



MORAY COLLEGE UHI

Annual Report and Financial Statements for the
year ended 31 July 2021



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Performance Report

OVERVIEW

Principal's foreword

This Performance Report for the year ended 31 July 2021 provides an overview of the College, its purpose and priorities, its performance over the year, and the risks it continues to face and address.

2020/2021 was a year in which the challenges facing the staff and students of Moray College UHI underwent another step-change increase in intensity.

As with the rest of the sector, the College had to operate during the year with a varying blend of on-campus and off-campus delivery as the pandemic, and the government guidance relating to it, changed throughout the year.

The commitment, flexibility, and resilience of everyone associated with the College in this time ensured the delivery, despite this extra layer of challenges, of another year of strong student achievement, high levels of student satisfaction, and a balanced financial outcome.

The college only delivered 14,381 credits of its FE curriculum (17,702 in the previous year) due mainly to the SFC's national instruction to reduce full-time programmes from 18+ credits to 16; deferral of many of its planned block release programmes for employed learners; and a reduction in part-time programmes due to lockdown changes. (The College welcomed the SFC's commitment that payment for all FE credit funding allocations for the year would be guaranteed in this 'Emergency Year').

The College's Higher Education ("HE") enrolment for the year was 857 full-time equivalent students (FTEs), broadly in line with that of the previous year (857.3).

Having delivered FE full-time student attainment above the Scotland average in the previous three years, the college now delivered a fourth year of high attainment (68.9%), again above the current national average.

The College's overall student satisfaction rate reported in the year-end Student Satisfaction and Engagement Survey remained high at 91.7% (against a national rate of 88.6%) although participation in the survey was significantly reduced in this year.

The College started 2020/21 facing an estimated £1m of adverse movements in funding and costs. The College continued to make appropriate use of the extended furlough scheme and retained strict control of both staff costs and non-staff costs during the year. The College also welcomed the sustainability funding provided by the Government which helped reduce the impact of commercial income that was lost during successive lockdowns and funded a voluntary severance programme ring-fenced to the refectory provision during the year.

The impact of these actions is that the College has reported an adjusted operating break even position against a revised projected deficit of £318k for 2020/21 (excluding pension adjustments).

Throughout the year, the college continued to support the continuing development of key projects within the proposed Moray Growth Deal. It continued to lead two projects (representing 40% of the funding on offer from the UK and Scottish governments) and played an active role on the Project Boards of another four projects (representing a further 50% of government funding). Heads of Terms for the Deal was signed in August 2020 and Outline Business Cases for the whole Deal were signed in December 2021.

The College also continued to be the host organisation and employer for the staff of DYW Moray (Developing the Young Workforce) and continued to be a key partner of DYW Moray in the design and

Performance Report (continued)

delivery of Skills Pathways (for ages 3-18), working closely with Moray Council and Moray's schools through the co-design of Senior Phase provision and S3 Taster Days for all secondary pupils in Moray.

The College continued to work with major employers in Moray through the Flexible Workforce Development Fund, though some of this delivery was impacted by Covid-19 restrictions and employer priorities. It continued to support both Foundation and Modern Apprenticeships throughout the lockdown period, and it increased its provision of DWP and employer-led employability programmes while also developing new practical research activities with employers through the SFC's Innovation Voucher scheme.

In terms of governance and management, the College identified areas for improvement to secure full compliance with the Code of Good Governance in future years and it maintained a gender balance within both its non-executive Board members and its senior executive team. The Board and its committees continued to function well remotely.

Signed by

David Patterson
Principal and Chief Executive

Performance Report (continued)

STRATEGIC PLANNING: PURPOSE AND ACTIVITIES

This was the final year of the college's current 5-year Strategic Plan (2016-2021) which articulates the following:

Mission Statement

The purpose of the College is:

"To transform lives and to be at the heart of transformation in Moray and in the wider region"

Vision Statement

The College's vision is that over the next 3-5 years it will become 'famous' for:

1. the high quality of its teaching, learning and support for students.
2. its partnership work with stakeholders (including schools, employers, the Moray community and its UHI partners).
3. the positive impact and outcomes of the work it does, and
4. its values, for "doing the right things in the right way".

Values Statement

As part of the UHI partnership, the College has chosen to adopt the 'core' values of UHI's Strategic Plan and Vision for 2015-20. These are:

- collaboration
- openness
- respect
- excellence

These statements are further articulated in five Strategic Aims, with accompanying Strategic Objectives, which have driven the activities of the College over the period of this Strategic Plan to July 2021.

The College's aims and objectives also take into account both national and regional priorities (as indicated in the diagram shown on the following page), as well as local priorities as articulated in the Local Outcome Improvement Plan for Moray and the Moray Skills Investment Plan.

The Board decided to delay the start of work on its next Strategic Plan, both to reduce the impact on staff dealing with both the pandemic and a major cyber incident, and also to allow time for 'lessons learned' from the pandemic period to be gathered, and in the light of the appointment of a new UHI Vice Chancellor in February 2021, the wish to align the college's new plan with the emerging new Strategic Plan for UHI.

In the interim period a 'bridging' Strategic Aim was agreed by the Board in addition to the current Plan, to support the college with the following three strategic objectives:

- i. Prioritise the health, safety and wellbeing of students and staff for both on-campus and home-based working
- ii. Maximise delivery of as much of the curriculum portfolio as is possible under the current circumstances to maximise the number of current students who can successfully complete, or progress onwards, from their current programme of study

Performance Report (continued)

- iii. Gather lessons learned from this pandemic period to inform and be built into the future strategy and working practices of the college

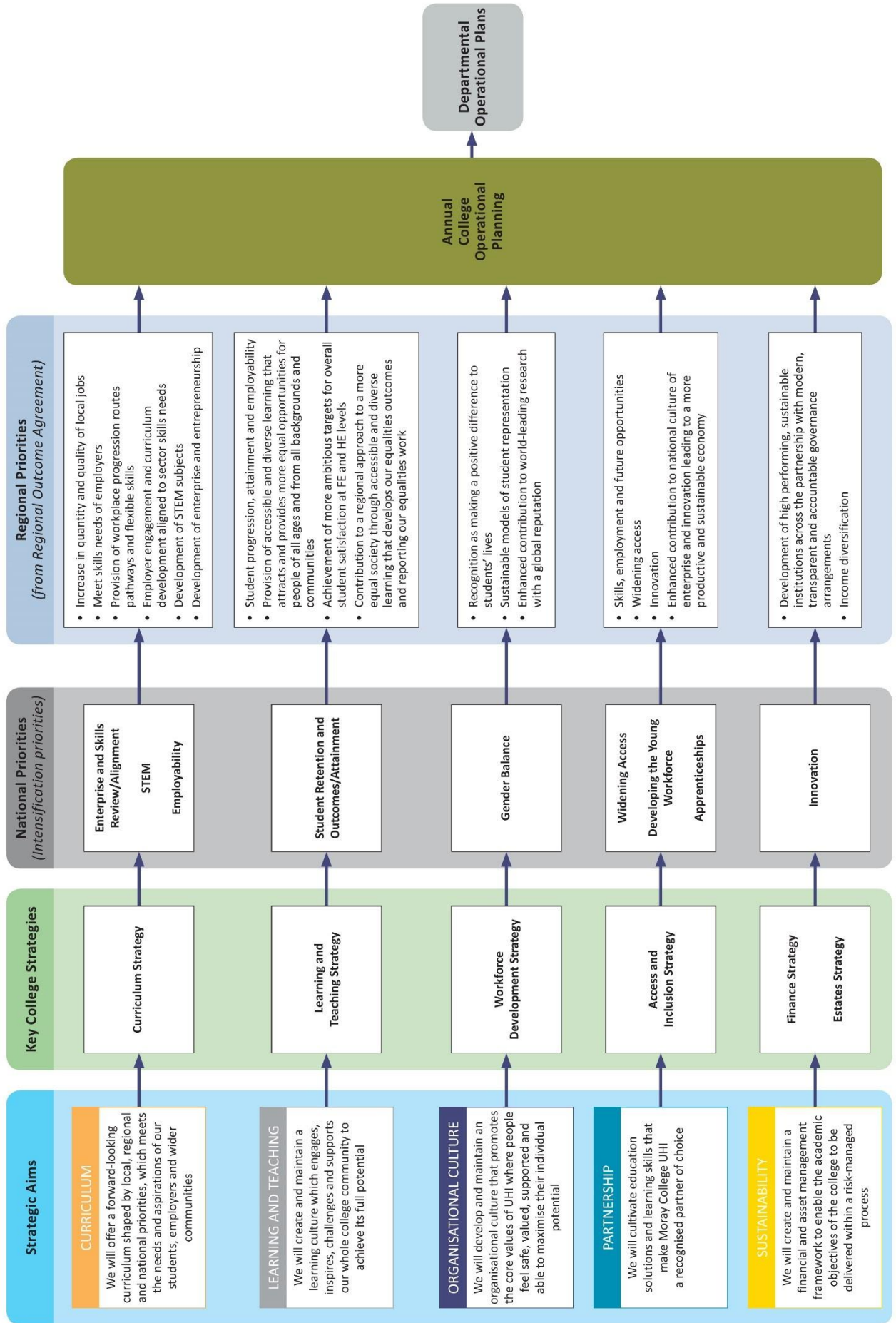
The development of the college's next Strategic Plan began at its Board Development Day in October 2021.

Implementation of the Strategic Plan

The College's Operational Plan for 2020/21 focused mainly on the requirement to deal with the pandemic crisis; the extreme financial pressures facing the college at the start of the year; and on the recovery and consolidation of previous business improvements in the light of the pandemic situation.

Performance Report (continued)

Strategic Plan 2016 - 2021



Performance Report (continued)

The key tasks of the Operational Plan were as follow:

- **Curriculum:** Ensure our curriculum is sufficiently flexible and responsive to be able to meet the expected demand for training to support economic recovery through upskilling and reskilling; Plan for the 3-year recovery of HE enrolments to previous levels; Make a full contribution to the UHI Tertiary Curriculum Review and make changes to implement the revised planning process for 2021/22 session.
- **Learning and Teaching:** Ensure the fullest possible delivery of our planned curriculum with a particular focus on safety and efficiency of delivery; Maintain the quality improvements of our provision through continued oversight of our quality arrangements in a blended environment; Plan for, and ensure, the adequacy of administrative and student support services with regards to any staffing reductions and/or restructuring of services.
- **Organisational Culture:** Prepare, plan for, and support the delivery of a staffing reduction process in response to the colleges financial, curriculum and support services plans; Support the progression of the outcomes of the staff survey short-life working groups; Support arrangements for the integration of the wellbeing aspects of the Health, Safety and Wellbeing Officer role, ensuring appropriate articulation with HR operations.
- **Partnership:** Ensure the progress to agreed Programme Board schedules of the two college-led Moray Growth Deal projects; Maintain strategic oversight and input into UHI regional and wider sector developments.
- **Sustainability:** Oversee the re-establishment of a sustainable FFR over 3 years; Oversee and facilitate the development of commercial income; Develop and plan for a sustainable estates strategy which responds to key drivers including: Carbon reduction; Covid-19 impact on estates usage; and Condition survey response.

Most of these planned activities were completed, however the estates strategy work was deferred due to the volume of the on-going work of backlog maintenance spend, safe Covid working, and the impact of the Cyber incident. The forecast deficit budget was balanced at year end however significant challenges in terms of student recruitment related to the impact of Covid, and the responses to it, means work continues to address the financial sustainability of the College.

KEY ISSUES AND RISKS

The principal issues and risks that the College currently faces are perceived to be the following:

- i. **Financial Planning Risks resulting in failure to achieve a balanced budget.** Key risks include:
 - a. Ongoing impact of the Covid-19 pandemic, particularly on student numbers, and responses to it
 - b. Impact of Brexit and Covid-19 on cost and wage inflation, and student numbers
 - c. Failure to hit commercial and other income generation targets, or to fail to take advantage of new non-core funding streams to support economic recovery following the Covid-19 pandemic
 - d. Failure to achieve budgeted HE/FE student number targets
 - e. Continued funding of national bargaining costs to the college at a rate that is below the actual level of those costs, or future withdrawal or reduction of such funding
- ii. **Campus estate not fit for purpose:** The national Conditions Survey for Colleges in Scotland, run by the SFC in 2017, identified backlog maintenance issues for the College to ensure that its

Performance Report (continued)

buildings are waterproof and wind-tight. Less than 20% of funding for the estimated 5-year costs has been received. A new Estates Strategy will be commissioned to include:

- a. review of the outstanding backlog maintenance issues remaining
 - b. lessons learned from remote delivery in lockdown
 - c. opportunities afforded by the Growth Deal capital funding projects.
- iii. **Brexit and its impact on public finances:** This risk is one held in common with the rest of the University and College sectors. The college has been supported previously by European funding for:
- a. capital funding for building projects
 - b. revenue funding for curriculum development projects
 - c. additional student enrolment numbers
 - d. participation with partner institutions across Europe through the ERASMUS programme
- iv. **Failure to seize the financial, reputational and developmental benefits offered by the Moray Growth Deal:** The Growth Deal provides the opportunity to create a step-change in how the college can drive forward leadership and support for:
- a. aerospace and advanced technology training and developments in Moray
 - b. scale-up and resilience for micro-businesses across Moray and the wider region
 - c. other planned developments including the cultural quarter planned for Elgin; the Early Years STEM project; and the Digital Health project.

PERFORMANCE ANALYSIS

In accordance with SFC requirements, the College is required to monitor and report progress against targets for national priorities. The College also contributes to the Regional Outcome Agreement for the Highlands and Islands region, and to a range of internal measures and performance reporting for the University.

The College actively participates in regional structures to deliver shared outcomes including the work-based learning hub; curriculum planning and working groups; the development and support of student representation (including HISA); the regional Schools group; the cross-regional quality forum; the Regional Attainment Strategy Group and the Student Data Reporting Group.

A KPI Dashboard is used to assess performance on key indicators linked the College's five Strategic Aims and is updated on a monthly basis and presented to the College Board of Management. Performance indicators monitored and reported throughout the year included the three key in-year measures used by Audit Scotland in their annual report on Colleges in Scotland, namely: student retention, attainment, and satisfaction.

Student recruitment

In 2020/21, the College delivered 14,381 FE credits (2019/20 17,702) against a target of 19,148 SFC grant funded credits, equivalent to 75% of the target. The shortfall in activity is due to the overall impact of the global pandemic which resulted in reduced opening of the main campus in session 20/21, with full closure of all campuses for an extended period through early 2020. This caused significant disruption to planned semester 2 activity.

The Highlands and Islands region overall delivered 85% of the FE credit target set by the SFC.

Performance Report (continued)

Moray College delivered a total full-time equivalent (FTE) HE students of 857 FTE's (2019/20 857.3 funded FTEs). This generated grant-in-aid income from UHI of £2,833k (2019/20 £2,390k).

Student retention

Early student retention for full-time FE (FTFE) programmes (based on census date of 1st November) remained strong at 94.2% (2019/20 95.57%). This figure remains above the Scotland average.

The College's overall Full-Time FE (FTFE) student retention figure in 2020/21 was 77% (2019/20 82%) and sits just slightly below the latest sector average for Scotland (78%).

Student attainment

The impact of the Covid-19 pandemic resulted in 5% more withdrawals than the previous session and subsequently, the full-time attainment rate dropped from 74.3% to 68.9%. This figure is still 3% ahead of the latest published national attainment figure for Scotland.

A summary of the College's FE attainment rates in recent years is illustrated below

| Session | FE FT attainment % (sector) | FE FT attainment % (Moray) |
|---------|--------------------------------|-------------------------------|
| 2012/13 | 65.4% | 58.5% |
| 2013/14 | 66.0% | 60.5% |
| 2014/15 | 64.0% | 64.0% |
| 2015/16 | 65.5% | 65.0% |
| 2016/17 | 65.3% | 60.1% |
| 2017/18 | 66.1% | 69.0% |
| 2018/19 | 65.2% | 67.9% |
| 2019/20 | 65.7% | 74.3% |
| 2020/21 | Not available | 68.9% |

The College makes use of students' attendance and progress data in year to monitor all FE courses. Using MORAGAA (Moray Red, Amber, Green, Attendance and Attainment) tracking and meetings to monitor progress and ensure proactive intervention in-year, has seen an increase in retention and student success. Course Review supports those FT courses with low attainment (under 60%) and in 2020/21, seven FT FE programmes were in review. Out of the seven, five saw achievement rates above 60% and two courses fell short of this target by one percentage point.

A range of information on student feedback, retention, attendance and attainment is accessed and used by all course teams in the evaluation of their provision within year as well as at the end of the year, and informs any changes to course design, delivery, and scheduling. Engagement in Evaluative Reporting and Enhancement Planning activity occurs across course teams, within subject areas and across wider Curriculum Areas.

Performance Report (continued)

Other performance measures

There have been a number of notable awards and events occurring throughout the year, involving staff and students.

In our Business area a student graduated with First Class Honours in Accounting and Finance, having returned to education after serving as an Engineer in the Royal Navy for over 13 years.

A student returned to education to study a BA in Child and Youth Studies whilst working as a Young Person's Worker with Aberlour Options Moray.

In our Science department a student started her studies at entry level progressing on to the HNC and has now graduated with a Bachelor of Science degree in Applied Sciences.

A student won the 2020 Highland Society of London Prize. Having graduated with a first-class Honours degree in Scottish History and Politics in 2020 from the College, she has been awarded this prize as the student with the undergraduate dissertation of the year in the Humanities and Gaelic subject network.

One of our gold NQ Hospitality students was featured on The Master Chefs of Great Britain website as a MasterChef of the Future and qualified as one of 10 UK finalists of the Sustainable Seafood Competition.

A Fine Art graduate was selected to exhibit her work as part of the 2020 Grampian Hospitals Art Trust Exhibition Programme and the Royal Scottish Academy 'New Contemporaries' exhibition.

One of the College's Sport and Fitness Lecturers has been appointed as Table Tennis Sport Team Manager for Team Scotland at the 2022 Commonwealth Games.

Five members of staff have been recognised with a Fellowship of the Higher Educational Academy (HEA) from Advance HE through the university framework ALPINE.

Student satisfaction

The College's annual Learner Survey for 2020/21, incorporating the SFC Student Satisfaction and Engagement Survey, opened in March 2021 with a reduced target response rate of 30%, as lockdown restrictions continued to impede operations. The total response rate was 22%, with overall satisfaction for FE at 92%, a decrease of one percentage point on the previous year.

Students reported positively (over 85%) in a range of areas including being supported to take responsibility for their own learning, fair and equal treatment, and the quality of their online learning materials

Curriculum developments

The Curriculum Strategy continued to be a key driver to initiate change. It aligns with priority sectors identified in both the Moray Skills Investment Plan and the Moray Economic Strategy as well recognising the curriculum opportunities presented by the Moray Growth Deal.

Performance Report (continued)

Throughout the year, curriculum review activities ensured the curriculum portfolio remained relevant and responsive resulting in a high volume of course modifications, approval of new courses and discontinuation of courses.

For HE, FT programmes were reapproved in HN Hospitality and HNC Computing and new short courses were approved for UHI CPD Developmental Creative Practice, UHI CPD Creating Video for Social Media, PDA Technology Enabled Care and COSCA Certificate in Counselling, while BSc (Hons) Psychology, Diploma in HE Person Centred Counselling, BA Events Management were all discontinued.

For FE, new FT programmes were approved in Musical Theatre and Performance, Future Pathways, Microblading Artistry, Foundation Hairdressing, Foundation Barbering, Current Hairdressing Techniques, Performing Engineering Operations, Hospitality Silver+ and NQ Computing with Digital Media.

New short courses were approved in Access to Manufacturing, Working Safely, Taster to Integrative Healthcare, Nail Art, British Sign Language and a suite of Core Skill courses. Apprenticeship opportunities continued to expand with the approval of Modern Apprenticeship (MA) in Health and Social Care and MA Food and Drink and school provision was expanded with the approval of PDA Photography and NPA Digital Media.

A further 5 FE programmes and 2 HNC programmes were modified to maintain their currency and enhance the student experience.

Although there was less demand to deliver training via the Flexible Workforce Development Fund in 20/21 due to the effects of the pandemic on local businesses, the range of programmes offered continued to diversify with a demand for specific qualifications in Adobe and bespoke courses in Restaurant Training, Workplace Investigation and Finance for Non-Finance Managers.

Research Impact and Knowledge Exchange (RIKE)

Research activity further developed in 20/21 with considerable activity from the SFC Innovation Voucher scheme: three ongoing projects (Inchindown Tunnels; Mesomorphic; The New Arc) and three new projects (EPIT; Rural Housing Scotland; Moray Chamber of Commerce). The Moray Foodbank Plus project was completed in November 2020; delivering a system to capture, record and identify trends of poverty in communities. The combined funding for these projects was just under £52.5K.

Other projects to note include a Children 1st project funded by UHI research uplift fund; involvement with the KTP National Trust Scotland project; and research with Moray Council/NHS into exercise and respiratory conditions.

Performance Report (continued)

Education Scotland Review

An internal Evaluative Report and Action Plan was presented to the Board of Management in October 2020 and implementation and review of an updated Enhancement Plan continued to be carried out throughout the year to support improvements across the provision. Evaluation activity has been ongoing from October 2020 with all curriculum areas and support teams engaging in committee meetings.

This evaluation has been carried out in accordance with an adapted version of the Moray College Enhancement Framework, which incorporated Education Scotland 'Our Best Future' framework, alongside the SPARQS updated evaluation toolkit, which has supported staff, students, and stakeholders to be more actively involved in evaluation and enhancement planning activity. The resulting updated internal Evaluative Report and Action Plan was presented to Education Scotland during their progress visit in November 2020.

FINANCIAL POSITION

Financial results

The College's strategic financial aims have been to:

- Maintain its levels of Further Education (FE) provision, and to grow FE activity where funding opportunities exist.
- Develop and grow Employability Funding and Modern Apprenticeships.
- Generate annual growth in its levels of Higher Education (HE) in line with the strategic aims of the University of the Highlands and Islands (UHI).
- Grow non-funded activity.
- Engage proactively in regional work to reduce costs and share services. While there has been some progress with regards to College specific initiatives, further benefits remain dependent on the development of a shared service mechanism across the UHI partnership.

The College's Human Resource strategy is to maintain efficiency and flexibility while supporting sustained planned growth in HE.

Total income decreased in 2020/21 from £13.89m to £13.81m (a decrease of 0.05%). Increases in HE recurrent grant income driven by the number of College staff leading or teaching on networked courses combined with the additional sustainability funding provided by the Scottish Government have been offset by a significant number of students having to defer the completion of their studies to the 2021-22 academic year.

The loss of commercial income has been partially offset by income received from the UK Government as part of the Coronavirus Job Retention Scheme (+£357k) and the sustainability funding made available from the Scottish Government (+£145k) however the College still suffered an overall drop in income as a result of the successive lock downs. Further sustainability funding from the Scottish Government of £215k was used for the Voluntary Severance Scheme.

Total expenditure decreased from £15.18m to £14.66m (down by 3.5%). The decrease is driven by significant cash savings in both staff and operating costs. The College continues to exercise strict control over the recruitment of additional staff/extra staff costs and the operational delivery costs.

Performance Report (continued)**Impact of FRS102 on Local Government Pension Scheme**

Under the terms of FRS102 the Local Government Pension Scheme can no longer be treated as a defined contribution scheme. In accordance with FRS102, the College is required to bring the estimated pension liability based on actuarial valuation onto the Statement of Financial Position.

In 2020/21 the College had a deficit before pension remeasurements of £853k (2019/20 deficit £1,290k). Excluding non-cash items of net depreciation and non-cash pension costs, this has resulted in a deficit for the year of £15k (2019/20 deficit £263k).

The underlying operating position of the College is illustrated below:

| Underlying Operating Position | | |
|---|----------------|----------------|
| | 2020/21 | 2019/20 |
| | £'000 | £'000 |
| Deficit before other gains and losses | (853) | (1,290) |
| <u>Add back:</u> | | |
| - Depreciation (net of deferred capital grant release) | 484 | 485 |
| - Pension adjustment - Net service cost (FRS102 Staff cost adjustment) | 660 | 633 |
| - Pension adjustment - Net interest costs | 127 | 125 |
| - Pension adjustment - Early retirement provision | (336) | (119) |
| <u>Deduct:</u> | | |
| - Revenue Funding allocated to loan repayments and other capital items* | 97 | 97 |
| Underlying Operating (Deficit)/Surplus | (15) | (263) |

* This line eliminates the extent to which the Cash Budget for Priorities (net depreciation) is used for capital items otherwise the operating position is overstated.

One consequence of reclassifying Colleges as central government bodies is that, from 1 April 2014, while Colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, they are now also required to comply with Central Government budgeting rules. This affects, amongst other things, the way in which non-cash depreciation charges are treated and how the Colleges spend the cash funds previously earmarked for depreciation.

Performance Report (continued)

The below illustrates the impact of that shown on the previous page:

| Table of Cash Budgets for Priorities Spend | | |
|---|----------------|----------------|
| Revenue | 2020/21 | 2019/20 |
| | £'000 | £'000 |
| Student Support | 209 | 209 |
| Pay Award | 118 | 118 |
| Total Impact on Operating Position | 327 | 327 |
| Capital | | |
| Loan Repayments | 97 | 97 |
| Total Capital | 97 | 97 |
| Total Cash Budget for Priorities Spend | 424 | 424 |

However, it should be noted that the Scottish Funding Council has confirmed that a deficit resulting from the College following its 30 January 2015 guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability.

Liquidity

The operating cash outflow for 2020/21 was £1,320k (2019/20 operating cash inflow £495k).

The average closing monthly cash balance in 2020/21 was £1,700k (including student support funds) (2019/20 £863k) and the year-end balance was £1,795k – which is inclusive of student support funds of £421k (2019/20 £555k including student support funds of £385k).

The average cash position for 2020/21 was significantly influenced by the level of Backlog Maintenance funding. Whilst projects were identified for all the funding provided, successive lock downs prevented much of the necessary work being undertaken on site until restrictions started to lift. The College was then faced with the difficulty of securing timely completion of work given the back log that the construction and maintenance industry faced.

Loan interest payable for the year was £15k (2019/20 loan interest payable £18k).

Creditor payment policy

The College's policy is to make payments within 30 days. The College pays suppliers twice monthly and on occasion express supplier payments are made when operationally necessary. The Late Payment of Commercial Debts (Interest) Act 1998 requires Colleges to make payments to suppliers within 30 days. No interest was paid during the year under the above legislation.

Performance Report (continued)**Going Concern**

Note 1 to these financial statements outlines the Board's assessment of going concern. Accordingly, the Board considers that it is appropriate to consider that the College is a 'going concern' and these financial statements have been prepared on that basis.

Authorised for issue and approved by order of the members of the Board on 24 February 2022 and signed on its behalf by:

Mr D Patterson
Principal and Chief Executive

Performance Report (continued)**PROFESSIONAL ADVISORS**

| | | |
|------------------|---|---|
| External Auditor | - | Ernst & Young LLP |
| Internal Auditor | - | Wylie & Bisset LLP |
| Bankers | - | Royal Bank of Scotland |
| Solicitors | - | Grigor & Young, Stronachs |
| Insurers | - | Education Protect Scotland Ltd (underwriters: Aviva) |

Accountability Report

CORPORATE GOVERNANCE REPORT

Directors' Report

Moray College became a fully incorporated College under the Further and Higher Education (Scotland) Act 1992. It is a registered Scottish charity (No. SC021205) and is recognised by HM Revenue and Customs as a charity for the purposes of section 505 of the Income and Corporation Taxes Act 1988 and as such is exempt from corporation tax on its charitable activities. At 31 March 2014 the Office for National Statistics reclassified the Scottish College sector as a department of central government. On 1 August 2014 the College was assigned to the University of the Highlands and Islands as part of the Highlands and Islands Regional Strategic Body.

In terms of governance and management, there were several changes in respect of Board (and subcommittee) membership during Academic session 2020-21. As a result of three Board members leaving towards the end of session 2019-20, an advertising campaign to recruit new Board members ran from June to August 2020. This resulted in six candidates being selected for interview. The interview panel consisted of Murray Easton, Convenor of Finance and General Purposes Committee of Moray College, Paul Mitchell, Senior Independent Member of Moray College, Kyle Gee – HISA Rep, Moray College, Poonam Malik – member of University Court and Sarah Medcraf – Moray Chamber of Commerce.

The panel unanimously agreed to recommend to the University Court, appointment of two new Board members – Hugh Hamilton and Stewart McCracken. This was approved by the University Court and the date of appointment was confirmed as 1 November 2020.

The Support Staff Member resigned from the Board on 21 January 2021 due to work commitments. As a result, the position was advertised during Spring 2021. There were 3 nominations resulting in an online election which took place between 2 June and 18 June 2021. The results of the election were announced on 23 June and Stuart Cruickshank, the Administration Centre Manager, was elected to the Board of Management from 1 August 2021.

Two Board members resigned during session 2020-21. One, a qualified accountant, was a member of the Audit Committee and in attendance at the Finance and General Purposes Committee. This has left an important skills gap on the Board and at the time of writing, the Board is advertising with a view to recruiting 2 new Board members with a strong financial background to address this situation. The other Board member who resigned on 12 April 2021 was new to the Board, one of 2 newly appointed non-executive Board members who had commenced on 1 November 2020.

The tenure of two Board members ended on 31 July 2021 and, after expressing a desire to continue, they were reappointed to the board from 1 August 2021 to 31 July 2025.

The tenure of the two HISA representatives also ended on 30 June 2021 and two new HISA representatives took up post with effect from 1 July 2021.

As at 31 July 2021, the Board comprised one executive director, 9 non-executives, 2 HISA reps and 2 staff reps; the overall gender balance on the Board was 6 male and 7 female members which meets the government recommendations with regards to gender split.

Accountability Report (continued)

The members who served on the Board of Management during 2020-21 and up to the date of approval of the annual report and financial statements are shown below:

| Name | Occupation | Membership | Start Date | End Date |
|----------------------------|---|--|-------------------|-------------------|
| David Patterson | Principal | Finance and General Purposes Chairs Staff Governance | 29 February 2016 | |
| Jeremie Fernandes | Support Staff Member (Member Librarian) | Staff Governance Remuneration | 10 September 2019 | 21 January 2021 |
| Rosemary McCormack | Teaching Staff Member (Head of Curriculum) | Finance & General Purposes Staff Governance Remuneration | 19 September 2017 | 18 September 2021 |
| Anne Campbell | Considerable experience in education as a home economics teacher and in audit. | Learning, Teaching and Quality Committee | 1 January 2020 | |
| James Knowles | Retired – Considerable public sector experience, Volunteer and Business mentor | Finance and General Purposes | 01 December 2015 | 20 August 2020 |
| Murray Easton (Vice Chair) | Finance Executive and Qualified Accountant with over 30 years' experience in the Oil & Gas industry | Finance and General Purposes (Convener) Chairs Remuneration Nominations | 01 July 2016 | |
| Peter Graham (Chair) | Fellow of the Royal Institution of Chartered Surveyors. Runs his own business acting as a land agent for various Moray and Highland estates | Finance and General Purposes Chairs Remuneration Nominations | 01 July 2016 | |
| Paul Mitchell | 10 years' experience in the utilities industry. Business lead of high performing and empowered teams at British Gas. | Staff Governance | 1 January 2020 | |
| Dr Jessie McLeman | Experienced manager in the water and telecommunications sectors, with experience in dealing with regulatory matters | Audit (Convener) Chairs Remuneration Nominations | 01 July 2016 | |

| | | | | |
|-------------------|--|--|-----------------|---|
| Dawn McKinstrey | Audit Manager specialising in auditing Scottish Waters Capital programme. | Co-opted to Audit Committee 30 May 2019 | 1 January 2020 | |
| Caroline Webster | Over 20 years as Chartered Building Surveyor. Manages local office department of Building Surveying and Architectural services as part of wider national team | Finance and General Purposes | 01 August 2017 | Request to extend tenure to 31 July 2025 approved by UHI Court. |
| Deborah Newton | Audit compliance partner and training principal for firm of Chartered Accountants. As well as being responsible for the audit of the statutory accounts of companies and regulated clients | Audit Finance and General Purposes (In attendance) | 01 August 2017 | 31 July 2021 |
| Seonaid Mustard | Has wide experience of teaching across the area in various roles in both state and private sectors. Has a particular interest in the importance of life long access to education | Staff Governance Learning, Teaching and Quality | 01 August 2017 | Request to extend tenure to 31 July 2025 approved by UHI Court. |
| Kyle Gee | HISA Representative | Audit Learning, Teaching and Quality Committee Remuneration | 1 August 2019 | 30 June 2021 |
| Hermione Morris | HISA Representative | Finance and General Purposes Learning, Teaching and Quality Committee Remuneration | 1 August 2019 | 30 June 2021 |
| Hugh Hamilton | Senior Lecturer In Photography, Course Leader MA Photography, Extensive Experience of Management in Graphic Design and Visual Communications. | Staff Governance Learning, Teaching and Quality | 1 November 2020 | |
| Stewart McCracken | Extensive career in RAF | Staff Governance Learning, Teaching and Quality | 1 November 2020 | 12 April 2021 |

Accountability Report (continued)

A summary of the Board members, and meetings attended during 2020/21 is shown below:

| Member | Board | Audit Committee | Finance & General Purposes Committee | Learning, Teaching & Quality Committee | Staff Governance Committee | Remuneration Committee | Joint Audit/Finance and General Purposes Committee |
|------------------------------------|-------|-----------------|--------------------------------------|--|----------------------------|------------------------|--|
| Mr D Patterson | 5/5 | n/a | 4/4 | 3/3 | 3/3 | n/a | 1/1 |
| Mr P Graham | 5/5 | n/a | 3/4 | n/a | n/a | 1/1 | 1/1 |
| Mr M Easton | 5/5 | n/a | 4/4 | n/a | n/a | 1/1 | 1/1 |
| Mr H Hamilton | 3/3 | n/a | n/a | 3/3 | 3/3 | n/a | n/a |
| Mrs A Campbell | 5/5 | n/a | n/a | 3/3 | n/a | 1/1 | n/a |
| Mrs D McKinstrey | 5/5 | 4/4 | n/a | n/a | n/a | n/a | 1/1 |
| Dr J McLeman | 5/5 | 4/4 | n/a | n/a | n/a | 1/1 | 1/1 |
| Mr P Mitchell | 2/5 | n/a | n/a | n/a | 3/3 | n/a | n/a |
| Mrs D Newton | 5/5 | 3/4 | 3/4 | n/a | n/a | n/a | 1/1 |
| Mrs S Mustard | 5/5 | n/a | n/a | 3/3 | 3/3 | 1/1 | n/a |
| Mr S McCracken | 2/3 | n/a | n/a | 3/3 | 3/3 | n/a | n/a |
| Mrs R McCormack | 5/5 | n/a | 3/4 | 3/3 | 3/3 | 1/1 | 1/1 |
| Mrs C Webster | 5/5 | n/a | 3/4 | n/a | 2/3 | n/a | 1/1 |
| Mr J Fernandez | 0/3 | n/a | n/a | n/a | 1/1 | 0/1 | n/a |
| Ms Hermione Morris | 4/5 | n/a | 1/4 | 2/3 | n/a | 0/1 | 1/1 |
| Mr K Gee | 3/5 | 4/4 | n/a | 2/3 | n/a | 1/1 | 1/1 |
| Mr G Johnston (Co-opted member) | n/a | 3/4 | n/a | n/a | n/a | n/a | 1/1 |

The above is reflective of the various committee memberships throughout 2020/21 (i.e. attendance is noted against meetings members could have attended based on their membership at the time).

Statement of Board of Management's Responsibilities

The Board of Management are responsible for preparing financial statements in the form and on the basis set out in the Accounts Direction issued by the Scottish Funding Council. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Moray College and of its income and expenditure, changes in reserves, financial position, and cash flows for the financial year.

Accountability Report (continued)

In preparing the financial statements, the Board is required to comply with the requirements of United Kingdom Generally Accepted Accounting Practice as adapted for the higher and further education sector by the 2019 Statement of Recommended Practice (the SORP) and the Government Financial Reporting Manual (FRoM) and in particular to:

- observe the Accounts Direction issued by the Scottish Funding Council, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in FRoM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Board's responsibilities include responsibility for the propriety and regularity of the public finances, for keeping proper records and for safeguarding the assets of Moray College.

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Governance statement

Introduction

Colleges are required to include in their annual report and accounts a statement covering the responsibilities of the Board in relation to corporate governance. This statement is required to indicate how the College has complied with good practice in this area.

It is a condition of the Financial Memorandum with the Regional Strategic Body that the Board meets the principles of good governance, set out in the 2016 Code of Good Governance for Scotland's Colleges. The College is committed to achieving best practice in all aspects of corporate governance. It has worked over recent years towards implementing all the changes recommended by the Cabinet Secretary's Good Governance Task Force to ensure compliance in all areas of the Code.

The following items describe the manner in which the College has applied the principles set out in the Code of Good Governance.

A Board Development event had been planned in August 2020 which Board members and members of the Strategic Leadership Team (SLT) were due to attend in person. The focus of this event had been to begin looking at the Strategic Plan for the next 5 years. However, due to the pandemic, the decision was taken to defer starting to refresh the Strategic Plan until after what has been described as the 'emergency years.' Also, the recruitment of a new Vice Chancellor and Principal of UHI was planned and with this, a new UHI Strategic plan which the College's SLT wanted to reference. Instead, the time set aside was spent with each of the Directors reporting on plans for reopening the College in relation to their areas. Time for questions was allowed.

Throughout the session 2020-21 the Clerk to the Board has continued to support the SLT by attending monthly meetings with the objective of further improving communications and clarifying expectations of

Accountability Report (continued)

the Board to the SLT. This development has continued to work well with actions arising from Board and Committee meetings being acted upon in a timely manner.

Whilst there was some initial disruption to face to face meetings early in the Covid-19 pandemic and the College closure, the College was able to adapt very quickly and resume meetings albeit virtually using technology such as Microsoft Teams. Most Board members have adapted very well to the new ways of working and demonstrate a high level of confidence in using the technology. It is business as

usual with meetings taking place regularly and on time. However, the Board would very much like to resume face to face meetings as soon as possible, whilst still offering the opportunity to join virtually to those who would prefer to do so that way.

The Board recently undertook a fifth annual review of Board and Committee Effectiveness (including evaluation of the Board, Committee Chairs, and evaluation of the Clerk). For the second year running the effectiveness review was undertaken using an online survey. This had both advantages and disadvantages in that it was previously undertaken manually. Whilst this was extremely labour intensive, it also meant that 100% return was possible. It proved difficult to achieve a 100% return despite numerous reminders.

The conclusions and recommendations from the Annual Board and Committee review in 2020-21 indicated a high level in the confidence the Board and SLT seem to have in itself, and each other.

Committee members also indicated a high level of confidence in the Chairs of each of the Committees. A review of the returns shows positive results in the majority of areas with Strongly Agree and Agree in all but a few aspects. There were some extremely positive comments about the Audit Committee, F&GP and Staff Governance in particular.

Similarly positive comments were evident in relation to the Chairs and the Board's confidence in them. Those completing the survey took time to make some very encouraging and in-depth comments in support of their scoring.

There were a small number of negative comments coming out of the Learning, teaching and Quality Committee; some of which seemed to relate to the size of membership and the lack of contribution of some members. It is intended to investigate this further by offering members of this committee the opportunity to meet with the Convenor of the Committee and/or Clerk to express any particular concerns. Communications between the Board the senior management continued to be effective with SLT having a good understanding of what the Board expects from them.

As part of the Annual Board and Committee review, individual one-to-one development meetings are required to take place between every Board member and the Chair and Vice Chair. Although these meetings had to be undertaken virtually, they were able to be completed by the end of June 2021. Discussions including any recommendations for CPD and training was recorded and will be followed up in due course.

The Audit Committee of the Board, as required by the Code of Good Governance, commissioned an externally facilitated Board Effectiveness Review to ensure compliance with the Governance requirement set out by the Scottish funding Council and underpinned by the Good Governance Guidance produced by College Scotland. The review was independently carried out by Wylie and Bisset LLP during December 2020 and March 2021.

Wylie Bisset LLP's role was to make an independent assessment of the arrangements and to provide an opinion to the Board of Management on these matters. In reaching an overall conclusion Wylie and Bisset LLP identified 3 areas of Good Practice and 5 recommendations and actions for continued improvement in this regard.

Accountability Report (continued)

Overall they were able to provide a substantial level of assurance over the Board of Management Effectiveness at Moray College UHI. Their assurance level is predicated on continued improvements being made by the Board of Management in their approach to Governance.

The areas of Good Practice as identified were:

1. From the interviews conducted with both the Board of Management and Staff Members, the consensus was that the Chair of the Board of Management was very effective. It was their view that the Chair provides the character and leadership expected of the role, with the Chair's style being described as fair, respectful, consultative, inclusive, and very much team based.
2. The College has an experienced Clerk to the Board of Management. This was not only confirmed through discussions with the Clerk and review of the documentation received but also through discussions with the Board members and Staff Members.
3. The College is well connected locally and regionally, and discussions highlighted that the Board of Management and Principal believe that the College has a significant role to play in ensuring the needs of the local, regional, and national communities are met and that the College does so on a basis which is sustainable for them through sharing in the economic benefits all these initiatives accrue.

Recommendations and Actions for Continued Improvements

| Recommendation | Actions and Update |
|--|--|
| That the College update the review information within the published Code of Conduct. | Clerk to the Board has updated the published Code of Conduct. |
| Board members work with the Clerk and Chair to specify the types of papers they wish to see and timelines over which they wish to receive these. Further recommendation that those tasked with creating Board and Committee papers, put aside appropriate time in their diaries to ensure that papers are comprehensive, informative and meet the known timetables for the delivery of papers | SLT to ensure papers are provided to the Clerk to the Board to ensure the Clerk can circulate the papers timeously. Most Board meetings now take place on Thursdays allowing more time to ensure papers are received a working week ahead of meetings. |
| Recommended that the College work with HISA, UHI and Student members of the Board to improve Communications between all parties. Development of a clear document outlining the Student members roles and responsibilities as the Board member Development of a specific induction and training programme for the role of the Student Member. | The Clerk has offered to meet Student and Staff members in advance of each meeting to brief them ahead of Committee and Board meetings. The Induction presentation now contains specific information on what is expected of HISA members and Staff Members on the Board. |

Accountability Report (continued)

Annual Board Development Event

The Board held a further annual development event with SLT in October 2021. The focus of this event was how the College wanted to shape its future, including reflecting on lessons learned throughout the Covid pandemic. It was also an opportunity for the Board to review the College's 5-year Strategic Plan ensuring that this is aligned with the UHI 5 Year Strategy.

As part of the objective setting process for the Principal which took place at the start of the academic session, the Chair of the Board took account the views of staff and student representatives (as well as the views of other Board members) when formally agreeing the Principal's objectives for the year ahead.

The Chair also held informal meetings with other members of staff across College apart from Board representatives and took their views into account prior to setting the Principal's objectives.

Staff Representatives and Student Representatives of the Board continued to be members of the Remuneration Committee which considers the salaries of the Principal and Senior Management Team and their views are fully considered when setting the salaries for the year.

Governing Body

The Board conducts its business through a number of Committees, each of which has terms of reference approved by the Board. The main committee through which the ordinary business of the Board is conducted is the Finance & General Purposes ("F&GP") Committee. There is also an Audit Committee (described in the Risk Management and Internal Control section below), and committees for Remuneration, Nominations and Chairs.

The Staff Governance Committee's terms of reference include the Staff Governance Standards as determined by Colleges Scotland and the STUC. This committee met 3 times during the year to consider various strategic staffing issues including the set of core values for staff linked to the College strategic plan. The main focus of this Committee in 2020-21 was in addressing some of the issues arising from the Staff Survey conducted in session 2018-19. Another key focus for this Committee was in overseeing the VSS Scheme for staff from the College refectory who were identified as being at risk due to the closure of the Refectory. Considerable efforts have been made by the College to ensure these staff are kept informed, supported and to identify opportunities for redeployment in the College for the staff affected.

A further focus of the Staff Governance Committee was in referring to the staff in a mini staff survey to determine how the College wants to shape its future, including reflecting on working practices, throughout the Covid pandemic. As a result, the College intends considering the staff preferences related to working from home or on campus and allowing teams to take advantage of flexible working patterns and where appropriate to adopt a hybrid model of working.

The F&GP was convened 4 times during the year. Its purpose is to ensure a sound system of internal financial management and control, monitoring performance of that system on a regular basis throughout the accounting period. It recommends to the Board the College's annual revenue and capital budgets, and monitors performance in relation to the approved budgets. It also approves and recommends the Annual Report and Financial Statements to the Board. The Director of Finance attends the F&GP Committee but not as a member.

Accountability Report (continued)

Throughout Session 2020-21 the College continued to face considerable financial challenges in maintaining a financially sustainable position. Some of this was apparent before the current Covid-19 crisis due to the reduction in core funding that the College receives, but the pandemic has exacerbated the situation due to the loss of a large proportion of its commercial income. However, final accounts revealed that the projected deficit had all but been eliminated and operating costs had been drastically reduced. SLT worked tirelessly throughout the year to ensure operating and staffing costs were kept to the minimum. As a result a breakeven figure was reported to the Board of Management meeting in June 2021 along with a cash positive closing position.

The Nominations Committee considers all applications for membership to the Board of Management and makes recommendations for appointment to the full Board. Members of the Nominations Committee along with two members of the RSB are on the interview Panel and if appropriate, would then make a recommendation to the full Board to recruit. If accepted by the Board, then the recommendation to recruit is forwarded to the University Court who make the final decision on whether to appoint a Board member. It also reviews members' continuing professional development and training requirements.

The Remuneration Committee met once during session 2020-21 in June 2021. The single item for discussion was to recommend that the same pay award and improvements to the terms and conditions of support staff be applied to members of the Strategic Leadership Team including the Principal and the Directors and the Committee unanimously approved this decision.

At the start of the academic session 2018/19 a decision was made for the Learning, Teaching and Quality Committee to become a standing Committee of the Board. This Committee previously existed as one of the College's operational Committees although a member of the Board of Management was in attendance. This Committee now includes 4 non-executive Board members and both HISA representatives, the Principal and the Teaching staff representative included in its membership. The Committee met 3 times during the academic session and considered all aspects of learning and teaching including teacher education, research, quality enhancement including the annual evaluative report enhancement plan and the Annual Student Satisfaction and Engagement Report.

Full Minutes including supporting papers of all meetings, except those deemed confidential and reserved, are available from the Clerk to the Board of Management and on the College website.

Statement of Compliance

The College complies with the principles of the 2016 Code of Good Governance for Scottish Colleges ("the Code") and continues to identify and work on areas where improvements can be made in meeting the obligations set down in the Code.

The Principal's Strategic Leadership Team considers issues of performance, internal control and risk and advises the Principal on strategy, operational planning and control, and any issues relevant to the running of the College. Members of the Strategic Leadership Team during session 2020/21 are shown below:

1 August 2020 – 31 July 2021

| | |
|----------------|--|
| Mr D Patterson | Principal and Chief Executive |
| Ms S McInnes | Director of Finance |
| Mrs C Newlands | Director of Curriculum and Academic Operations |
| Mrs N Yoxall | Director of Learning and Teaching |
| Mr D Duncan | Director of Information, Planning and Student Support |
| Mrs C Thomson | Director of Human Resources and Organisational Development |

Accountability Report (continued)

Risk management and internal control

The Audit Committee membership during the 2020-21 session comprised Board members with external and internal auditors in attendance as appropriate. The committee provides assurance to the Board on governance, internal control and risk management, as well as financial reporting issues. It considers detailed reports on internal controls, including recommendations for improvement along with management responses and implementation plans. It may also consider reports from the Scottish Funding Council and Audit Scotland, and it monitors adherence to regulatory requirements.

The Annual Internal Audit Report for 2020-21 submitted by the College's internal auditor concluded that the College has adequate and effective arrangements for risk management, control and governance.

An audit register is used by senior management to periodically review and progress all outstanding recommendations and that is also reviewed by the committee. During the current session (2020-21) the executive worked hard to maintain the progress made in previous sessions to ensure all recommended audit actions were completed in a timely fashion. At the time of writing 4 audit actions remain overdue, one of which relates to the internal audit on health and safety and has been delayed due to the Coronavirus outbreak. A further two actions relate to procurement. The Audit Committee has agreed to extend the deadline for completion of these to 31/12/2021. The fourth action relating to risk management also remains overdue but this is due to an UHI wide IT issue which is currently being considered.

Following a procurement exercise, Wyllie and Bisset LLP were appointed the College's internal auditors with effect from 1 August 2020. The internal audit activity in 2020-21 was agreed at the November 2020 Audit Committee meeting:

- Board Effectiveness – Externally facilitated Board Effectiveness Review which had been required by June 2020 had been delayed due to Covid-19
- Budgetary and Financial Reporting
- Estates Management
- Leadership of Learning and Teaching
- SSF Audit - Mandatory Review of Student Support Funds
- EMA Audit – Mandatory Review of Educational Maintenance Allowance returns
- Credits Audit – Mandatory Review of the Credits Return

Summary of Reviews

Board Effectiveness Review

As noted above, the overall conclusion on board effectiveness was Substantial with 3 Good Practice points noted and 5 recommendations and actions for continued improvement in this regard.

Budgetary and Financial Reporting

The overall conclusion on budgetary controls was Strong with 3 Good Practice points noted and 3 low grade recommendations and one observation in terms of sample size.

Accountability Report (continued)

Leadership of Learning and Teaching

The overall conclusion on leadership of learning and teaching was Strong with 2 low grade recommendations.

Estates Management

At the Audit Committee meeting on 18 May 2021 it was agreed that Estates Management would be substituted with Complaints Handling which was completed in August 2021.

Further reviews were carried out in respect of Student Support, and Student Activity Data (Credits) with an unqualified audit certificate on the Further Education Statistical ("FES") return.

During the current session, the Committee has continued to progress on reviewing risk management arrangements, including risk policy, the Board's appetite to risk and a risk management process. The risk register forms part of the risk management process and records internal and external risks and, mitigating actions, following a template used across the UHI partnership. The risk register is on the agenda of each meeting of the Audit Committee.

The most significant financial risks for the College after mitigation are:

- the failure to achieve a balanced budget/financial sustainability;
- financial sustainability; and
- the College estate and infrastructure not being fit for purpose due to lack of capital investment.

Effective treasury and cash management was maintained throughout the year. The key feature of College treasury management policy continues to be low risk, prudent banking with recognised UK high street banks and the avoidance of any form of currency or other speculation.

With the approval of the Board of Management transfers of cash reserves are effected with the Scottish Colleges Foundation, an arm's length trust which maintains ring-fenced funds for individual Colleges to facilitate future strategic development.

Details of any significant lapses of data security

A cyber incident impacted on UHI regional university services in March 2021 that required the immediate removal of access to the College's key services including student records, timetabling, file servers, MIS reporting, and all campus services including telephones, networking, Wi-Fi, printing, and access to computers. The long recovery process from this means the College still has partially restricted access to some services.

Accountability Report (continued)**Conclusion**

The Board of Management has no matters to report in respect of failures in the expected standards of good governance, risk management and control for the period ending 31 July 2021, other than the continuing work to secure a balanced budget position within its current budget and FFR.

Authorised for issue and approved by order of the members of the Board on 24 February 2022 and signed on its behalf by:

Mr P Graham
Chair

Mr D Patterson
Principal and Chief Executive

Accountability Report (continued)

Remuneration and staff report

The Remuneration Committee convened once during the year, and consists of the following members:

- Chair and Vice Chair of the Board of Management;
- Conveners of F&GP and Audit Committee;
- The Board independent member;
- Staff representatives; and
- HISA representatives.

The role of the remuneration committee is to determine the salary scales for key staff, and the remuneration within these scales of the most senior post-holders, including the Principal.

The Remuneration of the Principal and senior post holders is based upon the following:

- Formal salary review process;
- The gathering of evidence in consideration of SFC guidance;
- Current Scottish Public Pay Sector Policy'
- Benchmarking from other colleges; and
- Any relevant submissions from staff and students.

In addition to the above the Remuneration Committee also considers any additional responsibility payments (or other non-consolidated payment) recommended by the Principal for Director level posts.

Remuneration including salary and pension entitlements

The following table provides detail of the remuneration and pension interests of senior management of Moray College UHI. The information in this section of the Remuneration Report is subject to audit.

| Name | Post | Salary £'000 | 12 months ended 31 July 2021 | | |
|-----------------|-------------------------------|-----------------|--|----------------|--|
| | | | Pension Benefit £'000 ¹ | Total £'000 | Full Time Annual Equivalent £'000 |
| David Patterson | Principal and Chief Executive | 100-105 | 30-35 | 135-140 | 135-140 |
| Derek Duncan | Director | 60-65 | 5-10 | 75-80 | 75-80 |
| Chris Newlands | Director | 50-55 | 15-20 | 65-70 | 65-70 |
| Nikki Yoxall* | Director | 50-55 | 20-25 | 70-75 | 70-75 |
| Carolyn Thomson | Director | 60-65 | 25-30 | 90-95 | 90-95 |
| Shelly McInnes | Director | 60-65 | 20-25 | 80-85 | 80-85 |

*Nikki Yoxall (NY) left Moray College 30th July 2021

¹ Responsibility Allowances have been excluded from pension benefit calculations

Accountability Report (continued)

| Name | Post | Salary £'000 | 12 months ended 31 July 2020 | | |
|-------------------|-------------------------------|-----------------|--|----------------|--|
| | | | Pension Benefit £'000 ¹ | Total £'000 | Full Time Annual Equivalent £'000 |
| David Patterson | Principal and Chief Executive | 100-105 | 30-35 | 135-140 | 135-140 |
| Derek Duncan | Director | 60-65 | 0-5 | 65-70 | 65-70 |
| Chris Newlands | Director | 45-50 | 0-5 | 45-50 | 60-65 |
| Nikki Yoxall*** | Director | 55-60 | 25-30 | 80-85 | 85-90 |
| Carolyn Thomson | Director | 60-65 | 35-40 | 100-105 | 100-105 |
| Nicholas Clinton* | Director | 15-20 | 0-5 | 15-20 | 60-65 |
| Shelly McInnes** | Director | 40-45 | 10-15 | 55-60 | 75-80 |

* Nicholas Clinton left Moray College 31 October 2019.

** Shelly McInnes started with Moray College 2 December 2019.

***Nikki Yoxall (NY) joined Moray College on 8 January 2018. During the period 31 July 2019 NY transferred previous education pension funds into the NESPF.

The salaries in the above table represent the amount earned in the financial period and include gross salary and allowances to the extent that they are subject to UK taxation.

The value of the pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The x20 multiplier aims to bring public bodies in line with other industries in disclosing an assessed cumulative pension benefit for a standard 20-year period which is the estimated life span following retirement.

Notes:

Note 1 - The non-executive members of the Board of Management listed in the statement of Corporate Governance and Internal Control are not included in this remuneration report and did not receive any salary or benefits.

Fair pay disclosure

Based on the 12-month figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2020/21 was in the range £100k-£105k (2019/20 £100k-£105k). This was 3.48 times (2019/20 3.82 times) the median remuneration of the workforce which was in the range £25k-£30k (2019/20 - £25k-£30k).

¹ Responsibility Allowances have been excluded from pension benefit calculations

Accountability Report (continued)**Senior Officials Pension**

Pension benefits are provided to senior officials on the same basis as all other staff. The accrued pension benefits for senior officials are set out in the table below, together with the pension contributions made by the College. Special responsibility allowances have been excluded from pension benefit calculations.

| Name | Accrued pension at pension age at 31 July 2021 | Accrued pension at pension age at 31 July 2020 | Real increase in pension 1 August 2020 – 31 July 2021 | Real increase in lump sum 1 August 2019 – 31 July 2020 | CETV at 31 July 2021 | CETV at 31 July 2020 | Real increase in CETV |
|-----------------|--|--|---|--|----------------------|----------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| David Patterson | 10-15 | 5-10 | 0-5 | 0-5 | 164 | 127 | 37 |
| Derek Duncan | 10-15 | 10-15 | 0-5 | 0-5 | 277 | 250 | 27 |
| Chris Newlands | 25-30 | 25-30 | 0-5 | 0-5 | 698 | 672 | 26 |
| Nicola Yoxall | 10-15 | 5-10 | 0-5 | 0-5 | 79 | 64 | 15 |
| Carolyn Thomson | 20-25 | 20-25 | 0-5 | 0-5 | 348 | 321 | 27 |
| Shelly McInnes | 0-5 | 0-5 | 0-5 | 0-5 | 20 | 8 | 12 |

Cash equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalise value of the pension scheme benefits accrued by a member at a particular point in time.

The value of the accrued pension benefits 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. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service and not just their current appointment.

In considering the accrued pension benefits figures the following contextual information should be taken into account:

- (i) the figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.
- (ii) the accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

Accountability Report (continued)**Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market value factors for the start and end of the period.

STAFF REPORT**Number of senior staff by band**

| Salary band in £'000 | 2021 | 2020 |
|----------------------|----------|----------|
| 0-5 | - | - |
| 5-10 | - | - |
| 10-15 | - | - |
| 15-20 | - | 1 |
| 20-25 | - | - |
| 25-30 | - | - |
| 30-35 | - | - |
| 35-40 | - | - |
| 40-45 | - | 1 |
| 45-50 | - | 1 |
| 50-55 | 2 | - |
| 55-60 | - | 1 |
| 60-65 | 3 | 2 |
| 65-70 | - | - |
| 70-75 | - | - |
| 75-80 | - | - |
| 80-85 | - | - |
| 85-90 | - | - |
| 90-95 | - | - |
| 95-100 | - | - |
| 100-105 | 1 | 1 |
| | - | - |
| TOTAL | 6 | 7 |

Staff numbers and costs

| | 2021 | 2021 | 2021 | 2020 |
|-----------------------|-------------------------------------|---------------------------------------|----------------|----------------|
| | Directly employed staff £'000 | Seconded and agency staff £'000 | Total £'000 | Total £'000 |
| Wages and salaries | 9,634 | - | 9,634 | 8,688 |
| Social security costs | 743 | - | 743 | 742 |
| Other pension costs | 1,293 | - | 1,293 | 2,406 |
| Total | 11,670 | - | 11,670 | 11,836 |
| Staff Numbers (FTE) | 235 | - | 235 | 249 |

Accountability Report (continued)**Staff comparison**

On 31 July 2021 there were 327 contracted staff, 223 females and 104 males (2019/20 314 contracted staff - 221 females, 93 males).

Sickness absence data

The average sickness absence data rate over the period 1 August 2020 to 31 July 2021 was 2.17% (2019/20 2.51%).

Facility time

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, the College provided the following support through paid facility time for union officials working at the College during the year ended 31 July 2021.

Relevant Union Officials

| | |
|--|--------------------------------------|
| Number of employees who were relevant union officials during the relevant period | Full time equivalent employee number |
| 6 | 6 |

Percentage of time spent on facility time

| | |
|--------------------|---------------------|
| Percentage of time | Number of employees |
| 0% | 0 |
| 1-50% | 6 |
| 51-99% | 0 |
| 100% | 0 |

Percentage of pay bill spent on facility time

| | |
|---|-------------|
| Total cost of facility time | £30,793 |
| Total pay bill | £10,492,140 |
| Percentage of the total pay bill spent on facility time | 0.29% |

Paid trade union activities

| | |
|--|-------|
| Time spent on trade union activities as a percentage of total paid facility time hours | 3.50% |
|--|-------|

Staff Policies

Moray College UHI have retained membership of the Disability Confident Scheme which creates a movement of change, encouraging employers to think differently about disability and take action to improve how they recruit, retain and develop disabled people.

As a level 2 Disability Confident employer we are committed to and continue to:

- Actively looking to attract and recruit disabled people to fill our opportunities.
- Providing a fully inclusive and accessible recruitment process.
- Offering an interview to disabled people who meet the minimum criteria for the job.

Accountability Report (continued)

- Flexibility when assessing people so disabled job applicants have the best opportunity to demonstrate that they can do the job.
- Proactively offering and making reasonable adjustments as required.
- Encouraging our suppliers and partner firms to be Disability Confident.
- Ensuring employees have appropriate disability equality awareness.

Expenditure on Consultancy

There is nothing to report under the above for Moray College UHI.

Off-payroll engagements

There is nothing to report under the above for Moray College UHI.

Compensation for loss of office

During the financial year, permission was obtained from the SFC and the College's RSB to offer a voluntary severance program, ringfenced to those staff who worked in the College's refectory. The refectory was closed during the first lock-down in March 2020 and the staff remained on full furlough throughout the 2020-21 financial year. Wherever possible the staff affected were found suitable alternative employment in the College. The scheme was funded via sustainability funding from the SFC and agreements were reached with seven members of staff who applied for voluntary severance during 2020/21. The seven members of staff left the College's employment in September 2021.

Parliamentary Accountability Report

There is nothing to report under the above for Moray College UHI.

Other Employee Matters

Extensive efforts have been made in relation to curriculum and service review and adaption to support learning and teaching activities, on a blended approach in session 20/21 in line with the Scottish Government route map. College activities were delivered remotely or face to face where allowed and appropriately risk assessed, or a combination of the two. A number of employees were furloughed – either flexibly or full time – during the financial year. This has required extensive consultation with trade union and staff representatives and a collaborative approach to the implementation of arrangements to ensure the continued safety and wellbeing of staff, students and those associated with the college.

A national Job Evaluation exercise for support staff roles relevant to the National RPA continues and is likely to be continue into the next reporting period and beyond.

Mr P Graham
Chair

Mr D Patterson
Principal and Chief Executive

Independent auditor's report to the Board of Management of Moray College, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Moray College for the year ended 31 July 2021 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the College Statement of Comprehensive Income, College Statement of Changes in Reserves, College Balance Sheet, and the Statement of Cash Flow 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of 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 Auditor General 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 Auditor General on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the college 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 college. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the college's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Independent auditor's report to the Board of Management of Moray College, the Auditor General for Scotland and the Scottish Parliament

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 judgements thereon.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management 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 Board of Management 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 Board of Management is responsible for assessing the college'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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the college is complying with that framework;
- identifying which laws and regulations are significant in the context of the college;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the college's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report to the Board of Management of Moray College, the Auditor General for Scotland and the Scottish Parliament

The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness 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.

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.

Report on regularity of expenditure and income**Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities to detect material misstatements in the financial statements in respect of irregularities, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements**Opinion prescribed by the Auditor General for Scotland on audited part of the Remuneration and Staff Report**

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Statutory other information

The Board of Management is responsible for the statutory other information in the annual report and accounts. The statutory other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Independent auditor's report to the Board of Management of Moray College, the Auditor General for Scotland and the Scottish Parliament**Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement**

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

- the information given in the Performance Report 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 Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the 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 Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland 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 and Staff Report are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice 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 the Public Finance and Accountability (Scotland) Act 2000 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.

Stephen Reid, for and on behalf of Ernst & Young LLP
Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Date:

Ernst & Young is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Statement of Principal Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015, the 2016-17 Government Financial Reporting Manual (FREM) and Financial Reporting Standards (FRS 102). They conform to guidance published by the Scottish Funding Council.

Basis of accounting

The financial statements are on a historical cost basis, as modified by the revaluation of fixed assets, stock and financial assets and liabilities at fair value.

Basis of consolidation

Under the terms the Post-16 Education (Scotland) Act 2013), the College was no longer able to hold cash reserves. Any such funds required to be transferred to an independent Arms-Length Foundation ("ALF"), to be administered by independent trustees, with these funds being utilised by independent claims submitted and awarded in-line with the College's strategic plans.

The College's ALF is The Moray College Fund, which is part the Scottish Colleges Foundation. This has not been consolidated on the grounds that its transactions are not material.

Going Concern

The accounts are prepared on the going concern basis, which provides that the entity will continue in operational existence for the foreseeable future.

The College recorded a deficit of £0.85 million for the year before other gains and losses during the financial year and total comprehensive income of £2.7 million. The College reported an adjusted operating deficit of £15k after accounting for technical pension adjustments, loan repayment costs and net depreciation adjustments. Cash increased by £1.2 million during the year and at 31 July 2021 the College held a cash balance of £1.8 million.

Senior management have considered various scenarios in assessing the impact of Covid-19 on future financial performance and cashflows. Cashflow projections have been prepared for the going concern period to 31 July 2023. This exercise has demonstrated that there may be a requirement to manage cash flow requirements through the re-phasing of grant payments within the academic year from the Regional Strategic Body. However, the Board of Management of Moray College has no reason to believe that support of this nature from the Regional Strategic Body and Scottish Funding Council will not be forthcoming. The College has received a letter of support from the SFC which states that they will 'work with the sector and individual colleges and regions to help manage cash flow requirements, at least for the period of 12 months from the date of approval of your balance sheet, specifically through the re-phasing of grant payments within and between academic years if required. The College is satisfied that it will continue to be able to pay its operating expenses as they fall due.

The ongoing financial pressures are driven largely by altered enrolment patterns during the pandemic, and by policy and funding decisions out-with the control of College management. The downturn in enrolment during the pandemic 'emergency years' (as defined by the SFC) ran contrary to the period of growth and development preceding it. Mitigating actions which the College has control of, or areas which the College can make changes to - such as maintaining strict controls on staff numbers and operating costs, reviewing and addressing changes to the curriculum and securing additional, non-government funded income; all have to be delivered within the constraints of an unbalanced budget and a pressure on cash. As the local area and economy recover, the College needs to be in a position

Statement of Principal Accounting Policies (continued)

to support those who wish to continue or return to education and training. This will include identifying areas of the curriculum that need to be changed, introduced or removed.

The Board of Management do, however, look forward to the medium-term opportunities afforded by the Moray Growth Deal, signed in December 2021 by the UK and Scottish governments. The project offers an unprecedented local investment in projects which through college and partner leadership will create new and stronger demand for the College's services across a wide range of the College's curriculum provision. The MAATIC project will widen the curriculum offering of the College; establishing the area as a centre for excellence in aviation, aerospace, and digital manufacturing engineering. The Business Enterprise Hub will support existing small and micro-businesses in the area, strengthen research and the curriculum with courses unique to Scotland and provide additional CPD capacity support. The Cultural Quarter will be a catalyst for increased demand for courses in creative and performing arts, tourism, hospitality, and allied areas. Successful delivery of these projects will significantly increase the reputation of the College and help to secure the long-term viability of the College.

The conclusion from the above analysis is that whilst the financial position of the College continues to be challenging and the financial pressures extend beyond the period to 31 July 2023, the College is a public body providing statutory services and as such will remain a going concern as long as this is the case. It remains wholly appropriate to adopt a going concern basis for the preparation of these annual financial statements.

Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information. 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.

Recognition of income

Income from the sale of goods or services is credited to the Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Investment income is credited to the Statement of Comprehensive Income and Expenditure on a receivable basis.

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant Funding

Government revenue grants including regional and national funding are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred, it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Statement of Principal Accounting Policies (continued)

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Donations and endowments are examples of non-exchange transactions. Donations with no restrictions are recognised in income when the College is entitled to the funds

Donations and endowments with donor-imposed restrictions are recognised in income when the College is entitled to the funds. Income is retained in a restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Capital Grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Retirement benefits

Retirement benefits to employees of the College are provided by the North East Scotland Pension Fund (NESPF), which administers the Local Government Pension Scheme (LGPS), and the Scottish Teachers Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency (SPPS).

These are defined benefit schemes which are externally funded, which are as follows.

North East Scotland Pension Fund (NESPF)/ Defined Benefit Scheme

The contributions are determined by an actuary on the basis of periodic valuations using the projected unit method. The amount charged to the Statement of Comprehensive Income and Expenditure represents the service cost expected to arise from employee service in the current year.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the College's obligation is to provide the agreed benefits to current and former employees and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the College.

The College recognises a liability for its future obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Scottish Public Pensions Agency (SPPA)/ Defined Contribution Scheme

The assets of this scheme are held separately from those of the College in a separate trustee-administered fund. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102, the scheme

Statement of Principal Accounting Policies (continued)

is accounted for as if it were a defined contribution scheme. As a result, the amounts charged to the Statement of Comprehensive Income and Expenditure represent the contributions payable to the scheme in the year.

In the event of staff taking early retirement, the full liability to the College is calculated and charged to the Statement of Comprehensive Income and Expenditure in the year of retirement, with a corresponding provision being established in the Balance Sheet.

A defined contribution scheme is a post-employment benefit plan under which the College pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Unfunded pension provision

The future long-term obligation in respect of early retirees, which is not funded by the aforementioned pension schemes, is provided for on the balance sheet. This provision is valued annually in accordance with guidance issued by the Funding Council.

Employment benefits

Remuneration of Board members and senior managers disclosed in the remuneration report includes the value of employers' pension scheme contributions.

Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Fixed Assets*Recognition*

A fixed asset is capitalised where: it is held for use in delivering services or for administrative purposes; it is probable that future economic benefits will flow to, or service potential be provided to, the College; it is expected to be used for more than one financial year; and the cost of the item can be measured reliably.

All assets are which are capable of being used for a period which could exceed one year, and have a cost equal to or greater than £5,000 are capitalised.

Measurement

All fixed assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

Statement of Principal Accounting Policies (continued)

All assets are measured subsequently at fair value as follows:

- Specialised land, buildings, plant, equipment, fixtures and fittings are stated at depreciated replacement cost, as a proxy for fair value as specified in the FReM.
- Non-specialised land and buildings are stated at fair value.
- Valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. The valuations are carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.
- Non-specialised equipment, installations and fittings are valued at fair value. A depreciated historical cost basis is used as a proxy for fair value.
- Assets under construction are valued at current cost. This is calculated by the expenditure incurred to which an appropriate index is applied to arrive at current value. These are also subject to impairment review.

To meet the underlying objectives established by the Scottish Government the following accepted variation of the RICS Appraisal and Valuation Manual have been required:

- Specialised operational assets are valued on a modified replacement cost basis to take account of modern substitute building materials and locality factors only.

Subsequent expenditure

Subsequent expenditure is capitalised into an asset's carrying value when it is probable the future economic benefits associated with the item will flow to the College and the cost can be measured reliably. Where subsequent expenditure does not meet these criteria, the expenditure is charged to the Statement of Comprehensive Income and Expenditure. If part of an asset is replaced, then the part it replaces is de-recognised, regardless of whether or not it has been depreciated separately.

Revaluations and Impairment

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the Statement of Comprehensive Income and Expenditure, in which case they are recognised as income. Movements on revaluation are considered for individual assets rather than groups or land/buildings together.

Permanent decreases in asset values and impairments are charged gross to the Statement of Comprehensive Expenditure. Any related balance on the revaluation reserve is transferred to the General Reserve.

Gains and losses on revaluation are reported in the Statement of Comprehensive Income and Expenditure.

Depreciation

Fixed assets are depreciated to their estimated residual value over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

Statement of Principal Accounting Policies (continued)

Depreciation is charged on each main class of tangible asset as follows:

- 1) Freehold land is considered to have an infinite life and is not depreciated.
- 2) Assets in the course of construction are not depreciated until the asset is brought into use or reverts to the College, respectively.
- 3) Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification.
- 4) Buildings, fixtures and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. They are assessed in the context of the maximum useful lives for building elements.

The above are depreciated on their component parts, which are primarily broken down per the following:

- Main Campus;
 - Alexander Graham Bell Centre;
 - Linkwood Technology Centre; and
 - Victoria Art.
- 5) Plant and machinery is depreciated over the estimated life of the asset.
 - 6) Fixed assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

| Asset Category/Component | Useful Life |
|---|--------------------|
| Buildings | 10-60 years |
| Plant, equipment, fixtures and fittings | 5-10 years |
| Computer equipment | 3 years |

Land and buildings are revalued every 5 years for the purposes of the financial statements with an interim valuation after 3 years. Land and buildings were valued as at 31 July 2019 (full valuation) on the basis of depreciated replacement cost by J&E Shepherd in accordance with RICS Valuation

Intangible Assets*Recognition*

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Board's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the Board and where the cost of the asset can be measured reliably.

Intangible assets that meet the recognition criteria are capitalised when they are capable of being used in a Board's activities for more than one year and they have a cost of at least £5k.

Statement of Principal Accounting Policies (continued)

Leased assets

Leases in which the College assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Provision is made for obsolete and defective stocks.

Taxation

The College is an exempt charity and is therefore not liable for Corporation Tax under section 506 (1) of the Income and Corporation Taxes Act 1988.

The College receives no similar exemption in respect of VAT. For this reason, the College is generally unable to recover input VAT on goods and services purchased. Non-payroll expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

Provisions

Provisions are recognised in the financial statements when:

- (a) the College has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Contingent assets and liabilities

A contingent liability arises from a past event that gives the College 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 College. 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.

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

Statement of Principal Accounting Policies (continued)

Agency arrangements

The College acts as an agent in the collection and payment of certain student support funds. These funds are excluded from the College income and expenditure account, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College income and expenditure account.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The College holds loans and receivables which are defined as assets that have fixed or determinable payments but are not quoted in an active market. Loans and receivables comprise trade and other receivables and cash at bank and in hand in the Balance Sheet.

Financial assets are recognised when the College becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the College has transferred substantially all risks and rewards of ownership.

A provision for impairment of loans and receivables is established when there is objective evidence that the College will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loan and receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flow.

The College assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the College becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are subsequently carried at amortised cost.

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

Key sources of judgement and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Statement of Principal Accounting Policies (continued)

The College makes estimates and assumptions concerning the future. The College makes judgements in applying accounting policies.

The estimates, assumptions and judgements that have a significant risk of a causing material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year are addressed below.

- Estimates and assumptions regarding estimated impairment of the College estate and useful life of assets.
- Estimated actuarial assumptions in respect of post-employment benefits, in particular the liability from LGPS membership.

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from revaluation reserve to income and expenditure account together with any surplus or deficit on disposal.

**Statement of Comprehensive Income and Expenditure
for the year ended 31 July 2021**

| | | 31 July 2021 £'000 | 31 July 2020 £'000 |
|---|-----------|-----------------------|-----------------------|
| Income | | | |
| Funding body grants | 1 | 9,878 | 9,683 |
| Tuition fees and education contracts | 2 | 2,126 | 2,063 |
| Research grants and contracts | 3 | 1,181 | 837 |
| Other income | 4 | 628 | 1,309 |
| Total Income | | 13,813 | 13,892 |
| Expenditure | | | |
| Staff costs | 5/6 | 11,670 | 11,836 |
| Other operating expenses | 7 | 2,091 | 2,451 |
| Depreciation | 11 | 890 | 877 |
| Interest payable | 8 | 15 | 18 |
| Total Expenditure | | 14,666 | 15,182 |
| Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before tax | | (853) | (1,290) |
| Loss on disposal of assets | 11 | - | - |
| Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax | | (853) | (1,290) |
| Taxation | 9 | - | - |
| Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax | 10 | (853) | (1,290) |
| Remeasurement of pension scheme assets and liabilities | 25 | 3,600 | (1,358) |
| Unrealised surplus on revaluation of land and buildings | 11 | - | - |
| Total comprehensive income and expenditure for the year | | 2,747 | (2,648) |

The Statement of Comprehensive Income ("SOCl") is prepared under the FE/HE SORP. Colleges are also subject to Central Government account rules but the FE/HE SORP does not permit Colleges to include Government non-cash allocations for depreciation in the SOCl.

Note 26 provides details of the adjusted operating position on a Central Government accounting basis.

**Statement of Changes in Reserves
for the year ended 31 July 2021**

| | General Reserve | Revaluation Reserve | Total |
|--|----------------------------|--------------------------------|---------------------|
| | 31 July 2021 | 31 July 2021 | 31 July 2021 |
| | £'000 | £'000 | £'000 |
| | (Note 19) | (Note 18) | |
| Balance at 1 August 2019 | (5,173) | 13,824 | 8,651 |
| Deficit from the income and expenditure account | (1,290) | - | (1,290) |
| Other comprehensive income | (1,358) | - | (1,358) |
| Transfers between revaluation and income and expenditure reserve | 449 | (449) | - |
| Balance at 1 August 2020 | (7,372) | 13,375 | 6,003 |
| Deficit from the income and expenditure account | (853) | - | (853) |
| Other comprehensive income | 3,600 | - | 3,600 |
| Transfers between revaluation and income and expenditure reserve | 449 | (449) | - |
| Balance at 31 July 2021 | (4,176) | 12,926 | 8,750 |

**Statement of Financial Position
as at 31 July 2021**

| | Notes | as at 31 July 2021 £'000 | as at 31 July 2020 £'000 |
|--|-------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Fixed assets | 11 | 24,852 | 25,614 |
| | | 24,852 | 25,614 |
| Current Assets | | | |
| Stock | | 88 | 88 |
| Trade and other receivables | 12 | 1,233 | 1,180 |
| Cash and cash equivalents | | 1,795 | 555 |
| | | 3,116 | 1,823 |
| Creditors: amounts falling due within one year | 13 | (4,124) | (2,760) |
| Net current liabilities | | (1,007) | (937) |
| Total assets less current liabilities | | 23,843 | 24,677 |
| Creditors: amounts falling due after more than one year | 14 | (7,448) | (7,892) |
| Provisions | 16 | (7,647) | (10,782) |
| TOTAL NET ASSETS | | 8,750 | 6,003 |
| UNRESTRICTED RESERVES | | | |
| Revaluation reserve | 18 | 12,926 | 13,375 |
| General reserve | 19 | (4,176) | (7,372) |
| TOTAL RESERVES | | 8,750 | 6,003 |

The financial statements on pages 41 to 73 were authorised for issue and approved by the Board of Management on 24 February 2022 and were signed on its behalf on that date by:

Mr P Graham
Chair

D Patterson
Principal and Chief Executive

**Cash Flow Statement
for the year ended 31 July 2021**

| | Notes | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|-------|-------------------------------------|-------------------------------------|
| Cash inflow from operating activities | 20 | 1,320 | (497) |
| Returns on investments and servicing of finance | 21 | (14) | (16) |
| Capital expenditure and financial investment | 22 | (14) | (0) |
| Financing | 23 | (56) | (103) |
| Increase/(decrease) in cash in the year | | 1,236 | (616) |

Note to the Cash Flow Statement

Reconciliation of net cash flow to movement in net funds

| | | | |
|--|----|--------------|------------|
| Decrease in cash in the year | | 1,236 | (616) |
| Change in net debt resulting from cash flows | 24 | 56 | 103 |
| Movement in net funds in year | | 1,292 | (513) |
| Net funds at 1 August 2020 | | 178 | 691 |
| Net funds at 31 July 2021 | 24 | 1,470 | 178 |

Notes to the Financial Statements

1. Funding body grants

| | 2020/21 Total £'000 | 2019/20 Total £'000 |
|--|---------------------------|---------------------------|
| SFC recurrent grant (including fee waiver) | 5,279 | 5,236 |
| UHI recurrent grant – HE provision | 2,833 | 2,390 |
| Formula capital funding | - | 43 |
| FE childcare funds | 142 | 194 |
| Release of deferred capital grants (SFC) | 205 | 182 |
| Other SFC grants – FE provision | 1,361 | 1,408 |
| Other UHI grants – HE provision | 58 | 230 |
| | 9,878 | 9,683 |

2. Tuition fees and education contracts

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|-----------------|-------------------------------------|-------------------------------------|
| FE fees – UK | 296 | 555 |
| HE fees | 1,259 | 1,221 |
| SDS contracts | 453 | 313 |
| Other contracts | 118 | (26) |
| | 2,126 | 2,063 |

3. Research grants and contracts

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|-------------------------------------|-------------------------------------|
| Release of deferred capital grants (UHI) | 201 | 210 |
| European funds | 1 | 15 |
| Other grants | 979 | 612 |
| | 1,181 | 837 |

Notes to the Financial Statements (continued)

4. Other income

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|-------------------------|-------------------------------------|-------------------------------------|
| Catering and residences | 8 | 226 |
| Nursery | 138 | 161 |
| Hairdressing and beauty | 16 | 25 |
| ELS Income | 5 | 74 |
| Rent | 46 | 53 |
| Other income* | 415 | 770 |
| | 628 | 1,309 |

*Included in other income above is £357k (2019/20 £365k) of Coronavirus Job Retention Scheme (Furlough income) received.

5. Staff numbers and costs

Staff numbers (full-time equivalent):

| | Year ended 31 July 2021 | Year ended 31 July 2020 |
|-------------------------------------|----------------------------|----------------------------|
| Academic/Teaching departments | 103 | 106 |
| Academic/Teaching services | 30 | 34 |
| Administration and central services | 60 | 63 |
| Premises | 11 | 12 |
| Other expenditure | 24 | 25 |
| Catering and residences | 7 | 9 |
| | 235 | 249 |
| Staff on permanent contracts | 208 | 220 |
| Staff on temporary contracts | 27 | 29 |
| | 235 | 249 |

Notes to the Financial Statements (continued)

| Staff costs: | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Academic/Teaching departments | 5,713 | 5,753 |
| Academic/Teaching services | 981 | 1,069 |
| Administration and central services | 2,693 | 2,739 |
| Premises | 328 | 321 |
| Other expenditure | 759 | 952 |
| Catering and residences | 180 | 230 |
| Voluntary Severance | 215 | - |
| Pension movement | 801 | 772 |
| | 11,670 | 11,836 |
| Wages and salaries | 9,634 | 8,688 |
| Social security costs | 743 | 742 |
| Other pension costs | 1,293 | 2,406 |
| | 11,670 | 11,836 |

Pension provision adjustment

In accordance with SFC guidance the pension provision in respect of unfunded enhanced early retirements has been revalued using the 2020/21 SFC guidance. An interest rate of 0.0% has been used (2019/20 interest rate 0.0%) which resulted in a decrease in provision of £336k (2019/20 decrease of £119k). This adjustment is included in the other expenditure section of staff costs (above) as well as the adjustment made in respect of FRS102.

Included in staff costs under 'other expenditure' are adjustments in respect of the FRS102 pensions adjustments amounting to £801k (2019/20 £772k).

Staff numbers, including senior post-holders and the Principal, who received emoluments in the following ranges:

| | Year ended 31 July 2021 | | Year ended 31 July 2020 | |
|-----------------------|-------------------------|-------------|-------------------------|-------------|
| | Senior post-holders | Other staff | Senior post-holders | Other Staff |
| £ 60,001 to £ 70,000 | 3 | - | 2 | - |
| £ 70,001 to £ 80,000 | - | - | - | - |
| £ 80,001 to £ 90,000 | - | - | - | - |
| £ 90,001 to £100,000 | - | - | 1 | - |
| £ 100,001 to £110,000 | 1 | - | - | - |
| | 4 | - | 3 | - |

Notes to the Financial Statements (continued)

6. Senior post-holders' emoluments

| | Year ended 31 July 2021 Number | Year ended 31 July 2020 Number |
|---|--------------------------------------|--------------------------------------|
| Senior post-holders including the Principal: | 6 | 7 |
| Senior post-holders' emoluments including the Principal: | £'000 | £'000 |
| Salaries | 400 | 391 |
| Pension contributions | 90 | 81 |
| | <u>490</u> | <u>472</u> |
| Amounts paid to the Principal: | £'000 | £'000 |
| Salary | 104 | 102 |
| Pension contributions | 23 | 23 |
| | <u>127</u> | <u>125</u> |

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Scottish Teachers Superannuation Scheme and the Local Government Pension Scheme and are paid at the same rate as for other employees.

Members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

7. Other operating expenses

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|-------------------------------------|-------------------------------------|
| Academic/Teaching departments and services | 605 | 754 |
| Administration and central services | 651 | 701 |
| Agency staff | 88 | 141 |
| Premises | 664 | 657 |
| Other expenditure | 64 | 63 |
| Catering and residences | 19 | 135 |
| | <u>2,091</u> | <u>2,451</u> |

All expenditure included irrecoverable VAT.
No special payments were made in the year.

Notes to the Financial Statements (continued)

| Other operating expenses include: | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|--|--|
| Auditors' remuneration: | | |
| external audit | 34 | 22 |
| internal audit | 17 | 22 |
| Disbursements of childcare funds to students | 142 | 194 |
| Legal services | 11 | 11 |
| Hire of plant and machinery – operating leases | 49 | 56 |
| Hire of other assets - operating leases | 1 | 15 |

8. Interest payable

| Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|--|
|--|--|

On bank loans, overdrafts and other loans:

| | | |
|---|-----------|-----------|
| Repayable wholly or partly in more than 5 years | 15 | 18 |
| | 15 | 18 |

9. Taxation

The Board does not consider that the College is liable for any corporation tax arising out of its activities during the year.

10. Total comprehensive income expenditure of the year

| Total comprehensive income expenditure for the year is made up of the following: | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|--|--|
| Deficit for the year | (853) | (1,290) |
| Remeasurements of pension scheme assets and liabilities | 3,600 | (1,358) |
| | 2,747 | (2,648) |

Notes to the Financial Statements (continued)

11. Tangible fixed assets

| | Freehold Land and Buildings £'000 | Plant & Machinery £'000 | Fixtures, Fittings and Equipment £'000 | Assets in the Course of Construction £'000 | Total £'000 |
|-------------------------------|--|-------------------------------|---|---|----------------|
| Cost / Valuation | | | | | |
| At 1 August 2020 | 24,803 | 2,947 | 2,046 | 36 | 29,832 |
| Additions | 10 | 70 | 47 | | 127 |
| Completion of construction | - | - | - | - | - |
| Revaluation | - | - | - | - | - |
| Disposals* | - | - | - | - | - |
| At 31 July 2021 | 24,813 | 3,017 | 2,093 | 36 | 29,959 |
| Depreciation | | | | | |
| At 1 August 2020 | 718 | 2,695 | 805 | - | 4,218 |
| Charge for year | 640 | 89 | 160 | - | 889 |
| Revaluation | - | - | - | - | - |
| Disposals* | - | - | - | - | - |
| At 31 July 2021 | 1,358 | 2,784 | 965 | - | 5,107 |
| Net book value | | | | | |
| At 31 July 2020 | 24,085 | 252 | 1,241 | 36 | 25,614 |
| Net book value | | | | | |
| At 1 August 2021 | 23,455 | 233 | 1,128 | 36 | 24,852 |
| Inherited | 10,608 | - | - | - | 10,608 |
| Financed by capital grant | 12,488 | 133 | 1,031 | - | 13,652 |
| Other | 359 | 100 | 97 | 36 | 592 |
| Net book value | | | | | |
| At 31 July 2021 | 23,455 | 233 | 1,128 | 36 | 24,852 |

* the disposals noted in the above relate to fully depreciated assets (i.e. NBV of £nil), which have been removed from the College's Fixed Asset Register ("FAR". The FAR review is carried out annually.

Inherited assets and those financed by capital grant may only be sold with prior consent of the Scottish Funding Council (SFC). The College is obliged to use sales proceeds in accordance with the instructions of the SFC.

Land and buildings are revalued every 5 years for the purposes of the financial statements with an interim valuation after 3 years. Land and buildings were valued as at 31 July 2019 (full valuation) on the basis of depreciated replacement cost by J&E Shepherd in accordance with RICS Valuation.

Notes to the Financial Statements (continued)

Had land and buildings not been revalued historically they would have been included at 31 July 2021 as:

| | |
|--------------------------------------|----------------|
| | £'000 |
| Cost | 13,852 |
| Aggregate depreciation based on cost | <u>(3,325)</u> |
| Net book value based on cost | <u>10,527</u> |

12. Trade and other receivables

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|--------------------------------|--------------------------------|--------------------------------|
| Trade receivables | 125 | 203 |
| Prepayments and accrued income | 395 | 491 |
| Other debtors | 713 | 487 |
| | <u>1,233</u> | <u>1,180</u> |

13. Creditors: Amounts falling due within one year

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|---|--------------------------------|--------------------------------|
| Loans and overdrafts (secured) | 51 | 103 |
| Payments received in advance | 1,333 | 497 |
| Trade creditors | 81 | 5 |
| Other creditors | 1,148 | 798 |
| Other taxation and social security | 201 | 187 |
| Accruals and deferred income | 460 | 458 |
| Amounts owed to the University of the Highlands and Islands | - | - |
| Bursary and access funding | 421 | 385 |
| Capital grants | 429 | 327 |
| | <u>4,124</u> | <u>2,760</u> |

14. Creditors: Amounts falling due after more than one year

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|---------------------|--------------------------------|--------------------------------|
| Bank loan (secured) | - | - |
| Moray Council loan | 251 | 298 |
| Capital grants | <u>7,197</u> | <u>7,594</u> |
| | <u>7,448</u> | <u>7,892</u> |

Notes to the Financial Statements (continued)

15. Borrowings

Bank loans and overdrafts

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|--|--------------------------------|--------------------------------|
| The Royal Bank of Scotland loan is repayable as follows: | | |
| In one year or less | 9 | 56 |
| Between one and two years | - | - |
| Between two and five years | - | - |
| | <u>9</u> | <u>56</u> |

The Royal Bank of Scotland holds a standard security over the Technology Centre.

Moray Council loan

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|---|--------------------------------|--------------------------------|
| The Moray Council loan is repayable as follows: | | |
| In one year or less | 47 | 47 |
| Between one and two years | 47 | 47 |
| Between two and five years | 141 | 141 |
| In five years or more | 64 | 110 |
| | <u>299</u> | <u>345</u> |

The Moray Council loan is secured over College buildings.

16. Provisions for liabilities and charges

| | Early retirement pension costs £'000 | Pension costs £'000 | Other £'000 | 2020/21 Total £'000 | 2019/20 Total £'000 |
|---------------------------------------|--|---------------------------|----------------|---------------------------|---------------------------|
| At 1 August | 2,513 | 8,263 | 6 | 10,782 | 8,771 |
| Expenditure in the year | (149) | - | - | (149) | (156) |
| Additional provision required in year | 149 | - | - | 149 | 156 |
| Revaluation adjustment | (336) | 801 | - | 465 | 2,011 |
| Pension valuation changes | - | (3,600) | - | (3,600) | - |
| At 31 July | <u>2,177</u> | <u>5,464</u> | <u>6</u> | <u>7,647</u> | <u>10,782</u> |

Notes to the Financial Statements (continued)

17. Financial Instruments

Under the SORP, the College is required to disclose information about the significance of the financial instruments held over the year and the nature and extent of risks arising from those instruments.

Financial instruments arise when a contract exists that creates a financial asset in one entity and a financial liability or equity instrument in another. In common with other bodies funded by central government, the College is restricted in its ability to borrow and therefore has a lesser degree of exposure to financial risk than entities with more freedom. The College does however have two historic loans, as listed in the tables below.

The College has limited powers to invest surplus funds. Financial assets and liabilities are the result of day-to-day operational activities, and there is no flexibility to use investments and borrowing to smooth out cyclical variations in funding or cash flow.

The following categories of financial instruments are shown in the balance sheet:

Financial assets and liabilities

| | Long term | | Current | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 July 2021 | 31 July 2020 | 31 July 2021 | 31 July 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| Financial assets – loans and receivables | | | | |
| Trade and other receivables | | | 125 | 203 |
| Cash and cash equivalents | | | 1,795 | 555 |
| Total loans and receivables | | | 1,920 | 758 |
| Financial liabilities at amortised cost | | | | |
| Trade and other payables | | | 733 | 533 |
| Long term borrowing | 252 | 298 | | |
| Total financial liabilities at amortised cost | 252 | 298 | 733 | 533 |

Income, expense, gains and losses

The gains and losses recognised in the Statement of Comprehensive Income and Expenditure and Movements in Reserves in relation to financial instruments are shown in the table below:

| 31 July 2020 | | 31 July 2021 | | |
|-------------------------|---|---|--------------------------|--------------|
| £'000 | | £'000 | £'000 | £'000 |
| | | Financial liabilities | Financial assets | |
| | | Liabilities measured at amortised cost | Loans and receivables | Total |
| (18) | Interest expense | (15) | | (15) |
| - | Gains on revaluation | - | | - |
| | Losses on revaluation | - | - | - |
| (18) | Net gain / (loss) for the year | (15) | - | (15) |

Notes to the Financial Statements (continued)*Fair values of assets and liabilities*

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value is assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 July 2021 for loans from the bank are 2% and from Moray Council 4.55%
- No early repayment or impairment is recognised
- The fair value of trade and other receivables is taken to be the billed amount

The fair values are as follows:

| | 31 July 2021 | | 31 July 2020 | |
|----------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Borrowing repayable | | | | |
| Moray Council | 299 | 327 | 345 | 382 |
| Royal Bank of Scotland | 9 | 54 | 56 | 108 |
| Total | 308 | 381 | 401 | 490 |

The fair value of borrowing repayable is greater than the carrying amount because the College's loans were taken out at a time when interest rates were generally higher than they are at present.

*Risks associated with financial instruments**Liquidity risk*

Liquidity risk is defined as the risk that the organisation is unable to settle or meet its obligations on time or at a reasonable price. Moray College manages its liquidity risk after taking into account business needs, capital, funding and regulatory requirements. Management monitors the College's net liquidity position through rolling forecasts of expected cash flows. The College's cash and cash equivalents are held with major regulated financial institutions.

Moray College maintains short-term liquidity by judicious management of its cash deposits and working capital. Over the longer term there is a requirement to repay borrowings and the maturity profile of the College's loans is as follows:

Notes to the Financial Statements (continued)

| | Royal Bank of Scotland | | Moray Council | | Total | |
|-----------------------|------------------------|--------------|---------------|--------------|--------------|--------------|
| | 31 July 2021 | 31 July 2020 | 31 July 2021 | 31 July 2020 | 31 July 2021 | 31 July 2020 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Less than one year | 9 | 56 | 47 | 47 | 56 | 103 |
| Between 1 and 2 years | - | - | 47 | 47 | 47 | 47 |
| Between 2 and 5 years | - | - | 141 | 141 | 141 | 141 |
| In five years or more | - | - | 64 | 110 | 64 | 110 |

Interest rate risk

The College is exposed to interest rate risk on its historic borrowing, which was obtained at fixed rates. A rise in interest rates has the effect of reducing the fair value of loans. However, since the loans are shown at amortised cost on the Balance Sheet, there is no impact from interest rate changes on the Statement of Comprehensive Income and Expenditure.

Credit risk

The Royal Bank of Scotland currently holds a long-term credit rating of A from Standard and Poor's. This means that it has a strong capacity to meet its financial commitments but is somewhat susceptible to the adverse effects of changes in circumstances and economic conditions.

Credit risk in respect of receivables is limited, due to the organisation's customer base being large and diverse. Our historical experience of collecting receivables, supported by the level of defaults, is that the credit risk is higher for amounts receivable from individuals than from businesses. We carry out an impairment review of receivables each year to identify an appropriate level of provision. Balances are considered for impairment on an individual basis and by reference to the extent to which they become overdue. The maximum credit risk exposure at the reporting date is £125k (2020: £203k), being the sum of cash and cash equivalents and trade and other receivables. The fair values are not significantly different to carrying values.

18. Revaluation reserve

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|--|--------------------------------|--------------------------------|
| At 1 August | 13,375 | 13,824 |
| Revaluations in the year | - | - |
| Transfer from revaluation reserve to general reserve in respect of depreciation on revalued assets | (449) | (449) |
| At 31 July | 12,926 | 13,375 |

Notes to the Financial Statements (continued)

19. General Reserve

| | Income and Expenditure Account Reserve | Pension liability | Total | Income and Expenditure Account Reserve | Pension liability | Total |
|---|---|----------------------|----------------|---|----------------------|----------------|
| | £'000 | £'000 | 2021 £'000 | £'000 | £'000 | 2020 £'000 |
| At 1 August | 891 | (8,263) | (7,372) | 960 | (6,133) | (5,173) |
| Deficit from the Statement of Comprehensive Income and Expenditure | (52) | (801) | (853) | (518) | (772) | (1,290) |
| Transfer from revaluation reserve | 449 | - | 449 | 449 | - | 449 |
| Remeasurement of pension scheme assets and liabilities | - | 3,600 | 3,600 | - | (1,358) | (1,358) |
| At 31 July | 1,288 | (5,464) | (4,176) | 891 | (8,263) | (7,372) |

20. Reconciliation of consolidated operating surplus
to net cash flow from operating activities

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 as restated |
|---|-------------------------------------|--|
| Deficit on continuing operations after depreciation of assets at valuation and tax | (852) | (1,290) |
| Depreciation | 889 | 877 |
| Deferred capital grants released to income | (406) | (392) |
| Interest payable | 15 | 18 |
| (Increase)/decrease in stocks | - | - |
| (Increase)/decrease in debtors | 644 | (417) |
| Increase/(decrease) in creditors | 565 | 56 |
| Increase in provisions | 465 | 651 |
| Net cash flow from operating activities | 1,320 | (497) |

Notes to the Financial Statements (continued)

21. Returns on investments and servicing of finance

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|-------------------------------------|-------------------------------------|
| Interest received | - | - |
| Interest paid | (14) | (16) |
| Net cash flow from returns on investments and servicing of finance | (14) | (16) |

22. Capital expenditure and financial investment

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|-------------------------------------|-------------------------------------|
| Purchase of tangible fixed assets | (127) | (1,076) |
| Deferred capital grants received | 113 | 1,076 |
| Disposal of land and building | - | - |
| Net cash flow from capital expenditure and financial investment | (14) | - |

23. Financing

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|--|-------------------------------------|-------------------------------------|
| Debt due beyond a year: repayment of Moray Council loan | (47) | (47) |
| repayment of bank loan | (9) | (56) |
| Net cash flow from financing | (56) | (103) |

24. Analysis of changes in net funds

| | At 1 August 2020 £'000 | Cash flows £'000 | Other changes £'000 | At 31 July 2021 £'000 |
|--------------------------|------------------------------|---------------------|---------------------------|-----------------------------|
| Cash at bank and in hand | 555 | 1,236 | - | 1,791 |
| | 555 | 1,236 | - | 1,791 |
| Debt due within 1 year | 115 | 56 | - | 171 |
| Debt due after 1 year | (492) | - | - | (492) |
| | 178 | 1,292 | - | 1,470 |

Notes to the Financial Statements (continued)

25. Pension and similar obligations

Accrued pension benefits

Pension benefits for employees are provided through the Scottish Teacher's Superannuation Scheme (STSS), a defined benefit scheme, which was a notionally funded and contracted out of State Earnings-Related Pension Scheme until 1 April 2016 when it stopped being contracted out, and the Local Government Pension Scheme (LGPS).

Both STSS and LGPS were final salary pension schemes until 31 March 2015. From 1 April 2015 they are Career Average Revalued Earnings (CARE) pension schemes. This means that pension benefits were based on the final year's pay and the number of years that the person has been a member of the scheme.

The scheme's normal retirement age is 60 or 65, or SPA depending on the length of membership in the scheme. Contribution rates are set annually for all employees of the NESPF scheme and monthly for the STSS scheme.

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 final pensionable salary and years of pensionable service.

Scottish Teachers Superannuation Scheme (STSS)

Contributions to the STSS, on a pay as you go basis, are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. This Act and associated regulations include the requirement that any deficit should be funded by a supplementary contribution over a 40-year period.

Total contributions for the year ended 31 July 2021 were £1,352k (2019/20 £1,342k) of which employers contributions totalled £972k (2019/20 £959k and employees contributions totalled £380k (2019/20 £383k). Total contributions for the year included £113k outstanding at the balance sheet date (2019/20 £111k).

The current contribution rates are: Employees Banded rates salary based ranging 7.2% to 11.5%
Employers 23.0% from 01.09.2019

The appropriate provision in respect of unfunded enhanced early retirement pension benefits is included in Provisions.

FRS 102

Under the definitions set out in Financial Reporting Standard 102 the STSS is an unfunded multi-employer defined benefit scheme. Assets and liabilities of the fund are not separately identified between the participating employers and as a result the College is unable to identify its relevant share of the underlying assets and liabilities of the fund. Accordingly, the College has accounted for its contributions as if it were a defined contribution scheme.

In the past, the College accounted for pension contributions to the Local Government Pension Scheme as if it were a defined contribution scheme. This meant that the liability to pay for future pensions of current staff was not recognised on the balance sheet as required by FRS102. Historically, the actuary only identified assets and liabilities for the North East of Scotland Colleges on an aggregate basis which meant Colleges received a pooled valuation and shared a common contribution rate. From 2015/16,

the SORP requires the College to bring the estimated liability based on actuarial valuation onto the balance sheet and to restate prior year figures.

Notes to the Financial Statements (continued)

The long-term obligation of early retirees which is not funded by the pension scheme had previously been reflected as a provision in the balance sheet based on valuation guidance provided by the Scottish Funding Council. With the implementation of the SORP, the provision needed to be amended to remove Local Government retirees and avoid double counting. This affected both current and previous year figures.

The actuary estimates the liability using a range of assumptions to which a discount factor is applied to determine the current value. The discount factor applied in 2020 was 1.6% (2019 2.2%).

To reflect the pension liability on the balance sheet, the provision decreased by £2,799k (increased by £2,130k in 2019/20), which was largely due to the actuarial assumptions applied.

North East Scotland Pension Fund (NESPF)

The North East Scotland Pension Fund is a statutory multi-employer defined benefit scheme. It is administered by Aberdeen City Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2008, as amended.

A valuation for the purpose of FRS 102 of the North East Scotland Pension Fund was performed at 31 March 2020 by a qualified, independent actuary.

Total contributions for the year ended 31 July 2021 were £999k (2019/20 £1,007k) of which employers contributions totalled £789k (2019/20 £794k) and employees contributions totalled £210k (2019/20 £213k). Total contributions for the year included £84k outstanding at the balance sheet date (2019/20 £83k).

The current contribution rates are: Employees Tiered rates based on salary ranging 5.5% to 9.7%.
Employers 22.7% from 01.04.2021 (22.2% until 31.03.2021)

The amounts recognised in the SOCI are as illustrated in the below table, under Other Comprehensive Income and Expenditure:

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|-------------------------------------|-------------------------------------|
| Current service cost | 1,462 | 1,411 |
| Interest on obligation | 127 | 125 |
| Administration expenses | 14 | 14 |
| Past service cost | - | 29 |
| Expected return on employer assets | - | - |
| Effect on curtailments | - | - |
| Total | 1,603 | 1,579 |
| Other comprehensive income and expenditure | | |
| Remeasurements (assets and liabilities) | 3,600 | (1,358) |

Notes to the Financial Statements (continued)

The assets and liabilities recognised in the SOFP are as follows:

| | As at 31 July 2021 £'000 | As at 31 July 2020 £'000 |
|---|---|---|
| Present value of the defined benefit obligation | 33,360 | 29,352 |
| Present value of unfunded benefit obligations | 150 | 202 |
| Fair value of plan assets | (28,046) | (21,291) |
| Net liability | 5,464 | 8,263 |

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

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|--|--|
| Opening defined benefit obligation | 29,554 | 25,907 |
| Current service cost | 1,462 | 1,411 |
| Interest on pension liability | 472 | 567 |
| Contribution by members | 210 | 214 |
| Past service cost | - | 29 |
| Remeasurements (liabilities) | - | - |
| Expenditure Gain | - | - |
| Experience (gain)/loss | 466 | (141) |
| Loss/(Gain) on assumptions | 1,836 | 1,957 |
| Curtailments | - | - |
| Unfunded benefits paid | (13) | (13) |
| Benefits paid | (477) | (377) |
| Closing defined benefit obligation | 33,510 | 29,554 |

Reconciliation of movements in the fair value of the scheme assets:

| | Year ended 31 July 2021 £'000 | Year ended 31 July 2020 £'000 |
|---|--|--|
| Opening fair value of scheme assets | 21,291 | 19,774 |
| Expected return on assets | 345 | 442 |
| Contribution by members | 210 | 214 |
| Contribution by the employer | 789 | 794 |
| Contributions in respect of unfunded benefits | 13 | 13 |
| Remeasurement of assets | 5,902 | 458 |
| Unfunded benefits paid | (13) | (13) |
| Benefits paid | (477) | (377) |
| Administration expenses | (14) | (14) |
| Closing fair value of scheme assets | 28,046 | 21,291 |

Notes to the Financial Statements (continued)

The assets in the scheme are:

| | | Value at 31 July 2021 | | Value at 31 July 2020 |
|------------------|------|-----------------------------|------|-----------------------------|
| | % | £'000 | % | £'000 |
| Equities | 58.3 | 16,350 | 61.9 | 13,179 |
| Government Bonds | 7.9 | 2,216 | 7.8 | 1,661 |
| Bonds | 0.0 | - | 6.1 | 1,299 |
| Property | 6.1 | 1,711 | 6.9 | 1,469 |
| Cash | 2.6 | 729 | 2.8 | 596 |
| Other | 25.1 | 7,040 | 14.5 | 3,087 |

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 Scheme has been assessed by Mercer Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2020 rolled forward to 31 July 2021.

The significant assumptions used by the actuary are as follows:

| | Year ended 31 July 2021 % pa | Year ended 31 July 2020 % pa |
|---|------------------------------------|------------------------------------|
| Pension increase rate | 2.6 | 2.3 |
| Salary increase rate* | 4.1 | 3.8 |
| Discount rate | 1.6 | 1.6 |
| Average future life expectancies at age 65 are summarised below: | | |
| Future pensioners (males / females) | 23.1 (26.3) | 23 (26.2) |
| Current pensioners (males / females) | 21.5 (24.2) | 21.4 (24.1) |
| The employer contributions for year to 31 July 2021 will be approximately | 819 | 811 |

*An adjustment has been made for short term pay restraint in line with the latest actuarial valuation

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table below. The sensitivity analyses are determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

Notes to the Financial Statements (continued)

The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| Impact on the Defined Benefit Obligation of the scheme | Increase in Assumption £'000 | Decrease in Assumption £'000 |
|--|---|---|
| Longevity (increase or decrease in 1 year) | 1,084 | (1,084) |
| Rate of inflation (increase or decrease by 0.1%) | 644 | (644) |
| Rate of increase in salaries (increase or decrease by 0.1%) | 87 | (87) |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (633) | 633 |

Impact on the College's Cash Flows

The triennial valuation was completed at 31 March 2020, which is effective from 31 March 2021.

The total contributions expected to be made to the Local Government Pension Scheme by the College in the year to 31 March 2022 is £819k. If actual assumptions are the same, the total pension cost recognised in the Statement of Comprehensive Income and Expenditure in 2021/22 is estimated to be £1,673k.

The weighted average duration of the defined benefit obligation for scheme members at the 31 March 2020 valuation is 20 years.

26. Non-cash allocation

The College's adjusted operating position as at 31 July 2021 is illustrated below:

| | 2020/21 £'000 | 2019/20 £'000 |
|--|--------------------------|--------------------------|
| Deficit before other gains and losses (FE/HE SORP basis) | (852) | (1,290) |
| Add back: Non-cash allocation for depreciation (net of deferred capital grant) | 935 | 1,124 |
| Operating surplus on Central Government accounting basis | 83 | (166) |

Following reclassification, Colleges received additional non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. As a result, Colleges show a deficit equivalent to net depreciation (where funds are spent on revenue items) in order to meet Government accounting rules and the requirement to spend the entire cash allocation.

Under the FE/HE SORP, the College recorded an operating deficit of £852k for the year ended 31 July 2021. After taking account of the Government non-cash budget, the College shows an "adjusted" deficit of £14k on a Central Government accounting basis. This demonstrates that the College is not currently

operating sustainably within its funding allocation. Management are continuing to work on a budget to bring the College back within a 'balanced position' by the end of FY 2023/24.

Notes to the Financial Statements (continued)

| Underlying Operating Position | | |
|--|----------------|----------------|
| | 2020/21 | 2019/20 |
| | £'000 | £'000 |
| Surplus/(Deficit) before other gains and losses | (853) | (1,290) |
| <u>Add back:</u> | | |
| - Depreciation (net of deferred capital grant release)* | 484 | 485 |
| - Exceptional non-restructuring costs (e.g. impairment) | - | - |
| - Non cash pension adjustments (FRS102) | 660 | 633 |
| - Non cash pension adjustments (Net interest costs) | 127 | 125 |
| - Non cash pension adjustments (SFC) | (336) | (119) |
| <u>Deduct:</u> | | |
| - Non-Government capital grants (e.g. ALF capital grant) | - | - |
| - Exceptional income | - | - |
| - Revenue Funding allocated to loan repayments and other capital items** | (97) | (97) |
| Underlying Operating Surplus/(Deficit) | (15) | (263) |

27. Capital commitments

At 31 July the College had no capital commitments.

28. Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as shown:

| | Year ended 31 July 2021 | Year ended 31 July 2020 |
|---------------------------------------|------------------------------------|------------------------------------|
| | £'000 | £'000 |
| Land and Buildings | | |
| Falling due within one year | - | - |
| Falling due within one and two years | - | - |
| | <hr/> | <hr/> |
| | - | - |
| Other | | |
| Falling due within one year | 34 | 38 |
| Falling due within one and two years | 4 | 77 |
| Falling due within two and five years | - | 48 |
| | <hr/> | <hr/> |
| | 38 | 163 |

Notes to the Financial Statements (continued)**29. Related party transactions**

The Board of Management of Moray College UHI is a body incorporated under the Further and Higher Education (Scotland) Act 1992, which is a member of the University of Highlands and Islands Regional Board and supported sponsored by the Scottish Funding Council (SFC), who in turn are sponsored by the Scottish Government Advanced Learning and Science Directorate (SGALSD).

SGALSD is regarded as a related party. During the year the College had various material transactions with other entities for which SGALSD is regarded as the sponsoring directorate. These include UHI, SAAS and the SFC. Transactions with UHI are shown below.

The College had no transactions in the year with publicly funded or external bodies in which members of the Board of Management hold or held official positions.

Aggregate transactions with the University of the Highlands and Islands*:

| | |
|-----------------|--------------------------------|
| FE funding | £6,699,354 (2019 - £5,977,201) |
| HE funding | £2,483,661 (2019 - £2,737,357) |
| Sales ledger | £433,268 (2019 - £285,030) |
| Purchase ledger | £13,002 (2019 - £133,506) |
| Debtor | £63,728 (2019 - £71,744) |

*Amount/ balances shown below are exclusive of other funding passed via UHI (i.e. FWDF, ESIF etc)

30. Post balance sheet events

The College had no post balance sheet events.

31. Bursaries and other student support funds

| | FE Bursaries £'000 | FE Hardship £'000 | EMA £'000 | HE Hardship £'000 | 2020/21 Total £'000 | 2019/20 Total £'000 |
|---------------------------------------|--------------------------|-------------------------|--------------|-------------------------|---------------------------|---------------------------|
| At 1 August | 319 | 5 | 23 | 24 | 371 | 200 |
| Allocation received in year | 1,855 | 295 | 108 | 469 | 2,727 | 2,075 |
| ESIF Advance | - | - | - | - | - | - |
| Expenditure | (1,387) | (228) | (104) | (371) | (2,090) | (1,794) |
| Repaid to Funding Council as clawback | (282) | - | - | - | (282) | (110) |
| In year Re-Distribution | (383) | - | - | - | (383) | - |
| At 31 July | 122 | 72 | 27 | 122 | 343 | 371 |

Represented by:

| | | | | | | |
|---|---|---|---|---|---|---|
| Repayable to UHI as clawback | - | - | - | - | - | - |
| Repayable to Region for Re-distribution | - | - | - | - | - | - |

| | | | | | | |
|---|------------|-----------|-----------|------------|------------|------------|
| Repayable to Funding Council as clawback | - | - | - | - | - | - |
| Retained by College for students | 122 | 72 | 27 | 122 | 343 | 371 |
| | 122 | 72 | 27 | 122 | 343 | 371 |

Notes to the Financial Statements (continued)

Funding Council grants are available solely for students and the College acts as paying agent only. Funds held in trust are reflected on the balance sheet as both cash and a current liability, and the grants and related disbursements are excluded from the income and expenditure account.

32. Childcare funds

| | 2020/21 £'000 | 2019/20 £'000 |
|--|------------------|------------------|
| At 1 August | 14 | - |
| Allocation received in year | 206 | 208 |
| Expenditure | (142) | (194) |
| Repaid to Funding Council as clawback | - | - |
| Virements | - | - |
| At 31 July | 78 | 14 |
| Represented by: | | |
| Repayable to UHI as clawback | - | - |
| Repayable to Region for Re-distribution | - | - |
| Repayable to Funding Council as clawback | - | - |
| Retained by College for students | 78 | 14 |
| | 78 | 14 |

FE Childcare transactions are included within the College income and expenditure account in accordance with the accounts direction issued by the Scottish Funding Council.

APPENDIX 1 - 2020-21 Accounts direction for Scotland's colleges

1. It is the Scottish Funding Council's direction that institutions¹ comply with the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts².
2. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).
3. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2020-21 (FReM) where applicable.
4. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2021.
5. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
6. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
3 June 2021

¹The term "institutions" includes colleges and Glasgow Colleges' Regional Board.

² Glasgow Colleges' Regional Board's accounts are prepared on a consolidated basis, incorporating the results of City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College. New College Lanarkshire's accounts are also prepared on a consolidated basis, incorporating the results of South Lanarkshire College.

