



**The North Highland College**  
**REPORT AND FINANCIAL STATEMENTS**

for the year ended

31 July 2008

SCOTTISH CHARITY NUMBER SC021215

<b>CONTENTS</b>	<b>PAGE</b>
Operating and Financial Review	1-10
Statement of Corporate Governance	11-15
Statement of responsibilities of the Board of Management	16-17
Independent Auditors' Report to the Board of Management, the Auditor General and the Scottish Parliament	18-20
Income and expenditure account	21
Statement of historical cost surpluses and deficits	22
Statement of total recognised gains and losses	23
Balance sheet	24-25
Cash flow statement	26
Notes on financial statements	27-47

## **NATURE, OBJECTIVES AND STRATEGIES**

### **Legal Status**

The Corporation was established under the Further and Higher Education (Scotland) Act 1992 for the purposes of conducting the North Highland College. The college is a registered charity (Scottish Charity Number SC021215) for the purposes of the Law Reform (Miscellaneous Provision) (Scotland) Act 2005.

The Further and Higher Education (Scotland) Act 1992 transferred the statutory duty for Further Education from Local Authorities to the then Secretary of State for Scotland and is now the responsibility of the Scottish Ministers.

With effect from 1 July 1999 the Scottish Further Education Funding Council became responsible for funding further education in Scotland and was empowered by the 1992 Act. A new Scottish Funding Council was formally established on 3 October 2005. The Council has been established by the Further and Higher Education (Scotland) Act 2005 and replaces the Scottish Further Education Funding Council (SFEFC) and the Scottish Higher Education Funding Council (SHEFC). The Council intends to be known as the Scottish Funding Council (SFC).

Approval was sought and received to alter the College name from Thurso College to the North Highland College on 1 December 1999. The name change reflects the enhanced mission of the College.

The College Board of Management is responsible for the affairs of the College, which include the management of strategic planning, property, finance and human resources; the College Principal as the Accountable Officer and the Board is obliged to discharge its duties in accordance with the Financial Memorandum and other Scottish Funding Council guidance.

### **Scope of the Financial Statements**

The Financial Statements cover all activities of the College.

### **Mission Statement**

The North Highland College will ensure that inclusive and accessible high quality vocational training, life long learning and research opportunities, relevant to the needs of learners, communities and employers, are available across the Highland area.

### **Implementation of Strategic Plan**

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

- The delivery, in partnership with Lochaber College and Skye and Lochalsh Learning Centre, of over 1,100 WSUMS in Lochaber and over 500 WSUMS in Skye for the year 2007-08. With the success of the development of activity in the West over the last couple of years, the SFC has increased activity for 2008-09 to 2,600 WSUMS for Lochaber and 1,080 WSUMS for Skye.
- The purchase of Tern House, Alness which was previously leased. This should be a longer term saving on lease costs. Burghfield House Hotel was also purchased with a view to establishing it as a Training Hotel in the Highlands. Refurbishment of this is due to take place in 2008-09 with a view to opening in the summer of 2009.
- The UHI Centre for History secured funding from Highlands and Islands Enterprise for a period of three years to support the development of the Degree in Scottish History.
- Three ESF bids were successful: ESOL; Skills for Oil and Gas sector; and Leisure, Tourism and Heritage.
- Electronic Procurement was implemented for the Hair and Beauty section of the College, and will be used in 2008-09. The target date for the whole College being EPS compliant is 2010.
- A programme of training for middle managers in the College was undertaken and

successfully delivered.

The strategic objectives for the forthcoming year(s) are as follows:

- To provide access to vocational, educational and research opportunities with clearly identified pathways of progression within a coherent and challenging curriculum framework delivered in an efficient and effective manner to ensure on-going financial security.
- To continue to improve the learning experience through the implementation of enhanced and well informed self-evaluation processes.
- To encourage and support the continuous professional development of staff in order to contribute to the above.
- To continue to deliver a high standard of governance and management to ensure the achievement of corporate objectives.
- To implement a transformational College's Estates Strategy to ensure a Learning, Teaching and Working Environment designed to meet the challenges of a 21<sup>st</sup> Century tertiary institution.
- To work with others to improve access to services by exploring and anticipating the needs of individuals and promote a fully inclusive learning, working and research environment free from any form of discrimination.

#### **Financial Objectives**

Aim 4 of the College's Strategic Plan for 2008-11, *To continue to deliver a high standard of governance and management to ensure the achievement of corporate objectives*, incorporates the financial aim of the College, which is to remain financially secure and create appropriate financial reserves. In order to achieve this, the College will work toward:

- The further development of cost centre budgeting with planned implementation of full economic costing to maximise income and minimise costs.
- The implementation of electronic procurement and further implementation of public procurement strategies.
- The successful delivery of the West Highland partnerships in respect of SFC objectives and appropriate financial management
- Ensuring a sustainable/underlying operating surplus position and integration between College strategies and financial forecasts
- Continuing to secure European funding to support Estate development and curriculum activity by accessing the new Highlands and Islands programme 2008- 2013
- Assisting all sections and research facilities in identifying further sources of income.

#### **Performance Indicators and Activity Review**

A full analysis of College activity is detailed in the College Strategic Plan published as a separate document. Further education activity amounted to 25,194 weighted sums (WSUMs) compared to 23,476 WSUMs in academic year 2006-07. Activity was delivered under the collaborative further education arrangements with Argyll College, Lochaber College and Skye and Lochalsh Learning Centre. WSUMS were as follows:

	Nos
North Highland College	18,412
Argyll College	5,093
Lochaber College	1,178
Skye and Lochalsh Learning Centre	<u>511</u>
	<u>25,194</u>

Higher Education activity continued to grow with fundable education activity, as measured by full time equivalents (FTE's) amounting to 519 FTEs compared with 447 FTEs in 2006-07.

**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 Millennium Institute. The figures for 2003-04 onwards take account of the collaborative arrangement for further education activity with Argyll College and from 2006 - 7 Skye & Lochalsh LCN and Lochaber College.

**Analysis of College Further Education Enrolments 2002-03 to 2006-07**

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Mode of attendance	Count	Count	Count	Count	Count
<b>Full-time</b>	340	371	432	366	364
<b>Short full-time</b>	50	49	72	1,136	967
<b>Part-time</b>	4,535	7,119	6,216	6,645	8,224
	4,925	7,539	6,720	8,147	9,555
Weighted Sums Delivered	19,166	21,240	21,786	20,546	23,476

**Further Education remains the core function for The North Highland College.**

**However, as required by the Scottish Funding Council, the delivery of FE summable activity will remain at its present level over the coming year, with new areas such as an expansion in Engineering and Construction Skills Training accommodated by re-profiling curriculum delivery.**

**Analysis of College Higher Education Enrolments 2002-03 to 2006-07**

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Mode of attendance	Count	Count	Count	Count	Count
<b>Full-time</b>	122	123	165	186	180
<b>Part-time</b>	449	384	580	577	578
<b>Total enrolments</b>	571	507	745	763	758
<b>Total FTEs</b>	229	323	378	423	451

**Student Achievements**

The table below shows student outcomes for students on a FE programme with a national qualification aim. (extracted from SFC Student and Staff performance indicators for Further Education Colleges in Scotland 2006-07)

	Weighted enrolments 2006-7	College PI 2006-7
FE enrolments on programmes with a national qualification aim.	12,760	
Total enrolments for students completing programme	11,169	88%
Successful or progressing to the next year	8,668	78%
Progressing to the next year	1,934	17%
Not gaining award but may have achieved partial success	1,448	13%
Completing programme which is not designed to be assessed	0	0%
Completed programme, not assessed but designed to be.	1,053	9%

**Continuous Professional Development of Staff**

**NHC Policy on Professional Development Programmes**

Over the past few years the number of programmes for Professional Development in Learning, Teaching & Assessment practice provided to staff has increased significantly. The College now provides six different categories of certificated programmes and it is envisaged that this number will increase particularly as new Professional Development Awards are validated by the SQA. The increase in development opportunities available has been matched by an increase in the number of staff participating on such development programmes. Whilst success rates on these programmes have generally been good there is now a need for the support for all of these programmes to be defined in a College Policy Statement. The Policy Statement and associated Learning Agreement document provides clear guidance to staff on these matters and in particular defines the respective responsibilities of the College, the line manager and the member of staff undertaking a course of study.

Examples of specific staff development programmes are noted below.

**Use of ICT in Learning and Teaching**

As part of the College's new policy a new system is being implemented whereby Staff Development support will be provided through NHC On-line. Arrangements are in hand to enable a member of staff from NHC On-line to become qualified as an SFEU associate mentor in this area.

**NHC Management Development Programme: SCoPE**

The College intends to make use of the SFEU SC0PE (Scotland's Colleges Professional Enhancement) programme as a follow-up to last year's internal management development programme.

**SFEU Communities of Practice Programme 2008-9**

The College will continue to send the Section Leader Marketing and the Secretary to the Board to relevant Community of Practice events organised by the SFEU.

**Library Training**

The UHI Library Team paid for a member of staff from each UHI partner college to attend a training session on the UHI Library System. The event was held at Highland Theological College in Dingwall from 11th to 14th August 2008.

**Employer Engagement**

The table below shows collated information gained via an annual Employer Survey. The full survey is published as a separate document and is published on the College's website.

<b>Year</b>	<b>Very Good</b>	<b>Good</b>	<b>Fair</b>	<b>Unsatisfactory</b>
<b><i>Overall rating of service received</i></b>				
2006	51%	35%	14%	0%
2007	33%	54%	11%	2%

**FINANCIAL POSITION**

**Financial Results**

In accordance with best practice, the College has implemented the requirements of Financial Reporting Standard 17: Retirement Benefits (FRS 17). After adjustment has been made for the requirements of FRS 17, the Income and Expenditure account for the year 2007-08 showed an operating surplus of £68,000 but after adjusting for the effect of depreciation on revalued fixed assets, the historical cost surplus amounted to £129,000. The College Income and Expenditure account including the FRS 17 pension liability amounts to £416,000.

Cash at bank and in hand at 31 July 08 amounted to £1.379 million.

**Charitable and Tax Status**

The College is registered with the Office of the Scottish Charities Regulator as a Scottish Charity and is exempt from Corporation and Capital Gains Tax. The College receives no similar exemption in respect of Value Added Tax.

**Treasury Policies and Objectives**

The College's Treasury policy has been to be more active in securing a higher return for surplus funds, without exposing these funds to too great a risk. Given the recent state of British and International banks this has been a more difficult year in making decisions that minimise risk.

**Cash Flows**

The College secured a loan of £1.75 million to purchase Tern House, Alness and to refurbish Burghfield House Hotel, Dornoch, which was acquired with grant monies. The refurbishment of Burghfield House Hotel is due to take place in financial year 2008-09.

**Liquidity**

There is a higher level of debt outstanding at 31 July 08 than in previous years. This relates mostly to outstanding grant claims. This has been offset in some measure by the SFC allocating to colleges in advance monies for Estates and Maintenance. Also the College received the property loan above, contributing to short term liquidity.

**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 2.25% (2007 4%) of the aggregate purchases invoiced during the year.

**CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE**

**Student Numbers**

Student numbers excluding commercial short courses were as follows for the year ended 31 July 08:-

FE			HE		
Full Time	Part Time	Total	Full Time	Part Time	Total
<u>382</u>	<u>8,774</u>	<u>9,156</u>	<u>201</u>	<u>790</u>	<u>991</u>

**Curriculum Developments**

The College is a tertiary education provider and will make extensive use of the Scottish Certification and Qualification Framework (SCQF) at all levels from 1-12. This will ensure that all learners from school age to those on post-graduate programmes will receive recognition for the education, training, including relevant work-based activity. All existing College programmes allow for learner progression, however the introduction of shorter programmes Scottish Progression Awards (SPAs) and Professional Development Awards (PDAs) to allow for career changes and re-training, already available in Tourism Science & Engineering, will be more extensively used. The philosophy of delivering Further & Higher education within a realistic work environment and co-locating this with research active teams will inform all future development programmes.

As an example, further funding has been agreed from Highlands and Islands Enterprise to support the development of the Degree in Scottish History. This has meant the employment of a second History lecturer, as well as the development of module materials prepared by leading academics from a number of universities. This is now the second year of the degree programme.

**Post Balance Sheet Events**

There are no post Balance Sheet events to disclose.

### **Future Developments**

The Board of Management is committed to a substantial investment programme to widen participation in both Further & Higher Education. This strategy requires both the consolidation of the North Highland College estate in Thurso, Wick, Dornoch and Alness and a close contractual partnership with the local colleges in Argyll, Lochaber and Skye & Wester Ross. This together with further development of ICT supported delivery of the curriculum and infrastructure across the rural Highlands will thus be provided to ensure delivery to hitherto excluded learners as well as greater engagement with school pupils studying on vocational pathways.

An agreement has been reached between the College, SFC, Argyll and Lochaber Colleges and Skye & Wester Ross learning Centres to provide additional summable activity (approx 8,600 – 10,000 SUMs), geographically targeted at these areas. The NHC will manage the delivery of these additional SUMs by contractual arrangement with the 3 areas. Whilst all three area development plans must reflect local area need it is important that, wherever possible, strategic fit with the overall NHC and UHI strategic plans is achieved so that the potential of the partnership and the opportunities afforded are available to all learners.

The delivery of Further Education with pathways to advanced programmes is central to the corporate vision and development strategy for the College. Within the Highlands & Islands the past decade has seen a general decline in unemployment levels as a result of substantial investment within the area, which has been made possible by the EU structural programmes. However, the average GDP for the area is still substantially lower than that of the rest of the country, with much of the workforce in low paid sectors. This informed the decision by the European Commission to include the area within the Structural Programme for Convergence with the EU Accession states. The College will make considerable use of its experience to date in accessing these funds for curriculum and estate developments to widen participation to all learners.

The decision to decommission Dounreay will result in the potential loss of over 2,500 jobs in Caithness alone over the coming 10-20 years. 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 expanded European Union and the rest of the world.

To support the establishment and growth of SMEs for the future within the area both the currency of skills and the associated competence level of the workforce must be raised to at least level III/IV supported by an appropriate educational programme at HNC/SCQF Level 7.

The current situation shows that too many school leavers go straight into low paid employment where they have few chances to develop their skills. Meanwhile, employers find it difficult to fill posts requiring high level skills, which restrict business growth.

It is essential that all learners however remote are well advised with respect to career opportunities, and how they may access the skills necessary to fulfil their personal career aspirations. It is important that all businesses of the area are confident that they will have an adequate supply of employees with the appropriate skills, generic “employability skills”, and attitudinal skills, commitment to lifelong learning, innovation, entrepreneurship, etc., which may be utilised for business development. Thus, they should be assured that opportunities for continual development of these skills are embedded in all programmes offered at all levels. It will be the College’s job to see this is delivered in revised and enhanced curriculum and skills training programmes, coordinating this with our UHI partners and others where relevant.

This requires us to undertake a review of provision followed by a curriculum development plan with strategic fit to the area’s needs together with a delivery strategy which will make the curriculum accessible to all learners.

The College is a tertiary education provider and will make extensive use of the Scottish Certification and Qualification Framework (SCQF) at all levels from 1-12. This will ensure that all learners from school age to those on post-graduate programmes will receive recognition for the education, training, including relevant work-based activity. All existing College programmes allow for learner progression, however the introduction of shorter programmes Scottish Progression Awards (SPAs) and Professional Development Awards (PDAs) to allow for career changes and re-training, already available in Tourism Science & Engineering, will be more extensively used. The philosophy of delivering Further & Higher education within a realistic work environment and co-locating this with research active teams will inform all future development programmes.

***Key Development Activities***

- To assist all sections and research facilities in identifying further sources of income

Research activity will continue to grow over the planning period. It is anticipated that the NHC UHI Centre for History will continue to develop, attracting both public and private sector sponsorship. The UHI Development Trust is providing support to source monies from external funders to assist in the improvement of the stable block at BHH to enable the transformation of this property to house the Centre for History. Funding has already been received for a number of research programmes, e.g. Oral History, Aluminium and Hydro. Work has been undertaken to secure funding for a major piece of research work on the History of Forestry. Support has been provided by HIE for funding for 3 years to assist in the development of the BA History degree programme. The funding will be used to lever in European Funding, which will see the appointment of at least one more lecturer, support from a leading Scottish Historian from Aberdeen University and the development of a summer school programme.

The ERI will have an increasing focus on renewable energy science. Funding will be available under SUPERGEN to provide 4 renewable energy PhD studentships. The ERI will continue to benefit as part of the UHI Advanced Research Capability (ARC) programme funded by European Regional Development Funds, Highlands and Islands Enterprise and SFC. The ARC programme will be completed by the summer of 2009.

The expansion is in line with UHI Millennium Institute's strategic objective for research and knowledge transfer, including increasing critical mass through the appointment of key staff in specific fields and strengthening the equipment base. The overarching objectives remain as previously stated; to invest in research quality, expand applied research, to build capacity, and to develop niche specialities.

- Successful delivery of the West Highland partnerships in respect of SFC objectives and appropriate financial management

North Highland College will ensure that it has the necessary resources to assist partner colleges in the delivery of increased summable activity in Argyll, Lochaber, Skye & Lochalsh and to provide the necessary administrative support in terms of registration, bursary, hardship and childcare requirements.

- Implementation of electronic procurement and further implementation of public procurement strategies

The College has signed an agreement with CAP Gemini to implement an electronic procurement system. This will commence during session 2007-8 and in its initial phase will be implemented in only one section. After review, it is intended to roll-out system implementation to all other sections of the College.

North Highland College is keen to work with Advanced Procurement for Universities and Colleges (APAC) in order to ensure a professional approach to its procurement management.

To date no indication of cost has been provided to colleges for the use of this support but it is hoped that this can be clarified and a satisfactory agreement reached to enable the College to develop this over the next few years.

## **RESOURCES**

The College's Estates Strategy will be informed by the ambitious projects planned by the College during the life of the Strategic Plan 2006-2011 along with remedial works required to the existing Estate to ensure that the College can provide a learning, teaching and working environment which is designed to meet the challenges of a 21<sup>st</sup> century tertiary institution

### The NHC Dornoch Estate expansion

This project is moving on apace, with funding now in place for the first phase of this transformational project. Greater efficiency and return will be achieved if all 3 elements; Training Hotel/FE Centre, Centre for History housed in the stable block, and a student residential block are all taken forward together. This strategy will ensure contractual savings and the maximum draw-down of ERDF from the SDB. A substantial amount of private sector funding along with ERDF will be accessed to fund the renovation of the Stable Block, with further funding anticipated through HIE to fund the necessary work is carried out on refurbishment for the student residencies. It is anticipated that the renovations will be fully completed by session 2010-11.

### Training for the Landbased Sector

The College will continue to lease their premises for their equestrian and gamekeeping programmes for the delivery of intensive training to both full-time and part-time learners. It is now recognised that a number of programmes should be developed to provide progression from the very successful and widely recruited Rural Skills school-link programme across the area. The development of 3 NC programmes will dramatically increase the number of pathways available to learners wishing to secure a career in this important sector. The 3 initiatives previously illustrated (Career Pathways for the Landbased Sector ) are examples only. Over the planning period the College will develop similar pathways across the curriculum range.

### The Barrogill Hall, Wick

This project will enable the College to deliver to the Scottish Government's Vocational Skills agenda by providing vocational skills training in Construction Trades in Wick to both school link pupils and to the wider community. The facility is seen as a feeder to training at a more advanced level through the NSAN. In addition, whilst the bulk of the training delivered in the centre will be aimed at school age pupils, evening classes will also be provided, some at HE level. It is anticipated that the facility will be commissioned during session 2008-09.

### The Centre for Energy & the Environment, Thurso

This project is at the development stage at present. Preliminary discussions have taken place with a number of stakeholders including the SFC, NDA, HIE and Highland Council along with a number of UHI partner colleges. If funding is secured the new complex, which will house a central lecture theatre, classrooms, IT suites, VC suites engineering workshops and hospitality provision, along with the co-location of the College's research centres, would be sited adjacent to the sports ground which separates the College from Thurso High School. Work will continue on this project throughout the lifetime of this Strategic Plan.

## **PRINCIPAL RISKS AND UNCERTAINTY**

The main financial risks to North Highland College's long-term financial stability are cut backs in SFC funding. The recent chaos in the financial markets which is now spreading out to the wider economy means that the College's deficit of its share in Highland Council's Superannuation Fund will have increased. This is a long term liability however, and also there are proposed changes to this scheme from 1 April 2009 which will likely see the College's exposures decrease over the longer term.

## **STAKEHOLDERS RELATIONSHIPS**

The following are North Highland College stakeholders:-

UHI Executive Office

UHI network of Colleges

Highlands and Islands Enterprise

Highland Council

UKAEA and its main contractors

National Skills Academy (Nuclear) and partners in the Scottish hub

The NPP network of pf partners

The Rural Colleges Group

The North Forum

European Partners:

CEA, France

University J F, Grenoble

University of Kaunas, Lithuania

University of Rome

University of Pavia

Verzlunarskoli Islands (The Commercial College of Iceland)

## **EQUAL OPPORTINUITIES AND EMPLOYMENT OF DISABLED PERSONS**

The North Highland College believes that access to education and training is a right for all. The College will actively work towards offering equality of opportunity to all. The College believes that there is a duty for everyone associated with the College and all its activities to play their part in ensuring equality of opportunity. Positive steps will be taken to ensure that no forms of discrimination occur. Anyone who considers that he or she has been unfairly discriminated against, by, or within The North Highland College, shall have a right to raise a complaint through established procedures.

The College is committed to providing all college users under eighteen with a safe, supportive environment within which they can prosper and that protects them from harm, abuse and exploitation.


The College is equally committed to providing staff with an environment in which they can work together to encourage and develop an ethos which embraces difference and diversity and respects the rights of children, young people and adults.

All College Staff Policies and Procedures are reviewed and updated where necessary, to take account of new or emerging legislation.

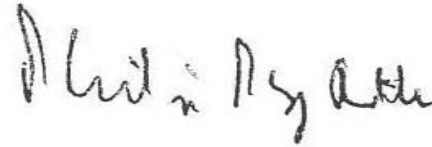
## **DISCLOSURE OF INFORMATION TO AUDITORS**

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 15<sup>th</sup> December 2008 and signed on its behalf  
by:



**R Thompson**  
**Principal**



**P R G Arthur**  
**Chairman**

## **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 principles set out in The Combined Code on Corporate Governance, the purpose being to help the reader of the financial statements understand how the principles have been applied.

## **STATEMENT OF FULL COMBINED CODE COMPLIANCE**

In the opinion of the Board of Management, the College complies with all the provisions of the Combined Code on Corporate Governance, in so far as they apply to the Further Education sector, and it has complied throughout the year ended 31 July 2008.

## **BOARD OF MANAGEMENT**

The College's Board of Management meets six times per year and has several committees; Audit & Assurance Committee, General Purposes Committee, Finance Committee, Nominations Committee, Remuneration Committee, Research Committee and Staffing Committee. All of these Committees are formally constituted with terms of reference. The role of the Board of Management is the strategic overview of the College.

The Audit & Assurance Committee normally meets no less than three times a year, 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 & Assurance Committee. 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 & Assurance Committee as necessary, they are not members of the Committee and once a year the Committee meets the External Auditors on their own for independent discussions.

## **TRANSPARENCY ARRANGEMENTS**

The College conducts its business through a number of committees. Minutes of all full Board of Management meetings are available from the College at:

The North Highland College  
Ormlie Road  
Thurso  
Caithness  
KW14 7EE

The College also maintains a register of interests of the members of the Board of Management. The register is available for inspection at the above address or on the College website at [www.nhscotland.com](http://www.nhscotland.com)

## **MEMBERS OF THE BOARD OF MANAGEMENT**

The Board of Management comprised of the following members during the period:

Mr P R G Arthur	Chairman / Chair - Remuneration and Nominations Committees / Ex-officio Member of Audit & Assurance, Finance, General Purposes and Staffing Committees
Mr W Bruce	Chair Research Committee, Member General Purposes Committee, Member Audit & Assurance Committee, Member Remuneration and Nominations Committees
Mrs J G Bundy	Vice Chair /Chair - Staffing Committee, Member of Audit & Assurance Committee, Member Remuneration and Nominations Committees
Mrs J Campbell	Member of General Purposes Committee (resigned Dec '07)
Mr C Gregory	CASE Nominated Representative / Member of Finance Committee (Resigned March '08)
Mrs S Henderson	Member of Staffing Committee
Mr J F Jackson	Member of Staffing Committee (Resigned Dec '07)
Dr P Monaghan	Member of Finance Committee
Mr J Munro	Academic Staff Representative, Member of General Purposes Committee
Mrs S MacCaughey	Student Representative, Member of General Purposes Committee
Mrs A MacConnell	Chair of Audit & Assurance Committee, Member of Research Committee, Member Remuneration and Nominations Committees
Mrs A Swanson	Support Staff Representative / Member of General Purposes Committee
Mr T Sayles	Chair - General Purposes Committee/ Member of Audit & Assurance Committee, Member Remuneration and Nominations Committees
Mrs C Whitfield	Chairman - Finance Committee / Member of Audit & Assurance Committee, Member Remuneration and Nominations Committees
Mrs R Thompson	Principal and ex-officio member of Finance, Staffing and General Purposes Committees

Mrs J Campbell, Mr J F Jackson and Mr C Gregory resigned from the Board during Financial Year 2007-8. Mr W Bruce, Mr P Monaghan and Mr J Munro joined the Board during the same Period.

Ms Margaret Rose acts as Clerk to the Board of Management.

## **ROLE OF COMMITTEES OF THE BOARD OF MANAGEMENT**

### General Purposes Committee

Consider/approve key developments and initiatives within the College relating to the following areas -

- estates and facilities management
  - management of health & safety
  - marketing
  - quality management
  - liaison with external agencies
  - student services.
- 
- Consider/approve allocation of the estates capital formula funding on an annual basis prior to referral to the Finance Committee.
  - Consider/approve any college developments and initiatives not covered by 1) and, in addition, are not covered by the remits of either the Finance Committee or the Staffing Committee.
  - Evaluate the operations of matters contained in items 1), 2) and 3) above against the context of the College's strategic plan.

### Staffing Committee

The duties of the Committee rest in the following areas -

Staff Development – the Committee shall:

- On behalf of the BoM, monitor the college structure and staffing profile, in terms of its appropriateness for the effective and efficient delivery of the College's strategic objectives;
- On behalf of the BoM, monitor the College's staffing development programme within the context of the College's strategic plan.

Human Resource Management – the Committee shall:

- Monitor the College's compliance with the statutory requirements relating to both UK and EU employment legislation;
- Monitor the College's compliance with best personnel and human resource practise in line with IPD and ACAS guidelines.

#### Finance Committee

The duties of the Committee shall be:

- to advise the BoM with regards to the College and its subsidiaries' compliance with all statutory requirements relating to the college/subsidiary accounts and application of appropriate best practice in accounting procedures;
- to establish financial performance targets and to monitor the performance of the College and its subsidiaries against these targets;
- to advise the BoM that the allocation of resources is in accordance with college/subsidiary priorities as defined in the strategic plan;
- to approve amendments to the levels of course fees, as appropriate;
- to approve amendments to the Fee Waiver Policy;
- to advise the BoM that 'Value For Money' is obtained by evaluating the outcome of each VFM study.

#### Audit & Assurance Committee

The duties of the Committee shall normally include:

- reviewing the processes for auditing the effectiveness of all internal control and financial systems;
- advising the Board on the criteria for the selection and appointment of the internal auditor;
- reviewing the scope and effectiveness of internal audit work including planning and operation of the work and the internal audit annual report;
- ensuring the College has systems and procedures to promote economy, efficiency and effectiveness and that activities are managed in accordance with legislation and regulations - this may require identifying specific value for money studies;
- considering the College and its subsidiaries' annual financial statements after review by the Finance Committee and prior to submission to the Board, focussing in particular on any changes in accounting policy, major judgmental areas, significant audit adjustments, the going concern assumption and compliance with accounting standards and the Accounts Direction;
- reviewing the external auditor's Management Letter and management's response and having direct access to the external auditor;
- reviewing relevant reports from the SFC, Audit Scotland and other organisations;
- monitoring the performance and effectiveness of external and internal audit;
- carrying out an audit needs assessment for the College and drawing up a risk register and, from that, determining the audit programme;
- ensuring a system of risk management has been established and is being

maintained.

- Monitoring the arrangements by which staff can raise concerns about possible improprieties in matters of financial reporting or other matters, in confidence (Public Interest Disclosures Act 1998 -Whistleblowing), ensuring that proportionate and independent investigation of such matters can take place and the appropriate follow-up action taken.
- monitoring the implementation of the College's ICT Security Policy;
- such advice to the BoM as the Committee considers appropriate.

For additional guidance, see Annex B of the SFC 'Code of Audit Practice', the FRC Combined Code on Corporate Governance and the ASC Guide for College Board Members. The A&A Committee shall ensure that all significant losses have been properly investigated.

#### Research Committee

On behalf of the Board of Management the duties of the Committee shall be to:

- Consider/approve key developments and initiatives within the College relating to Research activity.
- Evaluate the operations of research matters against the context of the College's strategic plan.

#### Nominations Committee

The duties of the Committee rest in the following areas: nominating to the Board such individuals as it considers right and proper to become members of the BoM within the framework of the Standing Orders of the BoM, taking account of;

- the composition and balance of the BoM
- any skills gaps identified by the BoM
- existing and proposed governance requirements and best practice

#### Remuneration Committee

The Committee shall determine and review the structure of the Senior Management Team and the remuneration package offered. The SMT comprises, The Principal, Depute Principal, Assistant Principals and Director of Finance, 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 on at least twice annually to consider establishment of the College's strategic plan, with monitoring against targets undertaken throughout the planning period.

### **BOARD'S STATEMENT ON 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.

The Board of Management is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place since August 2000 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board of Management and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for Further and Higher education.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training.

The Register of Strategic Risks will be reviewed over the summer recess by the senior management team and presented to Audit & Assurance Committee for approval during the first Board cycle of session 2008-9.

The senior management team and the Audit & Assurance Committee also receive regular reports from the internal audit and 'Health, Safety and the Working Environment monitoring' functions, which include recommendations for improvement.

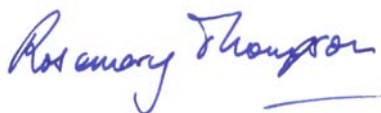
The Audit & Assurance Committee's role in this area is confined to a high level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit & Assurance Committee.

On 22<sup>nd</sup> October 2007 Mr Martin Fairbairn, Director of Governance & Management at the SFC, visited the College to deliver a presentation on Governance to the Board of Management. Areas covered in his presentation included, The Council, available guidance and governance, benchmarking, behaviours, Board agenda, and the key challenges. The Chairman of the Board then led a session on the Role of the Board. Both of the sessions were found to be informative and useful for members. A Strategic Planning and Review exercise was undertaken in May 2008 where the College's progress toward targets set in the Strategic Plan 2007-10 were reviewed. From the planning exercise, a new College Strategic Plan for 2008-11 was drawn up, taking account of specific Scottish Government and SFC priorities and guidance, with respect to widening participation and the Skills Strategy for Scotland.

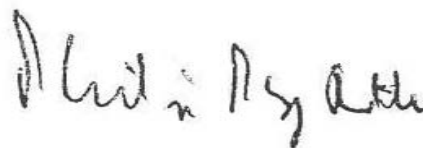
#### **GOING CONCERN**

The Board of Management considers that the College has adequate resources to continue in operational existence for the foreseeable future.

Approved by order of the members of the Board on 15<sup>th</sup> December 2008 and signed on its behalf by:



**R Thompson**  
**Principal**



**P R G Arthur**  
**Chairman**

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 enable it 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 Scottish Funding Council (SFC) 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.

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 statement; 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 is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

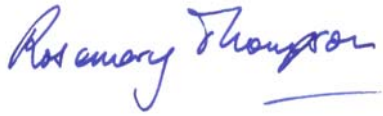
- ensure that funds from the Scottish Funding Council are used only for the purposes that they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions that the SFC may from time to time prescribe;
- ensure that there are appropriate financial and management 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:

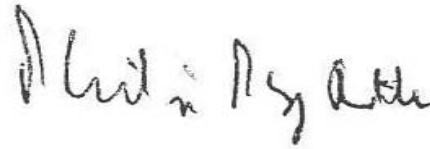
- clear definitions of responsibilities of, and the authority delegated to, College managers;
- a comprehensive planning process supplemented by detailed annual income, expenditure, and capital budgets;
- regular reviews of key performance indicators and business risks and monthly financial results involving 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 and General Purposes Committee; and
- a professional internal audit service whose annual programme is established by the Audit & Assurance Committee and 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.

Approved by order of the members of the Board on 15<sup>th</sup> December 2008 and signed on its behalf by:



**R Thompson**  
**Principal**



**P R G Arthur**  
**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**

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We have audited the financial statements of North Highland College for the year ended 31 July 2008 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to North Highland College and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body.

To the fullest extent permitted by law, we do not accept any responsibility to anyone other than North Highland College or the Auditor General for Scotland, for this report or the opinions we have formed.

#### **Respective responsibilities of the Board of Management, Principal and auditor**

The Board of Management and the Principal are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Report of the Board of Management is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for my audit. We also report whether in all material respects:-

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we

### **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**

considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Management and Statement of the Board of Management's Responsibilities for the Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

##### *Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2008 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

##### *Regularity*

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the

# The North Highland College

## INDEPENDENT AUDITORS' 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**

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Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and

- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

*Tenon Audit Limited*

*5 Kings Place,  
Perth,  
PH2 8AA.*

*Date: 18<sup>th</sup> December 2008*

**The North Highland College**  
**INCOME AND EXPENDITURE ACCOUNT**  
for the year ended 31 July 2008

	Note	<b>2008</b> £'000	<b>2007</b> £'000
<b>INCOME</b>			
SFC grants	2	6,289	6,005
UHIMI grants	3	1,760	1,710
Education contracts	4	237	115
Tuition fees and charges	5	805	738
Other grant income	6	1,533	1,844
Other operating income	7	799	596
Investment income	8	172	97
<b>TOTAL INCOME</b>		<b>11,595</b>	<b>11,105</b>
Less:			
<b>EXPENDITURE</b>			
Staff costs - ongoing	9 and 11	6,428	6,078
Other operating expenses	11	4,522	4,202
Depreciation	11 and 15	504	372
Interest payable	11 and 12	73	11
<b>TOTAL EXPENDITURE</b>		<b>11,527</b>	<b>10,663</b>
<b>SURPLUS/ (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF TANGIBLE FIXED ASSETS AT VALUATION AND BEFORE TAX</b>			
		<b>68</b>	<b>442</b>
Taxation	13	-	
<b>SURPLUS / (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAX</b>			
	14	<b>68</b>	<b>442</b>

The income and expenditure account is in respect of continuing activities.

# The North Highland College

## STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS for the year ended 31 July 2008

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	Note	2008 £'000	2007 £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax	14	68	442
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	23	61	61
		—	—
<b>HISTORICAL COST SURPLUS FOR THE YEAR BEFORE TAXATION</b>		<b>129</b> ===	<b>503</b> ==
<b>HISTORICAL COST SURPLUS FOR THE YEAR AFTER TAXATION</b>		<b>129</b> ===	<b>503</b> ===

# The North Highland College

## STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 July 2008

	Note	2008 £'000	2007 £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax		68	442
Actuarial Gain/(Loss) recognised		(828)	721
		—	—
<b>TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR</b>		<b>(760)</b>	<b>1,163</b>
		—	—
<b>TOTAL RECOGNISED GAINS/(LOSSES) SINCE LAST FINANCIAL STATEMENTS</b>		<b>(760)</b>	<b>1,163</b>
		=====	=====
<b>RECONCILIATION</b>			
Opening Reserves as previously reported		3,893	2,730
Total recognised Gains/(Losses) for the year		(760)	1,163
		—	—
<b>CLOSING RESERVES</b>	23	<b>3,133</b>	<b>3,893</b>
		=====	=====

# The North Highland College

## BALANCE SHEET

31 July 2008

	Note	2008 £'000	2007 £'000
<b>FIXED ASSETS</b>			
Tangible Assets	15	9,460	7,342
Investments	16	0	0
		<u>9,460</u>	<u>7,342</u>
<b>CURRENT ASSETS</b>			
Stock	17	4	3
Debtors	18	1,188	920
Cash at Bank and in hand		1,379	973
		<u>2,571</u>	<u>1,896</u>
<b>CREDITORS</b>			
Amounts falling due within One Year	19	(761)	(772)
<b>NET CURRENT ASSETS</b>		<u>1,810</u>	<u>1,124</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,270</b>	<b>8,466</b>
<b>CREDITORS</b>			
Amounts falling due after more than One Year	20	(1,733)	(157)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
	21	(680)	(657)
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<b>8,857</b>	<b>7,653</b>
<b>PENSION LIABILITY</b>		<u>(1,127)</u>	<u>(359)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u><b>7,730</b></u>	<u><b>7,294</b></u>

# The North Highland College

## BALANCE SHEET

31 July 2008

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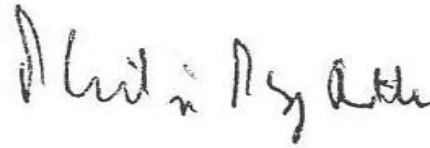
### RESERVES

		<b>2008</b>	<b>2007</b>
		£'000	£'000
Deferred Capital Grants	22	<b><u>4,597</u></b>	<b><u>3,399</u></b>
Revaluation Reserve	23	2,497	2,558
Designated Reserve	23	220	220
Income and Expenditure account including Pension Liability	23	<u>416</u>	<u>1,115</u>
Total Reserves		<b>3,133</b>	<b>3,893</b>
<b>TOTAL RESERVES</b>		<b><u>7,730</u></b>	<b><u>7,293</u></b>

The financial statements on pages 13 to 38 were approved by the Board of Management and signed on its behalf by:



**R Thompson**  
Principal



**P R G Arthur**  
Chairman

# The North Highland College

## CASH FLOW STATEMENT for the year ended 31 July 2008

	Note	2008 £'000	2007 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>26</b>	(173)	370
Returns on investment and servicing of finance	27	99	39
Capital Grants / (expenditure)	27	(1,102)	(63)
Financing	27	1,582	(17)
		—	—
<b>INCREASE IN CASH</b>		406	329
		=====	===
<b>RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT</b>			
Increase in Cash in the year	28	406	329
Cashflow from decrease in debt	28	(1,584)	17
		—	—
<u>Movement in net funds in the year</u>		<u>(1,178)</u>	<u>346</u>
Net funds at 1 August 2007		807	461
		—	—
Net funds at 31 July 2008		(371)	807
		=====	===

### 1. 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 (2007).

#### BASIS OF ACCOUNTING

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

#### RECOGNITION OF INCOME

The main annual recurrent allocation from SFC, which is intended to meet recurrent costs, is credited direct to the Income and Expenditure Account.

Income from research grants, contracts and other services rendered is recognised in the Income and Expenditure account in proportion to the extent of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Non-recurrent grants from the SFC or any other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

All income from short-term deposits is credited to the Income and Expenditure Account in the period in which it is earned.

#### PENSION SCHEMES

The College participates in two multi-employer defined benefit pension schemes.

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 17 'retirement benefits', 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 pension provision shown in the Balance Sheet has been calculated in accordance with instructions issued by the Scottish Funding Council, using an updated set of actuarial factors that reflect a trend of increased life expectancy.

Administrative and support staff may join the Local Government Pension Scheme (LGPS) which is administered by Highland Council. The fund is a defined benefit pension scheme, providing benefits based on final pensionable pay, which is contracted out of the State Earnings-Related Pension Fund. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

#### TANGIBLE FIXED ASSETS

a. Land and Buildings

The transitional rules set out in FRS15 'Tangible Fixed Assets' have been applied on implementing FRS15. Accordingly, the book values at implementation have been retained.

Land and Buildings inherited from the Local Authority are stated in the Balance Sheet at a Valuation less amounts written off by way of Depreciation. They have been valued at Depreciated Replacement Cost on an existing use basis, which is considered to be equivalent to Open Market Value on an existing use basis. Freehold land is not depreciated.

Land and Buildings acquired since incorporation are included in the Balance Sheet at cost.

b. Plant and equipment

Plant and equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

c. Computer equipment and motor vehicles

Computer equipment and motor vehicles costing less than £2,500 per individual item is written off to the income and expenditure account in the period of acquisition. All other computers and vehicles are capitalised at cost.

Depreciation of Fixed Assets is charged by equal 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, which are as follows:

Freehold Buildings	10 - 60 years
Plant and Equipment	3 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 a Deferred Capital Grant Account and are released to the Income and Expenditure Account 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.

### ASSETS UNDER CONSTRUCTION

Buildings under construction are accounted for at cost, based on the value of architects certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

### SUBSEQUENT EXPENDITURE ON EXISTING FIXED ASSETS

Where significant expenditure is incurred on tangible fixed assets, it is charged to the income and expenditure account 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

### LEASED ASSETS

Costs in respect of Operating Leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in Fixed Assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and Expenditure Account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

### INVESTMENTS

Fixed Asset Investments are carried at historical cost 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. Where necessary, provision is made for obsolete, slow moving and defective stocks.

### MAINTENANCE OF PREMISES

The cost of routine corrective maintenance is charged to the income and expenditure account in the period in which it is incurred.

### 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 income and expenditure account in the period in which they arise.

### TAXATION

As a registered charity the College benefits by being broadly exempt from Corporation Tax on income it receives from Tuition Fees, Interest and Rents.

The College is exempted from levying VAT on most of the services it provides to students. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

### 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 12 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 account 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 Income and Expenditure Account, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and these funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College Income and Expenditure Account.

<b>2. SFC GRANTS</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
Recurrent Grant	5,294	4,895
Childcare	0	38
Release of Deferred Capital Grants (SFC)	87	62
Estates Grant	224	301
Other SFC Grants	<u>684</u>	<u>709</u>
	<b>6,289</b>	<b>6,005</b>
	=====	=====
<b>3. UHIMI GRANTS</b>		
Recurrent Grant	1,456	1,370
Other UHIMI Grants	304	340
	<u>      </u>	<u>      </u>
	<b>1,760</b>	<b>1,710</b>
	=====	=====
<b>4. EDUCATION CONTRACTS</b>		
Other Non – SFC Funded Tuition	<b>237</b>	<b>115</b>
	=====	=====
<b>5. TUITION FEES AND CHARGES</b>		

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

Further education – Home and EU	373	321
Higher education – Home and EU	350	309
LEC Contracts	82	108
	<b>805</b>	<b>738</b>
	=====	=====
<b>6. OTHER GRANT INCOME</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
European Funds	290	1,030
Other Funds	979	610
Student Allowances - LEC contracts	28	24
Release of Deferred Capital Grants (other)	236	180
	<b>1,533</b>	<b>1,844</b>
	=====	=====
<b>7. OTHER OPERATING INCOME</b>		
Residences and Catering	124	116
Other Income Generating Activities	395	325
Other Income	280	155
	<b>799</b>	<b>596</b>
	=====	=====
<b>8. INVESTMENT INCOME</b>		
Other Interest Receivable	100	50
Net return on Pension Asset / Liability	72	47
	<b>172</b>	<b>97</b>
	=====	=====
<b>TOTAL</b>	<b>11,595</b>	<b>11,105</b>
	=====	=====

## 9. STAFF

### STAFF NUMBERS

The average monthly number of persons (including senior post-holders) employed by the college during the year, expressed as full-time equivalents, was:

	<b>2008</b>	<b>2007</b>
	Number	Number
Senior management	5	5
Teaching staff	97	91
Teaching support	44	63
Administration and central services	39	37
Premises	15	11
Other income generating activities	12	16
Catering and residences	4	4
	<b>216</b>	<b>227</b>
	=====	=====

Analysed as:

Staff on permanent contracts	147	169
Staff on temporary contracts	69	58
	—	—
	<b>216</b>	<b>227</b>
	=====	=====

<b>2008</b>	<b>2007</b>
£'000	£'000

STAFF COSTS

Staff costs for the above persons.

Wages and salaries	5,400	5,221
Social security costs	394	380
Other pension costs	634	477
	—	—
	<b>6,428</b>	<b>6,078</b>
	=====	=====

Senior management	358	304
Teaching staff	3,305	3,008
Administration and central services (including Teaching Support & Research)	2,105	2,138
Premises	292	176
Other income generating activities	310	393
Catering and residences	58	59
	—	—
	<b>6,428</b>	<b>6,078</b>
	=====	=====

Analysed as:

Staff on permanent contracts	4,392	4,861
Staff on temporary contracts	2,036	1,217
	—	—
	<b>6,428</b>	<b>6,078</b>
	=====	=====

10. EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF

EMOLUMENTS OF THE BOARD OF MANAGEMENT

Emoluments of the Board of Management including pension contributions, benefits in kind and bonuses but excluding the salaries of Employee Board members for normal staff duties amounted to:

	<b>2008</b>	<b>2007</b>
	£'000	£'000
Travel and subsistence paid to Board Members	<b>2</b>	<b>5</b>
	===	===

The number of staff, including Senior Post holders and the Principal, who received

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

emoluments in the following ranges was:

	2008		2007	
	Number Senior Post- holders	Number Other Staff	Number Senior Post- holders	Number Other Staff
£50,001 - £60,000	1	-	3	-
£60,001 - £70,000	2	-	1	-
£70,001 - £80,000	1	-	1	-
£80,000 - £90,000	1	-	-	-
Senior Post-holders emoluments:-			<b>2008</b> Nos	<b>2007</b> Nos
The number of senior post-holders, including the Principal was:			<u>5</u>	<u>5</u>
The emoluments paid were as follows:			<b>2008</b> £'000	<b>2007</b> £'000
Salaries			287	254
Pension contributions			<u>44</u>	<u>37</u>
<b>Total Emoluments</b>			<b>333</b> =====	<b>291</b> =====

The above emoluments include amounts payable to the College Principal, who is also the highest paid senior post-holder, of:

Salaries	76	67
Pension contributions	13	11
<b>Total Emoluments</b>	<b>89</b> ===	<b>78</b> ===

The pension contributions in respect of the Principal and Senior Post-Holders are in respect of Employer's contributions to the Local Government Superannuation Scheme and Scottish Teacher Superannuation Scheme. The College's contribution to the scheme is paid at the same rate as for other members of staff.

## 11. ANALYSIS OF EXPENDITURE

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

	Staff costs £'000	Other operating expenses £'000	Depreciation £'000	Interest payable £'000	Total £'000	2007 £'000
Teaching Activities	3,305	3,077	311	-	6,693	5,734
Residences and Catering	58	90	-	-	148	141
Other Income Generating Activities	310	79	-	-	389	449
Premises	292	659	175	73	1,199	1,172
Administration	2,463	499	18	-	2,980	3,056
Other Expenses	-	118	-	-	118	111
	<b>6,428</b>	<b>4,522</b>	<b>504</b>	<b>73</b>	<b>11,527</b>	<b>10,663</b>

**2008**  
£'000                      **2007**  
£'000

Other operating expenses include:

Auditors' remuneration (including irrecoverable VAT)

- Internal Audit	3	16
- External Audit	15	16
Hire of Other Assets - Operating Leases	222	282

Included in other operating expenses is an additional Pension Provision of £72,144 required in respect of future pension costs arising from early retirement. Details of the basis of this provision are given at Note 21.

<b>12. INTEREST PAYABLE</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
On Bank Loans, Overdrafts and Other Loans:		
Repayable within 5 years	7	11
Repayable wholly or partly in more than 5 years	66	-
On finance leases	-	-
Net return on pension assets / liabilities	-	-
	<b>73</b>	<b>11</b>
	===	===

### 13. TAXATION

The Board does not consider that the College was liable for any Corporation Tax arising out of its activities during the year.

<b>14. SURPLUS / (DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
Income and Expenditure Account	<b>68</b>	<b>442</b>
	===	===

### 15. TANGIBLE FIXED ASSETS

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

	Land & Buildings £'000	Computer Equipment £'000	Plant & Equipment £'000	Motor Vehicles £'000	Total £'000
<b>COST OR VALUATION</b>					
Balance Brought Forward	9,836	970	1,295	89	12,190
Additions	2,015	100	507	-	2,622
	-----	-----	-----	-----	-----
<b>At 31 July 2008</b>	<b>11,851</b>	<b>1,070</b>	<b>1,802</b>	<b>89</b>	<b>14,812</b>
	-----	-----	-----	-----	-----
<b>DEPRECIATION</b>					
Balance Brought Forward	2,730	939	1,119	60	4,848
Charge for year	175	53	267	9	504
	-----	-----	-----	-----	-----
<b>At 31 July 2008</b>	<b>2,905</b>	<b>992</b>	<b>1,386</b>	<b>69</b>	<b>5,352</b>
	-----	-----	-----	-----	-----
<b>NET BOOK VALUE</b>					
<b>At 31 July 2008</b>	<b>8,946</b>	<b>78</b>	<b>416</b>	<b>20</b>	<b>9,460</b>
	=====	====	=====	====	=====
At 31 July 2007	7,106	31	176	29	7,342
	=====	====	=====	====	=====
<b>ANALYSIS</b>					
Inherited	2,915				2,915
Financed by capital grant	4,202	75	307	13	4,597
Other	1,829	3	109	7	1,948
	-----	-----	-----	-----	-----
<b>At 31 July 2008</b>	<b>8,946</b>	<b>78</b>	<b>416</b>	<b>20</b>	<b>9,460</b>
	=====	====	=====	====	=====

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS 15. Accordingly the book values on implementation have been retained. Inherited land and buildings are valued at Depreciated Replacement Cost on an existing use basis, which is considered to be equivalent to open market value on an existing use basis. Inherited land and buildings were valued by Montague Evans, Chartered Surveyors, for the purposes of the 1994 financial statements.

### 15. TANGIBLE FIXED ASSETS (continued)

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

The Net Book Value of Tangible Fixed Assets includes an amount of £0 (2007 - £0) in respect of assets held under finance leases and hire purchase agreements. The depreciation charge on these assets for the year was £0 (2007 - £0).

If Inherited Land and Buildings had not been valued they would have been included at the following amounts:

	<b>2008</b> £'000	<b>2007</b> £'000
Cost	553	553
Aggregate Depreciation based on cost	(135)	(126)
	—	—
<b>Net book value based on cost</b>	<b>418</b> =====	<b>427</b> =====

Assets with a sales proceeds value of £500,000 or less can be disposed of without the prior approval of the Scottish Funding Council.

The Depreciation Charge for the year is analysed as follows:

Depreciation based on cost	434	302
Depreciation based on valuation	70	70
	—	—
	<b>504</b> =====	<b>372</b> =====

### **FUTURE CAPITAL COMMITMENTS**

	<b>2008</b> £'000	<b>2007</b> £'000
Contracted for	2,304 =====	193 =====
Authorised but not contracted for	289 =====	1,704 =====

## **16. FIXED ASSET INVESTMENTS**

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

	£'000
<b>INVESTMENT</b>	<b>Unlisted</b>
<b>COST</b>	
31 July 2007 and 2008	22
	—
<b>PROVISION FOR PERMANENT DIMINUTION IN VALUE</b>	
31 July 2007 and 2008	(22)
	—
<b>NET BOOK VALUE</b>	
31 July 2007 and 2008	-
	====

During the year the College continued its minority shareholding in Caithness Multi Media Limited, a company incorporated in Great Britain and registered in Scotland. The College has retained 22,000 ordinary £1 shares for investment potential out of a total Share Capital of £335,000.

<b>17. STOCK</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
Consumables	<b>4</b>	<b>3</b>
	==	==
<b>18. DEBTORS</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
Amounts Falling Due within one year		
Trade Debtors	120	193
Other Debtors	3	2
Prepayments and Accrued Income	1,065	725
	<b>1,188</b>	<b>920</b>
	=====	=====
<b>19. CREDITORS</b>		
Amounts falling due within One Year	<b>2008</b>	<b>2007</b>
	£'000	£'000
Bank Loans and Overdrafts (see note 20)	17	9
Trade Creditors	69	113
Other Taxation and Social Security	124	132
Accruals and Deferred Income	515	319
Other Creditors	36	199
	—	—
	<b>761</b>	<b>772</b>
	=====	=====

**20. CREDITORS**

Amounts falling due after more than One Year	<b>2008</b> £'000	<b>2007</b> £'000
Bank loans	1,733	157
	—	—
	<b>1,733</b>	<b>157</b>
	=====	=====

Bank Loans, Other Loans and Other Creditors are repayable as follows:

In one year or less (see note 19)	17	9
Between one and two years	37	9
Between two and five years	122	28
In five years or more	1,574	120
	—	—
	<b>1,750</b>	<b>166</b>
	=====	=====

The term loan is held with Lloyds TSB Bank. The principal sum will be repaid in monthly instalments over a twenty five year period at a fixed rate of interest, with interest calculated monthly. The loan is unsecured.

**21. PROVISION FOR LIABILITIES AND CHARGES**

Future pension costs arising from early retirement including Scottish Teachers' Superannuation Scheme	<b>2008</b> £'000	<b>2007</b> £'000
Opening Provision	657	654
Uplift for indexation allowance	14	19
Additional provision	72	35
	743	708
Charged to provision in year	(63)	(51)
Transfer of unfunded LGSS liability to pension (liability) / assets - note 26	—	—
<b>Closing Provision</b>	<b>680</b>	<b>657</b>
	=====	=====

The pension provision has been re-valued using actuarial tables supplied by SFC. The net interest applied was 2%. An additional provision of £72,144 has been made. The additional provision has been charged against other operating costs.

**22. DEFERRED CAPITAL GRANTS**

	<b>SFC</b> £'000	<b>Other</b> <b>Grants</b> £'000	<b>Total</b> £'000
<b>As at 1<sup>st</sup> August 2007</b>			
Land and buildings	675	2,534	3,209
Equipment	72	118	190
	<u>747</u>	<u>2,652</u>	<u>3,399</u>
<b>GRANTS RECEIVABLE</b>			
Land and buildings	571	496	1,067
Equipment	120	333	453
	<u>691</u>	<u>829</u>	<u>1,520</u>
<b>RELEASED TO INCOME AND EXPENDITURE ACCOUNT</b>			
Land and buildings	15	59	74
Equipment	72	176	248
	<u>87</u>	<u>235</u>	<u>322</u>
<b>AS AT 31 JULY 2008</b>			
Land and buildings	1,231	2,971	4,202
Equipment	120	275	395
	<u>1,351</u>	<u>3,246</u>	<u>4,597</u>

**23. RESERVE**

	<b>Revaluation</b> <b>Reserves</b> £'000	<b>Designated</b> <b>Reserves</b> £'000	<b>Income &amp;</b> <b>Expenditure</b> <b>Account</b> £'000	<b>Pension</b> <b>Reserve</b> £'000	<b>Total</b> £'000
Balance Brought Forward	2,558	220	1,474	(359)	3,893
Transfer from Revaluation Reserve to Income & Expenditure Account	(61)	-	61	-	-
Surplus/(Deficit) on continuing activities of Tangible Fixed Assets at valuation			68		68
Actuarial Gain/(Loss) recognised in STRGL				(828)	(828)
Movement			(60)	60	-
Transfer re Designated Reserve					
At 31 <sup>st</sup> July 08	<u>2,497</u>	<u>220</u>	<u>1,543</u>	<u>(1,127)</u>	<u>3,133</u>

**24. FINANCIAL COMMITMENTS**

At 31 July 2008, annual commitments under non-cancellable Operating Leases were as follows:

	<b>2008</b> £'000	<b>2007</b> £'000
<b>LAND AND BUILDINGS</b>		
Expiring within one year	45	105
Expiring within two and five years inclusive	180	331
Expiring in over five years	29	347
	—	—
	<b>254</b>	<b>783</b>
	=====	=====
<b>OTHER</b>		
Expiring within one year	75	51
Expiring within two and five years inclusive	70	41
Expiring in over five years	-	-
	—	—
	<b>144</b>	<b>92</b>
	=====	=====

**25 PENSION AND SIMILAR OBLIGATIONS**

The College's employees belong to two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Local Government Superannuation Scheme (LGSS), which are Defined Benefit Schemes. The STSS is administered by the Scottish Public Pensions Agency. The total pension cost for the period was £654,000 (2007 – £477,000)

Total pension cost for the year

	<b>Year ended</b> <b>31 July 2008</b> £'000	<b>Year ended</b> <b>31 July 2007</b> £'000
STSS : contributions paid	303	265
LGSS : Charge to income and expenditure account	351	212
	—	—
	<b>654</b>	<b>477</b>
	=====	=====

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.

Under the definitions set out in Financial Reporting Standard 17: 'Retirement Benefits', 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.

#### LOCAL GOVERNMENT SUPERANNUATION SCHEME

The Highland Council Pension Fund is a funded Defined Benefit Scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2008 was £482,000 (2007 - £451,000) of which Employer's contributions totalled £351,000 (2007 - £327,000) and Employees' contributions totalled £131,000 (2007 - £124,000). The agreed contribution rate for future years is 17.4% for the Employer and 6% for Employees.

The following information is based upon a full actuarial valuation of the Fund at 31 March 2008 by a qualified Independent Actuary.

#### **Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):**

	<b>2008</b>	<b>2007</b>
Discount rate at 31 July	6.4%	5.8%
Expected return on plan assets	6.4%	5.8%
Future salary increases	5.4%	5.0%
Future pension increases	3.9%	3.5%

#### **Life expectancy from age 65 (years)**

	<b>Manuals</b>	<b>Officers (&amp; post 98)</b>
<i>Non pensioners</i>		
Males	19.32	21.03
Females	22.99	23.86
<i>Pensioners</i>		
Males	19.32	21.03
Females	22.99	23.86

#### **Employee benefit obligations**

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

The amounts recognised in the Balance Sheet are as follows:

<b>Net Pension Asset as at</b>	<b>31 July 2008</b>	<b>31 July 2007</b>	<b>31 July 2006</b>
	£'000	£'000	£'000
Present value of funded obligation	(7,607)	(7,096)	(7,316)
Fair value of scheme assets	<u>6,553</u>	<u>6,811</u>	<u>6,154</u>
<b>Net Liability</b>	<b>(1,054)</b>	<b>(285)</b>	<b>(1,162)</b>
Present Value of Unfunded obligation	(73)	(74)	(77)
Unrecognised past service cost	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deficit</b>	<b>(1,127)</b>	<b>(359)</b>	<b>(1,239)</b>
	=====	=====	=====
<b>Net liability in Balance Sheet</b>	<b>(1,127)</b>	<b>(359)</b>	<b>(1,239)</b>
	=====	=====	=====

### Amounts recognised in the Income and Expenditure account

	<b>Year ended</b>	<b>Year ended</b>
	<b>31 July 2008</b>	<b>31 July 2007</b>
	£'000	£'000
Current Service Cost	351	396
Interest on Obligation	427	379
Expected return on scheme assets	(499)	(426)
Past service cost	-	(183)
Losses/(gains) on curtailments and settlements	<u>17</u>	<u>-</u>
<b>Total</b>	<b>296</b>	<b>166</b>
	=====	=====
Actual return on scheme assets	<u>(642)</u>	<u>633</u>

### Changes in the present value of the defined benefit obligation

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:-

Opening defined benefit obligation	7,170	7,393
Service cost	351	396
Interest cost	427	379
Actuarial losses/(gains)	(312)	(514)
Losses/(gains) on curtailments	17	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Estimated benefits paid (net of transfers in)	(97)	(418)
Past service cost	-	(183)
Contributions by scheme participants	129	121
Unfunded pension payments	<u>(5)</u>	<u>(4)</u>
<b>Closing defined benefit obligation</b>	<b>7,680</b>	<b>7,170</b>
	=====	=====

### Changes in the fair value of scheme assets

Reconciliation of opening and closing balances of the fair value of scheme assets:-

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

Opening fair value of Scheme assets	6,811	6,154
Change in asset valuation	(11)	-
Expected return on Scheme assets	499	426
Actuarial gains and (losses)	(1,141)	207
Contributions by employer	363	325
Contributions by Scheme participants	129	121
Assets acquired in a business combination	-	-
Estimated benefits paid (net of transfers in)	(97)	(422)
Receipt of bulk transfer value	-	-
<b>Fair value of Scheme assets at end of period</b>	<b>6,553</b>	<b>6,811</b>
	=====	=====

### The major categories of scheme assets as a percentage of total scheme assets are as follows

	31 July 2008		31 July 2007	
	%	£'000	%	£'000
Equities	68.9	527,761	71.4	592,812
Gilts	8.9	68,365	7.9	65,742
Other Bonds	8.7	66,593	7.4	61,565
Property	11.4	87,263	11.7	96,104
Cash	<u>2.1</u>	<u>15,738</u>	<u>1.6</u>	<u>13,591</u>
<b>Total</b>	<b>100</b>	<b>765,720</b>	<b>100</b>	<b>829,814</b>
	===	=====	===	=====
Mid Market Value		<u>766,916</u>		<u>832,068</u>

### Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)

	2008	2007
	£'000	£'000
Actual Return less expected return on Pension Scheme Assets	(1,140)	207
Experience Gains and Losses arising on the Scheme liabilities	0	0
Change in Financial and Demographic assumptions underlying the scheme liabilities	312	514
	—	—
<b>Actuarial loss recognised in STRGL</b>	<b>(828)</b>	<b>721</b>
	=====	=====

### Movement in (Deficit) during Year

Deficit in scheme at Beginning of Year	(359)	(1,239)
--	-------	---------

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2008 (continued)

Movement in Year:		
Current Service Charge	(351)	(395)
Contributions	368	324
Past Service Costs	-	183
Impact of Settlements/Curtailments	(29)	-
Net Interest / Return on assets	72	47
Actuarial Gain or Loss	(828)	721
	<hr/>	<hr/>
<b>Deficit in scheme at Close of Year</b>	<b>(1,127)</b>	<b>(359)</b>
	<hr/> <hr/>	<hr/> <hr/>

### Amounts for the current and previous four periods

	Year to 31 July 2008 £'000	Year to 31 July 2007 £'000	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000	Year to 31 July 2004 £'000
Defined benefit obligation	(7,680)	(7,170)	(7,393)	(6,186)	(4,767)
Scheme assets	<u>6,553</u>	<u>6,811</u>	<u>6,154</u>	<u>4,765</u>	<u>3,650</u>
Surplus/(Deficit)	<u>(1,127)</u>	<u>(359)</u>	<u>(1,239)</u>	<u>(1,421)</u>	<u>(1,117)</u>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Experience adjustments					
On Scheme liabilities	-	-	73	(14)	n/a
Experience adjustments					
On Scheme assets	(1,141)	207	432	605	n/a

### Sensitivity Analysis

The following table sets out the impact of a +/-1% change in discount rates on the Funded Obligation and Projected Service Cost along with a +/- 1 year age rating adjustment to the mortality assumption.

Adjustment to discount rate	+1.0%	0%	-1.0%
	£'000	£'000	£'000
Present value of total obligation	6,202	7,680	9,537
Projected service cost	245	348	478
Adjustment to mortality age rating assumption	+ 1year	none	- 1year
Present value of total obligation	7,367	7,680	7,998
Projected service cost	328	348	368

**26. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES**

	<b>2008</b>	<b>2007</b>
	£'000	£'000
Surplus on continuing operations after depreciation of assets at valuation and tax	68	442
Pension costs less contributions payable	(60)	(112)
Depreciation (note 15)	504	372
Deferred grants released to income (note 22)	(322)	(242)
(Increase) in debtors	(268)	(41)
Increase / (Decrease) in creditors	(19)	34
Increase in provisions	23	3
Interest receivable	(172)	(97)
Interest payable	73	11
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>(173)</b>	<b>370</b>
	===	=====

**27. ANALYSIS OF GROSS CASH FLOW FOR HEADINGS NETTED IN CASH FLOW STATEMENT**

	<b>2008</b>	<b>2007</b>
	£'000	£'000
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>		
Interest received	172	50
Interest paid	(73)	(11)
	<b>99</b>	<b>39</b>
	===	===
<b>CAPITAL EXPENDITURE</b>		
Payments to acquire tangible fixed assets	(2,622)	(309)
Capital grants received	1,520	246
	<b>(1,102)</b>	<b>(63)</b>
	=====	===
<b>FINANCING</b>		
Repayment of loans	1,582	(9)
Repayment of finance lease	-	(8)
	<b>1,582</b>	<b>(17)</b>
	=====	===

**28. ANALYSIS OF CASH MOVEMENT**

<b>Open</b>	<b>Cash</b>	<b>Other</b>	<b>Closing</b>
<b>Balance</b>	<b>Flows</b>	<b>Non-Cash</b>	<b>Balance</b>
£'000	£'000	Changes	£'000
		£'000	

Cash	973	406	-	1,379
Debt due within One Year	(9)	(8)	-	(17)
Debt due after One Year	(157)	(1,576)	-	(1,733)
	<u>807</u>	<u>(1,178)</u>	<u>-</u>	<u>(371)</u>
	=====	=====	=====	=====

**29. LOSSES AND SPECIAL PAYMENTS**

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

**30. POST BALANCE SHEET EVENTS**

There are no post balance sheet events to disclose.

**31. 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 of Management 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.

The College had transactions during the year or worked in partnership with the following publicly funded or representative bodies in which members of the Board of Management hold official positions.

<b>MEMBER</b>	<b>ORGANISATION</b>	<b>POSITION</b>
Mr P R G Arthur	UKAEA	Financial Controller
Mrs J G Bundy	UKAEA	Training Manager

Income transactions totalling £173,635 and expenditure transactions totalling £0 were made with UKAEA

Mr C Gregory	Caithness and Sutherland Enterprise	Director
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Income transactions totalling £26,958 were made with Caithness & Sutherland Enterprise (CASE). During the year CASE was formally incorporated as part of Highland and Islands Enterprise (HIE). Income transactions totalling £134,466 were made with HIE.

S Henderson	Highland Council	Employee
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Income transactions totalling £297 and expenditure transactions totalling £21,815 were made with The Highland Council.

All Board of Management members receive no emoluments other than attendance allowances. 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 the 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 Millennium Institute (UHI). UHI 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 from UHI.

During the period the College also had material transactions with Argyll College. From 2003-04 onwards the College received a ring-fenced allocation from SFC for Further Education delivery in Argyll. The activity is delivered through a collaborative arrangement with Argyll College governed by legal agreement. During the period the College received £1,669,469 (2007 - £1.384 million) of SFC funding, of which £1,490,621 (2007 - £1.218 million) was passed onto Argyll College, a further £17,694 (2007 - £11,000) was due for payment after the year end and £161,154 (2007 - £154,000) was retained, as agreed, by the College to finance the costs of the academic and support functions required for the collaborative arrangement. The College also received and paid out to Argyll College monies amounting to £35,916 out-with the SFC monies. The payments transferred to Argyll College are shown as part of the College other operating costs.

The College continues to hold a minority shareholding in Caithness Multi Media Limited as detailed in note 16.

**33. BURSARY AND OTHER STUDENT SUPPORT FUNDS**

	<b>FE Bursary £'000</b>	<b>FE Hardship £'000</b>	<b>EMAs £'000</b>	<b>Other £'000</b>	<b>2007 Total £'000</b>	<b>2006 Total £'000</b>
Balance b/fwd	83	(1)	0	(3)	79	63
Funds receivable in year	595	61	141	42	839	761
Virement in year	0	37	0	0	37	28
Expenditure	(759)	(80)	(117)	(36)	(992)	(752)
Repaid to SFC in year	(24)	(17)	0	(8)	(49)	(21)
	—	—	—	—	—	—
<b>Balance c/fwd</b>	<b>(105)</b> ===	<b>0</b> ===	<b>24</b> ===	<b>(5)</b> ===	<b>(86)</b> =====	<b>79</b> ===
Represented by:						
Repayable to SFC as clawback	-	-	-	-	-	-
Retained by College for Students	(105)	-	24	(5)	(86)	65

**FE CHILDCARE FUNDS**

	<b>2008</b>	<b>2007</b>
	£'000	£'000
Balance b/fwd	38	40
Funds received in year	88	78
Virement in year	(37)	(28)
Expenditure	(56)	(38)
Repaid to SFC in year	-	(14)
	—	—
<b>Balance c/fwd</b>	<b>33</b>	<b>38</b>
	===	===

Represented by:

Repayable to SFC as clawback	-	-
Retained by College for Students	33	38

These Funding Council Grants are available solely for students, the College acts only as paying agent. The grants and related disbursements are therefore now excluded from the Income and Expenditure account with any unspent balance being included as a Creditor in the Balance Sheet.

During the year funds were transferred from the SFC Childcare allocation to augment the Hardship funds available for Further Education students.

The sums shown as Other Funds relate to Higher Education Hardship Funds administered on behalf of UHIMI.