



North Highland College
University of the
Highlands and Islands

**The North Highland College Report &
Financial Statements for the year ended
31 July 2019**

SCOTTISH CHARITY NUMBER SC021215

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Professional Advisors

| | | |
|-------------------|---|---|
| External Auditors | - | Ernst & Young LLP Atria One 144 Morrison Street, Edinburgh, EH3 8EB |
| Internal Auditors | - | TIAA Ltd Artillery House Fort Fareham Newgate Lane Fareham Hants PO14 1AH |
| Bankers | - | Royal Bank of Scotland 11 Orlig Street Thurso Caithness KW14 7BL |
| Solicitors | - | Anderson Strathern 1 Rutland Court Edinburgh EH3 8EY |
| Insurers | - | Marsh (Education Practice) Capital House 1-5 Perrymount Road Haywards Heath West Sussex RH16 3SY |

Performance Report

OVERVIEW

Principal's Statement

The purpose of this overview is to give a short summary of the College's performance during 2018-19.

The most significant challenge for North Highland College UHI in 2018/19 was caused by a reduction in our student recruitment on our Higher Education courses. Following a three year period of incremental growth in our HE numbers, in 2018/19 there was a significant drop of 50 FTE student places compared to the previous year. This caused a direct and substantial reduction in budgeted HE funding from the University of the Highlands & Islands (UHI). This was the most significant part of a Resource Departmental Expenditure Limit (RDEL) deficit of £361,000 (prior to repayment of property loan capital of £58,000) reported on the management accounts for the year. This is in contrast to a six figure RDEL surplus the previous year- it is disappointing to note the extent of the impact on the College's financial position over such a short period of time. Movements on non-controllable year-end adjustments has resulted in the College's Statement of Comprehensive Expenditure being £1,307,000 (2017/18 £812,000 expenditure).

The College's performance in recruiting students on our Further Education courses was much more positive with both Core and additional ESIF-funded credit targets being achieved. Overall, the need to restore the College to a position of increasing HE student recruitment was confirmed as the College Board's top development priority moving forward.

In response to the challenges over student numbers and the impact on the College's financial position, a comprehensive Curriculum Review was completed between January and June 2019 based on themes of growth and efficiency. All substantive courses were formally reviewed with trends on student recruitment, retention, attainment and financial sustainability considered along with opportunities to improve the efficiency of the various curriculum delivery models used. As a result, the College's Board of Management accepted a number of recommendations to pursue new opportunities by introducing new courses, reorganising and reshaping others and discontinuing a small number of unsustainable programmes. Following this, a staffing review identified the need to make a small reduction in the number of staff posts.

It is hoped that the above measures will see the College get back to a sustainable position on HE student numbers, while maintaining the successful delivery of targets in FE. Notwithstanding this, it continues to be a challenge for the College to produce a balanced RDEL Revenue budget. It is anticipated that the College can deliver a balanced position for 2019/20 prior to the repayment of loan capital, although it is recognised that the overarching financial context is increasingly becoming tighter. On-going discussions are taking place with UHI (being the Regional Strategic body) regarding the College's finances and funding.

The UHI Partnership Assembly, through its Project Board, has been in operation for over a year. Working groups have been charged with looking at the UHI/College partnership in terms of a) governance & accountability b) financial sustainability c) student perspective and experience d) staffing & career progression. It is recognised by the College's Board that the College can generate only so much savings and efficiencies in its current form. Greater levels of savings and efficiencies will require significant changes to the business model for the wider UHI/College partnership.

Despite the challenging financial environment, the College continues to provide a high quality experience to its students. The Audit Scotland report on Scotland's Colleges 2019 highlighted that the College was the only one of the country's twenty incorporated colleges to have a top quartile ranking on all four key performance indicators; student retention, attainment, satisfaction and positive student destinations. This is a success by any standard of measurement.

North Highland College secured funding from the Scottish Colleges Foundation to assist in setting up a Business Development Unit. This unit has been charged with securing additional external income streams for the College.

In Dornoch, we expect that construction work will commence in December 2019 to enhance our Burghfield campus. With our UHI Golf curriculum built around strong links with the PGA and high-quality UHI student accommodation already in place, the outcome of this project will complete our ambitious plans to confirm Dornoch as a centre of excellence for Golf education regionally, nationally and internationally. It is aimed to open this new facility in July/August 2020.

In summary, despite the challenging financial context noted above, I believe the College continues to deliver on its core mission to provide inclusive and accessible high quality vocational training, life-long learning and research opportunities, relevant to the needs of learners, communities and employers, across the north Highland area. I am indebted to the College staff, students, governors and stakeholders who have made this possible.

Donald MacBeath
Principal

Performance Report (contd.)

The North Highland College was established under the Further and Higher Education (Scotland) Act 1992. The College is a registered charity (Scottish Charity Number SC021215) for the purposes of the Charity and Trustee Investment (Scotland) Act 2005.

Under the terms of the Office of National Statistics, reclassification of Scotland's colleges was implemented at 1 April 2014. This means that the college for accounting purposes is now part of the Scottish Government's financial accounts, meaning that funding is provided by the Scottish Government according to need, and that colleges' financial statements are now included as part of the Scottish Government's total budget. The College has its own independent board, but also is a delivery partner as part of the University of the Highlands and Islands for Higher Education. As such, it has been allowed to keep its financial year-end at 31 July, but reports in terms of financial information to the Scottish Government at 31 March. Colleges' budgets must fall within government spending limits, and Colleges may no longer retain annual surpluses. Colleges have been permitted to transfer any income and expenditure surpluses they make to foundations, as reserves are no longer allowed to be built up in colleges. This assumes the necessary cash is available to transfer. On 1 August 2014, The North Highland College was assigned to the University of the Highlands and Islands as Regional Strategic Body for the Highlands and Islands area, in terms of the Post 16 Education (Scotland) Act 2013. This assignation relates to fundable Further Education provision.

The Financial Statements cover all activities of the College.

Mission Statement 2018-20

The College Mission Statement is: To have a transformational impact on the prospects of the north Highland area, its economy, its people and its communities.

Strategic Vision. 2018-2020

The College Strategic Vision is: Highland College UHI will be an active and committed academic partner of the University of the Highlands and Islands, the United Kingdom's leading integrated university.

We will be recognised for the quality of our students' experience and for their achievement.

Our reputation will be built upon an innovative approach to tertiary learning and teaching and our distinctive research and curriculum, enriched by the people, natural environment, culture and heritage of the north Highlands.

The Board is considering the College's new strategy going forward in 2019-20.

Core Values 2018-2020

Support, Collaboration, Openness, Respect, Excellence.

Implementation of the NHC Strategic Plan

The College's current strategic aims are set out under the following headings:- Curriculum; Services; Research; Finances; Staff and Facilities

The main and summarised achievements this past year in terms of delivering against the priorities of the College's Strategic Plan are as follows:

Aim 1 Curriculum

- To be recognised nationally as an innovative provider of high quality Tertiary education and training.

The College undertook a curriculum review in the year which saw some courses discontinued, and other areas of the curriculum reorganised, refocussed and reshaped to take advantage of emerging opportunities. Appointment of some staff into new promoted lecturers' posts in 2017/18 meant that they assisted in this exercise. This was a major piece of work, and benefits should flow therefrom in 2019/20 and beyond.

Aim 2 Services

- The quality and reputation of our student services will help make us the student destination of choice.

Our student services teams offer fundamental support to students, assisting them from initial enquiry, through the stages of course selection, application, enrolment, funding, learning, assessment, achievement, certification and finally graduation.

There are particular pressures faced by the student support team as the College is dealing with a year on year increase in the number of students with mental health issues and additional support needs. The College is reviewing how to make best use of resources available to enhance the student journey whilst in parallel seeking to achieve efficiencies in delivery of services.

Aim 3 Research

- Our Research will be sustainable, widely recognised and will focus on meeting the key targets of the University of the Highlands & Islands.

The Environmental Research Institute is the research arm of North Highland College. It seeks to contribute to UHI's research portfolio by concentrating on high quality and impactful research in contemporary environmental issues.

Aim 4 Finances

- To improve our financial standing by securing new sources of income, making best use of our resources and by managing risk effectively.

The major issue of focus for Senior Management was the College's substantially lower FTE no's in Higher Education being near 70 short of target for 2018/19 (Target 440; Actual 370), and near 50 down from 2017/18. A Curriculum Review took place which saw the College shed or in the process of shedding some teaching posts and support posts in the summer of 2019. Because of the shortfall in HE funding in 2018/19, this has had an adverse effect on the College finances. The loss could have been even greater, but was reduced by the College securing some other sources of income, and seeking to restrict spending in one or two areas.

While the College is seeking to do all that it can to remain financially sound, including reducing staffing, the effects of National Bargaining and job evaluation for Support Staff, and whether inflation pay rises for staff are funded or not by the Scottish Government/SFC, are obviously key factors.

Aim 5 Staff

- To attract, retain and develop a workforce committed to our values and the achievement of our mission.

Given its geographic location and also the competition from one or two larger employers in the area in which it operates, the College has sometimes found it difficult to compete on pay in order to attract the best talent. This applies particularly to Engineering Teaching. The College has had to advertise for some suitable applicants using enhanced Market Allowances. The College can offer good holidays and an average earnings Pension Scheme that can compensate in some measure regarding pay. Other areas which have struggled at times to recruit suitably qualified people are Finance.

Aim 6 Facilities

- To provide safe and secure Facilities which will fully support our students and staff in achieving their goals.

The College spent over £880,000 in fixed assets additions, of which £657,000 related to backlog maintenance. Work was spread across a fair bit of the scattered estate covering roof repairs; reduction of fire risk, including a new fire alarm system on the main campus in Thurso; the demolition of a high and unsightly chimney on the main campus in Thurso which was causing a degree of concern about its longer term safety; and a considerable number of smaller jobs to reduce dilapidation issues. The College also spent monies progressing the purchase of a new biomass boiler on its main Thurso campus. This should see this source of heat generate revenue monies by the way of Renewable Heat Incentive funding.

It is also planned to construct a new home for the UHI Centre for Golf in Burghfield House. In 2019/20

it is expected to commence on site with an aim to complete by the summer/autumn of 2020. The funding package has now been finalised.

Principal Risks and Uncertainty

The College has robust risk management processes in place to ensure relevant risks are captured, assessed and (where possible) mitigated against. The College maintains a register of strategic risks which is reported on at each meeting of the Audit and Risk Management Committee as well as being reported to the Board of Management. A review of the Strategic Risk Register was completed by the College Board in September 2019.

The main risks to North Highland College are:-

- Financial sustainability due to insufficient funding from Scottish Government/SFC to support the core activities of the College.
- The building project of the Centre for Golf as an extension to Burghfield House and any effect on student experience; and the project budget.
- The impact of Job Evaluation for Support staff and the financial repercussions following therefrom.
- Employer pension contributions to the Scottish Teachers Pension Scheme are increasing from 17.2% to 23% from September 2019. Budgeting for 2019/20 has included these higher rates.

The latter two risks noted above have sector-wide significance, and are being raised with the SFC at sector-level.

Going Concern

The net liability position reported in these Financial Statements is due to the adoption of Financial Reporting Standard (FRS) 102 which has resulted in the reclassification of Government Capital Grants previously disclosed in Reserves, being disclosed under liabilities less than one year and greater than one year. The net liabilities include a Pension Provision for early retirements of £678,000 and a Pension Liability of £6,568,000 for the College's share of deficit in the Highland Council Local Government Pension Scheme (LGPS). To the extent that the pension is not met from the College's other sources of income, it may only be met by future grants or Grant in Aid from the Scottish Funding Council via UHI as the Regional Strategic Body. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such grants may not be paid in advance of need.

This has been a difficult year financially for the College. The Principal of North Highland College has discussed the College's financial situation with the interim Vice Chancellor of the University of UHI which is the Regional Strategic Body. It is hoped that cuts in staffing in the summer of 2019 will see a more satisfactory financial outturn for 2019/20. Longer term though, without further additional funding to the sector, then the College will struggle. Discussions are taking place in the UHI Partnership Assembly to discuss the way ahead for the UHI/Colleges' partnership to become more efficient and resilient in terms of governance and finances. The College Board considers the College to be a going concern. Also see Page 23 for a fuller assessment of going concern.

PERFORMANCE ANALYSIS

Performance Indicators and Activity Review

Further education activity amounted to 20,003 credits in 2018/19, compared to 19,724 credits in academic year 2017/18. Activity was delivered under the collaborative further education arrangements with Argyll College. The Further Education activity target for The North Highland College was 12,335 core credits plus 155 additional ESF credits, a total target of 12,490 (delivered 12,500). Credits were as follows:

| | |
|----------------------------|---------------|
| | 2019 Nos |
| The North Highland College | 12,500 |
| Argyll College | <u>7,503</u> |
| | 20,003 |
| West Highland College | <u>7,147</u> |
| | <u>27,150</u> |

West Highland College became an assigned college and fundable body at 1 August 2012, and its funding now goes directly to it from UHI. Its activity for FE is still reported through The North Highland College. Argyll College became an assigned college in 2017-18, and the financial impact of funding being paid directly to it by UHI, rather than through North Highland College, was implemented mid-way through 2018/19. Its activity for FE is still reported through The North Highland College.

Higher Education activity as measured by full time equivalents (FTE's) amounted to 370 FTEs compared with 423 FTEs in 2017/18. The Higher Education activity target was 440. Figures exclude international and RUK students, postgraduate taught programmes and controlled numbers, e.g. in primary education, which are reported separately.

North Highland College UHI was the only incorporated college in Scotland to achieve a top quartile position on all four primary performance indicators; student retention, student attainment, student satisfaction and positive student destinations as highlighted in the Audit Scotland 2019 report on Scotland's Colleges.

Student Activity Indicators

The trend of College enrolments and student activity is as set out below. Higher education activity is reported separately and funded through UHI. The table below discloses Credits for 2015/16, 2016/17, 2017/18 and 2018/19 and Weighted Sums for 2014/15. It includes North Highland College and Argyll College. The Higher Education figures relate to North Highland College only.

| Analysis of College Further Education Enrolments 2014/15 to 2018/19 | | | | | |
|---|---------|---------|---------|---------|---------|
| Year | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| Mode of attendance | Count | Count | Count | Count | Count |
| Full-time | 606 | 601 | 657 | 629 | 575 |
| Part-time | 3,936 | 4,259 | 3,652 | 3,682 | 5,045 |
| Total Enrolments | 4,542 | 4,860 | 4,309 | 4,311 | 5,620 |
| Credits Delivered | n/a | 18,756 | 19,083 | 19,724 | 20,003 |
| Weighted Sums Delivered | 27,445 | n/a | n/a | n/a | n/a |

Further Education remains the core function for North Highland College

| Analysis of College Higher Education Enrolments 2014/15 to 2018/19 | | | | | |
|--|---------|---------|---------|---------|---------|
| Year | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| Mode of attendance | Count | Count | Count | Count | Count |
| Full-time | 283 | 265 | 243 | 284 | 237 |
| Part-time | 331 | 403 | 357 | 365 | 327 |
| Total enrolments | 614 | 668 | 600 | 649 | 564 |
| Total FTEs | 377 | 363 | 362 | 423 | 370 |

Current and Future Developments

The College is a tertiary education provider and makes extensive use of the Scottish Credit and Qualification Framework (SCQF) at all levels from 1-12. This ensures that all learners from school age to those on post-graduate programmes receive recognition for their education and training, including relevant work-based activity.

A comprehensive Curriculum Review was completed between January and June 2019 based on themes of growth and efficiency. All substantive courses were formally reviewed with trends on student recruitment, retention and attainment considered, together with how well our overall curriculum portfolio is meeting the needs of the north Highland and regional areas' key employment sectors, meeting the needs of learners at all stages of their learning journeys, widening the access to the College's curriculum and delivering on regional outcome agreement targets and government priorities.

In parallel, the financial sustainability of programmes was considered along with opportunities to improve the efficiency of the various curriculum delivery models. Opportunities to improve accessibility of programmes and open new markets through alternative delivery models and introduction of new courses, reorganisation and reshaping of others are now being developed and implemented. This includes, for example, the development of a flexible blended model for HNC Engineering Systems and new online Masters in Engineering; new qualifications in Cyber Security and Safety Case Writing; and reshaping of health and social care and early years education programmes.

Curriculum developments have centred on rural health care; engineering & construction; creative industries; and support for individuals entering education or employment. This includes the continuation of our partnership with Nigg Skills academy for the delivery of skills based engineering provision in the Easter Ross area and our significant contribution to the development of curriculum within the University of the Highlands and Islands, for example in Creative Writing and Environmental Sciences.

The College is carrying out a major review of access level provision, particularly at SCQF level 3-4, in line with our access and inclusion strategy, to better develop our progression pathways at the lower end of the SCQF scale both in Caithness & Sutherland and Easter Ross.

Significant focus in implementing *Developing the Young Workforce: Scotland's Youth Employment Strategy*, by working in partnership with schools, employers and the Caithness and Sutherland DYW board, continues as we aim to increase the percentage of school pupils achieving vocational qualifications. We will extend the reach of our Senior phase partnership with our local schools to allow pupils to complete business, hospitality and tourism courses as part of the pipeline into our new NC500 Passport initiative; build on our established foundation apprenticeships in health and social care/children and young people by offering new foundation apprenticeships in IT and Business Skills; and improve access for pupils by increasing flexible learning opportunities.

We will also create new apprenticeship pathways through our new Apprenticeship Hub partnership agreement with DYW North Highland. The hub will be a "one stop shop" providing information and advice about various forms of apprenticeship as well as giving direct support to employers interested in creating new apprenticeship opportunities.

Caithness and North Sutherland Partnership, of which the College is a member, provides a co-ordinated platform to support inward investment to the area. The development of offshore wind developments in the Moray Firth is creating new employment opportunities for the area.

The decommissioning of Dounreay may result in the potential loss of 1,800 jobs in Caithness alone over the coming 10-20 years with full site closure expected 2029. The under-representation of 18-35 year olds is expected to increase. It is important that attractive employment opportunities are created to encourage them to remain in the area and to encourage immigration. It is imperative to establish a knowledge based economy as competition increases from both within the European Union and the rest of the world.

In response our new Business Development Unit will offer new awards for employees involved in the off-shore wind sector by the College becoming an accredited training centre for the Global Wind Organisation. Also, in association with some local employers, the College submitted a funding application to the Scottish Government's Advancing Manufacturing Challenge Fund to establish a new £1m project entitled "Battery North", which will be based in the College and led by staff from our Environmental Research Institute and the Engineering Technology & Energy Centre. The primary objective will be to assist small companies involved with battery cell technologies to research, develop and manufacture new products and address anticipated skills shortages in this rapidly developing sector. This will be a major economic development opportunity for the College, for the University of the Highlands and Islands and the North Highland area.

Research

The Environmental Research Institute (ERI) concentrates on high quality and impactful research in contemporary environmental issues.

Within the ERI we have a rapidly evolving research profile. It has key strategic areas of research: 1) environmental contamination and ecological health; 2) carbon, water and climate; and 3) renewable energy and the environment.

In terms of environmental contamination and ecological health, work is undertaken on testing water quality in land-based windfarms. There is also work testing for contaminants in the salmon farm industry. There is also on-going work to find innovative solutions to assessing and quantifying the impact of contaminants particularly in relation to residual pharmaceuticals in waste water sources.

In terms of carbon, water and climate, research work has been carried out regarding the restoration of the peat bog in the Flow country of Caithness and North East Sutherland. This is internationally recognised as a carbon sink (single largest terrestrial carbon store in the UK) to assist the nation meeting its carbon obligations in terms of climate change. With a recent major fire in these peatlands, further work will be carried out regarding the impact of the fire and recovery. The ERI is collaborating on research to prove estimates of greenhouse gas emissions from the oceans using remote sensing technologies. This is working with a few European partners through the European Space Agency.

In terms of renewable energy and the environment the ERI is looking, in collaboration with other partners, to develop innovative sensor platforms for insitu monitoring of wind, wave and tidal energy resources. There is also work commenced in the summer of 2019 under what is called the Huge project (again collaborative with other partners) to identify innovative methods to transform existing renewable energy into hydrogen. At present excess renewable capacity is being switched off when grid capacity is reached, and therefore solutions need to be found for this problem.

Financial Performance

Financial results

The Statement of Comprehensive Income for the year ended 31 July 2019 shows a deficit of £1,307,000 (2017/18 £812,000 deficit). This was largely attributable to a Resource DEL deficit of £361,000, together with net depreciation charge of £226,000 (£741,000 - £515,000), plus adjustments for the College's share in Highland Council's Superannuation Scheme amounting to £720,000. There was an adverse actuarial movement of £3,209,000 in this same scheme (2017/18 – actuarial valuation increase £6,036,000). The College's total comprehensive expenditure for the year was £3,534,000 (2017/18 £5,464,000 income). This includes an unrealised surplus on revaluation of fixed assets of £982,000 (2017/18 £240,000). Total income decreased from £12.7 million to £11.7 million and expenditure has decreased from £13.7 million to £12.9 million. This decrease was mostly due to Argyll College's funding being assigned to UHI in the middle of the year.

Non-cash Allocation

This table shows the College's underlying operating position for the year after adjusting for non-cash items.

| | 2018/19 £'000 | 2017/18 £'000 | Notes |
|--|------------------|------------------|-------------|
| Surplus/(deficit) before other gains and losses | (1,307) | (812) | SEE SOCI |
| Add back: | | | |
| - Depreciation (net of deferred capital grant release)* | 226 | 267 | SEE NOTE 13 |
| - Non-cash pension adjustments | 720 | 656 | |
| Deduct: | | | |
| - Exceptional income – gain on revaluation of fixed assets | 0 | 0 | |
| - | | | |
| Underlying operating (deficit)/surplus | (361) | 111 | |

Following reclassification, colleges received a non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. Colleges may show a deficit equivalent to net depreciation as a result of having 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 £1,307,000 for the year ended 31 July 2019. After adjusting for the non-cash allocation provided under government rules, the College shows an "adjusted" deficit of £361,000 on a Central Government accounting basis. In the summer of 2019 the college took steps to reduce its payroll costs after having a detailed curriculum review. Both teaching and support jobs have been reduced and the financial effects should be felt in 2019/20.

Creditor Payment Policy

It is the policy of North Highland College to pay invoices promptly and within one month. Monthly runs of purchase payments are made. There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998. Year-end creditors represented 1.9% (2018 11.7%) of the aggregate purchases invoiced during the year. The College is currently unable to provide information in the year on performance against creditor payment target within one month.

Spend of Cash Budget for Priorities

Following their reclassification as central government bodies from 1 April 2014, colleges are also required to comply with Central Government budgeting rules. In addressing the impact of these budgeting rules, Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities.

Colleges have now each been given a fixed cash budget for priorities which must be spent on agreed government priorities as outlined in the table below. Spend of the College's cash budget for priorities, and impact on the operating position for the academic year, is detailed below.

| Table of cash budget for priorities spend | | |
|---|----------------------------|----------------------------|
| Revenue Priorities | 2018/19 (£'000) | 2017/18 (£'000) |
| Student support | 0 | 0 |
| 2015-16 pay award | 0 | 0 |
| Voluntary severance | 20 | 0 |
| Estates Costs | 18 | 0 |
| Other agreed priorities (give detail) | 0 | 0 |
| Total impact on operating position | 38 | 0 |
| Capital Priorities | | |
| Loan repayments (including PFI, NPD repayments) | 59 | 0 |
| Estates Costs | 0 | 0 |
| Provisions pre 1 April 2014 (give detail) carried on balance sheet | 0 | 0 |
| Total Capital | 59 | 0 |
| Total cash budget for priorities spend | 97 | 0 |

Sustainability Strategy

The College works with Advanced Procurement for Universities and Colleges (APUC) and seeks to embed sustainability in its procurement function.

The College prepared a revised Carbon Management Plan in November 2017 covering the period 1 August 2017 – 31 July 2021. Its main focus is on seeking to reduce emissions from its estates, as properties are the biggest emitters.

Ross House, Dornoch; and Wick College, Wick continue to be on the market with a view to sell. It is hoped that Ross House will be sold in 2019/20. It is intended to use the proceeds of Ross House to help finance an extension on the Burghfield site to address the specific needs of the golf curriculum including bespoke facilities to help grow this key academic area of the College's business. This will reduce estate area space, and it is intended to heat the Burghfield extension using air source heat pump technology; and the current estate there from new and more efficient propane boilers, thus further reducing the College's carbon footprint. With Ross House due to be sold, the oil boilers at Ross House as a source of carbon emission would of course cease from the College's accountability.

In terms of carbon emissions that are reported being electricity (generation, transmission and distribution); natural gas; oil; propane; wood-pellet; fleet vehicles re petrol and diesel; and staff travel the College achieved a 22% reduction in absolute emissions since 2015/16. To give some context, within the same period total FHE Sector GHG emissions reduced by 11% and the average reduction for a college was 17%. Thus in this area of sustainability, the College at present is out-performing the sector average.

Disclosure of Information to Auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the College's Auditors are unaware; and each Board member has taken all the 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.

Approved by order of the members of the Board on 11 December 2019 and signed on its behalf by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Accountability Report
Section One: Statement of Corporate Governance

DIRECTORS' REPORT
Members of the Board of Management

Attendance at the relevant meetings throughout the year was as follows;

| Name | Occupation | Membership | Start Date | End Date |
|----------------------|--|---|-------------------|-----------------|
| Donald MacBeath | Principal | Finance & General Purposes Human Resources Remuneration Audit and Risk Management (In attendance) | July 2014 | N/A |
| Blair Sandison | North Highland College Chair | Finance and General Purposes Human Resources Remuneration Nominations | October 2015 | N/A |
| Graham Birnie | Chair of Finance and General Purposes Committee | Finance and Generation Purposes Remuneration | January 2017 | N/A |
| Robbie Rowantree | Chair of the Audit and Risk Management Committee | Audit and Risk Management Remuneration Nominations | July 2014 | N/A |
| Heather Mclean | Chair of Learning, Teaching and Learning | Learning, Teaching and Learning Remuneration | April 2017 | N/A |
| Andrew Kerr | Chair of the Human Resources Committee | Human Resources Audit and Risk Management Learning, Teaching and Research | January 2017 | N/A |
| Cllr Jim McGillivray | | Audit and Risk Management Human Resources | June 2014 | N/A |
| Patrick Murray | | Finance and General Purposes Learning, Teaching and Research | December 2018 | N/A |
| Wendy Sephton | | Audit and Risk Management Finance and General Purposes | April 2018 | N/A |
| Tessa Palmer | | Audit and Risk Management Finance and General Purposes | August 2017 | N/A |
| Matthew Groves | | Audit and Risk Management Finance and General Purposes | December 2018 | N/A |
| Lisa Buchanan | | Human Resources Finance & General Purposes Renumeration | October 2015 | October 2018 |
| Gail Ross MSP | | Learning, Teaching and Research | July 2014 | August 2018 |

| | | | | |
|-----------------|------------------------------|---|---------------|-------------|
| Magnus Davidson | Staff Member | Human Resources Learning, Teaching and Research | April 2018 | N/A |
| David Olds | Staff Member | Learning, Teaching and Research Nominations | December 2015 | N/A |
| Nicky Herd | HISA Depute (student member) | Audit and Risk Management Finance and General Purposes Human Resources Learning, Teaching and Research | August 2017 | May 2019 |
| Amanda Buttress | Staff Member | Human Resources Finance and General Purposes | December 2015 | August 2018 |
| Ryan Gow | Staff Member | | October 2015 | August 2018 |

A summary of the Board members, and meetings attended during 2018/19 is shown below:

| Member | Board | Audit & Risk Management Committee | Finance & General Purposes Committee | Human Resources Committee | Remuneration Committee | Learning, Teaching & Research Committee |
|----------------------|-------|-----------------------------------|--------------------------------------|---------------------------|------------------------|---|
| Donald MacBeath | 4/4 | 4/4 | 4/4 | 3/4 | | |
| Blair Sandison | 3/4 | | 4/4 | 3/4 | 1/1 | |
| Graham Birnie | 4/4 | | 3/4 | | 1/1 | |
| Robbie Rowantree | 2/4 | 4/4 | | | 1/1 | |
| Heather Mclean | 4/4 | | | | 1/1 | 4/4 |
| Andrew Kerr | 3/4 | 4/4 | | 3/4 | | 2/4 |
| Cllr Jim McGillivray | 4/4 | | | 4/4 | | |
| Patrick Murray | 2/2 | | | | | 2/2 |
| Wendy Sephton | 3/4 | | 3/4 | | | |
| Tessa Palmer | 3/4 | 3/4 | 2/4 | | | |
| Matthew Groves | 2/2 | 4/4 | | | | |
| Magnus Davidson | 2/2 | | | | | 2/2 |
| David Olds | 2/4 | | | | | 2/4 |
| Nicky Herd | 3/4 | 3/4 | 3/4 | | | 2/4 |
| Lisa Buchanan | 1/1 | | | | | |
| Amanda Buttress | 0/2 | | | | | |

The above is reflective of the various committee memberships throughout 2018/19 (i.e. attendance is noted against meetings members could have attended based on their membership at the time).

| | 2018/19 | 2017/18 |
|------------------------------|---------|---------|
| Board of Management | 80.5% | 79% |
| Committees | | |
| Audit and Risk Management | 76.5% | 60.5% |
| Finance and General Purposes | 75.8% | 68.1% |
| Human Resources | 91.5% | 68.5% |
| Remuneration | 80.0% | 80.0% |

Mr Adam Pool served as the Secretary to the Board of Management from 30 June 2019, with Mr Struan Mackie being appointed as Secretary to the Board of Management from 23 July 2019.

The Planning and Resources Group (PRG) 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 PRG during 2018/19 are shown below:

| | |
|---------------------|--|
| Mr Donald MacBeath | Principal |
| Mrs Debbie Gray | Director of Enterprise & Innovation (Depute Principal) |
| Mrs Anne Bremner | Director of Learning & Teaching |
| Mr Roderick Ferrier | Director of Finance & Estates |
| Mr Joe Wright | Human Resources Manager |

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

In accordance with the provisions of the Further and Higher Education (Scotland) Act 1992 (the Act) the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of financial control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the College and to ensure that the financial statements are prepared in accordance with the Act, the Statement of Recommended Practice on 'Accounting in Further and Higher Education Institutions' and other relevant accounting standards.

In addition, within the terms of the Financial Memorandum between the University of the Highlands and Islands (UHI) as the Regional Strategic Body, and the Board of Management, the Board is required to prepare financial statements for each reporting period that give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The financial statements are prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgement and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council (SFC) via the Regional Strategic Body (UHI) are used only for the purposes that they have been given and in accordance with the Financial Memorandum and any other conditions that the Regional Strategic Body may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud; and
- Secure the economical, efficient, and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, that is designed to discharge the responsibilities set out above, include the following:

- clear definitions of responsibilities of, and the authority delegated to, College management;
- a comprehensive planning process supplemented by detailed annual income, expenditure, and capital budgets;
- regular reviews of key performance indicators and business risks and monthly financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures approved by the Finance Committee; and
- A professional internal audit service whose annual programme is established by the Audit & Risk Management Committee has reported reasonable and effective risk management, control and governance is in place. This has been endorsed by the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

GOVERNANCE STATEMENT

Introduction

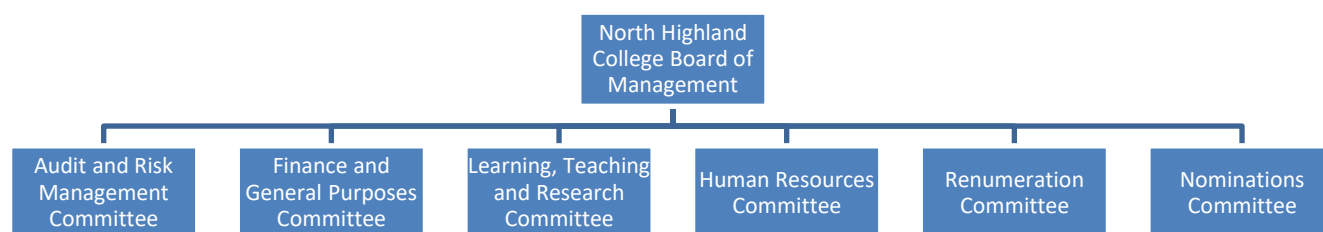
The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the main principles set out in the Code of Good Governance for Scotland's Colleges, the purpose being to help the reader of the financial statements understand how the principles have been applied. On 28th November 2016 On Board Training and Consultancy Ltd (On Board), was commissioned to undertake an 'externally facilitated Board Effectiveness Review' of The North Highland College, the report and action plan is available on the College's website.

Statement of Compliance with the 2016 Code of Good Governance for Scottish Colleges

North Highland College complies with all principles of the 2016 Code of Good Governance for Scottish Colleges including, C.17 which was an area of non-compliance within 2017/18. The Audit and Risk Management Committee have met with Auditors without the Executive Team present as part of the scheduled cycle of Board of Management meetings and will continue to do so for 2019/20.

BOARD OF MANAGEMENT

The College's Board of Management meets four times per year and has several committees:- Audit & Risk Management Committee; Finance & General Purposes Committee; Remuneration Committee; Learning, Teaching and Research Committee; Human Resources Committee; and Nominations Committee. In addition, the Board of Management holds development planning days and training events during the course of the year for the purposes of training, self-evaluation and development. The role of the Board of Management is the strategic overview of the College.



The core College committees (Audit and Risk Management; Finance and General Purposes; Learning, Teaching and Research; and Human Resources) meet four times a year in line with the Board of Management cycle, with the Audit and Risk Management Committee also meeting with the College's external and internal auditors in attendance as appropriate.

The College's Internal Auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to the Senior Management Team and the Audit & Risk Management Committee. The College Internal Auditors reported as follows for 2018-19: *'TIAA is satisfied that for the areas reviewed during the year, North Highland College has reasonable and effective risk management, control and governance processes in place.'*

This opinion is based solely on the matters that came to the attention of TIAA during the course of the internal audit reviews carried out during the year and is not an opinion on all elements of the risk management, control and governance processes or the ongoing financial viability or your ability to meet financial obligations which must be obtained by North Highland College from its various sources of assurance.'

The Senior Management Team is responsible for the implementation of agreed audit recommendations and Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they

affect the College's business, and monitors adherence to the regulatory requirements.

Whilst Senior Management may attend meetings of the Audit & Risk Management Committee as necessary, they are not members of the Committee and at least once a year the Committee meets the External Auditors on their own for independent discussions.

TRANSPARENCY ARRANGEMENTS

The Board of Management conducts its business through a number of committees. Each committee has formally constituted Terms of Reference. Minutes of all Board of Management meetings (except Remuneration Committee) are available from the Secretary to the Board at the following address or on the College's website:

The North Highland College
Ormlie Road
Thurso
Caithness
KW14 7EE

The Secretary to the Board maintains a register of financial, personal interests and directorships of the members of the Board of Management. The register is available for inspection at the above address or on the College's website.

ROLE OF COMMITTEES OF THE BOARD OF MANAGEMENT

Finance and General Purposes Committee

This Committee is authorised by the Board to undertake any activity within its list of duties as outlined by its terms of Reference, taking account of the Financial Memorandum between the SFC and the College and the College's own Financial Regulations. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee in pursuit of its duties. The Committee is authorised by the Board to obtain independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary.

- Approve all key decisions taken in relation to the College Estate, Facilities and Financial matters
- Allocate the Estates capital formula funding on an annual basis against which projects can be prioritised
- Approve capital projects and co-ordinate the Estates Strategy
- Consider the Health & Safety Policy annual review prior to recommendation to the BoM
- Monitor and review all College Health & Safety statistics on an annual basis
- Monitor progress against Equalities schemes and Action Plans ensuring these are integrated into College policy, processes and procedures
- Make recommendation on the annual budget to the Board of Management and monitor actual performance against budget and KPIs
- Consider the annual accounts and make recommendation of these for approval
- Advise the BoM with regard to College compliance with all statutory requirements relating to the college accounts and application of appropriate best practice in accounting procedures
- Oversee systems of financial control and delegated authority and review the Financial Regulations on a regular basis
- Liaise with the external auditor to ensure the college accounts show a true and fair view and exhibit regularity of spend
- Advise the BoM that the allocation of resources is in accordance with college priorities as defined in the strategic plan
- Make recommendations to the Board on capital expenditure, investments and borrowing
- Set the levels of course fees, as appropriate
- Approve amendments to the Fee Waiver Policy
- Consider/approve any College developments and initiatives not covered by the above and, in addition, not covered by the remit of the HR or LT&R Committees

- Review the status of the risk cluster assigned to the Finance and General Purposes Committee from the college risk register and make recommendations for associated amendments to the Audit and Risk Management Committee

Audit and Risk Management Committee

This Committee is authorised by the Board to undertake any activity within its list of duties as outlined by its terms of Reference. It shall have sufficient authority and resources to fulfil its responsibilities in respect of corporate governance compliance and legislative requirements and will report to the BoM on:

- The effectiveness of financial and non-financial internal control systems and provide an annual written report to the BoM prior to the signing of the financial statements
- Proper financial management, safeguarding the assets of the College, its subsidiaries and public funds
- The economy, efficiency and effectiveness of the College and its activities;
- Corporate governance and conduct of the College and its operations.
- The College wide Risk Register, with all amendments or recommendations for risk grading being brought forward for approval by the Audit and Risk Management Committee.

Learning, Teaching and Research Committee

This Committee is authorised by the Board to undertake any activity within its list of duties as outlined by its Terms of Reference. The purpose of the Learning, Teaching & Research Committee is to:

- Assist with setting the College's academic and research aims and objectives
- Monitor the academic, student support and research aspects of College operational planning to ensure consistency with the Strategic Plan
- Oversee all matters relating to the academic progress and achievement of students by monitoring key performance indicators (KPIs) relating to learning, teaching and research, and requesting specific action plans, as necessary
- Monitor the College's arrangements for improving learning and teaching and the overall quality of the student experience
- Monitor the implementation of key academic, learner engagement and research strategies.
- Monitor research activities to ensure they are consistent with College and University aims and objectives
- Make approval recommendations for learning, teaching and research policies to the Board of Management
- Review the status of the risk cluster assigned to the Learning, Teaching and Research Committee from the college risk register and make recommendations for associated amendments to the Audit and Risk Management Committee

Human Resources Committee

This Committee is authorised by the Board to undertake any activity within its list of duties as outlined by its terms of Reference. The Committee's purpose is to approve the direction and have oversight of all personnel matters relating to the function of the Board of Management as employer of the College's staff along with the development and monitoring of all HR strategies and work streams.

The Human Resource Committee will:

- Monitor HR policies and practices within the College, including those relating to recruitment and selection; terms and conditions of employment; Discipline and Grievance; and training and development
- Monitor the College's compliance with statutory requirements relating to both UK and EU employment legislation
- Monitor the College's compliance with best personnel and HR practice in line with IPD and ACAS guidelines
- Ensure the College provides appropriate Staff training and development
- Ensure the College operates an effective staff review procedure
- Review reports of JNC and JCG meetings

- Review the status of the risk cluster assigned to the Human Resources Committee from the college risk register and make recommendations for associated amendments to the Audit and Risk Management committee

Remuneration Committee

This Committee shall determine and review the structure of the Senior Management Team and the remuneration package offered. The SMT comprises, The Principal, Director of Learning & Teaching, Director of Enterprise & Innovation, Director of Finance & Estates, Director of the Environmental Research Institute and the Assistant Directors, taking into account:

- The efficient and effective use of public funds
- That the College senior management team shall be fairly rewarded for their individual performance and contribution to the College's overall performance
- Where, in terms of senior management team remuneration, the College stands in relation to other comparable institutions in the sector
- The relationship between the remuneration of the senior management team and that of other employees of the College
- The benefits granted to the senior management team
- The adequacy of pension arrangements and also the cost implication of pension arrangements, including the pension effect of remuneration proposals

CORPORATE STRATEGY

In respect of its strategic and development responsibilities, the full Board of Management meets at least annually to consider establishment of the College's strategic plan, with monitoring against targets undertaken throughout the planning period.

ESTATES STRATEGY

Estates reporting is reported to the Finance and General Purposes Committee of the College.

On 17 March 2017 the Board of Management, through the Finance and General Purposes Committee, approved a new Estates Strategy covering the period 1 August 2017 – 31 July 2021. Its main strategic aims are as follows:-

- Sell Ross House and Wick College, and with the proceeds and other funding, build a new extension on the Burghfield House site. This property will have more flexible teaching areas for Golf, Hospitality, and UHI Centre for History. Golf student numbers are expected to grow, as are History postgraduate numbers. This academic development will mean the College's Estates Strategy has to address this requirement. Efforts are being made to have the new facility open in the summer of 2020.
- A finalised Design and Business Case for the Thurso Main Campus is complete. This plans to demolish three older buildings on the Thurso Campus and replace them with one new building. This means that if any public funding becomes available for investment in property, then the College would be in a good position to take advantage of this.
- In 2016/17 the estate was reviewed by surveyors working on behalf of consultants reporting to the Scottish Funding Council, as part of an exercise on looking at college estate Scotland-wide. Subsequent to this North Highland College was awarded over £730,000 for backlog maintenance. This was spent/committed in the period 1 April 2018 to 31 March 2019.

BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The College's Board of Management is responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In the opinion of the Board of Management, the College is committed to implementing all provisions of the Code of Good Governance for Scotland's Colleges. As at the date of approval of the annual report and financial statements, the College's system of internal control is regularly subjected to scrutiny and review by the Audit and Risk Management Committee, reporting to the Board of Management, in a manner consistent with the internal control guidance for directors on the Code of Good Governance for Scotland's Colleges.

The College's Executive Management Team and the Audit & Risk Management Committee also receive regular reports from the internal audit function, which includes recommendations for improvement. The Audit & Risk Management Committee's role in this area is confined to a high level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit & Risk Management Committee.

The Board maintains a Risk Register, which records internal and external risks and identifies mitigating actions to reduce the threat of those risks and their impact.

GOING CONCERN

At 31 July 2019 the College had net liabilities of £537,000; however this is due to the recognition of the College's share of the Highland Pension Fund net liability of £6,568,000. This liability will fall due over a number of years through contribution requirements to the fund by the College. The Board of Management is confident that liabilities resulting can be met as these fall due from future funding, as they have to date. At 31 July 2019 the College also had net current liabilities of £1,476,000. This is mainly due to the reclassification of a long term loan (£1.3 million) from a non-current to a current year liability. At 31 July the College was in technical breach of its loan covenants and as such the loan has been reclassified as a current liability while the College agrees resolution with the bank. The Board of Management does not anticipate the loan being required for full repayment in the year; however it has sought and received assurance from UHI in its role as the College's Regional Strategic Body (RSB) that should the loan be repayable in full it will provide adequate financial support in the form of advance funding to meet this liability, and any others, through the course of the College's activities.

The financial position continues to be challenging for the College, and the budgeted performance for 2019/20 continues to show an underlying operating deficit. However, the College continues to work to deliver an improved financial performance against budget in the year as it has in previous years, and at the current 2019/20 forecast performance the College will not exceed its cash resource position in the year. As noted above, should cash be required assurances have been received from the UHI as the Regional Strategic Body that it will provide advanced funding from 2020/21 allocations to meet liabilities as they fall due. The College Principal has discussed the College's financial position with the Vice Chancellor of UHI, and discussions are taking place in the UHI Partnership Assembly to discuss the way ahead for the UHI/colleges' partnership to become more efficient and resilient in terms of governance and finances. The College's objective is that savings achieved through staff number reductions in the summer of 2019 will see an improved financial outturn for 2019/20. Throughout the medium term, without further additional funding to the sector, the College will face significant financial challenges.

These financial pressures extend beyond 12 months from the date of approving these financial statements. Despite the financial position and outlook for the College which has been outlined above, the College is a public body providing statutory services and as such will remain a going concern as long as this is the case. The financial statements for the College for 2018/19 have therefore been prepared on a going concern basis.

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 year ended 31 July 2019.

Approved by order of the members of the Board on 11th December 2019 and signed on its behalf by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Section Two: Remuneration and Staff Report

The information disclosed within the tables below are subject to audit by the College's external auditor, and all other sections of the Remuneration and Staff Report are reviewed for consistency.

Remuneration Policy

The Remuneration Committee shall determine and review the structure of the Senior Management Team and the remuneration package offered, taking into account:

1. The efficient and effective use of public funds;
2. That the College senior management team shall be fairly rewarded for their individual performance and contribution to the College's overall performance;
3. Where, in terms of senior management team remuneration, the College stands in relation to other comparable institutions in the sector;
4. Consider the Scottish Government's approach to remuneration in the public sector;
5. The relationship between the remuneration of the senior management team and that of other employees of the College;
6. The benefits granted to the senior management team;
7. The adequacy of pension arrangements and also the cost implication of pension arrangements, including the pension effect of remuneration proposals.

The Committee met once during the year on 17 April 2019.

Remuneration including salary and pension entitlements

The information in this section of the report is subject to audit. Senior Management comprises Donald MacBeath - Principal; Debbie Murray - Director of Enterprise & Innovation; Roderick Ferrier - Director of Finance & Estates; Anne Bremner - Director of Learning & Teaching; Stuart Gibb - Director of Environmental Research Institute.

Salary entitlements¹

The following table provides detail of the remuneration and pension interests of senior management.

| Name | Year ended 31 July 2019 | | | Year ended 31 July 2018 | | |
|--|-------------------------|--|----------------|-------------------------|-----------------------------|----------------|
| | Salary £'000 | Pension Benefit ⁹ £'000 | Total £'000 | Salary £'000 | Pension Benefit £'000 | Total £'000 |
| Donald MacBeath, Principal – Actual | 94 | 99 | 193 | 87 | 27 | 114 |
| Debbie Murray, Director of Enterprise & Innovation – Actual | 61 | 52 | 113 | 56 | 13 | 69 |
| Roderick Ferrier, Director of Finance & Estates - Actual | 57 | 61 | 118 | 52 | 29 | 81 |
| Anne Bremner, Director of Learning & Teaching - Actual | 60 | 23 | 83 | 55 | 20 | 75 |
| Stuart Gibb, Director of Environmental Research Institute - Actual | 76 | 28 | 104 | 74 | 135 | 209 |

Median Remuneration

Colleges are required by the FReM (Government Financial Reporting Manual 2015-16) to disclose the relationships between the remuneration of the highest paid official and the median remuneration of their workforce.

The banded remuneration of the highest paid official in the organisation in the financial year 2018/19 was £94,000 (2017/18 £87,000). This was 3.7 times (2017/18 3.7 times) the median remuneration of the workforce which was £25,919 (2017/18 £23,547).

Accrued Pension Benefits

Pension benefits for employees are provided through a) 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 b) 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 are based on the average earnings over the person's time of being a member of the scheme.

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

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.

¹ Note:

9 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

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.

| Name | Accrued pension at pension age at 31 July 2019 | Accrued lump sum at pension age at 31 July 2019 | Real increase in pension 1 August 2018 to 31 July 2019 | Real increase in lump sum 1 August 2018 to 31 July 2019 | CETV at 31 July 2019 | CETV at 31 July 2018 | Real increase in CETV |
|---|--|---|--|---|----------------------|----------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Donald MacBeath, Principal | 46 | 85 | 5 | 7 | 960 | 816 | 136 |
| Debbie Murray, Director of Enterprise & Innovation | 20 | 27 | 3 | 2 | 333 | 269 | 60 |
| Roderick Ferrier, Director of Finance & Estates | 25 | 43 | 3 | 4 | 492 | 409 | 80 |
| Anne Bremner, Director of Learning & Teaching | 5 | 0 | 1 | 0 | 75 | 52 | 18 |
| Stuart Gibb, Director of Environmental Research Institute | 24 | 36 | 2 | 0 | 397 | 339 | 54 |

Cash equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised 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.

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 valuation factors for the start and end of the period.

Staff Report**Compensation for loss of office**

No employees left under voluntary severance agreements, and no voluntary compensation payments were made.

The table below summarises the compulsory exit packages by cost band. Approval was sought from the Scottish Funding College for the 3 compulsory redundancies.

| Exit package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band |
|--------------------------------------|--|--|---|
| <£10,000 | 3 | 1 | 4 |
| £10,000 - £25,000 | 0 | 1 | 1 |
| £25,000 - £50,000 | 0 | 0 | 0 |
| £50,000 - £100,000 | 0 | 0 | 0 |
| £100,000 - £150,000 | 0 | 0 | 0 |
| £150,000 - £200,000 | 0 | 0 | 0 |
| Total number of exit packages | 3 | 2 | 5 |
| Total cost (£) | £1,693 | £18,977 | £20,670 |

Salaries and Related costs

| | 2019 | 2019 | 2019 | 2018 |
|-----------------------|-------------------------|---------------------------|------------|------------|
| | Directly employed staff | Seconded and agency staff | Total | Total |
| Wages and salaries | £5,279,856 | £0 | £5,279,856 | £4,920,808 |
| Social security costs | £476,707 | £0 | £476,707 | £449,341 |
| Other pension costs | £1,484,798 | £0 | £1,472,798 | £1,232,786 |
| Total | £7,241,361 | £0 | £7,229,361 | £6,602,935 |
| Average number of FTE | 157 | 0 | 157 | 163 |

The college employed 178 females and 100 males as at 31 July 2019.

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 2019.

Relevant union officials

| | |
|---|---------------------------------------|
| Number of employees who were relevant union officials during the relevant period: | Full-time equivalent employee number: |
| 5 | 4.8 |

Percentage of time spent on facility time

| | |
|-------------|----------------------|
| Percentage: | Number of employees: |
| 0% | 0 |
| 1%-50% | 4.8 |
| 51%-99% | 0 |
| 100% | 0 |

Percentage of pay bill spent on facility time

| | |
|--|------------|
| Total cost of facility time: | £1,422 |
| Total pay bill: | £7,241,361 |
| Percentage of the total pay bill spent on facility time: | 0.02% |

Paid trade union activities

| | |
|---|-----|
| Time spent on trade union activities as a percentage of total paid facility time hours: | 43% |
|---|-----|

Sickness absence data

The Board of Management decided to cease recording and reporting this information a number of years ago as they believed this did not add any value to the attendance management process which existed within the College. Therefore figures are not available for 2018/2019.

Staff Policies

The College's **Recruitment Policy** and procedures provide for the full and fair consideration for employment by the College of applicants who declare a disability. This is undertaken through the application of a guaranteed interview scheme, whereby disabled candidates who (on application) meet the minimum criteria for the job are guaranteed an interview. We do not interview disabled candidates who do not (on application) meet the minimum standards for the job.

The College's **Attendance Management Policy** and procedures are used to manage disability scenarios post-recruitment on an individual basis. This includes referral to Occupational Health Services to inform decisions about how we can facilitate the retention of disabled employees and in applying reasonable adjustments.

We do not have specific policies about the promotion, training and career development of disabled employees. Disabled employees are protected from discrimination by law and we will implement reasonable adjustments, on a case-by-case basis, to ensure disabled employees are not disadvantaged.

Expenditure on Consultancy

North Highland College incurred £79,000 on consultancy in 2018/19.

Off – Payroll Engagements

There is nothing to report under the above for North Highland College.

Parliamentary Accountability Report

There is nothing to report under the above for North Highland College.

Donald MacBeath
Principal

Blair Sandison
Chairman

Independent auditor's report to the members of the Board of Management of North Highland 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 North Highland College for the year ended 31 July 2019 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 and Expenditure, 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 affairs of the college as at 31 July 2019 and of the 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 three 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 board. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament (continued)

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions 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.

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament (continued)

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

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

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and our independent auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on 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.

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament (continued)

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. 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

Opinions on matters prescribed by the Auditor General for Scotland

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.

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.

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament (continued)

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

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

The maintenance and integrity of North Highland College's website is the responsibility of the Board of Management; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.

Statement of Comprehensive Income for the year ended 31 July 2019

| | Notes | Year ended 31 July 2019 £000 | Year ended 31 July 2018 £000 |
|--|-------|------------------------------------|------------------------------------|
| Income | | | |
| SFC Grants | 2 | 6,861 | 7,573 |
| UHI Grants | 3 | 1,716 | 1,904 |
| Education contracts, Tuition Fees & Charges | 4 | 1,609 | 1,556 |
| Other Grant Income | 5 | 704 | 982 |
| Other Operating Income | 6 | 756 | 708 |
| Total Income | | 11,646 | 12,723 |
| Expenditure | | | |
| Staff costs | 8 | 7,241 | 6,586 |
| Other Operating Expenses | 10 | 4,810 | 5,979 |
| Depreciation | 13 | 741 | 663 |
| Interest payable and other finance costs | 11 | 161 | 307 |
| Total Expenditure | | 12,953 | 13,535 |
| Deficit before Other Gains and Losses | | (1,307) | (812) |
| Loss on disposal of assets | 13 | 0 | 0 |
| Deficit before Taxation | | (1,307) | (812) |
| Taxation | 12 | 0 | 0 |
| Deficit for the Year | | (1,307) | (812) |
| Actuarial (Loss)/Gain in respect of Pension Scheme | | (3,209) | 6,036 |
| Unrealised Surplus on revaluation of land and buildings | | 982 | 240 |
| Total Comprehensive (Expenditure)/Income for the year | | (3,534) | 5,464 |
| Represented by: | | | |
| Unrestricted Comprehensive Income for the year | | (4,305) | 5,222 |
| Revaluation Reserve Comprehensive Income for the year | | 771 | 242 |
| | | (3,534) | 5,464 |

The Statement of Comprehensive Income is prepared under the FE/HE SORP. The SORP does not permit colleges to reflect the non-cash budget for depreciation in the Statement of Comprehensive Income. Note 1b provides details of the adjusted operating position on a Central Government accounting basis.

Statement of Changes in Reserves for the year ended 31 July 2019

| | Income & Expenditure Reserve | Revaluation Reserve | Total |
|---|------------------------------------|------------------------|----------------------|
| | 31 July 2019 £000 | 31 July 2019 £000 | 31 July 2019 £000 |
| Balance at 1 August 2017 | <u>(8,479)</u> | 6,012 | 2,467 |
| Deficit from Statement of Comprehensive Income | (812) | 0 | (812) |
| Other Comprehensive Loss | 6,036 | 240 | 6,276 |
| Transfers between revaluation and income and Expenditure reserve | 191 | (191) | 0 |
| Total Comprehensive Loss for the year | <u>5,415</u> | <u>49</u> | <u>(5,464)</u> |
| Balance at 31 July 2018 | <u>(3,064)</u> | <u>6,061</u> | <u>(2,997)</u> |
| | | | |
| Balance at 1 August 2018 | <u>(3,064)</u> | 6,061 | 2,997 |
| Deficit from Statement of Comprehensive Income | (1,307) | 0 | (1,307) |
| Other Comprehensive Loss | (3,209) | 982 | (2,227) |
| Transfers between revaluation and income and Expenditure reserve | 211 | (211) | 0 |
| Total Comprehensive Loss for the year | <u>(4,305)</u> | <u>771</u> | <u>(3,534)</u> |
| Balance at 31 July 2019 | <u>(7,369)</u> | <u>6,832</u> | <u>(537)</u> |

Balance Sheet as at 31 July 2019

| | Notes | As at 31 July 2019 £000 | As at 31 July 2018 £000 |
|--|-------|-------------------------------|-------------------------------|
| Non-Current Assets | | | |
| Tangible Fixed assets | 13 | 17,983 | 16,857 |
| | | 17,983 | 16,857 |
| Current Assets | | | |
| Stock | | 14 | 25 |
| Trade Debtors and Other Receivables | 14 | 652 | 625 |
| Assets Held for Sale | 13 | 541 | 541 |
| Cash and cash equivalents | | 256 | 402 |
| | | 1,463 | 1,593 |
| Creditors: amounts falling due within one year | 15 | (2,939) | (1,286) |
| Net Current (Liabilities)/Assets | | (1,476) | 307 |
| Total Assets less Current Liabilities | | 16,507 | 17,164 |
| Creditors: amounts falling due after more than one year | 16 | (9,798) | (10,862) |
| Provisions | | | |
| Pension Provisions | 17 | (7,246) | (3,305) |
| TOTAL NET (LIABILITIES)/ASSETS | | (537) | 2,997 |
| UNRESTRICTED RESERVES | | | |
| Income and Expenditure Reserve | | (7,369) | (3,064) |
| Revaluation Reserve | | 6,832 | 6,061 |
| TOTAL RESERVES | | (537) | 2,997 |

The financial statements were authorised for issue and approved by the Board of Management on 11 December 2019 and were signed on its behalf on that date by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Statement of Cash Flows for the year ended 31 July 2019

| | Note | Year ended 31 July 2019 £000 | Year ended 31 July 2018 £000 |
|---|-------|------------------------------------|---------------------------------------|
| Cash flow from Operating Activities | | (1,305) | (1,005) |
| Adjustment for non-cash items | | | |
| Depreciation | 13 | 741 | 663 |
| Revaluation of Property | | 0 | 193 |
| (Increase)/decrease in stocks | | 11 | (18) |
| (Increase)/decrease in debtors | 14 | (27) | (238) |
| Increase/(decrease) in creditors | 15,16 | 288 | 169 |
| Increase/(decrease) in pension provision | 17 | 12 | (67) |
| LGPS Pension costs less contributions payable | 20 | 629 | 434 |
| Adjustment for investing or financing activities | | | |
| Interest payable | 11 | 161 | 307 |
| Capital Grant Income | 2,6 | (516) | (396) |
| | | <u>(6)</u> | <u>41</u> |
| Cash Flow from Investing Activities | | | |
| Capital Grants receipts | | 885 | 154 |
| Payments made to acquire Fixed Assets | 13 | (885) | (154) |
| | | <u>0</u> | <u>0</u> |
| Cash flows from Financing Activities | | | |
| Interest Paid on loan | 11 | (81) | (85) |
| Repayment of loans | 16 | (59) | (55) |
| | | <u>(140)</u> | <u>(140)</u> |
| (Decrease) in cash and cash equivalents in the year | | <u>(146)</u> | <u>(99)</u> |
| Cash and cash equivalents at beginning of the Year | | 402 | 501 |
| Cash and cash equivalents at end of the Year | 18 | 256 | 402 |

Notes to the Financial Statements

1a. Statement of Principal Accounting Policies

BASIS OF PREPARATION

The Financial Statements are prepared in accordance with Further and Higher Education (Scotland) Act 1992 and the Accounts Directions issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2015), and the Government Financial Reporting Manual 2015/16 (FREM) where applicable.

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the historical cost convention modified by revaluation of certain Fixed Assets.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Balance Sheet shows a net liabilities position of £537,000 due to the adoption of Financial Reporting Standard (FRS) 102 which has resulted in the reclassification of Government Capital Grants previously disclosed in Reserves now being disclosed under short and long term creditors. These creditors do not result in a future cash obligation on the college and is released against non-cash depreciation charges in future years on funded assets. The budget for 2018/19 shows a deficit position; however the college has taken steps to cut posts which should see an improved financial performance in 2019-20. Also, UHI as the Regional Strategic Body, has provided written assurances of short term cash support in 2019-20 if required. Also see Page 23 for a fuller assessment of going concern.

RECOGNITION OF INCOME

Government Revenue Grants

Government Revenue Grants are recognised in income on a systematic basis over the period in which the College recognises the related costs for which the grant is intended to compensate.

Government Capital Grants

Government Capital Grants are released to income in accordance with the accrual model over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the College to recognise income on a systematic basis over the period in which the College recognises the related costs for which the grant is intended to compensate.

Non-Government Grants

Non-Government capital and revenue grants are recognised using the performance model. If there are no performance conditions attached, the grants are recognised as revenue when the grants are received or receivable.

A grant that imposes specific future performance related conditions on the recipient is recognised as revenue only when the performance related conditions are met.

A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

Grants of £324,000 are due to be released in 2019/20; £9,798,000 in future years.

Non-Exchange Transactions

Non-Exchange Transactions, such as donations of cash, goods, assets or services, are recognised using the performance model.

Notes to the Financial Statements (continued)

Non-exchange transactions that impose specific future performance related conditions on the recipient, is recognised as revenue only when the performance related conditions are met.

Non-exchange transactions with restrictions attached are recorded within the income on entitlement. The restricted income received is held in the temporarily restricted reserve until such time that expenditure is incurred in accordance with the restrictions.

PENSION SCHEMES

The College participates in two multi-employer defined benefit pension schemes, more details are in note 20.

The Scottish Teachers' Superannuation Scheme

Teaching staff may join the Scottish Teachers' Superannuation Scheme (STSS) which is administered by the Scottish Public Pensions Agency (SPPS). The North Highland College is unable to identify its share of the underlying assets and liabilities of the STSS on a consistent and reasonable basis and therefore, as required by FRS 102, accounts for its participation in the STSS as if it were a defined contribution scheme. The contributions are determined by qualified actuaries on the basis of periodic valuations and are recognised in the accounting periods in which they arise. 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 is accounted for as if it were a defined contribution scheme. As a result, the amounts charged to the Statement of Comprehensive Income represent the contributions payable to the scheme in the year.

Local Government Pension Scheme

Support and Research staff may join the Local Government Pension Scheme (LGPS) which is administered by Highland Council. The fund is a defined benefit pension scheme. 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 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.

The future long-term obligation in respect of early retirees who retired in the 1990s, 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 Scottish Funding Council.

TANGIBLE FIXED ASSETS**a. Land and Buildings**

Land and Buildings are shown in the balance sheet at valuation, on the basis of depreciated replacement cost. Buildings are depreciated over their expected useful life to the College. The properties were revalued in June 2017, and have been subject to indexation every year since and are due for revaluation in 2022. The properties were split into component parts being: main building; roof; windows; plant and machinery; heating systems, and where appropriate kitchens. This revaluation exercise saw an increase in valuation; however because of component lives, depreciation reduced compared to trend; and deferred grant release relating to buildings also decreased in line with this.

Notes to the Financial Statements (continued)

b. Plant and equipment

Plant and equipment costing less than £2,500 per individual item is written off to the Statement of Comprehensive Income in the period of acquisition, unless it is part of an aggregated project spend. Generally other equipment over £2,500 is capitalised at cost.

c. Computer equipment and motor vehicles

Computer equipment and motor vehicles costing less than £2,500 per item is written off to the Statement of Comprehensive Income in the period of acquisition. Generally other computers and vehicles over £2,500 are capitalised at cost.

d. Assets Held for Sale

At present Wick College is on the market to sell. Also Ross House, Dornoch is on the market to sell.

Depreciation of Fixed Assets (Property) is charged based on an estimate of the life of the property left based on information provided by an external surveyor/architect. Deprecation of non-property Fixed Assets is based on annual instalments commencing in the year of acquisition at rates estimated to write off their cost or valuation less any residual value over their expected useful lives.

| | |
|--------------------------------|-------------------------|
| Freehold - Main Buildings | 24 - 95 years remaining |
| Building - Roof | 4 - 55 years remaining |
| Building - Windows | 4 - 25 years remaining |
| Building - Plant and Machinery | 3 – 20 years remaining |
| Building - Heating Systems | 3 – 20 years remaining |
| Building - Kitchens | 2 – 21 years remaining |
| Plant and Equipment | 2 - 10 years |
| Computer Equipment | 3 years |
| Motor Vehicles | 4 years |

Where assets are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to Deferred Capital Grants and are released to the Statement of Comprehensive Income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

A review for impairment of fixed assets is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

SUBSEQUENT EXPENDITURE ON EXISTING FIXED ASSETS

Where significant expenditure is incurred on tangible fixed assets, it is charged to the Statement of Comprehensive Income in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the assets life beyond that conferred by repairs and maintenance

Notes to the Financial Statements (continued)**MAINTENANCE OF PREMISES**

The cost of routine corrective maintenance is charged to the Statement of Comprehensive Income in the period in which it is incurred.

LEASED ASSETS

Costs in respect of Operating Leases are charged on a straight line basis over the lease term.

INVESTMENTS

Fixed Asset Investments are carried at market value less any provision for a permanent diminution in their value.

STOCKS

Stocks are items held for resale and are stated at the lower of their cost and net realisable value.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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 Statement of Comprehensive Income in the period in which they arise.

TAXATION

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK Corporation Tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

PROVISIONS

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by the Scottish Funding Council.

Unfunded pensions are accounted for under FRS 102 as required by the Accounts Direction issued by the Scottish Funding Council.

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 Reserve together with any surplus or deficit on disposal.

AGENCY ARRANGEMENTS

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the Statement of Comprehensive Income, and movements have been disclosed in the notes to the accounts as the College is not subject to risks relating to the income and expenditure. The Funds are Bursary, Childcare, Discretionary and Educational Maintenance Allowance. See Note 25.

Notes to the Financial Statements (continued)

| | Year Ended 31 July 19 £000 | Year Ended 31 July 18 £000 |
|--|----------------------------------|----------------------------------|
| 2. SFC Grants | | |
| Recurrent FE Grant | 6,290 | 6,958 |
| Estates Maintenance Grant | 130 | 262 |
| FE and HE Childcare funds | 93 | 136 |
| Release of Deferred Capital Grants (SFC) | 348 | 198 |
| Other grants | 0 | 19 |
| | 6,861 | 7,573 |
| 3. UHI Grants | | |
| Recurrent HE Grant | 1,434 | 1,615 |
| Other UHI Grants | 282 | 289 |
| | 1,716 | 1,904 |
| 4. Tuition Fees and Charges | | |
| Further Education Fees –UK | 176 | 157 |
| Further Education Fees – EU | 1 | 1 |
| Further Education Fees – non EU | 5 | 0 |
| Higher Education Fees | 677 | 762 |
| SDS contracts | 141 | 129 |
| Education contracts | 453 | 397 |
| ALF Income | 96 | 64 |
| LEC and Other Contracts | 60 | 46 |
| | 1,609 | 1,556 |
| 5. Other Grant Income | | |
| European Funds | (5) | 162 |
| Other Funds | 513 | 584 |
| Student Allowances | 29 | 38 |
| Release of Deferred Capital Grants (Non-SFC) | 167 | 198 |
| | 704 | 982 |
| 6. Other Operating Income | | |
| Catering and Residences | 151 | 137 |
| Other Income Generating Activities | 124 | 88 |
| Other income | 481 | 483 |
| | 756 | 708 |
| 7. Investment income | | |
| Other Interest Receivable | 0 | 0 |
| | 0 | 0 |

Notes to the Financial Statements (continued)

8. Staff numbers and costs

Staff numbers (full-time equivalent):

Year ended Year ended
31 July 2019 31 July 2018

| | | |
|-------------------------------------|------------|------------|
| Executive Management | 4 | 4 |
| Academic Teaching | 66 | 69 |
| Academic Support | 15 | 14 |
| Administration and Central Services | 36 | 40 |
| Premises | 14 | 12 |
| Research | 18 | 20 |
| Catering and Residences | 4 | 4 |
| | <u>157</u> | <u>163</u> |
| Staff on permanent contracts | 137 | 135 |
| Staff on temporary contracts | 20 | 28 |
| | <u>157</u> | <u>163</u> |

Staff costs:

£000 £000

| | | |
|-------------------------------------|--------------|--------------|
| Executive Management | 354 | 321 |
| Academic Teaching | 3,683 | 3,456 |
| Academic Support | 364 | 360 |
| Administration and Central Services | 974 | 887 |
| Premises | 342 | 272 |
| Research | 838 | 814 |
| Catering and Residences | 45 | 42 |
| Other Pension costs | 641 | 434 |
| | <u>7,241</u> | <u>6,586</u> |
| Wages and Salaries | 5,279 | 4,904 |
| Social security costs | 477 | 449 |
| Pension Contributions | 844 | 799 |
| Other pension costs | 641 | 434 |
| | <u>7,241</u> | <u>6,586</u> |

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

| | Year ended 31 July 2019 | | Year ended 31 July 2018 | |
|---------------------|-------------------------|-------------|-------------------------|-------------|
| | Senior post-holders | Other staff | Senior post-holders | Other Staff |
| £60,001 to £70,000 | 1 | - | - | - |
| £70,001 to £80,000 | 1 | - | 1 | - |
| £80,001 to £90,000 | - | - | 1 | - |
| £90,001 to £100,000 | 1 | - | - | - |
| | <u>3</u> | <u>-</u> | <u>2</u> | <u>-</u> |

Notes to the Financial Statements (continued)**9. Senior post-holders' emoluments**

| | Year ended 31 July 2019 Number | Year ended 31 July 2018 Number |
|---|--------------------------------------|--------------------------------------|
| Senior post-holders including the Principal: | 5 | 5 |

| | £000 | £000 |
|---|------------|------------|
| Senior post-holders' emoluments including the Principal: | | |
| Salaries | 272 | 249 |
| Pension contributions | 60 | 45 |
| | <u>332</u> | <u>294</u> |

Amounts paid to the Principal:

| | | |
|-----------------------|------------|------------|
| Salary | 94 | 87 |
| Pension contributions | 21 | 15 |
| | <u>115</u> | <u>102</u> |

The pension contributions in respect of the Principal are in respect of Employer's contributions to the Local Government Pension Scheme (Highland Council). The College's contributions to the Local Government Scheme is paid at a variable rate which increases according to pay-scale. There were no taxable or non-taxable benefits paid to the Principal in the year.

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

10. Other operating expenses

| | Year ended 31 July 2019 £000 | Year ended 31 July 2018 £000 |
|--|---------------------------------------|------------------------------------|
| Academic/Teaching departments and services | 3,076 | 4,328 |
| Administration and central services | 755 | 588 |
| FE & HE Childcare Funds | 93 | 136 |
| Other Income Generating Activities | 15 | 15 |
| Premises | 687 | 740 |
| Other expenditure | 73 | 65 |
| Catering and residences | 111 | 107 |
| | <u>4,810</u> | <u>5,979</u> |

Other operating expenses include:

| | | |
|--|-------|-------|
| Auditors' remuneration: | | |
| external audit | 18 | 13 |
| internal audit | 7 | 8 |
| project audit | 8 | 7 |
| Disbursements of childcare funds to students | 93 | 136 |
| Payments to Argyll College | 1,567 | 2,881 |
| Hire of land and buildings | 127 | 112 |
| Hire of plant and machinery | 138 | 104 |

Notes to the Financial Statements (continued)

Payments to Argyll College are explained in more detail in note 24.

11. Interest payable and other finance costs

| | | |
|------------------------------|------------|------------|
| Loan Interest | 81 | 85 |
| Net charge on pension scheme | 80 | 222 |
| | 161 | 307 |

12. Taxation

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

13. Tangible fixed assets

| | Freehold Land and Buildings £000 | Computer Equipment £000 | Plant and Equipment £000 | Motor Vehicles £000 | Total £000 |
|---------------------------|---|--|---|------------------------------------|-----------------------|
| Cost / Valuation | | | | | |
| At 1 August 2018 | 20,171 | 1,598 | 4,420 | 97 | 26,286 |
| Additions | 843 | 0 | 42 | 0 | 885 |
| Revaluation | 982 | 0 | 0 | 0 | 982 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| At 31 July 2019 | 21,996 | 1,598 | 4,462 | 97 | 28,153 |
| Depreciation | | | | | |
| At 1 August 2018 | 3,407 | 1,598 | 4,328 | 97 | 9,430 |
| Charge for year | 676 | 0 | 65 | 0 | 741 |
| Revaluation | | | | | |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| At 31 July 2019 | 4,083 | 1,598 | 4,393 | 97 | 10,171 |
| At 31 July 2019 | 17,914 | 0 | 69 | 0 | 17,983 |
| Net book value | | | | | |
| At 1 August 2018 | 16,765 | 0 | 92 | 0 | 16,857 |
| Inherited | 3,430 | 0 | 0 | 0 | 3,430 |
| Financed by capital grant | 10,026 | 0 | 69 | 0 | 10,095 |
| Other | 4,458 | 0 | 0 | 0 | 4,458 |
| Net book value | | | | | |
| At 31 July 2019 | 17,914 | 0 | 69 | 0 | 17,983 |

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.

Notes to the Financial Statements (continued)

Land and buildings were revalued in June 2017 by an independent valuer. The basis of valuation was depreciated replacement cost. The property valuations were split into component parts being:- Main Building, Roof, Windows, Plant & Machinery, Heating and where appropriate Kitchens. In 2018/19 property values were increased by 6.0%.

If inherited land and buildings had not been revalued they would have been included at 31 July 2019 as:

| | |
|--------------------------------------|-------------------|
| | £000 |
| Cost | 507 |
| Aggregate depreciation based on cost | <u>(256)</u> |
| Net book value based on cost | <u><u>251</u></u> |

14. Trade Debtors and other receivables

| | As at 31 July 2019 £000 | As at 31 July 2018 £000 |
|--------------------------------|-------------------------------|-------------------------------|
| Trade Debtors | 244 | 264 |
| Prepayments and accrued income | 408 | 228 |
| Other debtors | 0 | 133 |
| | <u>652</u> | <u>625</u> |

15. Creditors: Amounts falling due within one year

| | | |
|---|---------------------|---------------------|
| Bank Loans and overdrafts | 1,277 | 59 |
| Trade creditors | 95 | 288 |
| Other creditors | 329 | 182 |
| Other taxation and social security | 157 | 114 |
| Accruals and deferred income | 757 | 475 |
| Deferred income – government capital grants | 324 | 168 |
| | <u>2,939</u> | <u>1,286</u> |

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

| | | |
|---|---------------------|----------------------|
| Bank loan | 0 | 1,276 |
| Deferred income – government capital grants | 9,798 | 9,586 |
| | <u>9,798</u> | <u>10,862</u> |

Bank loans, other loans and other creditors are repayable as follows:-

| | | |
|----------------------------|---------------------|---------------------|
| In one year or less | 63 | 59 |
| Between one and two years | 66 | 63 |
| Between two and five years | 227 | 213 |
| In five years or more | 920 | 1,000 |
| | <u>1,276</u> | <u>1,335</u> |

The term loan is held with Lloyds Bank. Per the original loan agreement the principal sum is due to be repaid in monthly instalments over a 25 year period at a fixed rate of interest with interest calculated monthly in the instalments outlined above. There is no security given over assets, but covenants have been agreed. One of the covenants was breached at 31 July 2019, therefore the loan has been fully

Notes to the Financial Statements (continued)

classified as a current liability at the year-end pending confirmation of a waiver from the bank, which was outstanding at the date of approval of the financial statements.

17. Provision for Liabilities and Charges**Enhanced Pensions – Early Retirements**

| | | |
|------------------------------|------------|------------|
| Opening Provision | 667 | 735 |
| Additional Provision | 72 | (8) |
| | 739 | 727 |
| Charged to Provision in Year | (61) | (60) |
| Closing Provision | 678 | 667 |

Local Government Pension Scheme - Provision

| | | |
|----------------------------|--------------|--------------|
| Opening Provision | 2,638 | 8,018 |
| Contributions in the year | (471) | (449) |
| | 2,167 | 7,569 |
| Additions in the year | 1,192 | 1,105 |
| Remeasurements in the year | 3,209 | (6,036) |
| Closing Provision | 6,568 | 2,638 |
| Total Provision | 7,246 | 3,305 |

The Provision for Enhanced Pensions has been revalued using actuarial tables provided by the SFC. The net interest applied was 0%.

The LGPS Pension Provision relates to the liabilities under the college's membership of the Local Government defined benefit pension scheme. Further details are given in Note 20.

18. Cash and cash equivalents

| | At 1 August 2018 £000 | Cashflows £000 | Other changes £000 | At 31 July 2019 £000 |
|--------------------------|-----------------------------|-------------------|--------------------------|----------------------------|
| Cash at bank and in hand | 402 | (146) | - | 256 |
| | 402 | (146) | - | 256 |

19. Capital commitments

At 31 July 2019 the College had capital commitments contracted of £57,634 (2018 - £65,724).

20. Pension and similar obligations

The College participates in two multi-employer defined benefit pension schemes as described in note 1a.

Scottish Teachers Superannuation Scheme (STSS)

The STSS scheme is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purpose of determining contribution rates.

Notes to the Financial Statements (continued)

Under the definitions set out in Financial Reporting Standard 102, the STSS is a multi-employer Pension Scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has accounted for its contributions as if it were a Defined Contribution Scheme. The current contribution rates are variable rates for employees based on salary ranges, and Employer's contribution rate is 17.2%.

Local Government Superannuation Scheme

The Highland Council Pension Fund is a funded Defined Benefits Scheme, with the assets held in separate trustee administered funds. The total contributions made for the year ended 31 July 2019 were £627,000 (2018 - £594,000) of which Employer's contributions totalled £466,000 (2018 - £441,000) and Employees' contributions totalled £161,000 (2018 - £153,000). The current contribution rates are variable rates for employees based on salary ranges, and Employers contribution rate is 17.9%.

| Total pension cost for the year | 2019 | 2018 |
|--|--------------|--------------|
| | £000 | £000 |
| Teachers' Pension Scheme:contributions paid | 383 | 355 |
| Local Government Pension Scheme: | | |
| Contributions paid | 466 | 441 |
| FRS 102 charge | <u>629</u> | <u>434</u> |
| Charge to the Statement of Comprehensive Income | 1,095 | <u>875</u> |
| Enhanced pension charge to Statement of Comprehensive Income | | |
| Total Pension Cost for Year within staff costs | <u>1,478</u> | <u>1,230</u> |

The following information is based upon a full actuarial valuation of the Fund at 31 July 2018 by a qualified independent actuary for the purposes of FRS102.

Principal Actuarial Assumptions at the Balance Sheet Date:-

| | 2019 | 2018 |
|--------------------------------------|-------|-------|
| Rate of Increase in Salaries | 3.4% | 3.4% |
| Rate of Increase in Pensions | 2.4% | 2.4% |
| Inflation Assumption (RPI) | -0.5% | -0.5% |
| Inflation assumption (CPI) | 0.5% | 0.5% |
| Discount rate for scheme liabilities | 2.1% | 2.8% |

The estimated split of investments in the scheme at the Balance Sheet Date were as follows:-

| | | |
|----------|-----|-----|
| Equities | 72% | 71% |
| Bonds | 15% | 14% |
| Property | 11% | 12% |
| Cash | 2% | 3% |

Notes to the Financial Statements (continued)

The assumed life expectations on retirement age 65 are:-

| | Years |
|-----------------------------|-------|
| <i>Retiring Today</i> | |
| Males | 21.9 |
| Females | 24.3 |
| <i>Retiring in 20 Years</i> | |
| Males | 23.3 |
| Females | 26.1 |

The Employer contributions for the year to 31 July 2019 will be approximately £470,000

The analysis of amounts charged to the Statement of Comprehensive Income (SOCl) is as follows:

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|--|-------------------------------------|-------------------------------------|
| Charged to staff costs: | | |
| Current service costs | (1,112) | (883) |
| Past service costs | 0 | 0 |
| Total charged to staff costs | (1,112) | (883) |
| Credit/charge for net return on pension scheme: | | |
| Interest income | 551 | 473 |
| Interest cost | (631) | (695) |
| Net interest charged | (80) | (222) |
| Credit/charge to other comprehensive income: | | |
| Return on assets | 744 | 1,470 |
| Other experience | (8) | 2,700 |
| Gains and losses arising on changes in financial assumptions | (3,945) | 1,866 |
| Actuarial Gain/(Loss) | (3,209) | 6,036 |
| Total charge to the SOCl | (4,401) | 4,931 |

| Analysis of the movement in deficit during the year: | | |
|---|----------------|----------------|
| Deficit in scheme at start of year | (2,638) | (8,018) |
| Service costs | (1,112) | (883) |
| Employer contributions | 471 | 449 |
| Net interest costs | (80) | (222) |
| Actuarial gain/(loss) | (3,209) | 6,036 |
| Deficit in scheme at end of year | (6,568) | (2,638) |

Notes to the Financial Statements (continued)**21. Financial Commitments**

At 31 July 2019 the College had annual commitments under non-cancellable operating leases as shown:

| | Year ended 31 July 2019 £000 | Year ended 31 July 2018 £000 |
|--|------------------------------------|------------------------------------|
| Land and Buildings | | |
| Payable during the year | 127 | 112 |
| Future minimum lease payment due: | | |
| Not later than 1 year | 131 | 112 |
| Later than 1 year and not later than 5 years | 504 | 446 |
| Later than 5 years | 0 | 112 |
| Total lease payments due | 635 | 670 |
| Other | | |
| Payable during the year | 138 | 104 |
| Future minimum lease payment due: | | |
| Not later than 1 year | 84 | 80 |
| Later than 1 year and not later than 5 years | 71 | 45 |
| Later than 5 years | 0 | 0 |
| Total lease payments due | 155 | 125 |

22. Losses and Special Payments

There were no amounts written off during the year in respect of losses and special payments.

23. Post Balance Sheet Events

There were no post balance sheet events.

24. Related Party Transactions

Due to the nature of the College's operations and the composition of its Board of Management (being drawn from local and private sector organisations), it is possible that transactions may take place with organisations in which a member of the College Board may have an interest. All transactions involving organisations in which a member of the Board of Management or a key Manager of the College may have a material interest are conducted at arm's length in accordance with normal project and procurement procedures, and subject to the College's Conflict of Interest procedures.

We have reviewed all transactions and identified below those related party transaction that could be considered material to either party.

| Member | Organisation | Position |
|---------------|---------------------|-----------------|
| J McGillivray | Highland Council | Councillor |

Income transactions totalling £4,399 and expenditure transactions totalling £30,367 were made with Highland Council. At 31st July 2019 our Highland Council creditor balance was £0 and debtor balance was £0.

Notes to the Financial Statements (continued)

The volume of voluntary commitment made was considerable and is greatly appreciated.

The Board of Management of The North Highland College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by the Scottish Funding Council (SFC). SFC is regarded as a related party. During the period North Highland College had various material transactions with SFC and with other entities for which SFC is regarded as the sponsor department e.g. Student Awards Agency for Scotland.

During the period the College had various material transactions with the University of the Highlands & Islands, being the Regional Strategic Body. The University of the Highlands & Islands was designated a higher education institute in April 2001 and received funding from the Scottish Funding Council from 1 July 2002. The College receives funding for higher education activity through the University of the Highlands & Islands, and FE funding through it being the Regional Strategic Body.

During the period the College also had material transactions with Argyll College. This is a collaborative partnership between The North Highland College and Argyll College. The Scottish Funding Council provided North Highland College with funding for Further Education delivery for it and Argyll College, and accounts to the SFC for the fundable Credits activity. During 2018/19 the SFC changed the funding arrangements so that Argyll College's funding was paid directly by UHI to Argyll College as an assigned college, and payments to North Highland College were reduced accordingly.

25. Bursaries and Other Student Support Funds

| | 2018/19 | 2018/19 | 2018/19 | 2018/19 | 2017/18 |
|--|------------------------|---------------|----------------|----------------|----------------|
| | FE Bursary £'000 | EMAs £'000 | Other £'000 | Total £'000 | Total £'000 |
| Balance b/fwd | 0 | 0 | 0 | 0 | 65 |
| Allocation received in year | 1,442 | 69 | 148 | 1,659 | 1,629 |
| Expenditure | (1,366) | (69) | (145) | (1,580) | (1,569) |
| Repaid to funding council as clawback | 0 | 0 | 0 | 0 | 0 |
| College contribution to funds | 0 | 0 | 0 | 0 | 0 |
| Intra-region allocations | 0 | 0 | 0 | 0 | 0 |
| Virements | 0 | 0 | 0 | 0 | 0 |
| Balance c/fwd | 76 | 0 | 3 | 79 | 125 |
| Represented by: | | | | | |
| Repayable to funding council as clawback | | | | | (41) |
| Repayable to region | 76 | | 3 | 79 | 166 |
| Retained by college for students | | | | | |

Notes to the Financial Statements (continued)

FE and HE childcare funds

| | 2018/19 £'000 | 2017/18 £'000 |
|--|--------------------------|--------------------------|
| Balance b/fwd | 0 | 7 |
| Allocation received in year | 93 | 136 |
| Expenditure | (93) | (136) |
| Repaid to funding council as clawback | 0 | 0 |
| College contribution to funds Intra-region allocations | 0 | 0 |
| Virements | 0 | 0 |
| Balance c/fwd | 0 | 7 |
| Represented by: | | |
| Repayable to funding council as clawback | 0 | 7 |
| Repayable to region | 0 | 0 |
| Retained by college for students | 0 | 0 |

Notes to the Financial Statements (continued)**2018/19 Accounts direction for Scotland's colleges and Glasgow Colleges' Regional Board**

1. It is the Scottish Funding Council's direction that institutions¹ comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts².
2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.
3. 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).
4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018/19 (FReM) where applicable.
5. 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 2019.
6. 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.
7. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
5 July 2019

¹ The 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.