MORAY COLLEGE UHI

Annual Report and Financial Statements for the year ended 31 July 2020

University of the Highlands and Islands Moray College

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Performance Report

OVERVIEW

Principal's foreword

This Performance Report for the year ended 31 July 2020 provides an overview of the College, its purpose and priorities, its performance over the year, and the risks it continues to face and address.

2019/20 was a year like no other. On top of other known and existing challenges, the college had to operate successfully throughout the first months of a global pandemic and lockdown, and delivered its best ever student performance figures, while taking steps to minimise the financial impact of the Covid-19 crisis.

Within the region, the College again played an important role in the wider UHI partnership through its programme and module leaderships, and its teaching to support students across the region and beyond. The lockdown and post-lockdown periods in particular saw excellent collaborative work across the region with senior managers meeting at least twice-weekly to agree regional approaches to the crisis that were also sense-checked for local implementation.

In the months before lockdown, the college's planned curriculum review activities ensured that its curriculum portfolio remained relevant and responsive, resulting in a high volume of course modifications, approvals of new courses and discontinuation of courses at both further and higher education levels, and for both full- and part-time provision.

After taking the decision on 17 March to close the college buildings down completely, the closure was then accompanied by parallel workstreams to enable its successful operation remotely. This included a marked expansion in the use of 'Brightspace', the UHI virtual learning environment, a review and revision of all delivery plans and planned student assessment regimes, and the distribution of laptops and support for connectivity for students not equipped for online study.

Delivery of the college's FE curriculum was curtailed by lockdown changes to the planned part-time offer from March onwards, with only 17,702 of the target of 18,807 credits delivered. (The college welcomed the SFC's commitment that payment for all FE credit funding allocations for the year would be guaranteed). There was also a sharp downturn in the College's Higher Education ("HE") enrolment to 857 full-time equivalent students (FTEs), where numbers in recent years had been in a range of 930-940 FTEs.

Having in the two previous years delivered FE full-time student attainment above the Scotland average, the college delivered a 6.4% increase in attainment in 2019/20 to 74.3%. This followed strong evidence prior to lockdown that student retention this year was running at consistently higher levels than in previous years. Despite the constraints of lockdown, the college was able to generate sufficient evidence to result 94% of its students, with relatively few needing to defer assessments to the following year.

The national Student Satisfaction and Engagement Survey was officially withdrawn by the SFC during lockdown. The college kept the survey open, however, and the overall student satisfaction rate reported (by roughly half the number completing previous year's survey) remained high at 93.0% (92.6% in 2018/19).

After successfully completing its three-year Financial Recovery Plan ("FRP") in July 2019 and delivering 'balanced' budgets throughout that period, the college started the year facing an estimated £1m of adverse movements in funding and costs. The lockdown of the college sector from March 2020 to year end also added around £530k to this challenge before being partially offset by £365k furlough income.

Performance Report (continued)

Despite these pervasive challenges, the college has reported an adjusted operating budget deficit for the year of only £413k against a revised FFR for 2019/20 of £479k deficit (excluding pension adjustments).

Throughout the year the college continued to lead work on two projects, and to support community partners on four other projects, that formed part of Moray's submission to the UK and Scottish governments for Growth Deal funding. The Moray Growth Deal Heads of Terms was signed in August 2020, confirming funding on 8 projects, including all those led, or supported by the college.

From 1 August 2019 the college became the host organisation and employer for the staff of DYW Moray and continued to be a key partner of DYW Moray in the design and delivery of Skills Pathways (for ages 3-18), and worked closely with Moray Council and Moray's schools through the co-design of Senior Phase provision; S3 Taster Days for all secondary pupils in Moray; and provided direct in-school delivery for local schools requesting support with vocational programmes in 'hard-to-recruit' staff specialisms.

The College also further developed opportunities to work with major employers in Moray through the Flexible Workforce Development Fund, though much of this new delivery was delayed by the Covid-19 lockdown. It hosted and led a number of STEM-based activity events with partners including local employers, and continued to support Modern Apprenticeships throughout the lockdown period. The college had its strongest ever Foundation Apprenticeships enrolment at the start of 2019/20, more than doubling its numbers from the previous year.

In terms of governance and management, the College continued work to ensure compliance with the Code of Good Governance and it maintained a gender balance within both its non-executive Board members and its senior executive team.

Last years reported highlighted the challenges facing the college sector in Scotland, and facing this college in particular, and noted that the college's recent history of significant improvements in student performance, key involvement in the development of new HE provision in the regional university, and leadership on behalf of its community partners of two key projects in the Moray Growth Deal, had all been achieved while delivering three years' of improved financial performance.

That the college has maintained the momentum of these improvements and developments this year, in the face not only of its existing challenges, but also a global pandemic and lockdown, is a testament not just to the executive and non-executive leadership of this college, but is a powerful tribute to the extraordinary commitment shown by all the college's staff to do to the very best possible for the community we serve in the most challenging of circumstances.

Signed by

David Patterson
Principal and Chief Executive

Performance Report (continued)

STRATEGIC PLANNING: PURPOSE AND ACTIVITIES

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

Mission Statement

The purpose of the College is:

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

Vision Statement

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

1. the high quality of its teaching, learning and support for students.

2. its partnership work with stakeholders (including schools, employers, the Moray community and its UHI partners).

3. the positive impact and outcomes of the work it does, and

4. its values, for "doing the right things in the right way".

Values Statement

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

- collaboration
- openness
- respect
- excellence

These statements are further articulated in five Strategic Aims, with accompanying Strategic Objectives, which are driving the activities of the College over the rest of the period of this Strategic Plan to 2021, which has been extended by one year in the face of the Covid-19 pandemic. The College is working within the SFC's planning framework and with the RSB to develop the strategic plan for the following period.

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

Implementation of the Strategic Plan

The College's Operational Plan for 2019/20 focused on key actions within each of the five strategic areas. It had at its core the Enhancement Plan agreed with Education Scotland and derived from its Evaluative Review (College self-evaluation) under the new quality arrangements. To this were added actions relating to its Higher Education provision, and enabling actions relating to the development of its organisational culture, partnership work, and financial sustainability. The Operational Plan for this year therefore prioritised and focussed on (see page 8):

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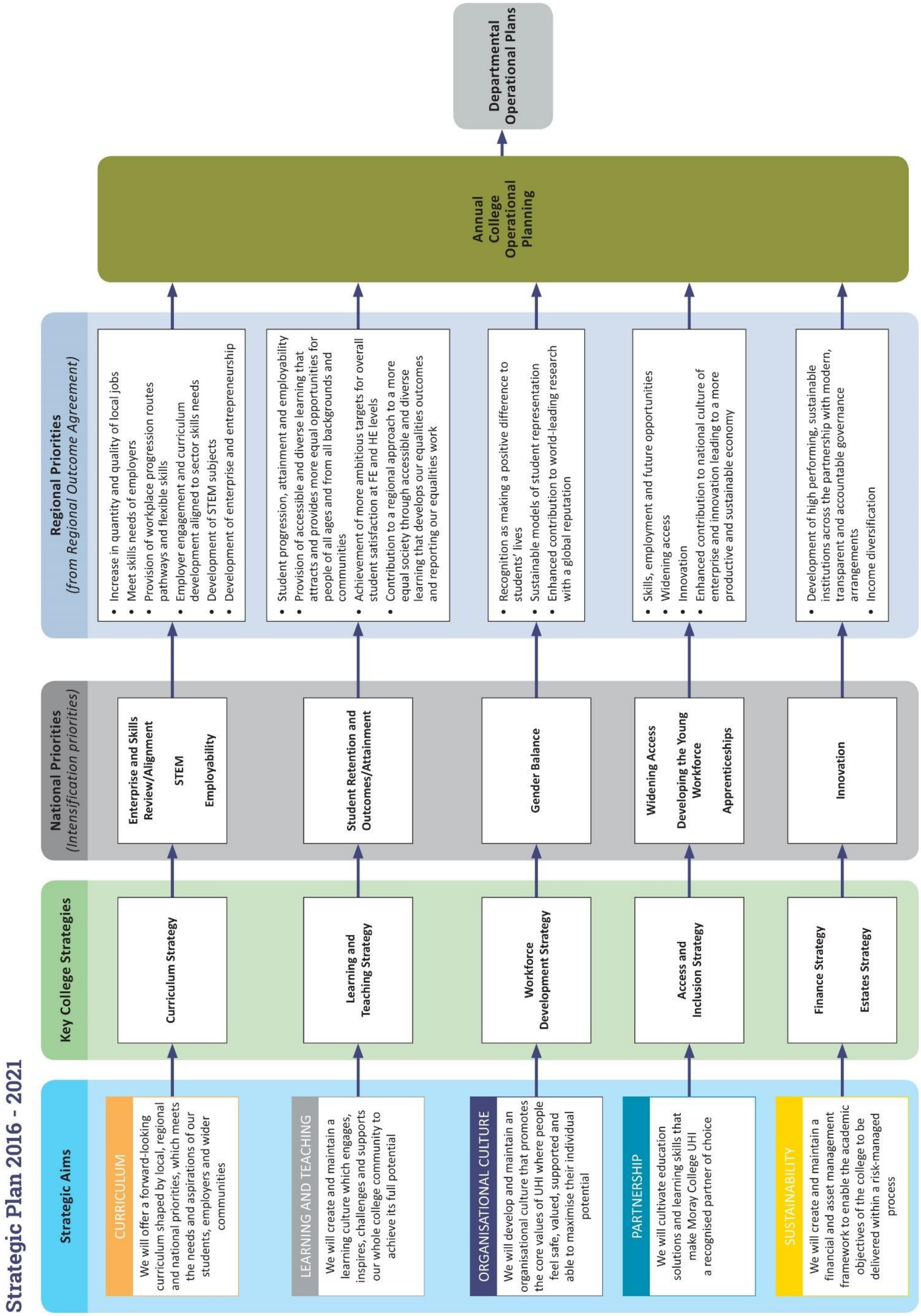

Performance Report (continued)

- **Curriculum**: ensure all FE programmes planned for 20/21 have access to high quality, meaningful work-related learning in line with the SFC Work Placement Standard and the UHI Regional Strategy for Work Experience; ensure that course framework mapping is complete with respect to Essential Skills Policy to ensure consistency of delivery; ensure further HE growth

- **Learning and Teaching:** fully implement a systematic supportive process of Learning & Teaching Review alongside a package of support and coaching/mentoring; develop a Learning &Teaching 'scholarship' culture in line with the RIKE Strategy Action Plan; plan and undertake activities in relation to evaluation and enhancement to promote a culture of quality and excellence for full and part time FE programmes

- **Organisational Culture*:*** Complete full national submission of all agreed support staff Job Evaluation questionnaires; agree a revised Local Recognition and Procedures Agreement with EIS-FELA and UNISON; articulate clear linkages between the Workforce Development Strategy and the college's underpinning processes to deliver it; fully implement the HR Business Partner model to further empower line managers as per the EREP Enhancement Plan

- **Partnership:** complete the Outline Business Cases for both Moray Growth Deal projects to achieve Scottish and UK governments' deadlines; increase HE study opportunities available for pupils in the Senior Phase Schools programme; ensure appropriate engagement with Programme Assembly-agreed workstreams; develop Moray College Carbon Management Plan as contribution towards achieving a single UHI plan

- **Sustainability:** agree with, and submit to, the RSB a revised and deliverable "balanced" budget; monitor and maintain major lines of commercial income; ensure all Capital & Backlog Maintenance funding is committed to college priorities by SFC deadline; develop a 5-year plan for the use and upgrade of ICT systems and services

The achievement of many deadlines within this plan was impacted by the College lockdown and the requirement to shift management focus onto successful closure and subsequent operation of the college and support for students in the new remote working environment.

KEY ISSUES AND RISKS

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

i. ***Financial Planning Risks resulting in failure to achieve a balanced budget*.** Key risks include:
   a. Ongoing impact of the Covid-19 pandemic
   b. Continued funding of national bargaining costs to the college at a rate that is below the actual level of those costs, or future withdrawal or reduction of such funding
   c. Failure to hit commercial and other income generation targets, or to fail to take advantage of new non-core funding streams to support economic recovery following the Covid-19 pandemic
   d. Failure to achieve budgeted HE student number targets

ii. ***Campus estate not fit for purpose:*** The national Conditions Survey for Colleges in Scotland, run by the SFC in 2017, identified backlog maintenance issues for the College to ensure that its buildings are waterproof and wind-tight. Less than 20% of funding for the estimated 5-year costs has been received. A new Estates Strategy will be commissioned to include:
   a. review of the outstanding backlog maintenance issues remaining
   b. lessons learned from remote delivery in lockdown

Performance Report (continued)

c. opportunities afforded by the Growth Deal capital funding projects.

iii. ***Brexit and its impact on public finances:*** This risk is one held in common with the rest of the University and College sectors. The college has been supported previously by European funding for:

a. capital funding for building projects
b. revenue funding for curriculum development projects
c. additional student enrolment numbers
d. participation with partner institutions across Europe through the ERASMUS programme

iv. ***Failure to seize the financial, reputational and developmental benefits offered by the Moray Growth Deal****:* The Growth Deal provides the opportunity to create a step-change in how the college can drive forward leadership and support for:

a. aerospace and advanced technology training and developments in Moray
b. scale-up and resilience for micro-businesses across Moray and the wider region
c. other planned developments including the cultural quarter planned for Elgin; the Early Years STEM project; and the Digital Health project.

PERFORMANCE ANALYSIS

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

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

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

Student recruitment

In 2019/20, the College delivered a total of 17,702 credits (2018/19 19,146), against a target of 18,807 credits across its FE provision funded by SFC grant. The shortfall in activity is due to the lockdown of the College on 20th March 2020 in response to the Covid-19 pandemic which severely limited the College's ability to recruit planned part time activity through to 31st July 2020.

The College did not participate in any ESIF FE funded activity in session 2019/20.

The Highlands and Islands region overall did not meet the overall delivery target by just less than 1%.

Moray College delivered a total full-time equivalent (FTE) HE students of 857.3 FTE's (2018/19 had 937.0 funded FTEs). This generated grant-in-aid income from UHI of £2,390k (2018/19 £2,706k a notable reduction on the previous session.

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Student retention

The College's recruitment, pre-start and induction processes have in recent years contributed to a strong early retention of students above the Scotland average. In 2019/20 Early Retention was 95.57% (2018/19 98.9%).

The College's overall Full Time FE (FTFE) student retention figure in 2019/20 was 82% (2018/19 78%) which is the highest recorded for the college and is over five percentage points above the Scotland average. There has been an impact of Covid-19, with guidance to only withdraw students at their request during college closure. However, data across the year suggests the retention figure was likely to be at least 80% in June, representing a third year increase in FTFE student retention.

Student attainment

Through its agreed Evaluative Review and Enhancement Plan validated by Education Scotland, the College put in place actions from 2017/18 to secure success rates well above the Scotland average, with a target of 70%, as set out in the Regional Outcome Agreement. This year the college has seen the highest FTFE success rate in its history, surpassing the 70% target.

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

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

The College makes use of students' attendance and progress data in year to monitor all FE courses. Course Review is used to support those courses with low attainment (under 60%). Using MORAGAA (Moray Red, Amber, Green, Attendance and Attainment) tracking and meetings, to monitor progress and ensure proactive intervention in-year has seen an increase in retention and student success. In 2019/20 ten FTFE programmes were in review, with additional Highers qualifications also supported through this process. Out of the ten, nine saw significant improvements in retention and success, with an average of a 20-percentage point improvement.

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

Other performance measures

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

One of our Electrical apprentices won the SECTT Scottish eMAc final, competing against 19 other Colleges from across the country crowning him apprentice of the year.

Performance Report (continued)

A Moray Council apprentice made it to the final stage of the SELECT Apprentice of the Year competition. The apprentice scored one of the highest marks out of 700 other students in the Final Integrated Competence Assessment.

One of our Sports students, won the Senior Sports Athlete of the Year at the Sport in Moray Awards in November 2019.

Two of our Moray School of Art graduates,exhibited with the Society of Scottish Artists and Visual Arts Scotland. One of the graduates also took home the Flora Wood Award for the most original artwork in the exhibition.

One of our complementary therapies graduates won the North East Health and Beauty Award for Best Complementary Therapist and now runs her own business.

An HNC Coaching and Developing Sport student, won the Best Social Impact Business prize of £750 at the University of the Highlands and Islands Create Business Competition. The business, Kitstart, looks to level the financial playing field for young footballers in Moray by providing essential, second-hand kit so kids from all backgrounds can access the sport.

The conference suite of the Alexander Graham Bell centre hosted a number of events in 2019 including the first Research and Innovation for Growth Conference organised by Academic Partnerships department, a Summer Theatre School run by Dragonfly Drama and Charity Event El – Con which raising money for Logans Fund.

On Saturday the 2nd of November 2019 the Marketing and Business Development team organised a brand-new Winter Festival with support from the events management students The event drew in over 550 people and showcased over 25 exhibitors from the food, drink and tourism industry. The aim of the event was to celebrate local businesses in food and drink.

A second year Events Management student, hosted the first Peace of Mind event on Sunday 9th February in the AGBC centre. Peace of Mind is a drop-in event designed to support mental health. During the event there were a selection of exhibitors representing health and well-being including; Moray Wellbeing Hub, Therapets, Penumbra and Earthtime.

Childcare team in partnership with Moray Council had a very successful event on Friday 22nd November 2019 designed to encourage Men into Childcare. This attracted enough applicants to run the first ever Men into Childcare course.

Student satisfaction

The College’s annual Learner Survey for 2019/20, incorporating the SFC Student Satisfaction and Engagement Survey was due to be run during the initial phase of lockdown. A decision was made to continue with running the survey, with a reduced response target of 30%. The total response rate was 32%, with overall satisfaction for FE at 93.01%, and increase of just under one percentage point on the previous year.

Students reported positively (over 90%) across a range of aspects, including in relation to their time at college developing their skills and knowledge for the workplace, access to and quality of resources, being treated fairly, advice and guidance, quality of feedback and being on the right course.

Curriculum developments

The Curriculum Strategy continued to be a key driver to initiate change. It was updated to realign with changes made to priority sectors in both the Moray Skills Investment Plan and the Moray Economic

Performance Report (continued)

Strategy as well as to provide a recognition of the curriculum opportunities presented by the Moray Growth Deal.

Throughout the year, curriculum review activities ensured the curriculum portfolio remained relevant and responsive resulting in a high volume of course modifications, approval of new courses and discontinuation of courses. For HE, new FT awards were approved in MA Fine Art, HNC Cyber Security, HNC Soft Tissue Therapy, while BA Fine Art (Textiles) was discontinued and replaced with an alternative study pathway in BA Fine Art and HNC Beauty was discontinued and replaced with a commercial programme of CPD activity. For FE, new updated FT awards were approved for all levels of provision in Beauty, Hairdressing and Hospitality which better reflected current industry practice, while the approval of Foundation Apprenticeship in Business Skills and Modern Apprenticeship in Healthcare (Clinical) continued the expansion of apprenticeship opportunities. A further 15 FE programmes and 5 HNC programmes were modified to maintain their currency and enhance the student experience.

The range of training delivered via the Flexible Workforce Development Fund continued to grow and diversify. There was an increased demand for training to develop leadership and management skills, together with a continuation of requests to deliver specific qualifications in Mental Health First Aid, SVQ Engineering – Fabrication and Welding, IOSH Managing and Working Safely and Accredited Project Management Fundamentals, in addition to requests to develop bespoke courses in Unconscious Bias and Luxury Customer Service.

Other significant curriculum development work includes:

- Enrolment of the first cohort of Graduate Apprentices in Early Learning & Childcare. A total of 15 apprentices from early learning and childcare settings across Highlands and Islands including Moray signed up to the Graduate Apprenticeship allowing people to study up to degree-level while in employment, helping to address the skills shortage in the industry and The Scottish Government's commitment to provide additional funded childcare hours.

- The launch of a new fully accredited UHI CPD programme for business leaders. The course, Responsible Leadership and Development for Contemporary Business, has been developed in partnership with Gordon & MacPhail Whisky and has also been rolled out across other businesses via the Upskilling Fund.

- Upskilling Funds used to develop alternative delivery models for two short courses involving HN credits in Software Development and Video Film Mobile Productions and a UHI CPD award in Developmental Creative Practice.

- Proposal, development and SQA approval of a range of new PDA awards in Business and Finance, Modern Biological Technologies, Engineering, Body Massage and Reflexology. This suite of awards has been specifically developed to broaden the opportunities offered to S6 school pupils but will also be promoted as short courses for upskilling or reskilling.

- Working in partnership with Lossiemouth High School and Buckie High School to enable college staff to attend schools and deliver a range of curriculum in Home Economics and Construction. This has helped address specialist subject teacher shortage in schools and has

Performance Report (continued)

generated and maintained interest in these subjects, consequently increasing the numbers looking to progress to related college courses.

Education Scotland Review

Education Scotland endorsed the internal Moray College UHI EREP for AY 2018/19 and were due to carry out a Progress Visit in March 2020, which was cancelled due to Covid-19 restrictions. Implementation and review of the updated Enhancement Plan continues to be carried out to support improvements across the provision, particularly in relation to the implementation of Learning and Teaching Review and the role of the Learning Coach in supporting staff to enhance Learning and Teaching practice.

Evaluation activity has been ongoing from October 2019 with all curriculum areas and support teams engaging in support and curriculum committee meetings. These have been carried out in accordance with the Moray College Enhancement Framework, which was developed collaboratively by curriculum and support staff, students and SPARQs staff. This has enabled both staff, students and stakeholders to be more actively involved in evaluation and enhancement planning activity. Whilst Education Scotland have suspended this activity in response to Covid-19, an internal Evaluative Report and Action Plan was presented to the Board of Management in October 2020.

FINANCIAL POSITION

Financial results

The College's strategic financial aims have been to:

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

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

Total income increased in 2019/20 from £13.59m to £13.89m (an increase of 2.2%) in spite of decreases in both FE and HE recurrent grant income due to the regional reduction in FE funding and a decrease in year on year HE FTE's (857 in 2019/20 compared to 937 in 2018/19). The overall increase in income has been largely achieved through securing additional funded posts plus extra funding for the increased costs of the Scottish Teachers Pension Scheme.

The loss of budgeted commercial income as a result of the Covid-19 closure in March 2020 was partially offset by income received from the UK Government (+£366k) as part of the Coronavirus Job Retention

Performance Report (continued)

Scheme. Additional educational funding that was unable to be utilised due to the pandemic has been carried forward to FY20/21.

Total expenditure increased from £14.26m to £15.18m (up by 6.1%). The increase is driven by non-cash adjustments of higher depreciation (£109k) and a year on year net increase in non-cash pension adjustments of c£639k (this being the FRS102 pension adjustment and the SFC unfunded enhanced early retirees).

Impact of FRS102 on Local Government Pension Scheme

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

In 2019/20 the College had a deficit before pension remeasurements of £1,290k (2018/19 deficit £679k). Excluding non-cash items of net depreciation and non-cash pension costs, this was a deficit of £263k (compared to a surplus of £98k in the previous year).

The underlying operating position of the College is illustrated below:

Underlying Operating Position		
	2019/20	**2018/19**
	£'000	**£'000**
Deficit before other gains and losses	**(1,290)**	**(679)**
Add back:		
- Depreciation (net of deferred capital grant release)	485	450
- Pension adjustment - Net service cost (FRS102 Staff cost adjustment)	633	379
- Pension adjustment - Net interest costs	125	53
- Pension adjustment - Early retirement provision	(119)	(8)
Deduct:		
- Revenue Funding allocated to loan repayments and other capital items*	97	97
Underlying Operating (Deficit)/Surplus	**(263)**	**98**

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

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

Performance Report (continued)

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

Table of Cash Budgets for Priorities Spend		
Revenue	**2019/20**	**2018/19**
	£'000	**£'000**
Student Support	209	209
Pay Award	118	118
Total Impact on Operating Position	**327**	**327**
Capital		
Loan Repayments	97	97
Total Capital	**97**	**97**
Total Cash Budget for Priorities Spend	**424**	**424**

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

Liquidity

The operating cash outflow for 2019/20 was £495k (2018/19 operating cash inflow £540k).

The average closing monthly cash balance in 2019/20 was £863k (including student support funds) and the year-end balance was £555k – which is inclusive of student support funds of £385k. In 2018/19 the average closing monthly cash balance was £1,705k (including student support funds), with a year-end balance of £1,172k (which included student support funds of £200k).

The average cash position for 2018/19 was significantly influenced by the level of Backlog Maintenance funding awarded to the college for 2018/19 (£1.33m).

Loan interest payable for the year was £18k (2018/19 loan interest payable £20k).

Creditor payment policy

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

Going Concern

The College recorded a deficit of £1,290k before other gains and losses during the financial year and total comprehensive expenditure of £2,648k. The College reported an adjusted operating deficit of £263k after accounting for technical pension adjustments of £639k, loan repayment costs of £97k and net depreciation adjustments of £485k. Cash decreased by £614k during the year and at 31 July 2020 the College held a cash balance of £555k. The College is reporting a net current liabilities position in these financial statements of £937k and net assets of £6,003k.

The activities of Moray College are over 60% funded by the Scottish Government through the Scottish Funding Council (SFC) in order to provide Higher and Further Education. The Board of Management of Moray College has no reason to believe that future support from Scottish Funding Council will not be forthcoming and the College has received a letter of support from the SFC confirming as much.

Performance Report (continued)

Senior management have considered various scenarios in assessing the impact of Covid-19 on future financial performance and cashflows. Cashflow projections have been prepared for twelve months from the date of approval of these financial statements and the College has updated the financial forecast in line with the assumptions provided by the Scottish Funding Council, which included taking appropriate action to balance the underlying position each year. The College has already demonstrated that much of the curriculum can be delivered remotely and the lessons learned will help to mitigate the impact of another lockdown. Further we are actively pursuing other income streams to supplement the current commercial income base and continue to exercise stringent control of operating costs.

The conclusion from the above analysis is that whilst the financial position of the College continues to be challenging and the financial pressures extend beyond 12 months from the date of approving these financial statements, the College is a public body providing statutory services and as such will remain a going concern as long as this is the case. It remains wholly appropriate to adopt a going concern basis for the preparation of these annual financial statements.

Authorised for issue and approved by order of the members of the Board on 25 February 2021 and signed on its behalf by:

Mr D Patterson
Principal and Chief Executive

Performance Report (continued)

PROFESSIONAL ADVISERS

External Auditor	-	Ernst & Young LLP
Internal Auditor	-	Henderson Loggie
Bankers	-	Royal Bank of Scotland
Solicitors	-	Grigor & Young, Stronachs
Insurers	-	Marsh (Education Practice) (underwriters: Royal Sun Alliance)

Accountability Report

CORPORATE GOVERNANCE REPORT

Directors' Report

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

In terms of governance and management, there were some changes in respect of Board (and subcommittee) membership during Academic session 2019-20. Two Board members resigned, one due to launching a new business and all the work that entails and the other retired having served for a period of 10 years on the Board. Both of these Board members were non-executive members of the Learning, Teaching and Quality Committee. This Committee has 4 non-executive members of the Board of management in its membership and at least 2 in attendance are required to attend to be quorate.

As a result of an advertising campaign to recruit new Board members, which ran in from June to August 2020 six candidates were selected for interview. The interviews took place remotely using Microsoft Teams on the 9 and 10 September 2020. The interview panel consisted of Murray Easton, Convenor of Finance and General Purposes Committee of Moray College, Paul Mitchell, Senior Independent Member of Moray College, Kyle Gee – HISA Rep, Moray College, Poonam Malik – member of University Court and Sarah Medcraf – Moray Chamber of Commerce.

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

Throughout the summer of 2019 there had been an advertising campaign to recruit new Board members to address the skills shortage which resulted from 2 Board members resigning in session 2018/19. It was late autumn before this was successfully concluded and as a result 3 new Board members were appointed. Dawn McKinstrey was previously co-opted to the Audit Committee and has significant audit experience. Paul Mitchell has a background in gas with experience in engineering, health and safety and HR including trade union negotiations. Anne Campbell has significant experience in education as well as audit. These new Board members received a College induction in December 2019 and UHI Induction in January 2020. The mandatory CDN Induction which was due to take place in Executive Office in March 2020 took place remotely on 30 March 2020.

Towards the end of session 2018/19 the Support Staff Member had resigned from the Board due to work commitments. A candidate was nominated for the position and took up the position of Support Staff Representative on the Board on 10 September 2019.

The tenure of two Board members came to an end on 31 July 2020 and, after expressing a desire to continue, were reappointed to the board from 1 July 2020 until 30 June 2024.

As at 31 July 2020, the Board comprised one executive director, 9 non-executives, 2 HISA reps and 2 staff reps; the overall gender balance on the Board was 7 male and 7 female members which meets the government recommendations with regards to gender split.

The members who served on the Board of Management during 2019/20 and up to the date of approval of the annual report and financial statements are shown below:

Accountability Report (continued)

Name	Occupation	Membership	Start Date	End Date
Mr David Patterson	Principal	Finance & General Purposes Chairs Staff Governance	29 February 2016	
Mr Jeremie Fernandes	Support Staff Member (Member Librarian)	Staff Governance Remuneration	10 September 2019	
Mrs Rosemary McCormack	Teaching Staff Member (Head of Curriculum)	Finance & General Purposes Staff Governance Remuneration	19 September 2017	
Mr Joe Bodman	Local Government Officer (Retired) 40 Years' experience of working across the education sector, predominantly Secondary and Further Education.	Finance & General Purposes Staff Governance Learning, Teaching and Quality Committee Moray Community Planning Partnership Employers Association	01 December 2010	24 May 2020
Mrs Anne Campbell	Significant experience in education as a home economics teacher and in audit.	Learning, Teaching and Quality Committee	1 January 2020	
Mr James Knowles	Retired – Considerable public sector experience, Volunteer and Business mentor	Finance & General Purposes	01 December 2015	20 August 2020
Mr Murray Easton (Vice Chair)	Finance Executive and Qualified Accountant with over 30 years' experience in the Oil & Gas industry	Finance & General Purposes (Convener) Chairs Remuneration Nominations	01 July 2016	Request to extend tenure approved by UHI court.
Mr Peter Graham (Chair)	Fellow of the Royal Institution of Chartered Surveyors. Runs his own business acting as a land agent for various Moray and Highland estates	Finance & General Purposes Chairs Remuneration Nominations	01 July 2016	
Mrs Joan Johnston (Senior Independent Member)	25 years' experience working internationally in the luxury textile sector, as a board director, university programme leader, online business owner and most recently as a design consultant	Chairs Nominations Remuneration Leaning, Teaching and Quality Committee	01 July 2016	27 February 2020
Mr Paul Mitchell	10 years' experience in the utilities	Staff Governance	1 January 2020	

	industry. Business lead of high performing and empowered teams at British Gas.			
Dr Jessie McLeman	Experienced manager in the water and telecommunications sectors, with particular experience in dealing with regulatory matters	Audit (Convener) Chairs Remuneration Nominations	01 July 2016	Request to extend tenure approved by UHI court.
Mrs Dawn McKinstrey	Audit Manager specialising in auditing Scottish Waters Capital programme.	Co-opted to Audit Committee 30 May 2019	1 January 2020	
Miss Caroline Webster	Over 20 years as Chartered Building Surveyor. Manages local office department of Building Surveying and Architectural services as part of wider national team	Finance & General Purposes	01 August 2017	
Mrs Deborah Newton	Audit compliance partner and training principal for firm of Chartered Accountants. As well as being responsible for the audit of the statutory accounts of companies and regulated clients	Audit Finance & General Purposes (In attendance)	01 August 2017	
Mrs Seonaid Mustard	Has wide experience of teaching across the area in various roles in both state and private sectors. Has a particular interest in the importance of life long access to education	Staff Governance Learning, Teaching and Quality	01 August 2017	
Mr Kyle Gee	HISA Representative	Audit Learning, Teaching and Quality Committee Remuneration	1 August 2019	
Mr Nathan Sanderson	HISA Representative	Finance and General Purposes Learning, Teaching and Quality Committee Remuneration	1 August 2018	30 June 2020

Accountability Report (continued)

A summary of the Board members, and meetings attended during 2019/20 is shown below:

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

The above is reflective of the various committee memberships throughout 2019/20 (i.e. attendance is noted against meetings members could have attended based on their membership at the time).

Statement of Board of Management's Responsibilities

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

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

Accountability Report (continued)

- observe the Accounts Direction issued by the Scottish Funding Council, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in FReM have been followed, and disclose and explain any material departures in the financial statements; and

- prepare the financial statements on a going concern basis.

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

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

Governance statement

Introduction

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

It is a condition of the Financial Memorandum with the Regional Strategic Body that the Board meets the principles of good governance, set out in the 2016 Code of Good Governance for Scotland's Colleges.

The College is committed to achieving best practice in all aspects of corporate governance. It has worked over the past year towards implementing all the changes recommended by the Cabinet Secretary's Good Governance Task Force to ensure compliance in all areas of the new Code. The following items describe the manner in which the College has applied the principles set out in the Code of Good Governance.

The conclusions and recommendations from the Annual Board and Committee review in 2018/19 indicated a marked improvement in the confidence the Board and SLT seem to have in itself and each other. Communications between the Board the senior management have greatly improved with SLT having a greater understanding of what the Board expects from them. A Board Development event was held in August 2019 which Board members and members of the Strategic Leadership Team (SLT) attended. The focus of this event on this occasion was consolidation of success particularly in relation to student retention and attainment and focussing on the future curriculum.

Throughout the session 2019/20 the Clerk to the Board has continued to support the Strategic Leadership team by attending monthly meetings with the objective of further improving communications and clarifying expectations of the Board to the SLT. This development has worked well with actions arising from Board and Committee meetings being acted upon in a far more timely manner.

Whilst there was some initial disruption to face to face meetings due to the Covid-19 pandemic and the College closure, the College was able to adapt very quickly and resume meetings albeit virtually using technology such as Skype for Business and Microsoft Teams. This was a huge learning curve and challenging at times with Board members having varying degrees of confidence using the technology.

Accountability Report (continued)

However, at the time of writing it is more or less business as usual with meetings taking place regularly and on time.

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

A review of the returns show positive results in the majority of areas with Strongly Agree and Agree in all but a few aspects. There were some extremely positive comments about the Audit Committee, F&GP and Staff Governance in particular. Similarly positive comments were evident in relation to the Chairs and the Board's confidence in them. Those completing the survey took time to make some very encouraging and in-depth comments in support of their scoring.

As part of this review, individual one-to-one development meetings require to take place between every Board member and the Chair and Vice Chair. Whilst these were delayed somewhat by the initial disruption due to the College closure, they were able to be completed by the end of June. Discussions including any recommendations for CPD and training was recorded and will be followed up in due course.

The Board intends to hold a further annual development event with SLT in August 2021. The focus of this event will be how the College wants to shape its future, including reflecting on lessons learned throughout the Covid pandemic.

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

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

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

Governing Body

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

The Staff Governance Committee's terms of reference include the Staff Governance Standards as determined by Colleges Scotland and the STUC. This committee met 3 times during the year to consider various strategic staffing issues including developing a set of core values for staff linked to the College strategic plan. The main focus of this Committee in 2019/20 was in considering the results of the Staff Survey held in 2018/19 and addressing some of the issues arising from this.

The F&GP was convened 6 times during the year and this was in excess of the normal 3 times a year. Its purpose is to ensure a sound system of internal financial management and control, monitoring performance of that system on a regular basis throughout the accounting period. It recommends to the

Accountability Report (continued)

Board the College's annual revenue and capital budgets, and monitors performance in relation to the approved budgets. It also approves and recommends the Annual Report and Financial Statements to the Board. The Director of Finance attends the F&GP Committee but not as a member. It became apparent early in session 2019/20 that the College was once again facing considerable financial challenges in maintaining a financially sustainable position. Some of this was apparent before the current Covid-19 crisis due to the reduction in core funding that the College receives, but the pandemic has exacerbated the situation due to the loss of a large proportion of its commercial income.

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

The Remuneration Committee did not meet during the session 2019/20.

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

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

Statement of Compliance

The College complies with the principles of the 2016 Code of Good Governance for Scottish Colleges ("the Code") with the following two exceptions that relate to the same issue:

C3 - Accountability and Delegation - The board must ensure it fulfils its statutory duties and other obligations on it, and that the terms and conditions of its grant are being met. – Explanation follows:

C22 – Financial and Institutional Sustainability - The board is responsible for ensuring the financial and institutional sustainability of the body. The board must ensure compliance with its Financial Memorandum (either with SFC or the regional strategic body, depending on which is funding it), including in relation to incorporated colleges and regional boards, relevant aspects of the Scottish Public Finance Manual. Explanation follows:

Towards the end of session 2019/20 when constructing the College's budget for 2020/21, it became apparent that, due to factors largely outwith its control, mainly in relation to the impact of the Covid-19 crisis, the College closure and the associated loss of commercial income, the College is facing a significant deficit for FY 2020/21 and that it would be unable to submit a 'balanced budget' that was within Ministerial guidance of £450K deficit. Action is being taken to address this situation and a three-year budget was submitted to the SFC in June 2020 which detailed plans to bring the College back within a 'balanced position' by the end of FY 2022/23.

The Principal's Strategic Leadership Team considers issues of performance, internal control and risk and advises the Principal on strategy, operational planning and control, and any issues relevant to the

Accountability Report (continued)

running of the College. Members of the Strategic Leadership Team during session 2019/20 are shown below:

<u>1 November 2019 – 31 July 2020</u>

Mr D Patterson	Principal and Chief Executive
Ms S McInnes	Director of Finance (Appointed 2 December 2019)
Mrs C Newlands	Director of Curriculum and Academic Operations
Mrs N Yoxall	Director of Learning and Teaching
Mr D Duncan	Director of Information, Planning and Student Support
Mrs C Thomson	Director of Human Resources and Organisational Development

<u>1 August 2019 – 31 October 2019</u>

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

Risk management and internal control

The Audit Committee membership during the 2019/20 session comprised Board members with external and internal auditors in attendance as appropriate. The committee provides assurance to the Board on governance, internal control and risk management, as well as financial reporting issues. It considers detailed reports on internal controls, including recommendations for improvement along with management responses and implementation plans. It may also consider reports from the Scottish Funding Council and Audit Scotland, and it monitors adherence to regulatory requirements.

The Annual Internal Audit Report for 2019/20 submitted by the College's internal auditor concluded that the College has adequate and effective arrangements for risk management, control and governance.

An audit register is used by senior management to periodically review and progress all outstanding recommendations and that is also reviewed by the committee. During the current session (2019/20) the executive worked hard to maintain this progress made the previous session to ensure all recommended audit actions were completed in a timely fashion. At the time of writing 4 audit actions remain overdue, one of which relates to the internal audit on health and safety and has been delayed due to the Coronavirus outbreak. A further two actions relate to procurement. The Audit Committee has agreed to extend the deadline for completion of these to 31/03/2021. The fourth action relating to risk management also remains overdue but this is due to an UHI wide IT issue which is currently being considered.

The internal audit activity in 2019/20 included the following areas and this was adjusted from the original plan due to the disruption emerging from the Covid-19 crises and College closure.

- Health and Safety – follow up
- Quality Assurance and Improvement – follow up
- Workforce Planning
- Corporate Governance – follow up
- Business Continuity Resulting from the Covid-19 Crises

Accountability Report (continued)

An Externally Facilitated Board Effectiveness Review had been required by June 2020 but this has been delayed to due Covid-19 and will now take place in the first quarter of 2021.

The Internal Audit on Health & Safety – Follow up - resulted in an overall level of Assurance of Satisfactory with no significant weaknesses and no recommendations for improvement noted.

The Internal Audit on Quality Assurance and Improvement – Follow up - resulted in an overall level of Assurance of Satisfactory with no significant weaknesses and no recommendations for improvement noted.

The Internal Audit on Workforce Planning resulted in an overall level of Assurance of Satisfactory with no significant weaknesses and no recommendations for improvement noted.

The Internal Audit on Corporate Governance resulted in an overall level of Assurance of Satisfactory with no significant weaknesses and no recommendations for improvement noted.

The Internal Audit on Business Continuity Resulting from the Covid-19 Crises resulted in an overall level of Assurance of Good with no significant weaknesses and no recommendations for improvement noted.

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

The annual follow-up review by the Internal Auditor confirmed that the College had made good progress in implementing the recommendations followed-up as part of the rolling review with all items reviewed during the year assessed by internal audit and categorised as ‘fully implemented’, with the exception of five recommendations categorised as ‘partially implemented’ where further evidence is required to demonstrate full implementation. One further recommendation from the Workforce Planning report had not reached its target implementation date.

During the current session, the Committee has continued to progress on reviewing risk management arrangements, including risk policy, the Board’s appetite to risk and a risk management process. Out of this work, the Committee recommended a Risk Management Policy setting out the revised risk management arrangements. The risk register forms part of the risk management process and records internal and external risks and, mitigating actions, following a template used across the UHI partnership. The risk register is on the agenda of each meeting of the Audit Committee.

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

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

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

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

Accountability Report (continued)

Details of any significant lapses of data security

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

Conclusion

The Board of Management has no matters to report in respect of failures in the expected standards of good governance, risk management and control for the period ending 31 July 2020, other than the continuing work to secure a balanced budget position within its current budget and FFR.

Authorised for issue and approved by order of the members of the Board on 25 February 2021 and signed on its behalf by:

Mr P Graham
Chair

Mr D Patterson
Principal and Chief Executive

Accountability Report (continued)

Remuneration and staff report

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

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

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

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

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

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

Remuneration including salary and pension entitlements

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

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

* Nicholas Clinton left Moray College 31 October 2019.
** Shelly McInnes started with Moray College 2 December 2019.

[1] Responsibility Allowances have been excluded from pension benefit calculations

Accountability Report (continued)

			12 months ended 31 July 2019		
Name	**Post**	**Salary £'000**	**Pension Benefit £'000[2]**	**Total £'000**	**Full Time Annual Equivalent £'000**
David Patterson	Principal and Chief Executive	95-100	30-35	130-135	135-140
Derek Duncan	Director	55-60	20-25	80-85	80-85
Chris Newlands	Director	45-50	35-40	80-85	95-100
Nikki Yoxall*	Director	55-60	150-155	210-215	210-215
Carolyn Thomson	Director	55-60	30-35	90-95	95-100
Nicholas Clinton**	Director	60-65	0-5	70-75	60-65

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

**Nicholas Clinton formally transferred to Moray College during the year (previously being seconded from UHI). The pension benefit calculation is only based on the NESPF pension benefit.

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

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

Notes:

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

Fair pay disclosure

Based on the 12-month figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2019/20 was in the range £100k-£105k (2018/19 £100k-£105k). This was 3.82 times (2018/19 3.65 times) the median remuneration of the workforce which was in the range £25k-£30k (2018/19 - £25k-£30k).

Senior Officials Pension

Pension benefits are provided to senior officials on the same basis as all other staff. The accrued pension benefits for senior officials are set out in the table below, together with the pension contributions

[2] Responsibility Allowances have been excluded from pension benefit calculations

Accountability Report (continued)

made by the College. Special responsibility allowances have been excluded from pension benefit calculations.

Name	Accrued pension at pension age at 31 July 2020	Accrued pension at pension age at 31 July 2019	Real increase in pension 1 August 2019 – 31 July 2020	Real increase in lump sum 1 August 2019 – 31 July 2020	CETV at 31 July 2020	CETV at 31 July 2019	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
David Patterson	5-10	5-10	0-5	0-5	127	91	36
Derek Duncan	10-15	10-15	0-5	0-5	250	230	20
Chris Newlands	25-30	25-30	0-5	0-5	668	654	14
Nicola Yoxall	5-10	5-10	0-5	0-5	84	71	13
Carolyn Thomson	20-25	20-25	0-5	0-5	321	287	34
Nicholas Clinton*	0	0	0	0	0	0	0
Shelly McInnes	0-5	0-5	0-5	0-5	8	0	8

* Nicholas Clinton left 31 October 2019, opted out and no longer has any benefits.
** Shelly McInnes started 2 December 2019.

Cash equivalent Transfer Value (CETV)

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

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service and not just their current appointment.

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

(i) the figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.

(ii) the accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

Accountability Report (continued)

Real increase in CETV

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

STAFF REPORT

Number of senior staff by band

Salary band in £'000	2020	2019
0-5	-	-
5-10	-	-
10-15	-	1
15-20	1	-
20-25	-	-
25-30	-	-
30-35	-	-
35-40	-	-
40-45	1	-
45-50	1	1
50-55	-	-
55-60	1	3
60-65	2	-
65-70	-	-
70-75	-	-
75-80	-	-
80-85	-	-
85-90	-	-
90-95	-	-
95-100	-	1
100-105	1	-
TOTAL	7	6

Staff numbers and costs

	2020	2020	2020	2019
	Directly employed staff £'000	Seconded and agency staff £'000	Total £'000	Total £'000
Wages and salaries	8,688	-	8,688	8,118
Social security costs	742	-	742	710
Other pension costs	2,406	-	2,406	1,861
Total	11.836	-	11.836	10,689
Staff Numbers (FTE)	249	-	249	246.8

Accountability Report (continued)

Staff comparison

On 31 July 2020 there were 314 contracted staff, 221 females and 93 males (2018/19 218 females, 90 males).

Sickness absence data

The average sickness absence data rate over the period 1 August 2019 to 31 July 2020 was 2.51% (2018/19 2.74%).

Facility time

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, the College provided the following support through paid facility time for union officials working at the College during the year ended 31 July 2020.

Relevant Union Officials

Number of employees who were relevant union officials during the relevant period	Full time equivalent employee number
4	3.8

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	0
1-50%	4
51-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£20,245
Total pay bill	£10,796,248
Percentage of the total pay bill spent on facility time	0.19%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours	4.44%

Staff Policies

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

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

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

Accountability Report (continued)

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

Expenditure on Consultancy

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

Off-payroll engagements

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

Compensation for loss of office

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

Parliamentary Accountability Report

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

Other Employee Matters

During the reporting period the college required to lockdown as a consequence of the Covid-19 global pandemic. In line with the sector, college activities where delivered remotely with staff working from home or being furloughed for a period from late March 20. Extensive efforts have been made in relation to curriculum and service review and adaption to support learning and teaching activities, on a blended approach in session 20/21 in line with the Scottish Government route map. This has required extensive consultation with trade union and staff representatives and a collaborative approach to the implementation of arrangements to ensure the continued safety and wellbeing of staff, students and those associated with the college.

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

Mr P Graham	Mr D Patterson
Chair	Principal and Chief Executive

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Moray College for the year ended 31 July 2020 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the College Statement of Comprehensive Income, College Statement of Changes in Reserves, College Balance Sheet, and the Statement of Cash Flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2020 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

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

Responsibilities of the Board of Management for the financial statements

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

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual report and accounts

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

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

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

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

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

We have nothing to report in respect of these matters

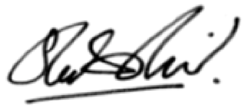
Independent auditor's report to the Board of Management of Moray College, the Auditor General for Scotland and the Scottish Parliament (continued)

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



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

Date: 26 February 2021

Ernst & Young is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006 (for firms)/section 21 of the Public Finance and Accountability (Scotland) Act 2000 (inhouse and any firm where the auditor is not eligible under the Companies Act).

Statement of Principal Accounting Policies

Basis of preparation

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

Basis of accounting

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

Basis of consolidation

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

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

Going Concern

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

The College recorded a deficit of £1,290k before other gains and losses during the financial year and total comprehensive expenditure of £2,648k. The College reported an adjusted operating deficit of £263k after accounting for technical pension adjustments of £639k, loan repayment costs of £97k and net depreciation adjustments of £485k. Cash decreased by £616k during the year and at 31 July 2020 the College held a cash balance of £555k.

The College is reporting a net current liabilities position in these financial statements of £941k and net assets of £6,003k. The College is satisfied that it will continue to be able to pay its operating expenses as they fall due as the activities of Moray College are over 60% funded by the Scottish Government through the Scottish Funding Council (SFC). The Board of Management of Moray College has no reason to believe that future support from Scottish Funding Council will not be forthcoming and the College has received a letter of support from the SFC confirming as much.

Senior management have considered various scenarios in assessing the impact of Covid-19 on future financial performance and cashflows. Cashflow projections have been prepared for twelve months from the date of approval of these financial statements and the College has updated the financial forecast in line with the assumptions provided by the Scottish Funding Council, which included taking appropriate action to balance the underlying position each year. The College has already demonstrated that much of the curriculum can be delivered remotely and the lessons learned will help to mitigate the impact of another lockdown. Further we are actively pursuing other income streams to supplement the current commercial income base and continue to exercise stringent control of operating costs.

The conclusion from the above analysis is that whilst the financial position of the College continues to be challenging and the financial pressures extend beyond 12 months from the date of approving these financial statements, the College is a public body providing statutory services and as such will remain a going concern as long as this is the case. It remains wholly appropriate to adopt a going concern basis for the preparation of these annual financial statements

Statement of Principal Accounting Policies (continued)

Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Recognition of income

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

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

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

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

Grant Funding

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

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

Donations and endowments

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

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

Capital Grants

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

Statement of Principal Accounting Policies (continued)

Retirement benefits

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

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

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

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

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

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

Scottish Public Pensions Agency (SPPA)/ Defined Contribution Scheme

The assets of this scheme are held separately from those of the College in a separate trustee-administered fund. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102, the scheme is accounted for as if it were a defined contribution scheme. As a result, the amounts charged to the Statement of Comprehensive Income and Expenditure represent the contributions payable to the scheme in the year.

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

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

Unfunded pension provision

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

Statement of Principal Accounting Policies (continued)

Employment benefits

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

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

Foreign currency translation

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

Fixed Assets

Recognition

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

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

Measurement

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

All assets are measured subsequently at fair value as follows:

- Specialised land, buildings, plant, equipment, fixtures and fittings are stated at depreciated replacement cost, as a proxy for fair value as specified in the FReM.

- Non-specialised land and buildings are stated at fair value.

- Valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. The valuations are carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

- Non-specialised equipment, installations and fittings are valued at fair value. A depreciated historical cost basis is used as a proxy for fair value.

Statement of Principal Accounting Policies (continued)

- Assets under construction are valued at current cost. This is calculated by the expenditure incurred to which an appropriate index is applied to arrive at current value. These are also subject to impairment review.

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

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

Subsequent expenditure

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

Revaluations and Impairment

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

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

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

Depreciation

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

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

1) Freehold land is considered to have an infinite life and is not depreciated.

2) Assets in the course of construction are not depreciated until the asset is brought into use or reverts to the College, respectively.

3) Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification.

4) Buildings, fixtures and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. They are assessed in the context of the maximum useful lives for building elements.

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

Statement of Principal Accounting Policies (continued)

- Main Campus;
- Alexander Graham Bell Centre;
- Linkwood Technology Centre; and
- Victoria Art.

5) Plant and machinery is depreciated over the estimated life of the asset.

6) Fixed assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

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

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

Intangible Assets

Recognition

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

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

Leased assets

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

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

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

Stocks

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

Statement of Principal Accounting Policies (continued)

Taxation

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

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

Provisions

Provisions are recognised in the financial statements when:

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

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

Contingent assets and liabilities

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

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

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

Agency arrangements

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

Financial instruments

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

Financial assets

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

Statement of Principal Accounting Policies (continued)

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

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

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

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

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

Financial Liabilities

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

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

Key sources of judgement and estimation uncertainty

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

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

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

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

Revaluation reserve

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

Statement of Principal Accounting Policies (continued)

Prior Year Restatement

The College has restated its prior year Grant Income, Staff Cost Expenditure, Debtors, and Creditors, to reflect additional guidance received in 2019/20 about how the impact of the national bargaining exercise estimated costs and associated income should have been accounted for in 2018/19. This had the impact of increasing both 2018/19 income and expenditure by £221,879, with no net overall impact on the deficit for the year, or the total net liabilities for 2018/19.

Statement of Comprehensive Income and Expenditure for the year ended 31 July 2020

	Note	31 July 2020 £'000	31 July 2019 £'000 as restated
Income			
Funding body grants	1	9,683	9,564
Tuition fees and education contracts	2	2,063	2,274
Research grants and contracts	3	837	516
Other income	4	1,309	1,233
Total Income		**13,892**	**13,587**
Expenditure			
Staff costs	5/6	11,836	10,689
Other operating expenses	7	2,451	2,789
Depreciation	11	877	768
Interest payable	8	18	20
Total Expenditure		**15,182**	**14,266**
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before tax		(1,290)	(679)
Loss on disposal of assets	11	-	-
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		(1,290)	(679)
Taxation	9	-	-
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax	10	(1,290)	(679)
Remeasurement of pension scheme assets and liabilities	25	(1,358)	(3,490)
Unrealised surplus on revaluation of land and buildings	11	-	1,019
Total comprehensive income and expenditure for the year		**(2,648)**	**(3,150)**

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

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

Statement of Changes in Reserves
for the year ended 31 July 2020

	General Reserve 31 July 2020 £'000 (Note 19)	Revaluation Reserve 31 July 2020 £'000 (Note 18)	Total 31 July 2020 £'000
Balance at 1 August 2018	**(1,430)**	**13,231**	**11,801**
Deficit from the income and expenditure account	(679)	-	(679)
Other comprehensive income	(3,490)	1,019	(2,471)
Transfers between revaluation and income and expenditure reserve	426	(426)	- -
Balance at 1 August 2019	**(5,173)**	**13,824**	**8,651**
Deficit from the income and expenditure account	(1,290)	-	(1,290)
Other comprehensive income	(1,358)	-	(1,358)
Transfers between revaluation and income and expenditure reserve	449	(449)	-
Balance at 31 July 2020	**(7,372)**	**13,375**	**6,003**

Statement of Financial Position
as at 31 July 2020

	Notes	as at 31 July 2020 £'000	as at 31 July 2019 £'000 as restated
Non-current assets			
Fixed assets	11	25,614	25,413
		25,614	**25,413**
Current Assets			
Stock		88	88
Trade and other receivables	12	1,180	756
Cash and cash equivalents		555	1,171
		1,823	2,015
Creditors: amounts falling due within one year	13	(2,760)	(2,701)
Net current liabilities		**(937)**	**(686)**
Total assets less current liabilities		24,677	24,727
Creditors: amounts falling due after more than one year	14	(7,892)	(7,305)
Provisions	16	(10,782)	(8,771)
TOTAL NET ASSETS		**6,003**	**8,651**
UNRESTRICTED RESERVES			
Revaluation reserve	18	13,375	13,824
General reserve	19	(7,372)	(5,173)
TOTAL RESERVES		**6,003**	**8,651**

The financial statements on pages 38 to 70 were authorised for issue and approved by the Board of Management on 25 February 2021 and were signed on its behalf on that date by:

Mr P Graham
Chair

D Patterson
Principal and Chief Executive

Cash Flow Statement
for the year ended 31 July 2020

	Notes	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Cash inflow from operating activities	20	(497)	540
Returns on investments and servicing of finance	21	(16)	(17)
Capital expenditure and financial investment	22	(0)	(24)
Financing	23	(103)	(97)
Increase/(decrease) in cash in the year		**(616)**	**402**

Note to the Cash Flow Statement

Reconciliation of net cash flow to movement in net funds

Decrease in cash in the year		(616)	402
Change in net debt resulting from cash flows	24	103	97
Movement in net funds in year		(513)	499
Net funds at 1 August 2019		691	192
Net funds at 31 July 2020	24	**178**	**691**

Notes to the Financial Statements

1. Funding body grants

	2019/20 Total £'000	2018/19 Total £'000
SFC recurrent grant (including fee waiver)	5,236	5,466
UHI recurrent grant – HE provision	2,390	2,705
Formula capital funding	43	116
FE childcare funds	194	250
Release of deferred capital grants (SFC)	182	89
Other SFC grants – FE provision	1,408	862
Other UHI grants – HE provision	230	76
	9,683	**9,564**

2. Tuition fees and education contracts

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
FE fees – UK	555	474
HE fees	1,221	1,369
SDS contracts	313	318
Other contracts	(26)	113
	2,063	**2,274**

3. Research grants and contracts

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Release of deferred capital grants (UHI)	210	229
European funds	15	15
Other grants	612	272
	837	**516**

Notes to the Financial Statements (continued)

4. Other income

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000 as restated
Catering and residences	226	317
Nursery	161	222
Hairdressing and beauty	25	60
ELS Income	74	17
ALF income	-	55
Rent	53	73
Other income*	770	489
	1,309	**1,233**

*Included in other income above is £365k of Furlough income received.

5. Staff numbers and costs

Staff numbers (full-time equivalent):	Year ended 31 July 2020	Year ended 31 July 2019
Academic/Teaching departments	106	110
Academic/Teaching services	34	33
Administration and central services	63	63
Premises	12	13
Other expenditure	25	19
Catering and residences	9	8
	249	**246**
Staff on permanent contracts	220	207
Staff on temporary contracts	29	39
	249	**246**

Notes to the Financial Statements (continued)

Staff costs:	**Year ended 31 July 2020 £'000**	**Year ended 31 July 2019 £'000 as restated**
Academic/Teaching departments	5,753	5,401
Academic/Teaching services	1,069	1,031
Administration and central services	2,739	2,475
Premises	321	325
Other expenditure	952	793
Catering and residences	230	219
Pension movement	772	445
	11,836	**10,689**
Wages and salaries	8,688	8,118
Social security costs	742	710
Other pension costs	2,406	1,861
	11,836	**10,689**

Pension provision adjustment

In accordance with SFC guidance the pension provision in respect of unfunded enhanced early retirements has been revalued using the 2019/20 SFC guidance. An interest rate of 0.0% has been used (2018/19 interest rate 0.0%) which resulted in a decrease in provision of £119k (2018/19 decrease of £8k). This adjustment is included in the other expenditure section of staff costs (above) as well as the adjustment made in respect of FRS102.

Included in staff costs under 'other expenditure' are adjustments in respect of the FRS102 pensions adjustments amounting to £772k (2018/19 £445k).

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

	Year ended 31 July 2020		**Year ended 31 July 2019**	
	Senior post-holders	**Other staff**	**Senior post-holders**	**Other Staff**
£ 60,001 to £ 70,000	2	-	-	-
£ 70,001 to £ 80,000	-	-	-	-
£ 80,001 to £ 90,000	-	-	-	-
£ 90,001 to £100,000	-	-	1	-
£ 100,001 to £110,000	1	-	-	-
	3	**-**	**1**	**-**

Notes to the Financial Statements (continued)

6. Senior post-holders' emoluments

	Year ended 31 July 2020 Number	Year ended 31 July 2019 Number
Senior post-holders including the Principal:	**7**	**6**

Senior post-holders' emoluments including the Principal:	**£'000**	**£'000**
Salaries	391	335
Pension contributions	81	68
	472	**403**

Amounts paid to the Principal:	**£'000**	**£'000**
Salary	102	99
Pension contributions	23	22
	125	**121**

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

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

7. Other operating expenses

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Academic/Teaching departments and services	754	815
Administration and central services	701	705
Agency staff	141	169
Premises	657	819
Other expenditure	63	94
Catering and residences	135	187
	2,451	**2,789**

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

Notes to the Financial Statements (continued)

Other operating expenses include:	**Year ended 31 July 2020 £'000**	**Year ended 31 July 2019 £'000**
Auditors' remuneration:		
external audit	22	20
internal audit	22	18
Disbursements of childcare funds to students	194	250
Legal services	11	9
Hire of plant and machinery – operating leases	56	47
Hire of other assets - operating leases	15	15

8. Interest payable

	Year ended 31 July 2020 £'000	**Year ended 31 July 2019 £'000**
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	18	20
	18	**20**

9. Taxation

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

10. Total comprehensive income expenditure of the year

	Year ended 31 July 2020 £'000	**Year ended 31 July 2019 £'000**
Total comprehensive income expenditure for the year is made up of the following:		
Deficit for the year	(1,290)	(679)
Remeasurements of pension scheme assets and liabilities	(1,358)	(3,490)
	(2,648)	**(4,169)**

Notes to the Financial Statements (continued)

11. Tangible fixed assets

	Freehold Land and Buildings £'000	Plant & Machinery £'000	Fixtures, Fittings and Equipment £'000	Assets in the Course of Construction £'000	Total £'000
Cost / Valuation					
At 1 August 2019	24,682	2,905	1,131	36	28,754
Additions	119	42	915		1,076
Completion of construction	-	-	-	-	-
Revaluation					
Disposals*	-	-	-	-	-
At 31 July 2020	**24,801**	**2,947**	**2,046**	**36**	**29,830**
Depreciation					
At 1 August 2019	80	2,592	669	-	3,341
Charge for year	638	103	136	-	877
Revaluation	-	-	-	-	-
Disposals*	-	-	-	-	-
At 31 July 2020	**718**	**2,695**	**805**	**-**	**4,218**
Net book value At 31 July 2019	**24,602**	**313**	**462**	**36**	**25,413**
Net book value At 1 August 2020	**24,083**	**252**	**1,241**	**36**	**25,612**
Inherited	11,235	-	-	-	11,235
Financed by capital grant	12,489	152	1,144	-	13,785
Other	359	100	97	36	592
Net book value At 31 July 2020	**24,083**	**252**	**1,241**	**36**	**25,612**

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

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

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

Notes to the Financial Statements (continued)

Had land and buildings not been revalued historically they would have been included at 31 July 2020 as:

	£'000
Cost	13,852
Aggregate depreciation based on cost	(3,144)
Net book value based on cost	10,708

12. Trade and other receivables

	As at 31 July 2020 £'000	As at 31 July 2019 £'000 as restated
Trade debtors	203	253
Prepayments and accrued income	491	66
Other debtors	487	437
	1,180	**756**

13. Creditors: Amounts falling due within one year

	As at 31 July 2020 £'000	As at 31 July 2019 £'000 as restated
Loans and overdrafts (secured)	103	97
Payments received in advance	497	824
Trade creditors	5	59
Other creditors	798	452
Other taxation and social security	187	249
Accruals and deferred income	458	494
Amounts owed to the University of the Highlands and Islands	-	-
Bursary and access funding	385	199
Capital grants	327	327
	2,760	**2,701**

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

	As at 31 July 2020 £'000	As at 31 July 2019 £'000
Bank loan (secured)	-	52
Moray Council loan	298	345
Capital grants	7,594	6,909
	7,892	**7,306**

Notes to the Financial Statements (continued)

15. Borrowings

Bank loans and overdrafts

	As at 31 July 2020 £'000	As at 31 July 2019 £'000
The Royal Bank of Scotland loan is repayable as follows:		
In one year or less	56	50
Between one and two years	-	53
Between two and five years	-	-
	56	**103**

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

Moray Council loan

	As at 31 July 2020 £'000	As at 31 July 2019 £'000
The Moray Council loan is repayable as follows:		
In one year or less	47	47
Between one and two years	47	47
Between two and five years	141	141
In five years or more	110	156
	345	**391**

The Moray Council loan is secured over College buildings.

16. Provisions for liabilities and charges

	Early retirement pension costs £'000	Pension costs £'000	Other £'000	2019/20 Total £'000	2018/19 Total £'000
At 1 August	2,632	6,133	6	8,771	4,844
Expenditure in the year	(156)	-	-	(156)	(159)
Additional provision required in year	156	-	-	156	159
Revaluation adjustment	(119)	2,130	-	2,011	3,927
Pension valuation changes	-	-	-	-	-
At 31 July	**2,513**	**8,263**	**6**	**10,782**	**8,771**

Notes to the Financial Statements (continued)

17. Financial Instruments

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

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

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

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

Financial assets and liabilities

	Long term		**Current**	
	31 July 2020	**31 July 2019**	**31 July 2020**	**31 July 2019**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets – loans and receivables				
Trade and other receivables			203	253
Cash and cash equivalents			555	1,171
Total loans and receivables			**758**	**1,424**
Financial liabilities at amortised cost				
Trade and other payables			533	539
Long term borrowing	298	397		
Total financial liabilities at amortised cost	**298**	**397**	**533**	**539**

Income, expense, gains and losses

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

31 July 2019		**31 July 2020**		
£'000		**£'000**	**£'000**	**£'000**
		Financial liabilities	**Financial assets**	
		Liabilities measured at amortised cost	Loans and receivables	**Total**
(20)	Interest expense	(18)		**(18)**
-	Gains on revaluation	-		**-**
	Losses on revaluation	-	-	-
(20)	**Net gain / (loss) for the year**	**(18)**	**-**	**(18)**

Notes to the Financial Statements (continued)

Fair values of assets and liabilities

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

- Estimated interest rates at 31 July 2020 for loans from the bank are 2% and from Moray Council 4.55%
- No early repayment or impairment is recognised
- The fair value of trade and other receivables is taken to be the billed amount

The fair values are as follows:

	31 July 2020		**31 July 2019**	
	Carrying amount **£'000**	**Fair value** **£'000**	**Carrying amount** **£'000**	**Fair value** **£'000**
Borrowing repayable				
Moray Council	345	382	391	430
Royal Bank of Scotland	56	108	103	209
Total	**401**	**639**	**494**	**639**

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

Risks associated with financial instruments

Liquidity risk

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

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

Notes to the Financial Statements (continued)

	Royal Bank of Scotland		Moray Council		**Total**	
	31 July 2020 £'000	31 July 2019 £'000	31 July 2020 £'000	31 July 2019 £'000	**31 July 2020 £'000**	**31 July 2019 £'000**
Less than one year	56	50	47	47	**97**	**97**
Between 1 and 2 years	-	53	47	47	**100**	**100**
Between 2 and 5 years	-	-	141	141	**141**	**141**
In five years or more	-	-	110	156	**156**	**156**

Interest rate risk

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

Credit risk

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

Credit risk in respect of receivables is limited, due to the organisation's customer base being large and diverse. Our historical experience of collecting receivables, supported by the level of defaults, is that the credit risk is higher for amounts receivable from individuals than from businesses. We carry out an impairment review of receivables each year to identify an appropriate level of provision. Balances are considered for impairment on an individual basis and by reference to the extent to which they become overdue. The maximum credit risk exposure at the reporting date is £203k (2019: £253k), being the sum of cash and cash equivalents and trade and other receivables. The fair values are not significantly different to carrying values.

18. Revaluation reserve

	As at 31 July 2020 £'000	**As at 31 July 2019 £'000**
At 1 August	13,824	13,231
Revaluations in the year	-	1,019
Transfer from revaluation reserve to general reserve in respect of depreciation on revalued assets	(449)	(426)
At 31 July	**13,375**	**13,824**

Notes to the Financial Statements (continued)

19. General Reserve

	Income and Expenditure Account Reserve	Pension liability	Total	Income and Expenditure Account Reserve	Pension liability	Total
			2020			2019
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August	960	(6,133)	**(5,173)**	768	(2,198)	**(1,430)**
Deficit from the Statement of Comprehensive Income and Expenditure	(518)	(772)	**(1,290)**	(234)	(445)	**(679)**
Transfer from revaluation reserve	449	-	**449**	426	-	**426**
Remeasurement of pension scheme assets and liabilities	-	(1,358)	**(1,358)**	-	(3,490)	**(3,490)**
At 31 July	**891**	**(8,263)**	**(7,372)**	**960**	**(6,133)**	**(5,173)**

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

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000 as restated
Deficit on continuing operations after depreciation of assets at valuation and tax	(1,290)	(679)
Depreciation	877	768
Deferred capital grants released to income	(392)	(318)
Interest payable	18	20
(Increase)/decrease in stocks	-	(29)
(Increase)/decrease in debtors	(417)	(377)
Increase/(decrease) in creditors	56	729
Increase in provisions	651	426
Net cash flow from operating activities	**(497)**	**540**

Notes to the Financial Statements (continued)

21. Returns on investments and servicing of finance

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Interest received	-	-
Interest paid	(16)	(17)
Net cash flow from returns on investments and servicing of finance	**(16)**	**(17)**

22. Capital expenditure and financial investment

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Purchase of tangible fixed assets	(1,076)	(268)
Deferred capital grants received	1,076	244
Disposal of land and building	-	-
Net cash flow from capital expenditure and financial investment	**-**	**(24)**

23. Financing

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Debt due beyond a year:		
repayment of Moray Council loan	(47)	(47)
repayment of bank loan	(56)	(50)
Net cash flow from financing	**(103)**	**(97)**

24. Analysis of changes in net funds

	At 1 August 2019 £'000	Cash flows £'000	Other changes £'000	At 31 July 2020 £'000
Cash at bank and in hand	1,171	(616)	-	555
	1,171	(616)	-	555
Debt due within 1 year	12	103	-	115
Debt due after 1 year	(492)	-	-	(492)
	691	**(513)**	**-**	**178**

Notes to the Financial Statements (continued)

25. Pension and similar obligations

Accrued pension benefits

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

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

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on final pensionable salary and years of pensionable service.

Scottish Teachers Superannuation Scheme (STSS)

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

Total contributions for the year ended 31 July 2020 were £1,342k (2018/19 £1,085k) of which employers contributions totalled £959k (2018/19 £716k and employees contributions totalled £383k (2018/19 £369k). Total contributions for the year included £111k outstanding at the balance sheet date (2018/19 £118k).

The current contribution rates are:	Employees	Banded rates salary based ranging 7.2% to 11.5%
	Employers	23.0% from 01.09.2019 (17.2% until 31.08.2019)

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

FRS 102

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

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

Notes to the Financial Statements (continued)

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

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

To reflect the pension liability on the balance sheet, the provision increased by £2,130k (decreased by £3,935k in 2018/19), which was largely due to the actuarial assumptions applied.

North East Scotland Pension Fund (NESPF)

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

A valuation for the purpose of FRS 102 of the North East Scotland Pension Fund was performed at 31 July 2017 by a qualified, independent actuary.

Total contributions for the year ended 31 July 2020 were £1,007k (2018/19 £898k) of which employers contributions totalled £794k (2018/19 £707k) and employees contributions totalled £213k (2018/19 £191k). Total contributions for the year included £83k outstanding at the balance sheet date (2018/19 £79k).

The current contribution rates are:	Employees	Tiered rates based on salary ranging 5.5% to 9.7%.
	Employers	22.2% from 01.04.2020 (22.0% until 31.03.2020)

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

	Year ended 31 July 2020 £'000	**Year ended 31 July 2019 £'000**
Current service cost	1,411	977
Interest on obligation	125	53
Administration expenses	14	13
Past service cost	29	122
Expected return on employer assets	-	-
Effect on curtailments	-	-
Total	**1,579**	**1,165**
Other comprehensive income and expenditure		
Remeasurements (assets and liabilities)	**(1,358)**	**(3,490)**

Notes to the Financial Statements (continued)

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

	As at 31 July 2020 £'000	As at 31 July 2019 £'000
Present value of the defined benefit obligation	29,352	25,700
Present value of unfunded benefit obligations	202	207
Fair value of plan assets	(21,291)	(19,774)
Net liability	**8,263**	**6,133**

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

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Opening defined benefit obligation	25,907	20,572
Current service cost	1,411	977
Interest on pension liability	567	593
Contribution by members	214	191
Past service cost	29	122
Remeasurements (liabilities)	-	-
Expenditure Gain	-	-
Experience (gain)/loss	(141)	-
Loss/(Gain) on assumptions Curtailments	1,957 -	3,837 -
Unfunded benefits paid	(13)	(14)
Benefits paid	(377)	(371)
Closing defined benefit obligation	**29,554**	**25,907**

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

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Opening fair value of scheme assets	19,774	18,374
Expected return on assets	442	540
Contribution by members	214	191
Contribution by the employer	794	706
Contributions in respect of unfunded benefits	13	14
Remeasurement of assets	458	347
Unfunded benefits paid	(13)	(14)
Benefits paid	(377)	(371)
Administration expenses	(14)	(13)
Closing fair value of scheme assets	**21,291**	**19,774**

Notes to the Financial Statements (continued)

The assets in the scheme are:

		Value at 31 July 2020		Value at 31 July 2019
	%	£'000	%	£'000
Equities	61.9	13,179	60.1	11,884
Government Bonds	7.8	1,661	5.9	1,167
Bonds	6.1	1,299	1.2	237
Property	6.9	1,469	7.6	1,503
Cash	2.8	596	5.6	1,107
Other	14.5	3,087	19.6	3,876

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Scheme has been assessed by Mercer Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2017 rolled forward to 31 July 2021.

The significant assumptions used by the actuary are as follows:

	Year ended 31 July 2020 % pa	Year ended 31 July 2019 % pa
Pension increase rate	2.3	2.2
Salary increase rate*	3.8	3.7
Discount rate	1.6	2.2
Average future life expectancies at age 65 are summarised below:		
Future pensioners (males / females)	23 (26.2)	25.8 (28.1)
Current pensioners (males / females)	21.4 (24.1)	22.9 (25)
The employer contributions for year to 31 July 2021 will be approximately	811	731

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

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

Notes to the Financial Statements (continued)

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

Impact on the Defined Benefit Obligation of the scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Longevity (increase or decrease in 1 year)	916	(916)
Rate of inflation (increase or decrease by 0.1%)	603	(603)
Rate of increase in salaries (increase or decrease by 0.1%)	79	(79)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(861)	861

Impact on the College's Cash Flows

The triennial valuation was completed at 31 March 2017, which is effective from 31 March 2018.

The total contributions expected to be made to the Local Government Pension Scheme by the College in the year to 31 March 2021 is £811k. If actual assumptions are the same, the total pension cost recognised in the Statement of Comprehensive Income and Expenditure in 2021/22 is estimated to be £1,715k.

The weighted average duration of the defined benefit obligation for scheme members at the 31 March 2017 valuation is 20 years.

26. Non-cash allocation

The College's adjusted operating position as at 31 July 2020 is illustrated below:

	2019/20	2018/19
	£'000	£'000
Deficit before other gains and losses (FE/HE SORP basis)	(1,290)	(679)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	1,124	874
Operating surplus on Central Government accounting basis	**(166)**	**195**

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

Under the FE/HE SORP, the College recorded an operating deficit of £1,290k for the year ended 31 July 2020. After taking account of the Government non-cash budget, the College shows an "adjusted" deficit of £263k on a Central Government accounting basis. This demonstrates that the College is not currently operating sustainably within its funding allocation. A three-year budget was submitted to the SFC in June 2020 which detailed plans to bring the College back within a 'balanced position' by the end of FY 2022/23.

Notes to the Financial Statements (continued)

Underlying Operating Position		
	2019/20	**2018/19**
	£'000	**£'000**
Surplus/(Deficit) before other gains and losses	**(1,290)**	**(679)**
Add back:		
- Depreciation (net of deferred capital grant release)*	485	450
- Exceptional non-restructuring costs (e.g. impairment)	-	-
- Non cash pension adjustments (FRS102)	633	379
- Non cash pension adjustments (Net interest costs)	125	53
- Non cash pension adjustments (SFC)	(119)	(8)
Deduct:		
- Non-Government capital grants (e.g. ALF capital grant)	-	-
- Exceptional income	-	-
- Revenue Funding allocated to loan repayments and other capital items**	(97)	(97)
Underlying Operating Surplus/(Deficit)	**(263)**	**98**

27. Capital commitments

At 31 July the College had no capital commitments.

28. Financial commitments

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

	Year ended 31 July 2020 £'000	**Year ended 31 July 2019 £'000**
Land and Buildings		
Falling due within one year	-	9
Falling due within one and two years	-	-
	-	**9**
Other		
Falling due within one year	38	28
Falling due within one and two years	77	57
Falling due within two and five years	48	22
	163	**107**

Notes to the Financial Statements (continued)

29. Related party transactions

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

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

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

<u>Aggregate transactions with the University of the Highlands and Islands*:</u>

FE funding	£5,977,201 (2019 - £5,658,082)
HE funding	£2,737,357 (2019 - £2,710,777)
Sales ledger	£285,030 (2019 - £253,461)
Purchase ledger	£133,506 (2019 - £144,497)
Debtor	£71,744 (2019 - £5,875)

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

30. Post balance sheet events

The College had no post balance sheet events.

31. Bursaries and other student support funds

	FE Bursaries £'000	FE Hardship £'000	EMA £'000	HE Hardship £'000	2019/20 Total £'000	2018/19 Total £'000
At 1 August	155	-	23	22	200	409
Allocation received in year	1,780	123	94	78	2,075	1,509
ESIF Advance	-	-	-	-	-	-
Expenditure	(1,506)	(123)	(94)	(71)	(1,794)	(1,718)
Repaid to Funding Council as clawback	(110)	-	-	-	(110)	-
Virements	-	5	-	(5)	-	-
At 31 July	**319**	**5**	**23**	**24**	**371**	**200**
Represented by:						
Repayable to UHI as clawback	-	-	-	-	-	-
Repayable to Region for Re-distribution	-		-	-	-	22
Repayable to Funding Council as clawback	-	-	-	-	-	-
Retained by College for students	319	5	23	24	371	178
	319	**5**	**23**	**24**	**371**	**200**

Notes to the Financial Statements (continued)

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

32. Childcare funds

	2019/20 £'000	2018/19 £'000
At 1 August	-	76
Allocation received in year	208	174
Expenditure	(194)	(250)
Repaid to Funding Council as clawback	-	-
Virements	-	-
At 31 July	**14**	**-**
Represented by:		
Repayable to UHI as clawback	-	-
Repayable to Region for Re-distribution	-	-
Repayable to Funding Council as clawback	-	-
Retained by College for students	14	-
	14	**-**

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

APPENDIX 1 - 2018-19 Accounts direction for Scotland's colleges and Glasgow Colleges' Regional Board

1. It is the Scottish Funding Council's direction that institutions[3] comply with the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts[4].

2. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).

3. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2019-20 (FReM) where applicable.

4. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2020.

5. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.

6. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
17 July 2020

[3] The term "institutions" includes colleges and Glasgow Colleges' Regional Board
[4] Glasgow Colleges' Regional Board's accounts are prepared on a consolidated basis, incorporating the results of City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College. New College Lanarkshire's accounts are also prepared on a consolidated basis, incorporating the results of South Lanarkshire College