/20 £000
10,753	Central government bodies		11,629
899	Other local authorities		204
23,259	NHS bodies		25,033
-	Public corporations		3
5,989	Finance lease creditors		6,652
75,060	Other entities and individuals		72,131
<u>115,960</u>	Total		<u>115,652</u>
(8,549)	Tax and social security creditors included above		(7,249)
(6,496)	Receipts in advance included above		(7,244)
<u>100,915</u>	Total Financial Liabilities Current Creditors	44	<u>101,159</u>

40. Provisions

	Note	At 1/4/19 £000	Increase / (Decrease) in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/3/20 £000
Short term						
Equal Pay	1	251	-	(21)	-	230
Insurance	2	35	-	-	-	35
Building Dilapidations	3	515	(73)	-	19	461
		<u>801</u>	<u>(73)</u>	<u>(21)</u>	<u>19</u>	<u>726</u>

- (1) Provision made to meet anticipated costs of outstanding equal pay and single status claims, appeals against job evaluation outcomes and other related liabilities. The timing and amount of these settlements remains uncertain.
- (2) Provision made for outstanding insurance claims, uncertain with regard to timing.
- (3) Provision made for repairs on leased buildings where dilapidations may have occurred. The timing and amount of these settlements remains uncertain.

41. Long Term Liabilities

31/03/19 £000		31/03/20 £000
338,925	Pension Liability	230,288
148,823	Finance lease creditors	142,171
2,350	Other long term creditors	2,328
<u>490,098</u>		<u>374,787</u>

42. Contingent liabilities

Mallaig Harbour Authority

The Council has guaranteed a 25 year loan from the Public Works Loan Board to Mallaig Harbour Authority. The Harbour Authority's current loan obligations to the PWLB comprise half yearly repayments of principal and interest totalling £0.034m. The balance of that loan as at 31 March 2020 is £0.123m (31 March 2019 £0.150m).

In the event of default by the Harbour Authority in making any repayment, the PWLB would be entitled to demand payment of those instalments by the Council.

The Council in acting as loans guarantor is doing so under the powers, inter alia, of Section 171A of the Local Government (Scotland) Act 1973. The Council holds security over the Harbour Authority's land and buildings.

Holiday pay

As a result of Case Law relating to a European Directive, Local Authorities have to amend their traditional calculation of holiday pay. The Council is currently discussing the position with the trade unions and may have a liability relating to backdated payments of this nature. At this stage the absolute potential value of those back payments cannot be estimated with any certainty.

Building dilapidations

The Council leases a number of buildings which will require to be returned to their original leased condition at the end of the lease. Every attempt is made to maintain leased buildings in reasonable order. However the Council has a potential liability to incur re-instatement costs where the condition has deteriorated below that of the original state. A provision of £0.461m has been made for these costs, but other buildings exist for which the cost of repairs could not be reliably estimated.

Contractual challenges

A contractor has raised legal proceedings against the Council for payment of £1.600m in respect of issues with the dry recyclate contract.

Financial provision has not been made for this claim as the Council is defending the challenge and currently does not believe that a liability will arise.

Highland Council Pension Fund

The Council acts as Guarantor for the following Admitted bodies in the Highland Council Pension Fund:

Cromarty Firth Port Authority
Eden Court
Highland Opportunity Ltd

Highlands and Western Isles Joint Valuation Board
HITRANS
High Life Highland
Sight Action
UHI

Any liability would only materialise should the organisations cease to become members of the Fund and be unable to meet any termination value calculated by the Fund Actuaries.

McCloud Judgement

The decisions of the Court of Appeal in the Sargeant/McCloud cases (now generally known as McCloud for Local Government Pension Schemes) have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. Going forward remedies relating to the McCloud judgement will need to be made in relation to all public sector pension schemes including the LGPS.

The Council's pension liability and pension costs for 2018/19 and 2019/20 includes the actuary's estimate of the impact of the McCloud remedy, however the exact timing and costs to the Council are unknown at this time.

European Structural Fund

In May 2019 The European Commission (EC) suspended payment of any claims against the European Structural Fund (European Social Fund) submitted by or due to be submitted from Scottish Government until issues which were identified in an EC audit in July 2018 have been resolved. As a result there is currently a perceived significant risk to local government. However at this time there is insufficient information to articulate the extent and value of this risk to The Highland Council.

Guaranteed Minimum Pension (GMP)

GMP was accrued by members of the Local Government Pension Scheme between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women; however overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. Highland Council's Pension Fund's actuary estimates that the potential impact of GMP indexation would be an increase in the pension liability of approximately £2.906m for Highland Council. There is currently uncertainty around the arrangements for members reaching pension age after 6 April 2021, and therefore actuaries are unlikely to be able to make allowance in their estimates for this aspect. Due to the level of uncertainty, and the consequent difficulties in arriving at a reliable estimate, it is possible that the disclosure of a contingent liability would be the appropriate treatment.

43. Grant income

The Comprehensive Income and Expenditure Statement in 2019/20 includes the following grants, contributions and donations:

2018/19 £000 (restated)		2019/20 £000
	Credited to Taxation and non-specific grant income	
310,870	Revenue support grant	306,184
126,537	Non-Domestic rates	145,658
61,321	Capital grants and contributions	71,683
498,728		523,525
	Credited to services	
39,361	Housing Benefits	37,387
2,970	Early Learn/Childcare	13,444
10,143	Capital grants and contributions	12,512
3,477	European Grants and Contributions	4,489
4,371	Scottish Futures Trust - Wick Schools	4,097
4,081	Pupil Equity Funding	3,897
3,354	Criminal Justice Grant	3,418
4,918	Developers Contributions	2,937
-	Salix Financing	2,000
2,198	Home Energy Efficiency Programmes for Scotland: Area Based Schemes	1,530
-	Crown Estates	1,292
1,018	Attainment Challenge	1,138
1,066	Sport Scotland	1,051
939	Gaelic	905
93	Energy Efficiency Scotland	793
689	EMA Co-ordination	678
433	Family Nurse Partnership	528
302	Syrian Refugees	295
125	SAC - Education for LAC	208
218	Paths for All	136
578,484	Total	616,260

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows:

2018/19 £000		2019/20 £000
	Grants Received in Advance (Capital Grants)	
9,587	Nurseries 1,140 hours	17,187
4,000	Gaelic Grant c/f	4,000
-	- Town Centre Fund	2,762
2,097	VDLF	1,882
-	- Morvern RCGF funding in advance	664
-	- Community Links Plus	328
-	- Armadale RCGF funding in advance	255
74	City Deal	111
-	- Inverness Leisure Floodlights	82
293	Gairloch RCGF funding in advance	34
-	- Safer Routes to School	13
-	- 20mph Zones	7
-	- Rose St Car Park	1
145	Midmills RCGF funding in advance	-
63	Electric Vehicle Charging	-
50	Fairy Pools	-
48	HRA Grants	-
7	Ellen Wood Footpath	-
<u>16,364</u>	Total	<u>27,326</u>

44. Financial instrument balances

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

Financial Assets

Financial Assets					Financial Assets					
Non-Current		Current		Total	Non-Current		Current		Total	
Investments	Debtors	Investments	Debtors		Investments	Debtors	Investments	Debtors		
31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	
2019	2019	2019	2019	2019	2020	2020	2020	2020	2020	
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
820	55,482	78,516	34,196	169,014	Amortised cost	398	59,082	91,048	36,833	187,361
820	55,482	78,516	34,196	169,014	Total Financial Assets	398	59,082	91,048	36,833	187,361
-	-	-	19,290	19,290	Non-financial assets	-	-	480	31,622	32,102
820	55,482	78,516	53,486	188,304	Total	398	59,082	91,528	68,455	219,463

Non-financial assets held under current investments consist of cash in hand and at the bank as shown in note 18. Non-financial assets held under current debtors consist of prepayments and debtors for local taxation as shown in notes 37/38.

Financial Liabilities										
Non-Current		Current		Total		Non-Current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2019	2019	2019	2019	2019		2020	2020	2020	2020	2020
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
729,722	150,973	256,466	100,915	1,238,076	Amortised cost	822,964	144,322	217,601	101,159	1,286,046
729,722	150,973	256,466	100,915	1,238,076	Total Financial Liabilities	822,964	144,322	217,601	101,159	1,286,046
-	339,125	-	15,045	354,170	Non-financial liabilities	-	230,465	-	14,493	244,958
729,722	490,098	256,466	115,960	1,592,246	Total	822,964	374,787	217,601	115,652	1,531,004

Non-financial liabilities held under non-current creditors consist of the pension liability as shown in note 41, and a prepayment. Non-financial liabilities held under current creditors consist of receipts in advance and tax and social security creditors as shown in note 39.

Material soft loans made by the Council
Landbank fund loans

The Council operates a fund to account for transactions relating to the Affordable Social Housing (Landbanking) initiative. Interest free loans are made from the fund to various housing associations and bodies and these are deemed to be material soft loans. These are included within long term debtors.

2018/19 £000		2019/20 £000
10,724	Balance at 1 April 2019	13,871
4,556	Nominal value of new loans made in the year	3,760
(886)	Loans repaid in the year	(348)
(1)	Loans written off in the year	-
(522)	Fair value adjustment re interest uncharged in year	359
-	Other movements - transfer to interest bearing loans	(5,222)
13,871	Balance at 31 March 2020	12,420

The fair value of these soft loans is calculated based on the average loans fund rate in the initial year of the loan. For new loans provided in 2019/20 this was 3.85%.

Loans to Inverness Airport Business Park Limited

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

2018/19 £000		2019/20 £000
730	Balance at 1 April 2019	820
90	Fair value adjustment re interest uncharged in year	(9)
820	Balance at 31 March 2020	811
-	Impairment Loss Allowance	(413)
820	Balance net of impairment at 31 March 2020	398

Following the annual review of Inverness Airport Business Park Limited's capacity to make repayment of the Loan Stock to the Council, and IABP advising that their current projected profile for repayment of the outstanding Loan Stock is that it will be repaid in two equal amounts, the first of which will not be made until at least 2025 with the second payment being made at least 5 years after the first payment, it was decided to create an impairment loss allowance to reflect the credit risk in this investment and reduce its value in the accounts. The total reduction in value amounts to £0.422m, comprised of the impairment loss allowance of £0.413m in relation to the loan plus the £0.09m interest forgone charge for the year due to the cash flow change, and was approved by Corporate Resources Committee on 30th January 2020.

Valuation assumptions

The interest rate at which the fair value of the soft loan has been calculated is 4.52%.

45. Financial instrument gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2018/19 Surplus or Deficit on the Provision of Services £000		2019/20 Surplus or Deficit on the Provision of Services £000
2,829	Net (gains)/losses on:	
<u>2,829</u>	Financial assets measured at amortised cost	<u>2,897</u>
	Total (gains)/losses	2,897
	Interest revenue:	
(1,112)	Financial assets measured at amortised cost	(1,244)
<u>(1,112)</u>	Total interest revenue	<u>(1,244)</u>
54,441	Interest expense	58,259

Fair values of assets and liabilities carried at amortised cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost (in long term assets or liabilities with accrued interest in current assets or liabilities) is disclosed below.

Methods and assumptions in valuation techniques

The fair value of an instrument is determined by calculating the net present value (NPV) of future cash flows to provide an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation which ignores any motivation other than securing a fair price.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2020 using bid prices where applicable.

The calculations are made using the follow assumptions:

- For Public Works Loan Board (PWLB) debt, the discount rate used is the rate for new borrowing.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Where the exact maturity was not available interpolation techniques have been used.
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is deemed to be the invoiced or billed amount.

The fair values are as follows:

Fair value of liabilities carried at amortised cost

31/03/19			31/03/20	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
657,136	891,122	PWLB debt	714,846	894,458
137,778	215,596	Market long term	146,356	222,192
186,568	186,592	Temporary loans	174,045	174,021
		Loans Fund advances to group		
4,706	4,706	bodies	5,318	5,318
148,823	77,204	PFI	142,171	76,261
2,150	2,150	Long Term Creditors	2,151	2,151
100,915	100,915	Short Term Creditors	101,159	101,159
<u>1,238,076</u>	<u>1,478,285</u>	Financial liabilities	<u>1,286,046</u>	<u>1,475,560</u>

Fair value exceeds the carrying amount because the Council's loan portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This reflects the likely interest premium to be paid by the Council in the event of premature repayment of these loans.

Fair value of assets carried at amortised cost

31/03/19			31/03/20	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
39,235	39,235	Call accounts	91,048	91,048
39,281	39,282	Fixed term deposits	-	-
55,482	55,482	Long term debtors	59,082	59,082
34,196	34,196	Short term debtors	36,833	36,833
820	820	Loan to Inverness Airport Business Park	398	398
<u>169,014</u>	<u>169,015</u>	Financial assets	<u>187,361</u>	<u>187,361</u>

Fair value exceeds the carrying amount because the Council's investment portfolio includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

46. Nature and extent of risks arising from financial instruments

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

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

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

well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

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

Awaiting Approval

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

2018/19			Asset Class: Financial Assets Held at Amortised Cost	2019/20			Total £000
Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Total £000		Lifetime Expected Credit Losses – simplified approach Customers £000	Lifetime Expected Credit Losses – simplified approach Rent £000	Lifetime Expected Credit Losses – not credit impaired IABP £000	
4,994	5,661	10,655	Opening balance as at 1 April 2019	4,166	5,480	-	9,646
			Transfers:				
(2,383)	(1,455)	(3,838)	Amounts written off	(1,176)	(798)	-	(1,974)
1,555	1,274	2,829	Other changes	1,386	1,098	413	2,897
<u>4,166</u>	<u>5,480</u>	<u>9,646</u>	As at 31 March 2020	<u>4,376</u>	<u>5,780</u>	<u>413</u>	<u>10,569</u>

The Council has the following exposure to credit risk as at 31 March 2020:

	Credit risk rating	Gross carrying amount £000s
	%	
Significant increase in credit risk since initial recognition		
Inverness Airport Business Park Limited Soft Loan	50.92	811
Simplified Approach		
Customers	38.23	11,448
Rent	78.35	7,377
Landbank Fund Soft Loans	0.00	12,720
Deposits with Banks	0.00	91,048
Total		<u>123,404</u>

The landbank fund soft loans are not covered by an impairment loss allowance as the Council holds securities over the land in the case of non-payment.

Deposits with banks are not covered by an impairment loss allowance as the allowance calculated was immaterial.

The Council does not offer credit terms to customers.

All trade and other payables are due to be paid on the invoice date.

Debtors

The Council does not generally have negotiable credit terms for customers as any overdue amount is payable immediately. Sundry debtors can be analysed by age as follows:

31/03/19 £000		31/03/20 £000
7,457	Less than three months	3,588
439	Three to six months	431
1,194	Six to twelve months	1,250
6,033	More than twelve months	6,179
<u>15,123</u>	Total	<u>11,448</u>

Market risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Statement.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not affect the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would be reflected in the Comprehensive Income and Expenditure Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not affect the Balance Sheet for the majority of liabilities held at amortised cost but will have an impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to set upper limits for fixed and variable rate borrowings based on the Council's annual financing requirements. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the annual budget setting process and allows for any adverse changes to be accommodated. The strategy is based on the officers' views on interest rates supplemented with leading market forecasts provided by the Council's treasury adviser and covers capital expenditure and associated borrowing, prudential indicators, the current portfolio position, prospects for interest rates, economic background, borrowing strategy, debt rescheduling and investment strategy. The analysis will also consider whether new borrowing taken out is at fixed or variable rates.

According to the assessment strategy, at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Increase in interest payable on variable rate borrowings	553
Increase in interest receivable on variable rate investments	<u>(910)</u>
Impact on Income and Expenditure Account	<u>(357)</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u><u>12,354</u></u>

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

Price risk

The Council does not invest in equity shares.

Foreign exchange risk

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

Liquidity Risk

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

The maturity structure of financial liabilities is as follows:

31/03/2019		Liquidity risk	31/03/2020	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Financial Liabilities				
		Public Works Loans Board		
657,136	642,299		714,846	714,732
137,778	135,806	Market Loans	146,356	144,306
186,568	186,000	Temporary Loans	174,045	173,500
		Internal Loans Fund		
4,706	4,706	Advances	5,318	5,318
148,823	77,204	PFI and similar contracts	142,171	76,261
2,150	2,150	Long term creditor	2,151	2,151
100,915	100,915	Short term creditor	101,159	101,159
<u>1,238,076</u>	<u>1,149,080</u>		<u>1,286,046</u>	<u>1,217,427</u>
Maturity				
357,381	340,488	Less than 1 year	318,759	316,530
33,204	32,723	Between 1 and 2 years	22,760	22,297
75,574	73,874	Between 2 and 5 years	63,491	59,168
142,245	124,404	Between 5 and 10 years	154,071	138,857
629,672	577,591	More than 10 years	726,965	680,575
<u>1,238,076</u>	<u>1,149,080</u>		<u>1,286,046</u>	<u>1,217,427</u>

47. Events after Reporting Period

The unaudited annual accounts were issued by the Executive Chief Officer for Resources and Finance on 25 June 2020 and the audited accounts were authorised for issue on 28 January 2021.

The emergence of the coronavirus pandemic in the final quarter of financial year 2019/20 resulted in a number of containment measures being put in place by Government, most particularly the imposition of a 'lockdown'. The impact of that lockdown, but also wider coronavirus impact on demands for services and requirements for additional services has had, and will continue to have, a significant impact on the Council's finances. No adjustment has been made to the 2019/20 accounts in relation to coronavirus however financial impacts will be felt throughout 2020/21 and beyond. Regular reports on the Council's financial position are being taken to all full meetings of the Highland Council and the Council has established a Recovery Board to oversee the delivery of the Council's Recovery Action Plan.

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The major elements of expenditure on the Council housing stock and how that expenditure has been financed are included in the HRA. The totals on the HRA are included in the Comprehensive Income and Expenditure Statement.

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movement on the HRA.

2018/19 £000 (restated)		2019/20 £000	£000
	Income		
(49,633)	Dwelling rents (gross)	(51,695)	
(749)	Non-dwelling rents (gross)	(764)	
<u>(2,317)</u>	Other income	<u>(2,561)</u>	
(52,699)			(55,020)
	Expenditure		
17,715	Repairs and maintenance	18,046	
9,816	Supervision and management	12,416	
1,875	Impairment of debtors	-	
19,317	Depreciation and impairment of non-current assets	15,642	
<u>2,663</u>	Other expenditure	<u>850</u>	
51,386			46,954
(1,313)	Net (income)/expenditure from HRA services as included in Council Comprehensive Income and Expenditure Statement		(8,066)
12	HRA share of corporate and democratic core		
(1,301)	Net (income)/expenditure from HRA services		(8,066)
171	Loss on disposal of non-current assets	3,211	
10,385	Interest payable and similar charges	10,901	
(522)	Amortisation of premiums and discounts	(546)	
(62)	Interest and investment income	(95)	
389	Pension net interest	509	
(7,893)	Capital Grants and contributions	(13,136)	
-	Impairment of debtors	1,934	
<u>2,468</u>			2,778
<u>1,167</u>	Deficit on HRA services		<u>5,288</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2018/19 £000		2019/20	
		£000	£000
(7,328)	Balance on HRA at 1 April 2019		(7,328)
	Deficit for the year on HRA Income and Expenditure Statement		5,288
	Adjustments between accounting basis and funding basis under statute		
(171)	Loss on sale of HRA non current assets	(3,211)	
<u>3,891</u>	Capital expenditure funded by the HRA	<u>3,395</u>	184
3,720			
	Transfer to the Capital Adjustment Account		
(19,317)	- Depreciation and impairment	(15,642)	
7,611	- repayment of debt	9,244	
<u>7,893</u>	- Capital grants and contributions	<u>13,136</u>	6,738
(3,813)			
(1,596)	HRA share of contributions to the Pensions Reserve		(2,180)
	HRA share of transfer from the Financial Instruments Adjustment Account		546
<u>(7,328)</u>	Balance on HRA at 31 March 2020		<u>(7,328)</u>

The 2018/19 figures have been restated – please see note 3 Prior period adjustment.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/19 £000		31/03/20 £000
2,262	Current tenants	2,224
<u>1,024</u>	Former tenants	<u>1,127</u>
<u><u>3,286</u></u>	Total	<u><u>3,351</u></u>

2. Uncollectable rent voids

Uncollectable rent voids of £1.006m (2018/19 £1.005m) have been netted off against rental income.

3. Impairment of debtors

In 2019/20 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/19 £000		31/03/20 £000
2,108	Rent arrears	2,187
<u>481</u>	Sundry debts	<u>588</u>
<u><u>2,589</u></u>		<u><u>2,775</u></u>

4. Housing Stock

The Council's housing stock was as follows

31/03/19 Number	Type of House	31/03/20 Number
251	1 apartment	239
3,590	2 apartment	3,644
5,750	3 apartment	5,814
4,075	4 apartment	4,091
357	5 apartment	362
26	6 apartment	24
-	7 apartment	-
2	8 apartment	2
<u>1</u>	10 apartment	<u>1</u>
<u><u>14,052</u></u>		<u><u>14,177</u></u>

COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from Council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

2018/19 £000		2019/20 £000
149,863	Gross Council Tax levied and contributions in lieu	156,069
(11,933)	Council Tax Reduction Scheme	(11,993)
(16,461)	Other discounts and reductions	(17,284)
(2,323)	Write off of uncollectable debts and allowances for impairment	(2,467)
	Adjustments for prior years Council Tax and	
917	Community Charge	545
120,063	Net Council Tax income per the Comprehensive Income and Expenditure Statement	124,870

NOTES TO THE COUNCIL TAX INCOME ACCOUNT**Calculation of the Council Tax base 2019/20**

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	47	(5)	(1)	41	200/360	23
A	19,551	(1,133)	59	(2,447)	(358)	15,672	240/360	10,448
B	23,273	(1,053)	34	(2,486)	(399)	19,369	280/360	15,065
C	23,897	(808)	(4)	(2,187)	(535)	20,363	320/360	18,100
D	19,077	(373)	53	(1,365)	(434)	16,958	360/360	16,958
E	18,864	(306)	(72)	(1,057)	(420)	17,009	473/360	22,348
F	9,317	(117)	(61)	(366)	(188)	8,585	585/360	13,951
G	4,499	(57)	(53)	(142)	(137)	4,110	705/360	8,048
H	331	(12)	(3)	(8)	(32)	276	882/360	676
Total	118,809	(3,859)	0	(10,063)	(2,504)	102,383	0	105,617
							Council Tax Reduction	(9,437)
							Contributions in lieu	153
							Provision for non- collection (1.89%)	(1,820)
							Council tax base	94,513

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

Dwellings fall within a valuation band between A to H which is determined by the Assessor. The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. This value is then increased or decreased depending on the band. The band D charge for 2019/20 was £1,270.83.

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

Properties can be exempt if they are unoccupied or occupied by certain categories of occupier.

A discount of 25% is available for properties occupied by only one liable person aged 18 years or over.

A discount of 50% is available on unoccupied properties which are either purpose built holiday homes, job related dwellings, properties undergoing major repair work to render it habitable or unfurnished for less than 12 months.

A discount of up to 10% can be awarded for a maximum period of 12 months for long term empty properties which are furnished. After this a 200% Council Tax charge will apply.

Exemption can be awarded for up to 6 months for long term empty properties which are unfurnished. A discount of up to 10% can then be applied for a further 6 months. When the discount ends a 200% Council Tax charge will apply.

Highland Council is required to collect any domestic water and waste water charges on behalf of Scottish Water. Charges for Water & Sewerage are the responsibility of Scottish Water.

Highland Council Tax charges for 2019/20:

Band A (disabled band reduction)	£706.02
Band A	£847.22
Band B	£988.42
Band C	£1,129.63
Band D	£1,270.83
Band E	£1,669.73
Band F	£2,065.10
Band G	£2,488.71
Band H	£3,113.53

NON-DOMESTIC RATE ACCOUNT

The Non-Domestic Rate (NDR) Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic rate pool.

2018/19 £000		2019/20 £000
186,571	Gross rates levied and contributions in lieu	188,011
(40,937)	Reliefs and other deductions	(42,056)
(2,168)	Write-off of uncollectible debts and allowance for impairment	(1,345)
143,466	Net Non-Domestic Rate Income (NNDR)	144,610
(2,743)	Adjustment to previous years' national Non-Domestic rates	(7,388)
-	Non Domestic Rate Income Retained by Council (BRIS)	(2,418)
140,723	Contribution to Non-Domestic Rate Pool	134,804

NOTES TO THE NON-DOMESTIC RATE ACCOUNT

Non-Domestic Rate Income as reported under taxation and non-specific grant income comprises income assigned by the Scottish Government from the national non-domestic rates pool, as well as non-domestic rate income which is not submitted to the national pool but is retained by the Council.

126,537	Distribution from Non-Domestic Rate Pool	143,240
-	Non-Domestic Rate Income retained by Council (BRIS)	2,418
-	Income from previous years BRIS	-
126,537	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	145,658

Net Rateable Value Calculation

The amount paid for NNDR is determined by the rateable value placed on the property by the Assessor multiplied by the rate per pound, which is determined each year by the Scottish Government. The NNDR poundage rate set by the Scottish Government for 2019/20 was 49p Rateable Value equal to or less than £51,000 and 51.6p Rateable Value greater than £51,000.

Highland Council Rateable Values

1 April 2019			1 April 2020	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,653	66,039	Shops	2,671	65,734
908	27,949	Public houses and hotels	915	27,079
1,727	29,384	Offices	1,711	28,660
2,742	48,751	Industrial subjects	2,746	48,534
5,440	27,703	Leisure, entertainment, caravans and holiday sites	5,663	28,020
324	5,127	Garages and petrol stations	320	5,310
2,862	32,424	Cultural, sporting subjects, education and training	2,732	31,288
1,113	16,420	Public service subjects	1,114	16,344
2,143	125,519	Miscellaneous	2,143	125,591
19,912	379,316	Total	20,015	376,560

Awaiting Approval

COMMON GOOD FUNDS ACCOUNTS

Highland Council administers the Common Good Funds of the former Burgh Councils of Inverness, Nairn, Ross and Cromarty, and Badenoch and Strathspey. The two smallest Common Good Funds, Grantown and Kingussie, are included in the following statements, but due to the size of the funds, are not listed separately. Further details are, however, available on request.

All funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established.

Accounting Policies

The Common Good accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in Note 5 to the financial statements. In addition the Common Good fund has investment properties which are those used solely to earn rentals and for capital appreciation.

Investment property values are determined by applying IFRS13 – Fair Value Measurement. Disclosures regarding the valuation of investment properties are detailed in Note 6 to the accounts. Investment properties are not depreciated but are revalued annually. Gains and losses on revaluation are recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment applies to gains and losses on disposal.

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
2,109	(154)	1,955	Inverness	1,972	(133)	1,839
20	(15)	5	Nairn	29	(15)	14
17	-	17	Tain	6	-	6
23	-	23	Dornoch	20	(1)	19
26	-	26	Dingwall	33	(33)	0
85	-	85	Fortrose	3	-	3
1	-	1	Cromarty	-	-	-
1	-	1	Invergordon	2	-	2
2,282	(169)	2,113	Cost of services	2,065	(182)	1,883
		(2,434)	Financing and investment income and expenditure (note 2)			(934)
		(60)	Capital Grants and Contributions			(60)
		(381)	(Surplus)/Deficit on provision of services			889
		-	Deficit/(surplus) on revaluation of heritage assets			(1,500)
		-	Other comprehensive income and expenditure			(1,500)
		(381)	Total comprehensive (income) and expenditure			(611)

MOVEMENT IN RESERVES STATEMENT 2018/19	Revenue Reserves £000	Capital Receipts Reserve £000	Available for Sale Reserve £000	Revaluation Reserve £000	Capital Adjustment Account £000	Total Reserves £000
Balance at 31 March 2018	6,460	120	2,504	2,578	30,699	42,361
Movement in reserves during 2018/19						
Total Comprehensive Income and Expenditure	381	-	-	-	-	381
Adjustments between accounting and funding basis (note 1)	(696)	-	-	-	696	-
Net increase/(decrease) before transfers to other statutory reserves	(315)	-	-	-	696	381
Transfers between statutory reserves	2,504	-	(2,504)	-	-	-
Net increase/(decrease)	2,189	-	(2,504)	-	696	381
Balance at 31 March 2019	8,649	120	-	2,578	31,395	42,742

COMMON GOOD FUNDS ANNUAL ACCOUNTS 2019/20

MOVEMENT IN RESERVES STATEMENT 2019/20	Revenue Reserves	Capital Receipts Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2019	8,649	120	2,578	31,395	42,742
Movement in reserves during 2019/20					
Total Comprehensive Income and Expenditure	(889)	-	1,500	-	611
Adjustments between accounting and funding basis (note 1)	(1,117)	-	-	1,117	-
Net increase/(decrease) before transfers to other statutory reserves	(2,006)	-	1,500	1,117	611
Transfers between statutory reserves	-	-	-	-	-
Net increase/(decrease)	(2,006)		1,500	1,117	611
Balance at 31 March 2020	6,643	120	4,078	32,512	43,353

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 March 2020**

31/03/19 £000		Notes	31/03/20 £000
2,870	Heritage Assets	4	4,370
31,092	Investment Properties	4,6	32,210
11	Intangible Assets	7	10
<u>7,622</u>	Investments	8	<u>5,801</u>
41,595	Long Term Assets		42,391
1,329	Cash and cash equivalents	9	1,166
5	Inventories		8
<u>13</u>	Sundry debtors		<u>9</u>
1,347	Current Assets		1,183
<u>(200)</u>	Sundry creditors		<u>(221)</u>
(200)	Current Liabilities		(221)
1,147	Net current assets		962
<u>42,742</u>	Net assets		<u>43,353</u>
8,649	Revenue funds	10	6,643
<u>120</u>	Capital Receipts Reserve	10	<u>120</u>
8,769	Usable Reserves		6,763
2,578	Revaluation Reserve	11	4,078
<u>31,395</u>	Capital Adjustment Account	13	<u>32,512</u>
33,973	Unusable Reserves		36,590
<u>42,742</u>	Total Reserves		<u>43,353</u>

CASH FLOW STATEMENT

31/03/19 £000		Notes	31/03/20 £000
381	Net surplus/(deficit) on the provision of services		611
(4)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	16	(229)
<u>377</u>	Net cash outflow from operating activities		<u>382</u>
<u>(295)</u>	Investing activities	17	<u>(545)</u>
82	Net increase/(decrease) in cash and cash equivalents		(163)
1,247	Cash and cash equivalents at 1 April 2019		1,329
<u>1,329</u>	Cash and cash equivalents at 31 March 2020		<u>1,166</u>

NOTES TO THE COMMON GOOD FUNDS ACCOUNTS**1. Movement in Reserves Statement - Adjustment between accounting and funding basis**

2019/20	Capital Receipts Reserve £000	Capital Adjustment Account £000	Total 2019/20 £000
Transfer of sales proceeds	-	-	-
Realised gain/(loss) in investments	-	-	-
Revaluation of investment properties	-	(627)	(627)
Capital grants and contributions	-	60	60
Capital expenditure funded from revenue	-	1,685	1,685
Depreciation and amortisation	-	(1)	(1)
	-	<u>1,117</u>	<u>1,117</u>

2018/19	Capital Receipts Reserve £000	Capital Adjustment Account £000	Total 2018/19 £000
Transfer of sales proceeds	-	-	-
Realised gain/(loss) in investments	-	-	-
Revaluation of investment properties	-	(357)	(357)
Capital grants and contributions	-	60	60
Capital expenditure funded from revenue	-	994	994
Depreciation and amortisation	-	(1)	(1)
	-	<u>696</u>	<u>696</u>

2. Comprehensive income and expenditure statement – Financing and investment income and expenditure

2018/19 £000		2019/20 £000
(788)	Interest and investment income and expenditure	(392)
(2,468)	Rental income	(2,439)
252	Property costs	306
357	(Surplus)/deficit on revaluation of investment properties	627
(379)	(Gains)/losses on valuation of financial assets	807
592	(Gains)/ losses on derecognition of financial assets	157
<u>(2,434)</u>		<u>(934)</u>

3. Operating leases

Common Good Fund as lessor

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

2018/19		2019/20
£000		£000
<u>2,468</u>	Lease income received in year	<u>2,439</u>

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

31/03/19		31/03/20
£000		£000
2,211	Within one year	2,258
7,327	Later than one year and not later than five years	7,339
77,690	Later than five years	81,229
<u>87,228</u>		<u>90,826</u>

4. Non-current assets

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

Movements in 2019/20

	Investment Properties £000	Heritage Assets £000	Total £000
Gross book value			
As at 1 April 2019	31,092	2,870	33,962
Additions	1,745	-	1,745
Revaluations	(627)	1,500	873
As at 31 March 2020	<u>32,210</u>	<u>4,370</u>	<u>36,580</u>
Net book value			
As at 31 March 2020	<u>32,210</u>	<u>4,370</u>	<u>36,580</u>
As at 31 March 2019	<u>31,092</u>	<u>2,870</u>	<u>33,962</u>

Investment Properties – Fair Value Measurement

Valuation Techniques used to Determine Fair Values for Investment Properties

- Kenny Forbes (MRICS), Property Manager, Development and Infrastructure Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31 March 2020. However, the valuation of Inverness Town House was carried out by the District Valuer. All Common Good Fund Investment Properties have been valued in accordance with IFRS 13 – Fair Value Measurement and have been categorised at Level 2 within the Fair Value Hierarchy.

- Significant Observable Inputs – Level 2
The fair value for the investment properties has been based on the comparable method of valuation, which is a market approach using current market conditions, recent transactions and other relevant information for similar assets in the Highland Council area. The inputs are derived through market transactions of other properties actively exchanged through sales and leasing. The levels of observable inputs are tangible transactions, leading to the properties being categorised at Level 2 in the fair value hierarchy.
- Highest and Best Use of Investment Properties
In estimating the value of the Common Good Fund Investment Properties, the stated value represents their highest and best use in their current use.
- No changes in valuation methods for any of the properties have occurred.

Heritage Assets

Heritage assets relate to works of art and other movables and are included at insurance values.

5. Related Parties

During the period the Council incurred £0.065m in relation to the administration of the Common Good Funds and was subsequently reimbursed for these expenses.

Common Good properties are used for service delivery by the Council. The Council paid the Common Good Fund £0.280m in rental income.

6. Investment property

The Common Good Funds own a number of properties which are held to generate rental income and for capital appreciation. These are accounted for as investment property and are held at fair value in accordance with the Code. The fair value reflects market conditions at the balance sheet date and is reviewed annually. Gains or losses arising from changes in the fair value are recognised in the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement. The consumption of economic benefits in each asset over time is reflected in the fair value of the property and therefore investment properties are not depreciated. Investment properties are leased out to third parties under operating leases. At the balance sheet date the fair value of investment properties held by each fund was as follows:

31/03/19 £000	Investment Property at Fair Value	31/03/20 £000
	Common Good Fund	
22,478	Inverness	23,505
7,545	Nairn	7,445
317	Tain	325
332	Dornoch	530
187	Dingwall	190
123	Fortrose	159
56	Cromarty	56
54	Invergordon	-
<u>31,092</u>		<u>32,210</u>

7. Intangible assets

2018/19			2019/20	
£000			£000	
12	Fishing Licence – Tain		11	
(1)	As at 1 April 2019		(1)	
	Amortisation			
<u>11</u>	As at 31 March 2020		<u>10</u>	

8. Long Term Investments

31/03/19			31/03/20	
Cost £000	Valuation £000		Cost £000	Valuation £000
4,836	7,117	Inverness - Managed portfolio	3,970	5,338
494	505	Nairn – Managed portfolio	503	463
<u>5,330</u>	<u>7,622</u>		<u>4,473</u>	<u>5,801</u>

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

31/03/19			31/03/20	
Cost £000	Valuation £000	Units Held	Cost £000	Valuation £000
2,568	4,841	Equities	2,249	3,577
2,103	2,111	Bonds	1,663	1,703
165	165	Cash	58	58
<u>4,836</u>	<u>7,117</u>	Total	<u>3,970</u>	<u>5,338</u>

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

31/03/19			31/03/20	
Cost £000	Valuation £000	Units Held	Cost £000	Valuation £000
365	373	Equities	369	324
84	85	Bonds	84	86
28	28	Cash	33	33
17	19	Property	17	20
<u>494</u>	<u>505</u>	Total	<u>503</u>	<u>463</u>

9. Cash and cash equivalents

31/03/19			31/03/20	
£000			£000	
1,328	Balance with Highland Council Loans Fund		1,166	
1	Cash in Hand		-	
<u>1,329</u>	Total		<u>1,166</u>	

10. Usable Reserves**Common Good Funds**

Revenue Funds	Balance at 1/04/19 £000	Movement 2019/20 £000	Balance at 31/03/20 £000
Inverness	7,070	(2,076)	4,994
Nairn	623	(2)	621
Tain	221	3	224
Dornoch	279	36	315
Dingwall	219	17	236
Fortrose	130	8	138
Cromarty	33	5	38
Invergordon	74	3	77
Total	8,649	(2,006)	6,643

Included within the above totals are the unrealised gains related to the Investment portfolios that were transferred from the Available for Sale Asset Reserve to the Revenue Reserve in 2018/19 as required by IFRS 9: Financial Instruments which are not available for use. These totals are:

	Balance at 1/04/19 £000	Movement 2019/20 £000	Balance at 31/03/20 £000
Inverness	2,281	(913)	1,368
Nairn	11	(51)	(40)
Total	2,292	(964)	1,328

Capital Receipts Reserve	Balance at 01/04/2019 £000	Proceeds of Sale of Non- Current Assets £000	Balance at 31/03/2020 £000
Tain	120	-	120
	120	-	120

11. Unusable Reserves

Revaluation Reserve	Balance at 31/03/19 £000	Revaluations 2019/20 £000	Balance at 31/03/20 £000
Fund			
Inverness	2,063	-	2,063
Nairn	60	-	60
Tain	94	-	94
Dornoch	22	-	22
Fortrose	254	-	254
Invergordon	85	1,500	1,585
Total	2,578	1,500	4,078

12. Available for Sale Reserve

2018/19		2019/20
£000		£000
2,504	Balance at 1 April 2019	-
-	Revaluation of investments	-
-	Accumulated gains on assets sold	-
(2,504)	Transfer to revenue reserves	-
-	Balance at 31 March 2020	-

The balance held in the Available for Sale Reserve was transferred to the Revenue Reserves in 2018/19 as required by IFRS 9: Financial Instruments.

13. Capital Adjustment Account

Fund	Balance at 01/04/19 £000	Revaluations 2019/20 £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/20 £000
Inverness	22,478	(718)	60	1,685	-	23,505
Nairn	7,545	(100)	-	-	-	7,445
Tain	620	8	-	-	(1)	627
Dornoch	332	198	-	-	-	530
Dingwall	187	3	-	-	-	190
Fortrose	123	36	-	-	-	159
Cromarty	56	-	-	-	-	56
Invergordon	54	(54)	-	-	-	-
Total	31,395	(627)	60	1,685	(1)	32,512

14. Financial Instrument balances

Categories of Financial Instruments

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

Financial Assets

Non-Current		Current		Total		Non-Current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2019	2019	2019	2019	2019		2020	2020	2020	2020	2020
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
7,622	-	-	-	7,622	Fair value through profit or loss	5,801	-	-	-	5,801
-	-	1,328	13	1,341	Amortised cost	-	-	1,166	9	1,175
7,622	-	1,328	13	8,963	Total Financial Assets	5,801	-	1,166	9	6,976
-	-	1	-	1	Non-financial assets	-	-	-	-	-
7,622	-	1,329	13	8,964	Total	5,801	-	1,166	9	6,976

Non-financial assets held under current investments consist of cash in hand as shown in note 9.

Financial Liabilities

Non-Current		Current		Total		Non-Current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
31 March	31 March	31 March	31 March	31 March		31 March	31 March	31 March	31 March	31 March
2019	2019	2019	2019	2019		2020	2020	2020	2020	2020
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
-	-	-	200	200	Amortised cost	-	-	-	221	221
-	-	-	200	200	Total Financial Liabilities	-	-	-	221	221

15. Financial Instruments Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2018/19		2019/20
Surplus or Deficit on the Provision of Services £000		Surplus or Deficit on the Provision of Services £000
213	Net (gains)/losses on:	
213	Financial assets measured at fair value through profit or loss	964
	Total (gains)/losses	964
	Interest revenue:	
(788)	Financial assets measured at amortised cost	(392)
(788)	Total interest revenue	(392)

Fair Values of Financial Assets

Some of the Common Good's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31/03/19 £000	31/03/20 £000
Fair Value through Profit and Loss				
Investment portfolios held with Adam and Co	Level 1	Unadjusted quoted prices in active markets for identical investments	7,622	5,801
Total			<u>7,622</u>	<u>5,801</u>

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

Credit Risk

The investment portfolios are not covered by the impairment loss allowance requirements. Their maximum exposure to credit risk is their carrying amount and any changes in the fair value of the portfolios are attributable to changes in the credit risk.

16. Cashflow statement – Adjustments for non-cash movements

2018/19 £000		2019/20 £000
	Non-cash items	
1	Depreciation and impairments	1
(166)	Revaluation of investments	(252)
	Items on accruals basis	
40	(Increase)/decrease in debtors	4
126	Increase/(decrease) in creditors	21
(5)	(Increase)/decrease in inventories	(3)
<u>(4)</u>		<u>(229)</u>

17. Cashflow statement – investing activities

2018/19 £000		2019/20 £000
760	Proceeds from long term investments	1,200
(1,055)	Purchase of Investment Properties	(1,745)
<u>(295)</u>		<u>(545)</u>

18. Capital Commitments

Renovation works continue at Inverness Town House, Phase 1 and Phase 2 of these works have now been completed. Phase 3 of the project remains ongoing with an estimated further £0.900m of contracted works still to be undertaken over the next year.

As in previous years this will require to be funded from the liquidation of long term investments, which will significantly reduce the existing Fund balance and reduce scope for supporting new projects in the foreseeable future.

Awaiting Approval

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

ACCOUNTING POLICIES

The Trust Fund accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 3 to the financial statements. However, the following statements include the accounts of Highland Council Charitable Trusts and Highland Charities Trust. Highland Charities Trust accounts have been prepared on a Receipts and Payments basis and in 2019/20 Highland Council Charitable Trusts adopted the Charities SORP in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). In adopting the SORP, investments are held at Fair Value (Market value) in the financial statements.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2020

2018/19				2019/20		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
43	17	225	Incoming resources	345	206	100
(36)	(28)	(263)	Expenditure resources	(61)	(14)	(120)
7	(11)	(38)	Net incoming / (outgoing) resources before other recognised gains & losses	284	192	(20)
-	-	-	Other gain / (losses)	1,244	-	-
7	(11)	(38)	Net Movement in Funds	1,528	192	(20)
2,266	714	2,036	Reconciliation of Funds			
2,259	725	2,074	Total Funds brought forward at 1 April	2,259	725	2,076
			Total Funds carried forward at 31 March	3,787	917	2,054

BALANCE SHEET AS AT 31 MARCH

31 March 2019			31 March 2020		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000	Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
860	16	1,347			
Non current assets					
			Investments		
			2,110	6	1,309
Current assets					
			Debtor - Highland Council Loans Fund		
1,399	709	727	1,677	911	745
Net assets					
2,259	725	2,074	3,787	917	2,054
1,904	446	1,109	Capital funds	646	1,071
355	279	965	Revenue funds	271	983
2,259	725	2,074	Total funds	917	2,054

NOTES TO THE CHARITABLE, EDUCATIONAL AND OTHER TRUST FUND ACCOUNTS

CHARITABLE TRUSTS

Highland Council administers two registered Scottish Charities which are for the benefit of various specific causes. Annual accounts have been prepared for each of the 2 charities under the Office of the Scottish Charities Regulator Regulations.

At 31 March 2020 the balances and investments held are as follows:

Fund Balance £000	31 March 2019		Charity	Scottish Charity Number	31 March 2020	
	Investments at cost £000	Investments at valuation £000			Fund Balance £000	Investments at cost £000
154	1	3	Highland Charities Trust	SC044714	147	1
<u>2,105</u>	<u>859</u>	<u>2,326</u>	Highland Council Charitable Trusts	SC025079	<u>2,390</u>	<u>2,109</u>
<u>2,259</u>	<u>860</u>	<u>2,329</u>	Total Charitable Trusts		<u>2,537</u>	<u>2,110</u>

TRUST FUNDS UNAUDITED ANNUAL ACCOUNTS 2019/20

EDUCATIONAL TRUST FUNDS

Highland Council administers 42 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2020 the balances and investments held are as follows:

31 March 2019				31 March 2020		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
20	1	-	George Kerr Bequest	23	-	-
29	-	-	Howard Doris fund – Plockton High School	30	-	-
296	15	760	Inverness Royal Academy Educational Trust	511	6	277
111	-	-	Manson Bequest – Keiss	103	-	-
130	-	-	Manson Bequest – Nairn and Ardclach	130	-	-
12	-	-	Miss B G Angus Executory	11	-	-
127	-	-	Other Educational Trusts	109	-	-
<u>725</u>	<u>16</u>	<u>760</u>	Total Educational Trusts	<u>917</u>	<u>6</u>	<u>277</u>

TRUST FUNDS UNAUDITED ANNUAL ACCOUNTS 2019/20

OTHER TRUST FUNDS

Highland Council administers other trust funds which are for the benefit of various specific causes and are administered in accordance with the terms of the individual bequests. The balances and investments held are as follows:

31 March 2019				31 March 2020		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
719	789	1,387	Inverness Burial Grounds Fund	721	770	1,197
616	558	888	Inverness Benevolent Funds	599	539	786
58	-	-	Social Work Amenity Funds	50	-	-
156	-	-	Inverness – Other Trust Funds	157	-	-
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-
139	-	-	Caithness Trust Funds	138	-	-
123	-	-	Lochaber Trust Funds	123	-	-
87	-	-	Nairn Trust Funds	92	-	-
145	-	-	Ross and Cromarty Trust Funds	143	-	-
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
22	-	-	Sutherland Trust Funds	22	-	-
<u>2,074</u>	<u>1,347</u>	<u>2,275</u>	Total other trust funds	<u>2,054</u>	<u>1,309</u>	<u>1,983</u>

Awaiting Approval

GROUP ACCOUNTS

Awaiting Approval

THE HIGHLAND COUNCIL GROUP ANNUAL ACCOUNTS 2019/20

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards.

Gross Expenditure £000	2018/19 (restated)	Net Expenditure £000		Note	Gross Expenditure £000	2019/20	Net Expenditure £000
	Gross Income £000					Gross Income £000	
49,523	(52,699)	(3,176)	HRA		46,952	(55,020)	(8,068)
403,562	(45,428)	358,134	Care & Learning		438,311	(55,518)	382,793
118,733	(27,981)	90,752	Community Services		117,234	(16,025)	101,209
9,442	(3,224)	6,218	Chief Executives		10,052	(1,942)	8,110
55,349	(3,181)	52,168	Corporate Development		36,035	(2,785)	33,250
101,408	(39,667)	61,741	Development & Infrastructure		123,929	(53,338)	70,591
44,452	(39,499)	4,953	Welfare Services		42,852	(37,597)	5,255
			Joint Board Requisitions:				
2,484	-	2,484	Highlands and Western Isles Valuation Joint Board		2,694	-	2,694
91	-	91	Highland and Islands Transport Partnership		91	-	91
			Other Income and Expenditure				
481	-	481	Operating results associates		344	-	344
785,525	(211,679)	573,846	Cost of Services		818,494	(222,225)	596,269
		611	Other operating expenditure				5,090
		52,498	Financing and investment income and expenditure	6			58,487
		(618,851)	Taxation and non-specific grant income				(648,615)
		8,104	Deficit on provision of services				11,231
		(89,365)	(Surplus) or deficit on revaluation of non-current assets				(39,571)
		23,605	Impairment losses on non-current assets charged to the revaluation reserve				44,471
		75,729	Remeasurements of the net defined liability				(149,185)
		9,969	Other comprehensive income and expenditure				(144,285)
		18,073	Total Comprehensive Income and Expenditure				(133,054)

The 2018/19 figures have been restated – please see Council accounts note 3 Prior period adjustment.

GROUP MOVEMENT IN RESERVES STATEMENT 2018/19

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2018 (restated)	25,062	7,328	1,407	1,673	2,339	25,004	9,176	71,989	1,311,601	1,383,590
Movement in reserves during 2018/19										
Total comprehensive income and expenditure	11,077	(1,167)	-	-	-	-	-	9,910	(6,995)	2,915
Adjustments between accounting basis and funding basis under regulations(note 8) (restated*)	(60)	1,167	105	-	-	-	-	(1,212)	(1,212)	-
Adjustments between Group accounts and Council accounts (restated*)	(14,976)	-	-	-	-	-	-	(14,976)	-	(14,976)
Net increase/(decrease) before transfers to and other statutory reserves	(3,959)	-	105	-	-	-	-	(3,854)	(8,207)	(12,061)
Transfers to/from other statutory reserves	(804)	-	(105)	5	(6)	(128)	(627)	(1,665)	1,665	-
Increase/(decrease) in 2018/19	(4,763)	-	-	5	(6)	(128)	(627)	(5,519)	(6,542)	(12,061)
Balance at 31 March 2019	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,305,059	1,371,529

The 2018/19 figures have been restated – please see Council accounts note 3 Prior period adjustment

GROUP MOVEMENT IN RESERVES STATEMENT 2018/19

This statement shows the movement in the year on the reserves held by the Group. The Total Comprehensive Expenditure and Income line shows the true economic cost of providing the group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

GROUP 2018/19	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2018 brought forward (restated)	1,383,590	34,597	(4,088)	1,414,099
Movement in reserves during 2018/19				
Total Comprehensive Expenditure and Income	2,915	(20,008)	(980)	(18,073)
Adjustments between accounting basis and funding basis under regulations (note 8) (restated*)	-	-	-	-
Adjustments between Group accounts and Council accounts*	(14,976)	14,976	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(12,061)	(5,032)	(980)	(18,073)
Increase/(decrease) in 2018/19	(12,061)	(5,032)	(980)	(18,073)
Balance at 31 March 2019 carried forward	1,371,529	29,565	(5,068)	1,396,026

The 2018/19 figures have been restated – please see Council accounts note 3 Prior period adjustment.

*The 2018/19 MIRS disclosures have been updated to report Total comprehensive Expenditure and Income reflecting the Authority only Income and Expenditure transactions during 2018/19 excluding transactions attributable to other movements of the Group. In 2018/19, this was expenditure of £14.976 million. Similarly the Council's share of subsidiaries reserves Comprehensive Expenditure and Income has been updated to exclude income received in the year by subsidiaries from other members of the Group (£14.976 million). In previous years the impact was shown net and therefore the updated disclosure enhances the transparency of reporting through separating the transactions reported through the MIRS to show the Council only (excluding group) reserve transactions. The MIRS disclosure has been updated to show the corresponding amounts being adjusted through "adjustments between Group accounts and Council accounts". There is no impact on closing reserve balances.

GROUP MOVEMENT IN RESERVES STATEMENT 2019/20

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2019 (restated)	20,299	7,328	1,407	1,678	2,333	24,876	8,549	66,470	1,305,059	1,371,529
Movement in reserves during 2019/20										
Total comprehensive income and expenditure	6,175	5,288	-	-	-	-	-	11,463	137,298	148,761
Adjustments between accounting basis and funding basis under regulations(note 8) (restated*)	21,485	(5,288)	711	-	-	-	-	16,908	(16,908)	-
Adjustments between Group accounts and Council accounts (restated*)	(17,156)	-	-	-	-	-	-	(17,156)	-	(17,156)
Net increase/(decrease) before transfers to and other statutory reserves	10,504	-	711	-	-	-	-	11,215	120,390	131,605
Transfers to/from other statutory reserves	4,903	-	(711)	-	(421)	(2,521)	(3,352)	(2,102)	2,102	-
Increase/(decrease) in 2019/20	15,407	-	-	-	(421)	(2,521)	(3,352)	9,113	122,492	131,605
Balance at 31 March 2020	35,706	7,328	1,407	1,678	1,912	22,355	5,197	75,583	1,427,551	1,503,134

GROUP MOVEMENT IN RESERVES STATEMENT 2019/20

GROUP 2019/20	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2019 brought forward (restated)	1,371,529	29,565	(5,068)	1,396,026
Movement in reserves during 2019/20				
Total Comprehensive Expenditure and Income	148,761	(16,680)	973	133,054
Adjustments between accounting basis and funding basis under regulations (note 8) (restated*)	-	-	-	-
Adjustments between Group accounts and Council accounts	(17,156)	17,156	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	131,605	476	973	133,054
Increase/(decrease) in 2019/20	131,605	476	973	133,054
Balance at 31 March 2020 carried forward	1,503,134	30,041	(4,095)	1,529,080

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group.

01/04/18 £000 (restated)	31/03/19 £000 (restated)		31/03/20 £000
2,646,600	2,778,723	Property, plant & equipment	2,831,043
29,556	30,023	Investment Properties	8 30,950
10,659	10,681	Heritage Assets	9,181
8,589	8,442	Long term investments	6,199
46,216	55,482	Long term debtors (net of impairment)	59,082
<u>2,741,620</u>	<u>2,883,351</u>	Long term assets	<u>2,936,455</u>
954	473	Short term intangibles	-
10,006	15,013	Short term investments	-
4,262	4,644	Inventories	4,789
56,799	54,626	Short term debtors	70,144
60,822	63,523	Cash and cash equivalents	91,550
880	611	Assets held for sale	1,627
<u>133,723</u>	<u>138,890</u>	Current assets	<u>168,110</u>
(247,652)	(256,222)	Short term borrowing	(217,579)
(108,274)	(116,102)	Short term creditors	(116,813)
(1,083)	(801)	Provisions	(726)
(9,005)	(16,364)	Capital Grants Receipts in Advance	(28,791)
<u>(366,014)</u>	<u>(389,489)</u>	Current liabilities	<u>(363,909)</u>
(695,078)	(729,722)	Long term borrowing	(822,964)
(396,064)	(501,936)	Other long term liabilities	9 (384,517)
(4,088)	(5,068)	Liabilities in associates	(4,095)
<u>(1,095,230)</u>	<u>(1,236,726)</u>	Long term liabilities	<u>(1,211,576)</u>
<u>1,414,099</u>	<u>1,396,026</u>	Net assets	<u>1,529,080</u>

The 2018/19 figures have been restated – please see note 3 in Council accounts and note 9 in Group Accounts.

GROUP BALANCE SHEET (CONTINUED)

01/04/18 £000 (restated)	31/03/19 £000 (restated)		31/03/20 £000	31/03/20 £000
1,407	1,407	Capital Receipts Reserve	1,407	
9,176	8,549	Capital Grants Unapplied Account	5,197	
1,673	1,678	Renewal and Repair Fund	1,678	
25,004	24,876	Capital Fund	22,355	
2,339	2,333	Insurance Fund	1,912	
25,062	20,299	General Fund	35,706	
7,328	7,328	Housing Revenue Account	7,328	
71,989	66,470	Usable reserves		75,583
548,626	602,102	Revaluation Reserve	584,234	
1,027,863	1,073,681	Capital Adjustment Account	1,101,441	
(25,141)	(21,234)	Financial Instruments Adjustment Account	(19,275)	
(236,956)	(350,763)	Pensions Reserve	(240,018)	
(9,603)	(10,565)	Employee Statutory Adjustment Account	(8,561)	
1,304,789	1,293,221	Unusable reserves		1,417,821
37,321	36,335	Share of group and associate reserves		35,676
1,414,099	1,396,026	Total reserves		1,529,080

The 2018/19 figures have been restated – please see note 3 in Council accounts and note 9 in Group Accounts.

The unaudited annual accounts were issued on 25 June 2020 and the audited accounts were authorised for issue on 28 January 2021.

Liz Denovan CPFA
Executive Chief Officer for Resources and Finance
28 January 2021

GROUP CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the year. This statement shows how the group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2018/19 £000 (restated)		2019/20 £000
(8,104)	Net (deficit)/surplus on the provision of services	(11,231)
124,500	Adjust net (deficit)/surplus on provision of services for non-cash movements	120,425
<u>(61,321)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(73,132)</u>
55,075	Net cash inflow from operating activities	36,062
(152,045)	Investing activities	(142,935)
99,671	Financing activities	<u>134,900</u>
2,701	Net increase or decrease in cash and cash equivalents	28,027
<u>60,822</u>	Cash and cash equivalents at 1 April 2019	<u>63,523</u>
<u>63,523</u>	Cash and cash equivalents at 31 March 2020	<u>91,550</u>

The 2018/19 figures have been restated – please see note 3 in Council accounts.

NOTES TO THE GROUP ACCOUNTS

1. Accounting policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 55-65. Detailed notes to the Group Accounts have been provided only where transactions or balances are materially different to the Council's Accounts. Note 26 Defined Benefit Pension Schemes presents the Group disclosures.

2. Assumptions made about the future and other major sources of estimation uncertainty

The Annual Accounts contain estimated figures that are based on assumptions made by the Group I about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Group Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Covid-19 Impact on Investment property	<p>The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value.</p> <p>The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the Council's valuer reporting valuations recognised within the Annual Accounts on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market.</p>	<p>Any significant change in market valuations would require Investment Property to be revalued and would therefore impact on the asset valuations on the Group balance Sheet.</p> <p>The risk of movement is uncertain and an upwards or downwards revaluation in future years is possible. It is estimated a change in value of 10% in Investment Property asset category would adjust the total value of plant, property and equipment by £3.2 million.</p>

3. Interest in other entities

Highland Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interests in all types of entity to incorporate into group accounts.

The Council has accounted for its interest in each subsidiary by consolidating on a line by line basis. The Council's interest in each associate has been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

4. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 4), the effect on the group balance sheet is an increase in net assets and reserves of £25.946m. This represents Highland Council's share of the net assets in these entities.

The effect on the group balance sheet of including High Life Highlands pensions liability is a reduction in other long term liabilities and the pension reserve of £9.730m. The group defined benefit pension scheme disclosures have been shown alongside the Council figures in note 26.

5. Group entities

The Group includes The Highland Council, its subsidiaries and associates as listed below:

Subsidiaries

Highland Council has a 100% interest in the following entities:

- Inverness Common Good Fund
- Nairn Common Good Fund
- High Life Highland– a charitable company limited by guarantee. Highland Council is the sole member with its liability limited to £1. The company delivers a range of community learning and leisure services on behalf of The Highland Council. It has charitable status and has one wholly owned subsidiary High Life Highland (Trading) CIC whose principal aim is to generate funds to be used by the charity in pursuit of its charitable objectives.

Results for the year	(Surplus)/deficit on provision of services £000	Net assets/liabilities £000
High Life Highland	4,042	(8,647)
Inverness Common Good	1,050	30,562
Nairn Common Good Fund	102	8,126
	<u>5,194</u>	<u>30,041</u>

Associates

Highland Council has interests in associates as follows:

- Highland and Western Isles Valuation Joint Board – 80%
- Highlands and Islands Transport Partnership – 37.5%

The joint boards have a wide range of functions to discharge. Members of each board are elected Councillors who are appointed by the Council in proportions specified in legislation.

Under accounting standards guidance, Highland Council can be seen to have significant influence over these statutory bodies, through nominated Council Member involvement in each governing board.

The financial results of the Associates for 2019/20 were as follows:

Results for the year	Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board	382	(4,759)
Highland and Islands Transport Partnership	100	(768)
	<u>482</u>	<u>(5,527)</u>

Group share	%	Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board	80.0	306	(3,807)
Highland and Islands Transport Partnership	37.5	38	(288)
		<u>344</u>	<u>(4,095)</u>

6. Non material interest in other entities

Highland Council also has an interest in the following entities which have not been consolidated into the Council's group accounts as the amounts are not material.

- Highland Opportunity Limited (HOL)
- Common Good Funds – Tain, Dornoch, Fortrose, Cromarty and Invergordon
- Eden Court Highlands

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

2018/19 £000		2019/20 £000
(1,859)	Gains on trading operations	(1,409)
47,837	Interest payable and similar charges	49,790
6,604	Pensions net interest expense	8,814
(1,891)	Interest and investment income	(1,625)
(2,069)	Rental income	(2,039)
246	Property costs	277
588	(Surplus)/Deficit on revaluation of investment properties	818
2,829	Expected credit losses on financial assets	2,897
(379)	(Gains)/Losses on valuation of financial assets	807
592	(Gains)/Losses on derecognition of financial assets	157
<u>52,498</u>		<u>58,487</u>

8. Investment Property

The Group Investment property is held within Inverness and Nairn Common Good Funds. Details are as follows:

	Inverness £000	Nairn £000	Total £000
Gross book value			
As at 1 April 2019	22,478	7,545	30,023
Additions	1,745	-	1,745
Revaluations	(718)	(100)	(818)
As at 31 March 2020	<u>23,505</u>	<u>7,445</u>	<u>30,950</u>
Net book value			
As at 31 March 2020	<u>23,505</u>	<u>7,445</u>	<u>30,950</u>
As at 31 March 2019	<u>22,478</u>	<u>7,545</u>	<u>30,023</u>

9. Long Term Liabilities

Long term liabilities are comprised as follows:

	Highland Council £000	Subsidiaries (HLH) £000	Total £000
Pension liability	230,288	9,730	240,018
Finance lease creditors	142,171	-	142,171
Other long term creditors	2,328	-	2,328
As at 31 March 2020	<u>374,787</u>	<u>9,730</u>	<u>384,517</u>

10. Prior year adjustment

The 2018/19 group balances were restated – please see note 3 Prior period adjustment in the Council accounts. In addition to this, the group balance sheet was restated to reclassify Investment Properties for Inverness and Nairn Common Good from Property, plant and equipment. The impact of this was a reclassification of £26.556m in 1718 and £30.023m in 1819.

The fully restated opening balance sheet at 1 April 2018 is provided on pages 171/172. The adjustments that have been made to that Balance Sheet over the one presented at 31st March 2018 are as follows:

Effect on opening Balance Sheet at 1 April 2018

	Opening balances as as at 1 April 2018 £000	Restated at 1 April 2018 £000	Restatement £000
Property, plant and equipment	2,632,602	2,646,600	13,998
Investment Properties	-	29,556	29,556
Net assets	1,370,545	1,414,099	43,554

Effect on Balance Sheet at 31 March 2019

	Opening balances as as at 31 March 2019 £000	Restated at 31 March 2019 £000	Restatement £000
Property, plant and equipment	2,710,868	2,778,723	67,855
Investment Properties	-	30,023	30,023
Net assets	1,298,148	1,396,026	97,878

Effect on Cash Flow Statement at 31 March 2019

	As previously stated 31 March 2019	As restated at 31 March 2019	Restatement
	£000	£000	£000
Net surplus/(deficit) on the provision of services	(28,115)	(8,104)	20,011
Adjust net deficit on the provision of services for non-cash movements	144,511	124,500	(20,011)
Net cash inflow from operating activities	55,075	55,075	-
Net increase or (decrease) in cash and cash equivalents	2,701	2,701	-

11. Reserves**Pension reserve**

The Group Pension reserve comprises the Council's Pension reserve and the share of group and associate reserves. Details of the Pension liability is disclosed in Note 26 of the Council Accounts.

	31 March 2019 £000	31 March 2020 £000
Highland Council – Pension Reserve	(338,925)	(230,288)
Share of group and associate pension reserve	(11,838)	(9,730)
As at 31 March 2020	(350,763)	(240,018)

Share of group and associate useable reserve

The group and associate share of usable reserves reflects the share of group and reserves excluding unusable reserves (pension reserve).

	31 March 2019 £000	31 March 2020 £000
Share of group and associate reserves (MIRS)	24,497	25,946
Adjust for share of group and associate pension reserve	11,838	9,730
Share of group and associate useable reserves	36,335	35,676

12. Events after the Balance Sheet date

The unaudited annual accounts were issued by the Executive Chief Officer for Resources and Finance on 25 June 2020 and the audited accounts were authorised for issue by the Executive Chief Officer for Resources and Finance on 28 January 2021. Where events taking place before this date provided information about conditions existing at 31 March 2020 the financial statements have been adjusted in all material respects.

GLOSSARY OF TERMS

Awaiting Approval

GLOSSARY OF TERMS

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure.

Business Rates Incentivisation Scheme (BRIS): a scheme which allow Councils to retain a percentage of Non Domestic Rates (NDR) income, designed to encourage growth of businesses.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and can be used to fund capital expenditure for landbanking.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Grants Unapplied: the Capital Grants Unapplied Account holds the grants and contributions received towards capital expenditure for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Common Good Funds: Highland Council administers the Common Good Funds of the former Burgh Councils of Inverness, Nairn, Ross and Cromarty, and Badenoch and Strathspey. The two smallest Common Good Funds, Grantown and Kingussie, are included in the following statements, but due to the size of the funds, are not listed separately. Further details are, however, available on request.

All funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established.

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and

the charges for properties in all other bands are expressed as a proportion of Band D.

Council Tax Reduction Scheme (CTRS): replaced Council Tax Benefit which stopped on 1 April 2013 as part of the welfare reform programme. CTRS is a reduction on your Council tax that you may be entitled to if you are on a low income. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term creditors, short-term borrowing and provisions.

Depreciation: the measure of the value of a fixed asset used during the year.

Equity Method: in the Group Accounts, the equity method of accounting is used to determine the Council's share of the net income generated from associate entities in proportion to the Council's investment in the associate.

Fair Value: is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fees and Charges: charges for specific service; examples include, commercial rents, hall lets and school meals.

Financial Asset: a right to future economic benefits controlled by the authority.

Financial Instrument: contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

Financial Liability: an obligation to transfer economic benefits controlled by the authority.

General Fund: the principal usable reserve of the Council that covers most areas of activity, the main exclusion being the Pension Fund.

Group Accounts: statements that reflect the Council's interest in any subsidiaries, associates and joint ventures.

Heritage Assets: assets preserved in trust for future generations because of their cultural, environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: the Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Non-Domestic Rate Income (NDRI): local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Revenue Support Grant (RSG): this is the largest part of Aggregate External Finance (AEF). It is a block grant which helps finance the overall cost of Council services.

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: the Council administers 244 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 36 of which have charitable status and have been reorganised into 2 charities registered with the Office of the Scottish Charity Regulator (OSCR).

Usable Reserves: Capital Fund, Capital Grants Unapplied Account, General Fund Balance, Repair & Renewal Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account .

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.