



North Highland College
University of the
Highlands and Islands

**The North Highland College Report &
Financial Statements for the year ended
31 July 2018**

SCOTTISH CHARITY NUMBER SC021215

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Board of Management and Professional Advisors

Board of Management

A full list of the membership of the Board of Management is included in the Accountability Report. The Chair of the Board of Management is Blair Sandison.

Professional Advisors

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

Performance Report

The Board of Management of North Highland College UHI present their report and the audited financial statements for the year ended 31 July 2018.

OVERVIEW

The overview section is designed to aid the reader in understanding our College including - the context in which we operate; our main objectives; our performance during the year; and the key challenges and risks facing the College.

Principal's Statement

Session 2017-18 was another year in which North Highland College UHI operated in a tight financial position. Thus, it is pleasing to note that overall the College's financial performance in 2017-18 was both better than budget and the previous year. A small operating Resource Departmental Expenditure Limit (RDEL) surplus of £111,000 (prior to repayment of property loan capital of £55,000) is reported on the management accounts. Movements on non-controllable year-end adjustments has resulted in the College's Statement of Comprehensive Income showing a loss).

The principal drivers delivering this positive outcome included;

- SFC Further Education student recruitment targets (core and ESIF funded) set for the College as part of the Highlands & Islands Regional Outcome Agreement being fully achieved.
- Growth in our under-graduate and post-graduate Higher Education student recruitment. Our numbers were significantly above our targeted contributions to the University of the Highlands & Islands student enrolment profile.
- Better than budgeted income for project activities including research and curriculum development.
- Continuing tight budgeting and fiscal management delivering further operational efficiencies.

As noted in our Performance Report for the previous year, complying with emerging national standards for staff pay and terms & conditions has presented North Highland College UHI (and other rural colleges in the Highlands & Islands Region) with financial challenges disproportionate to the rest of the sector. Uncertainty over the level of additional funding to meet this ongoing commitment represents the biggest element of risk to the College's overall financial well-being in the medium - longer term (2 – 5 years).

We will continue to monitor our financial position with great vigilance, and explore all opportunities to improve our financial standing by growing income and providing our services more efficiently.

The NHC Board of Management continues to oversee the development of the College with vigour and commitment. The Board has strong staff, student and independent representation with members drawn from communities across the north Highlands. Recruitment activities for new Board members have taken due cognisance of the Board's commitment to the "50:50 by 2020" gender balance pledge which remains a priority objective requiring further progress.

During 2017, the Board led the development and publication of the College's Strategic Plan for the period 2018-20. The new plan is very closely aligned to that of the University of the Highlands & Islands and provides a development framework for the College's curriculum, student services and research through the enabling resources of our staff, finance and facilities. Board members also actively progressed the actions arising from the externally facilitated review of Board effectiveness carried out in the previous year.

With the endorsement of the NHC Board, along with his counterparts from other UHI incorporated colleges, our Chair played a lead role in moves to deliver greater organisational and operational

integration within the UHI partnership. Initial plans to integrate four of the colleges, including North Highland College, with the University were not progressed, although the work of the Integration Board has acted as a catalyst for options for organisational reform to be further reviewed through the newly formed UHI Partnership Assembly. A Project Board is to be formed with representation from across the partnership. Its results should see commencement of change within the next year.

Over the year, the College's Audit & Risk Management Committee maintained a comprehensive oversight of the quality of college governance, management and services. The Committee noted a number of positive outcomes to statutory and other audits. Within the annual internal audit programme, auditors confirmed their satisfaction that systems and controls for the administration and disbursement of funds were adequate and used in accordance with the SFC conditions. More widely, a number of recommendations were noted and accepted in relation to compliance with the new General Data Protection regulation (GDPR) and these are being actively progressed with guidance and support from our Regional Strategic Body.

In association with our education and business partners, the College progressed a number of initiatives in response to key sector priorities. The College continues to make a major contribution to the delivery of the Highlands & Islands Regional Outcome Agreement. Staff played an active role in supporting the Caithness & Sutherland Developing the Young Workforce (DYW) Regional Board. Working closely in partnership with our local schools, we have developed and implemented new vocationally orientated programmes including Foundation Apprenticeships for the senior phase. We also worked with UHI colleagues to create new courses and opportunities at both under-graduate and post-graduate levels.

A high-level summary of the College's performance in meeting key student activity targets is provided below;

Student Targets V Actual Final 2017/18

		Target	Actual	Variance
HE (FTEs)	UG	401	423	+22
	PGT	5	18.1	+13.1
	PGDE	7	7	0
FE (Credits)		12555	12573	+18

Key:-

UG – undergraduate (Scottish and EU)

PGT – Post Graduate taught (all categories of student home location)

PGDE - Professional Graduate Diploma in Education

During 2017/18, we advanced the planning and development of the College estate in a number of priority areas.

We have achieved the Board's high-level objective of having "shovel ready" plans to transform the College's main campus in Thurso. These have been shared with College stakeholders and we are progressing discussions to meet the funding requirements. In Dornoch, we have successfully secured the funding necessary to complete our project to enhance our Burghfield campus with support from the Scottish Colleges Foundation and the UHI partnership. With our UHI Golf curriculum built around strong links with the PGA and high-quality UHI student accommodation already in place, the outcome of this project will complete our ambitious plans to confirm Dornoch as a centre of excellence for Golf education regionally, nationally and internationally.

In response to growing pressure on existing facilities due to the expansion of our student numbers in the Easter Ross area, our Estates team have moved swiftly to secure some additional high quality accommodation in the vicinity of our Alness campus for session 2018/19.

Our campus developments are of strategic significance to the long-term future and sustainability of the college, and as such will continue to provide a focus for our efforts as we progress them with our key stakeholders in the year ahead.

Summary

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

Donald MacBeath
Principal

Performance Report

NATURE, OBJECTIVES AND STRATEGIES

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

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

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

Scope of the Financial Statements

The Financial Statements cover all activities of the College.

Strategic Planning

Following consultation with students, staff and other stakeholders, a new set of strategic aims and objectives were developed by the Board of Management for the planning period 2017 -20. The revised vision, mission and core values are provided below for reference;

Strategic Vision. 2017 – 2020

The North Highland College will be an active and committed academic partner of the University of the Highlands and Islands, the United Kingdom's leading integrated university. We will be recognised for the quality of our students' experience and for their achievement. Our reputation will be built upon an innovative approach to tertiary learning and teaching and our distinctive research and curriculum, enriched by the people, natural environment and culture and heritage of the north Highlands. Whilst our primary focus will be on meeting the needs of our local area, we will also extend our reach regionally, nationally and internationally in areas of key strength and specialism.

This vision is very much aligned with the UHI Strategic vision whilst emphasising our commitment to making the best of the assets and resources in the north Highland area to help make our curriculum and research distinctive. It also confirms that whilst we are primarily a community college, we have ambitions to make an even greater and wider geographical impact.

Mission Statement 2017-2020.

To have a transformational impact on the prospects of the north Highland area, its economy, its people and its communities.

Core Values 2017 -2020.

Support, Collaboration, Openness, Respect, Excellence.

Implementation of the NHC Strategic Plan.

The Colleges current strategic aims are set out below;

Aim 1 Curriculum

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

Aim 2 Services

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

Aim 3 Research

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

Aim 4 Finances

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

Aim 5 Staff

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

Aim 6 Facilities

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

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

- Progressing the work of our new Board of Management in accordance with the requirements of the Code of Good Governance for Scotland's colleges. This included implementing the actions from the externally facilitated review of Board effectiveness. The appointment of the Chair of the NHC Board as Chair of the UHI Integration Board in September 2017.
- Confirmation and publication of the College's new Strategic Plan for 2018 – 20.
- Meeting or exceeding all student recruitment targets for 2017 -18.
- The high levels of retention and course attainment by our full-time FE students evidenced in SFC statistical publications.
- Staff contributions to various regional planning and management fora for curriculum and support services.

- Implementation of all relevant outcomes from National Bargaining negotiations.
- Appointment of staff into new promoted lecturer roles to strengthen the leadership arrangements for key areas of business
- The further strengthening of learner representation and engagement through the effective partnership working of staff and students. In particular, the value of the local liaison work was recognised in the 2017-18 HISA awards.
- Active participation in the work of the Developing the Young Workforce (DYW) Regional Board for the Caithness & Sutherland area and involvement in other regional DYW initiatives.
- Widening access to college by creating further new vocational pathways on our School link partnership programme.
- Securing support from the Scottish Colleges Foundation to establish a new Business Development Unit in the College.
- Further development of our Higher Education portfolio through the Highlands & Islands creating new HE opportunities for learners at our Thurso, Dornoch and Alness campuses.
- The work of our research staff in creating more opportunities for PhD students, in providing conferences of international repute and securing new funded projects for themes compatible with the UHI's strategy for strengthening focussed research.
- Securing support from the Scottish Colleges Foundation to help progress our campus developments in Dornoch and Alness.

Financial Objectives

Enhance and improve our services by making the best use of our resources, developing additional sources of income and by managing risk effectively encapsulates the principal financial objective of the College, which is to remain financially secure in the budgeting and reporting context of an assigned, incorporated college. In order to achieve this, the College addressed or is addressing the following:

- Base line funding for FE was as follows for The North Highland College: 2017-18 £4,249,378 Main Teaching and Fee Waiver to deliver 12,400 core Credits (£342.69 per Credit.)
- European Structural Investment Funds for 2014 – 2020 are managed through a range of Strategic Interventions, SI's, which are overseen by lead partners. Both the Scottish Funding Council and Skills Development Scotland are the lead partners for the Developing Scotland's Workforce SI.
- For academic year 2017-18, the College has benefitted from ESIF funds for additional credits for students at further education level, along with associated student support for the delivery of these credits. UHI takes a regional approach to academic planning for both FE and HE, and through agreement, North Highland College bid for and delivered 155 additional FE credits. The current agreed price for an ESIF credit is £248.42 per credit. This past year has seen a reduction in ESIF funds for FE as this programme period draws to a close.
- For academic year 2017-18, the College met its core target, as well as the additional credits for ESIF. For 2018-19, the additional funding for FE student places for UHI as the Regional Strategic Body is being maintained as for 2017-18.
- In addition to funding for additional FE credits, the college benefitted from ESIF funds to support curriculum developments and post graduate funded places. Additionally we are

awaiting the outcome of a bid with UHI for New Posts for sectoral engagement in Engineering. If successful, these posts will be funded directly from ESIF.

- Brexit continues to cause concern to the College/University sector as we consider the impact on EU funds from Lifelong Learning, Structural Investment Funds and the framework programme for research and innovation, as well as European territorial cooperation programmes. The college is monitoring the likely impact of Brexit very closely and has highlighted the EU funding issue surrounding Brexit as a key risk on our risk register. Both the Director of the Environmental Research Institute and the Director of Enterprise and Innovation are working with colleagues across the sector to ensure early engagement in new opportunities.
- Currently for ESIF, the Scottish Government has legally committed European funds to existing projects, (i.e. where SIs have been approved) up to the end of 2018 and in some cases, the middle of 2019. These projects should continue on a “business as usual” basis and Lead Partners have been instructed to work on that basis.
- Funding from Skills Development Scotland continues to be an area of growth for the College as we continue to develop our apprenticeship offering both within the college and through the university work based learning hub. We are growing our foundation apprenticeship offering in 2018-19 with ambitious plans for 2019-2020. We have seen growth in almost all areas of modern apprenticeship recruitment.
- We are working closely with a small number of large employers to provide training courses through the Flexible Workforce Development Fund. 2017-2018 has seen us deliver our first courses for this fund and again we are preparing for growth in this area for 2018-19.
- The college is currently advertising for dedicated Business Development staff who will work under the guidance of the Director of Enterprise and Innovation to support all areas of non SFC income to support opportunities for students and the wider college in 2018-19.

Performance Indicators and Activity Review

Further education activity amounted to 19,724 credits in 2017-18, compared to 19,083 credits in academic year 2016-17. Activity was delivered under the collaborative further education arrangements with Argyll College. The Further Education activity target for The North Highland College was 12,400 core credits plus 155 additional ESF credits. Credits were as follows:

	2018 Nos
The North Highland College	12,573
Argyll College	<u>7,151</u>
	19,724
West Highland College	<u>6,971</u>
	<u>26,695</u>

West Highland College became an assigned college and fundable body at 1 August 2012, and its funding now goes directly to it. Its activity for FE is still reported through The North Highland College.

Higher Education activity as measured by full time equivalents (FTE's) amounted to 423 FTEs compared with 362 FTEs in 2016-17. The Higher Education activity target was 401.

Student Activity Indicators

The trend of College enrolments and student activity is as set out below. Higher education activity is reported separately and funded through The University of the Highlands and Islands. The table below discloses Credits for 2015-16, 2016-17 & 2017-18 and Weighted Sums for the previous years. It includes North Highland College and Argyll College. The Higher Education figures relate to North

Highland College.

Analysis of College Further Education Enrolments 2013-14 to 2017-18					
Year	2013-14	2014-15	2015-16	2016-17	2017-18
Mode of attendance	Count	Count	Count	Count	Count
Full-time	685	606	601	657	629
Part-time	3,634	3,936	4,259	3,652	3,682
Total Enrolments	4,319	4,542	4,860	4,309	4,311
Credits Delivered	n/a	n/a	18,756	19,083	19,724
Weighted Sums Delivered	28,378	27,445	n/a	n/a	n/a

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

Analysis of College Higher Education Enrolments 2013-14 to 2017-18					
Year	2013-14	2014-15	2015-16	2016-17	2017-18
Mode of attendance	Count	Count	Count	Count	Count
Full-time	292	283	265	243	284
Part-time	369	331	403	357	365
Total enrolments	661	614	668	600	649
Total FTEs	390	377	363	362	423

Continuous Professional Development of Staff

NHC Policy on Professional Development Programmes

The college's Staff Development Strategy sets out the College's priorities as follows:

- To maintain a healthy and safe work environment for staff and students alike.
- To contribute to the on-going development of the University of the Highlands & Islands as Scotland's newest University.
- To assist academic staff to develop their professional practice in order to enrich and enhance the quality of the learner experience.
- To assist support staff to develop their professional practice in order to improve the quality and range of services provided to both prospective and current clients of The North Highland College.
- To assist staff to develop the skills necessary to identify and take advantage of opportunities to secure alternative sources of income.
- To assist, where possible and practicable, all staff in achieving their personal development aspirations.

The primary vehicle for confirming staff development needs, in accordance with corporate development objectives, is the college's appraisal system. Needs are addressed through training and development activities incorporated into the annual college staff development programme (group

sessions) and through the staff development fund for individual specialised requirements. In relation to learning and teaching, the college continues to provide its own SQA certificated programmes of teacher education to staff and operates an established peer review system which covers all staff involved in learning and teaching.

Sustainability Strategy

The College works with Advanced Procurement for Universities and Colleges (APUC) and seeks to embed sustainability in its procurement function. Ross House, Dornoch and Wick College, Wick continue to be on the market with a view to sell. It is intended to use the proceeds of both to help finance an extension on the Burghfield site to address the specific needs of the golf curriculum including bespoke facilities to help grow this key academic area of the College's business. This will reduce estate area space, and it is intended to heat the Burghfield using a biomass heating system, thus further reducing the College's carbon footprint. The funding package for the Burghfield development is nearly complete, and work should be commenced in the middle of 2018-19.

FINANCIAL POSITION

Financial results

The Statement of Comprehensive Income for the year ended 31 July 2018 shows a deficit of £1,005,000 (2016-17 £523,000 deficit). This was largely attributable to a small Resource DEL surplus of £111,000, together with net depreciation charge of £267,000 (£663,000 - £396,000), plus adjustments for the College's share in Highland Council's Superannuation Scheme amounting to £615,000. There was a favourable actuarial movement of £6,036,000 in this same scheme (2016-17 – actuarial valuation decrease £98,000). The College's total comprehensive income for the year was £5,464,000 surplus (2016-17 £3,037,000 surplus). This includes an unrealised surplus on revaluation of fixed assets of £433,000 (2016-17 £3,658,000). Total income increased from £12.0 million to £12.7 million and expenditure has increased from £12.6 million to £13.7 million.

Liquidity

The college is provided with monthly cash flow requirements based on monthly cash application to the Scottish Funding Council, subject to agreed budgeted resources from the Scottish funding Council. The cash position at 31 July 2018 amounted to £402,000 debit.

Charitable and Tax Status

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

Treasury Policies and Objectives/ Cash Flows

The College is no longer using term deposits to give higher interest, as under the implications of reclassification of colleges, cash balances have been considerably reduced, and colleges are funded on a needs basis. Also, interest rate levels for credit balances are at an all-time low.

Creditor Payment Policy

It is the policy of The North Highland College to pay invoices promptly and within one month. Monthly runs of purchase payments are made. There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998. Year-end creditors represented 11.7% (2017 7.3%) of the aggregate purchases invoiced during the year.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE

Curriculum Developments

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

concentrate on meeting the needs of the north Highland and regional areas' key employment sectors, whilst in parallel will support the implementation of our access and inclusion strategy to provide opportunities for learners who traditionally have faced barriers to further education and employment.

Recent developments have centred, in particular, on health care; engineering & construction; creative industries; and support for entering education or employment. Significant focus in implementing *Developing the Young Workforce: Scotland's Youth Employment Strategy*, by working in partnership with schools, employers and the Caithness and Sutherland DYW board, will also continue. The college will further review its offering to senior phase, in partnership with schools, in order to identify enhanced opportunities for school-based learners. The aim is to provide clear vocational pathways and work based learning which will bring forward learners' readiness to progress to further learning or employment e.g. through delivery of NC/SVQs/HNCs in the senior phase and the development of foundation apprenticeship programmes for health and social care and apprenticeship programmes in engineering.

In 2017-18, the college successfully introduced Foundation Apprenticeships in Health and Social Care for the first time and revised its fulltime health and social care programmes to better meet the needs of the sector and provide appropriate progression pathways for learners. A new Access to Nursing programme has been introduced to support additional opportunities for entry in to the nursing profession and address the current shortage in the sector. Collectively, as the college works in partnership with the NHS, these programmes will help address the challenges that the NHS currently faces in delivering health care in the North Highland area.

The new degree BA in Creative Writing has been successfully validated for first entry in 2018/19.

In 2018-19, the college will carry out a major review of our access level provision, particularly at SCQF level 3-4, in line with our access and inclusion strategy to better develop our progression pathways at the lower end of the SCQF scale. We continue to make a significant contribution to the development of curriculum materials for a range of new programmes now approved by the University of the Highlands and Islands for network delivery and will continue with our partnership with Nigg Skills academy for the delivery of skills based engineering provision in the Easter Ross area.

Future Developments

The delivery of further education pathways to advanced programmes is central to the corporate vision and development strategy for the College. Within the Highlands & Islands the past decade has seen a general decline in unemployment levels as a result of substantial investment within the area, which has been supported by the EU structural programmes. The College has made considerable use of its experience to date in accessing these funds for curriculum and estate developments to widen participation to all learners. However, the reality of Brexit, means a period of uncertainty regarding the future availability of funds from the EU.

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

Caithness and North Sutherland Partnership, of which The North Highland College is a member, provides a co-ordinated platform to support inward investment to the area. The development of offshore wind developments in the Moray Firth has commenced creating an estimated 200-300 jobs for the area, and we are continuing to monitor oil and gas activity off the west of Shetland.

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

It is essential that all learners, however remote, are well advised with respect to career opportunities, and how they may access the skills necessary to fulfil their personal career aspirations. It is important that all businesses of the area are confident that they will have an adequate supply of employees with the appropriate generic and transferrable skills including employability and a commitment to lifelong learning, innovation, entrepreneurship, etc. which may be utilised for business development.

Key Development Activities

To continue to assist all sections and research facilities in identifying further sources of income working with public and private partnerships to maximise opportunities and avoid duplication.

- It is the over-arching mission of the Environmental Research Institute (ERI) to 'address contemporary environmental issues and advance understanding of the sustainable use of the Earth's natural resources. We aspire to excellence in all that we do and to provide dynamic leadership in scientific research, innovation and education.' The work of the ERI is securely focused around the strategic priorities ('core activities') of **Research** (including knowledge exchange); **Enterprise** (including commercial and consultancy); **Learning and Teaching** and **Outreach**. The funding environment for research continues to be challenging, noting the comments re Brexit on page 8. In response, to ensure it capitalises on its strengths, strategic planning activity has enabled the ERI to focus on the research priorities of 'Renewable Energy and the Environment'; 'Carbon Water and Climate' and 'Environmental Contamination and Ecological Health'. Whilst flexibility and responsiveness is embedded within ERI, it is essential that a long-term, coherent and strategic approach to building research capacity, and then excellence in each of these key areas, is taken.
- Funding from a variety of sources supports our research and provides opportunity to build capacity and collaboration both within the UK and internationally. Ongoing activity through Natural Environment Research Council (NERC) funded project (InSAR - evaluating peatland sensitivity to global change) has created a basis for multi-disciplinary activity with University of Nottingham. Likewise, contribution to National Oceanographic Centre's LOCATE project (NERC funded) has created a number of new opportunities for collaboration across the UK. As a partner in Phos4You (North West Europe_INTERREG), ERI continues to investigate methodologies which will support recovery of phosphorus from waste streams whilst Northern Periphery and Arctic Programme (INTERREG) projects have sustained activity on sustainable energy; micro plastics and circular economy. The ERI continues to be involved in the Flow Country Research Hub, a network of researchers and stakeholders interested in peatland research across the vast expanse of blanket bog which spreads across Caithness and Sutherland. Smaller but equally significant funds have been derived from a range of projects, allowing for example, investigation into water quality and the continuation of international collaboration over the impact of pharmaceuticals (specifically non-steroidal anti-inflammatory drugs) on old world vulture populations in Asia as well as the development of innovative marine monitoring (Royal Society and Carnegie Trust). Four new students (UHI ESIF) started their PhD studies during the year.
- ERI staff provide programme and module leadership as well as teaching contribution on a number of undergraduate and postgraduate courses.
- These developments are in line with the University of the Highlands and Islands' strategic objective for Research and Knowledge Transfer, including increasing critical mass through the appointment of key staff in specific fields and strengthening the equipment base. The overarching objectives remain as previously stated; to invest in research quality and to sustain applied research, sustain capacity, and to develop niche specialties.

- Successful delivery of the West Highland partnerships in respect of SFC objectives and appropriate financial management. West Highland College became a SFC fundable college in its own right on 1 August 2012. This has seen it being responsible to the SFC for managing its own affairs in entirety, although now under the overarching control of a Regional Board. Its FE Credits position continues to be reported through The North Highland College.
- The North Highland College continues to work with Argyll College and the FE Regional Board to ensure the necessary delivery of its FE Credits allocation from the SFC. In the year 2017-18 Argyll College was granted assigned status, although the practicalities of this new development have still to be progressed.
- Further work is being done with progressing public procurement strategies, including further joint procurement working with the University of the Highlands and Islands and the University of the Highlands and Islands college partners.

PRINCIPAL RISKS AND UNCERTAINTY

The main financial risks to The North Highland College's long-term financial stability are:-

Staff Costs

North Highland College is part of the National Bargaining negotiating framework for the Scottish College sector. The College has sought to implement all of the outcomes of national negotiations relating to pay, terms and conditions for our lecturing and support staff. This has presented a major financial challenge for the College. Current financial modelling projects major funding shortfalls for the College in the years ahead if the considerable additional costs of staffing resulting from the outcomes of National Bargaining are not fully covered by increased funding from the Scottish Funding Council.

The mitigation of these risks is that the College continues to monitor its staff base for any efficiencies and savings in the context of the Scottish Government's expectation of no compulsory redundancies. It is acknowledged that our scope to secure future efficiencies through further strict vacancy management is diminishing.

UHI Partnership

North Highland College is a partner college of the University of the Highlands and Islands. The UHI Partnership is due to have a General Assembly in September 2018 to discuss the future governance of the partnership. North Highland College will contribute to these discussions and decision making as appropriate.

Funding

North Highland College has considerable reliance on continued government funding through the Scottish Funding Council. In 2017-18 the College received £7,573,000 (£7,405,000 2016-17) in respect of FE funding via the University of the Highlands and Islands as the Regional Strategic body; and £1,904,000 (£1,704,000 2016-17) in respect of HE funding via the University of the Highlands and Islands. This amounted to £9,477,000 out of a total income of £12,723,000 (74.5%); in 2016-17 this amounted to £9,109,000 out of a total income of £12,044,000 (75.6%). There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels and on the same terms. The College continues to seek to maximise as much as possible non-government sources of income.

STAKEHOLDERS RELATIONSHIPS

The following are North Highland College stakeholders: -

The University of the Highlands and Islands and its Academic Partners
 The University of the Highlands and Islands Further Education Regional Board
 Highlands and Islands Enterprise

Highland Council
The Caithness & Sutherland Regeneration Partnership
The Caithness & Sutherland Regional DYW Board
DSRL
Nuclear Decommissioning Authority
National Skills Academy (Nuclear) and partners in the Scottish hub
The NPP network of partners
Skills Development Scotland
Job Centre Plus (DWP)
The Crown Estate
Scottish & Southern Energy
Scottish Development International
Caithness Chamber of Commerce
Nigg Skills Academy
Local Employers
Staff/Students

EQUAL OPPORTUNITIES AND EMPLOYMENT OF DISABLED PERSONS

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

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

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

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

GOING CONCERN

The net liability position reported in these Financial Statements is due to the adoption of Financial Reporting Standard (FRS) 102 which has resulted in the reclassification of Government Capital Grants previously disclosed in Reserves, being disclosed under liabilities less than one year and greater than one year. The net liabilities include a Pension Provision for early retirements of £667,000 and a Pension Liability of £2,638,000 for the College's share of deficit in the Highland Council Local Government Pension Scheme (LGPS). To the extent that the pension is not met from the College's other sources of income, it may only be met by future grants or Grant in Aid from the Scottish Funding Council via UHI as the Regional Strategic Body. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such grants may not be paid in advance of need. The Board of Management of The North Highland College has no reason to believe that future support will not be forthcoming. The College is confident that it will have the financial resources to deal with short term liquidity in 2018-19.

DISCLOSURE OF INFORMATION TO AUDITORS

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

Approved by order of the members of the Board on 12 December 2018 and signed on its behalf by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Accountability Report

Section One: Statement of Corporate Governance

DIRECTORS' REPORT**Members of the Board of Management**

The Members who served on the Board of Management during the year 1 August 2017 to 31 July 2018 and up to the date of sign-off of the Financial Statements were as follows:

Name	Status of Appointment	Date of Appointment	Date of Resignation	Committees Served	Board/ Committee Attendance
Trevor Jones (Retired, Nuclear Industry)	Independent Member	December 2010	July 2018	Vice Chair: Board. Chair: Finance & General Purposes. Chair: Remuneration. Nominations.	3/4 2/4 2/2 NA
Donald MacBeath	Principal	July 2014		Board. Finance and General Purposes. Human Resources. Learning, Teaching & Research.	4/4 4/4 4/4 4/4
Jim McGillivray (Highland Council Councillor)	Independent Member	June 2014		Board. Human Resources. Learning, Teaching & Research. Audit & Risk Management.	4/4 4/4 0/4 3/4
Gail Ross (MSP)	Independent Member Co-opted	July 2014		Board. Learning, Teaching & Research.	0/4 0/4
Robbie Rowantree (Director, Sight Action)	Independent Member	July 2014		Board. Chair: Audit & Risk Management	2/4 3/4
John Perry (Technical Director, Denchi Power)	Independent Member	October 2015		Chair: Nominations. Board. Finance & General Purposes. Learning, Teaching & Research.	NA 4/4 1/4 4/4
Lisa Buchanan (Director/ Consultant)	Independent Member	October 2015		Board. Chair: Human Resources. Finance & General Purpose. Remuneration	1/4 2/4 1/4 2/2
Blair Sandison	Independent	October		Board:	4/4

(Retired)	Member	2015		Finance & General Purposes. Human Resources. Remuneration. Nominations.	4/4 1/4 2/2 NA
David Olds	Teaching Staff Member	December 2015		Board. Learning, Teaching & Research. Nominations.	4/4 1/4 NA
Amanda Buttress	Support Staff Member	December 2015		Board. Human Resources. Finance & General Purposes.	3/4 3/4 2/4
Ryan Gow	Student Member	October 2015		Board. Audit & Risk Management. Learning, Teaching & Research.	4/4 3/4 4/4
Andrew Kerr (Solicitor)	Independent Member	January 2017		Board. Audit and Risk Management. Learning, Teaching & Research.	1/4 4/4 3/4
Graham Birnie	Independent Member	January 2017		Board. Finance & General Purposes. Learning, Teaching and Research. Remuneration.	2/4 3/4 0/4 1/2
Heather Mclean	Independent Member	April 2017		Board. Learning Teaching and Research. Remuneration	4/4 4/4 1/2
Nicole Herd	Student Member	August 2017		Board. Learning Teaching and Research. Human Resources. Audit and Risk Management.	4/4 3/4 2/4 1/4
Tessa Palmer	Independent Member	August 2017		Board. Audit and Risk Management. Finance and General Purposes	3/4 1/4 3/4
Kirsty Gordon	Independent Member	August 2017	April 2018	Board. Audit and Risk Management. Learning, Teaching and Research.	2/4 0/4 0/4

Mr Adam Pool is the Secretary to the Board of Management.

The Planning and Resources Group (PRG) considers issues of performance, internal control and risk and advises the Principal on strategy, operational planning and control, and any issues relevant to the running of the College:-

Members of the PRG during 2017-18 are shown below:

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

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

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

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

- suitable accounting policies are selected and applied consistently;
- judgement and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Board of Management has taken reasonable steps to:

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

- Secure the economical, efficient, and effective management of the College's resources and expenditure.

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

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

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

GOVERNANCE STATEMENT

Introduction

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

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

The College complies with all the principles of the 2016 Code of Good Governance for Scottish Colleges with the exception of C.17 where the Committee have not met with Auditors without the Executive Team present. Time is however allocated at each meeting for this but no specific conversation has taken place. The college is taking action to address this by scheduling this to happen at the next meeting in November 2018 and expects to be fully compliant at that time.

BOARD OF MANAGEMENT

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

The Audit & Risk Management Committee normally meets no less than three times a year, with the College's external and internal auditors in attendance as appropriate.

The College's Internal Auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to the Senior Management Team and the Audit & Risk Management Committee. The Senior Management Team is responsible for the implementation of agreed audit recommendations and Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business, and monitors adherence to the regulatory requirements.

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

TRANSPARENCY ARRANGEMENTS

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

The North Highland College
Ormlie Road
Thurso
Caithness
KW14 7EE

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

ROLE OF COMMITTEES OF THE BOARD OF MANAGEMENT

Finance and General Purposes Committee

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

experience and expertise if it considers this necessary.

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

Audit and Risk Management Committee

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

- The effectiveness of financial and non-financial internal control systems and provide an annual written report to the BoM prior to the signing of the financial statements
- Proper financial management
Safeguarding the assets of the College, its subsidiaries and public funds
- The economy, efficiency and effectiveness of the College and its subsidiaries' activities;
- Corporate governance and conduct of the College and its subsidiaries' operations.

Learning, Teaching and Research Committee

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

The purpose of the Learning, Teaching & Research Committee is to:

- Assist with setting the College's academic and research aims and objectives
- Monitor the academic, student support and research aspects of College operational planning to ensure consistency with the Strategic Plan

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

Human Resources Committee

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

The Human Resource Committee will:

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

Remuneration Committee

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

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

CORPORATE STRATEGY

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

ESTATES STRATEGY

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

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

- Sell Ross House and Wick College, and with the proceeds and other funding, build a new extension on the Burghfield House site. This property will have more flexible teaching areas for Golf, Hospitality, and UHI Centre for History. Golf student numbers are expected to grow, as are History postgraduate numbers. This academic development will mean the College's Estates Strategy has to address this requirement. Efforts are being made to have the new facility open in the summer of 2019.
- A finalised Design and Business Case for the Thurso Main Campus is complete. This plans to demolish three older buildings on the Thurso Campus and replace them with one new building. This means that if any public funding becomes available for investment in property, then the College would be in a good position to take advantage of this. In 2016-17 the estate was reviewed by surveyors working on behalf of consultants reporting to the Scottish Funding Council, as part of an exercise on looking at college estate Scotland-wide.
- Sell the Environmental Research Institute facility in Caste Street, Thurso and renovate and convert the Dome facility currently on the Ormlie Road main site into an Eco Innovation Hub, and transfer the remaining ERI staff from Castle Street into this facility.
- In 2016-17 the estate was reviewed by surveyors working on behalf of consultants reporting to the Scottish Funding Council, as part of an exercise on looking at college estate Scotland-wide. Subsequent to this North Highland College was awarded over £730,000 for backlog maintenance. This is being spent and seeks to meet identified needs as outlined by SFC consultants.
- Due to increased student footfall at Tern House Campus, Alness, the College leased an additional facility in Alness to meet the needs of care students. Some conversion work was required the costs of which were met by the North Highland College's share in the National Foundation with opening in early September 2018.

BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

GOING CONCERN

The Board of Management has approved that the accounts be prepared on a going concern basis. The Board of Management believes that pension liabilities resulting in a net liability in the Balance Sheet can be met as these fall due from future funding. The Board of Management has no reason to believe that future support from the Scottish Funding Council via UHI as the Regional Strategic Body will not be forthcoming. Also it assumes that financial support from UHI will be forthcoming if there are any shorter term financial deficits incurred in 2018-19 that threaten liquidity, and on that basis these Financial Statements have been prepared on a going concern basis.

CONCLUSION

The Board of Management has no matters to report in respect of failures in the expected standards of good governance, risk management and control for the year ended 31 July 2018.

Approved by order of the members of the Board on 12 December 2018 and signed on its behalf by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Section Two: Remuneration and Staff Report

Remuneration Policy

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

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

Remuneration including salary and pension entitlements

The information in this section of the report is subject to audit.

Salary entitlements¹

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

Name	Year ended 31 July 2018			Year ended 31 July 2017		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary £'000	Pension Benefit £'000	Total £'000
Donald MacBeath, Principal – Actual	87	27	114	87	67	154
Debbie Murray, Director of Enterprise & Innovation – Actual	56	13	69	57	44	101
Roderick Ferrier, Director of Finance & Estates - Actual	52	29	81	51	28	79
Anne Bremner, Director of Learning & Teaching - Actual	55	20	75	54	19	73
Stuart Gibb, Director of Environmental Research Institute - Actual	74	135	209	58	29	87

¹ Note:

- a) The salaries in the above table represent the amount earned in the financial period and include salary, bonuses, overtime and other allowances (as applicable)
- b) The value of 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.
- c) The details in this table are subject to audit

Median Remuneration

Colleges are required by the FReM to disclose the relationships between the remuneration of the highest paid official and the median remuneration of their workforce.

The banded remuneration of the highest paid official in the organisation in the financial year 2017-18 was £86,000 (2016-17 £85,000). This was 3.7 times (2016-17 3.6 times) the median remuneration of the workforce which was £23,547 (2016-17 £23,547).

Accrued Pension Benefits

Pension benefits for employees are provided through the Scottish Teacher's Superannuation Scheme (STSS), a defined benefit scheme, which is notionally funded and contracted out of State Earnings-Related Pension Scheme and the Local Government Pension Scheme (LGPS).

Both STSS and LGPS are final salary pension schemes. This means that pension benefits are 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 linked to the State Pension Age for all members who are 60 after 31st March 2020.

Contribution rates are set annually for all employees and can be found in Note 20.

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.

Senior Officials Pension

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

Name	Accrued pension at pension age at 31 July 2018	Accrued lump sum at pension age at 31 July 2018	Real increase in pension 1 August 2017 to 31 July 2018	Real increase in lump sum 1 August 2017 to 31 July 2018	CETV at 31 July 2018	CETV at 31 July 2017	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Donald MacBeath, Principal	41	79	2	0	816	771	45
Debbie Murray, Director of Enterprise & Innovation	18	24	1	0	269	253	16
Roderick Ferrier, Director of Finance & Estates	22	39	2	1	409	375	34
Anne Bremner, Director of Learning & Teaching	4	0	1	0	52	35	17
Stuart Gibb, Director of Environmental Research Institute	27	45	7	10	421	315	106

Cash equivalent Transfer Value (CETV)

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

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

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

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

Real increase in CETV

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

Staff Report**Compensation for loss of office**

No staff left under voluntary exit terms or voluntary redundancy terms in the financial year.

The table below summarises the exit packages by cost band.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	0	0	0
£10,000 - £25,000	0	0	0
£25,000 - £50,000	0	0	0
£50,000 - £100,000	0	0	0
£100,000 - £150,000	0	0	0
£150,000 - £200,000	0	0	0
Total number of exit packages	0	0	0
Total cost (£)	0	0	0

Salaries and Related costs

	2018	2018	2018	2017
	Directly employed staff	Seconded and agency staff	Total	Total
Wages and salaries	4,920,808	0	4,920,808	4,800,774
Social security costs	449,341	0	449,341	434,871
Other pension costs	1,232,786	0	1,232,786	1,128,292
Total	6,602,935	0	6,602,935	6,363,937
Average number of FTE	163	0	163	165

The college employed 167 females and 96 males as at 31 July 2018.

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 2018.

Relevant union officials

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

Percentage of time spent on facility time

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

Percentage of pay bill spent on facility time

Total cost of facility time:	£7,060
Total pay bill:	£6,602,935
Percentage of the total pay bill spent on facility time:	0.11%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours:	22%
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Sickness absence data

The Board of Management decided to cease recording and reporting this information a number of years ago as they believed this did not add any value to the attendance management process which existed within the College. Therefore figures are not available for 2017-2018.

Staff Policies

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

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

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

Expenditure on Consultancy

The North Highland College incurred £158,000 on consultancy in 2017-18.

Off – Payroll Engagements

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

Parliamentary Accountability Report

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

Donald MacBeath
Principal

Blair Sandison
Chairman

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

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 approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements**Opinion on financial statements**

We have audited the financial statements in the annual report and accounts of North Highland College for the year ended 31 July 2018 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 Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and 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 2018 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 in the UK (ISAs (UK)). 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 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. 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

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.

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 achieve 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.

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 auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

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

Report on regularity of expenditure and income

Opinion on regularity

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

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 other 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 Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Date:

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

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

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

Statement of Comprehensive Income for the year ended 31 July 2018

	Notes	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Income			
SFC Grants	2	7,573	7,405
UHI Grants	3	1,904	1,704
Education contracts, Tuition Fees & Charges	4	1,556	1,339
Other Grant Income	5	982	1,006
Other Operating Income	6	708	590
Total Income		12,723	12,044
Expenditure			
Staff costs	8	6,586	6,364
Other Operating Expenses	10	5,979	5,588
Depreciation	13	663	598
Revaluation of Property		193	(252)
Interest payable and other finance costs	11	307	269
Total Expenditure		13,728	12,567
Deficit before Other Gains and Losses		(1,005)	(523)
Loss on disposal of assets	13	0	0
Deficit before Taxation		(1,005)	(523)
Taxation	12	0	0
Deficit for the Year		(1,005)	(523)
Actuarial Gain in respect of Pension Scheme		6,036	(98)
Unrealised Surplus on revaluation of land and buildings		433	3,658
Total Comprehensive Income for the year		5,464	3,037
Represented by:			
Unrestricted Comprehensive Income for the year		5,222	(505)
Revaluation Reserve Comprehensive Income for the year		242	3,542
		5,464	3,037

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

Statement of Changes in Reserves for the year ended 31 July 2018

	Income & Expenditure Reserve 31 July 2018 £000	Revaluation Reserve 31 July 2018 £000	Total 31 July 2018 £000
Balance at 1 August 2017	(8,479)	6,012	(2,467)
Deficit from Statement of Comprehensive Income	(1,005)	0	(1,005)
Other Comprehensive Income	6,036	433	6,469
Transfers between revaluation and income and expenditure reserve	191	(191)	0
Total comprehensive income for the year	5,222	242	5,463
Balance at 31 July 2018	(3,257)	6,254	2,997

Balance Sheet as at 31 July 2018

	Notes	As at 31 July 2018 £000	As at 31 July 2017 £000
Non-Current Assets			
Tangible Fixed assets	13	16,857	17,668
		16,857	17,668
Current Assets			
Stock		25	6
Trade Debtors and Other Receivables	14	625	387
Assets Held for Sale		541	0
Cash and cash equivalents		402	501
		1,593	894
Creditors: amounts falling due within one year	15	(1,286)	(1,327)
Net Current Assets/(Liabilities)		307	(433)
Total Assets less Current Liabilities		17,164	17,235
Creditors: amounts falling due after more than one year	16	(10,862)	(10,949)
Provisions			
Pension Provisions	17	(3,305)	(8,753)
TOTAL NET LIABILITIES		2,997	(2,467)
UNRESTRICTED RESERVES			
Income and Expenditure Reserve		(3,257)	(8,479)
Revaluation Reserve		6,254	6,012
TOTAL RESERVES		2,997	(2,467)

The financial statements were authorised for issue and approved by the Board of Management on 12 December 2018 and were signed on its behalf on that date by:

Donald MacBeath
Principal

Blair Sandison
Chairman

Statement of Cash Flows for the year ended 31 July 2018

	Note	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Cash flow from Operating Activities		(1,005)	(523)
Adjustment for non-cash items			
Depreciation	13	663	598
Revaluation of Property		193	(252)
(Increase)/decrease in stocks		(18)	11
(Increase)/decrease in debtors	14	(238)	(208)
Increase/(decrease) in creditors	15,16	169	233
Increase/(decrease) in pension provision	17	(67)	(14)
LGPS Pension costs less contributions payable	20	434	359
Adjustment for investing or financing activities			
Interest payable	11	307	269
Capital Grant Income	2,6	(396)	(385)
		<u>41</u>	<u>88</u>
Cash Flow from Investing Activities			
Capital Grants receipts		154	108
Payments made to acquire Fixed Assets	13	(154)	(108)
		<u>0</u>	<u>0</u>
Cash flows from Financing Activities			
Interest Paid on loan	11	(85)	(88)
Repayment of loans	16	(55)	(52)
		<u>(140)</u>	<u>(140)</u>
(Decrease) in cash and cash equivalents in the year		<u>(99)</u>	<u>(52)</u>
Cash and cash equivalents at beginning of the Year		501	553
Cash and cash equivalents at end of the Year	18	402	501

Notes to the Financial Statements

1a. Statement of Principal Accounting Policies

BASIS OF PREPARATION

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

BASIS OF ACCOUNTING

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

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Balance Sheet shows a net liabilities position due to the adoption of Financial Reporting Standard (FRS) 102 which has resulted in the reclassification of Government Capital Grants previously disclosed in Reserves now being disclosed under short and long term creditors, these creditors do not result in a future cash obligation on the college and is released against non cash depreciation charges in future years on funded assets. The budget for 2018-19 shows a deficit position; however the college has delivered a better than budget performance the last couple of years, the deficit as budgeted would not exceed cash held by the college. Also, financial support is assumed to be forthcoming from UHI as the Regional Strategic Body if required.

RECOGNITION OF INCOME

Government Revenue Grants

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

Government Capital Grants

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

Non-Government Grants

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

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

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

Non-Exchange Transactions

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

Non-exchange transactions that impose specific future performance related conditions on the

recipient, is recognised as revenue only when the performance related conditions are met.

Notes to the Financial Statements (continued)

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

PENSION SCHEMES

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

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

Administrative and support staff may join the Local Government Pension Scheme (LGPS) which is administered by Highland Council. The fund is a defined benefit pension scheme. Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the College's obligation is to provide the agreed benefits to current and former employees and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the College. The College recognises a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

The future long-term obligation in respect of early retirees who retired in the 1990s, which is not funded by the aforementioned pension schemes, is provided for on the Balance Sheet. This provision is valued annually in accordance with guidance issued by the Funding Council.

TANGIBLE FIXED ASSETS

a. Land and Buildings

Land and Buildings are shown in the balance sheet at valuation, on the basis of depreciated replacement cost. Buildings are depreciated over their expected useful life to the College. The properties were revalued in June 2017, (indexation was added to values in the year ended 31 July 2018) and the properties were split into component parts being: main building; roof; windows; plant and machinery; heating systems, and where appropriate kitchens. This revaluation exercise saw an increase in valuation; however because of component lives, and depreciation reduced compared to trend; and deferred grant release relating to buildings also decreased in line with this.

b. Plant and equipment

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

Notes to the Financial Statements (continued)

c. Computer equipment and motor vehicles

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

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

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

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

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

SUBSEQUENT EXPENDITURE ON EXISTING FIXED ASSETS

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

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

MAINTENANCE OF PREMISES

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

LEASED ASSETS

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

INVESTMENTS

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

STOCKS

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

Notes to the Financial Statements (continued)

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the Statement of Comprehensive Income in the period in which they arise.

TAXATION

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

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

PROVISIONS

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

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

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

REVALUATION RESERVE

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

AGENCY ARRANGEMENTS

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

1b Non-cash Allocation

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

	2017-18 £'000	2016-17 £'000
Surplus/(deficit) before other gains and losses	(1,005)	(523)
Add back:		
- Depreciation (net of deferred capital grant release)*	267	213
- Non-cash pension adjustments	656	540
Deduct:		
- Exceptional income – gain on revaluation of fixed assets	193	(252)
-		
Underlying operating surplus/(deficit)	111	(22)

Following reclassification, colleges received a non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules and the requirement to spend the entire cash allocation.

Under the FE/HE SORP, the college recorded an operating deficit of £1,005,400 for the year ended 31 July 2018. After adjusting for the non-cash allocation provided under government rules, the college shows an "adjusted" surplus of £93,000 on a Central Government accounting basis. This demonstrates that the college is operating sustainably within its funding allocation.

	Year Ended 31 July 18 £000	Year Ended 31 July 17 £000
2. SFC Grants		
Recurrent FE Grant	6,958	6,643
Estates Maintenance Grant	262	389
FE and HE Childcare funds	136	112
Release of Deferred Capital Grants (SFC)	198	193
Other grants	19	68
	7,573	7,405

Notes to the Financial Statements (continued)

3. UHI Grants

Recurrent HE Grant	1,615	1,363
Other UHI Grants	289	341
	1,904	1,704

Notes to the Financial Statements (continued)**4. Tuition Fees and Charges**

Further Education Fees –UK	157	153
Further Education Fees – EU	1	0
Further Education Fees – non EU	0	0
Higher Education Fees	762	633
SDS contracts	129	131
Education contracts	461	397
LEC and Other Contracts	46	25
	1,556	1,339

5. Other Grant Income

European Funds	162	242
Other Funds	584	543
Student Allowances	38	29
Release of Deferred Capital Grants (Non-SFC)	198	192
	982	1,006

6. Other Operating Income

Catering and Residences	137	144
Other Income Generating Activities	88	106
Other income	483	340
	708	590

7. Investment income

Other Interest Receivable	0	0
	0	0

8. Staff numbers and costs**Staff numbers (full-time equivalent):**

	Year ended 31 July 2018	Year ended 31 July 2017
Executive Management	4	4
Academic Teaching	69	73
Academic Support	14	13
Administration and Central Services	40	39
Premises	12	12
Research	20	20
Apprentices	0	0
Other Income Generating Activities	0	0
Catering and Residences	4	4
	163	165

Notes to the Financial Statements (continued)

Staff on permanent contracts	135	137
Staff on temporary contracts	28	28
	163	165

Staff costs:

	£000	£000
Executive Management	321	330
Academic Teaching	3,456	3,249
Academic Support	360	310
Administration and Central Services	887	871
Premises	272	311
Research	814	879
Apprentices	0	15
Other Income Generating Activities	0	0
Catering and Residences	42	40
Other Pension costs	434	359
	6,586	6,364
Wages and Salaries	4,904	4,801
Social security costs	449	435
Pension Contributions	799	769
Other pension costs	434	359
	6,586	6,364

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

	Year ended 31 July 2018		Year ended 31 July 2017	
	Senior post-holders	Other staff	Senior post-holders	Other Staff
£60,001 to £70,000	-	-	-	-
£70,001 to £80,000	1	-	-	-
£80,001 to £90,000	1	-	1	-
£90,001 to £100,000	-	-	-	-
	2	-	1	-

9. Senior post-holders' emoluments

	Year ended 31 July 2018 Number	Year ended 31 July 2017 Number
Senior post-holders including the Principal:	5	4
Senior post-holders' emoluments including the Principal:	£000	£000

Salaries	249	250
Pension contributions	45	44
	294	294

Notes to the Financial Statements (continued)

Amounts paid to the Principal:

Salary	87	87
Pension contributions	15	15
	102	102

The pension contributions in respect of the Principal are in respect of Employer's contributions to the Local Government Pension Scheme (Highland Council). The College's contributions to the Local Government Scheme is paid at a variable rate which increases according to pay-scale.

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

10. Other operating expenses

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Academic/Teaching departments and services	4,328	3,936
Administration and central services	588	500
FE & HE Childcare Funds	136	112
Other Income Generating Activities	15	25
Premises	740	849
Other expenditure	65	62
Catering and residences	107	104
	5,979	5,588

Other operating expenses include:

Auditors' remuneration:		
external audit	13	13
internal audit	8	9
other services - audit	7	6
Disbursements of childcare funds to students	136	109
Payments to Argyll College	2,881	2,643
Hire of land and buildings	112	112
Hire of plant and machinery	104	97

Notes to the Financial Statements (continued)**11. Interest payable and other finance costs**

Loan Interest	85	88
Net charge on pension scheme	222	181
	<u>307</u>	<u>269</u>

12. Taxation

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

13. Tangible fixed assets

	Freehold Land and Buildings £000	Computer Equipment £000	Plant and Equipment £000	Motor Vehicles £000	Total £000
Cost / Valuation					
At 1 August 2017	20,529	1,862	4,379	97	26,867
Additions	113	0	41	0	154
Revaluation	240	0	0	0	240
Disposals	0	(264)	0	0	(264)
Assets Held for Sale	(541)	0	0	0	(541)
At 31 July 2018	20,341	1,598	4,420	97	26,456
Depreciation					
At 1 August 2017	3,003	1,851	4,250	95	9,199
Charge for year	573	11	78	2	663
Revaluation	0	0	0	0	0
Disposals	0	(264)	0	0	(264)
At 31 July 2018	3,576	1,598	4,328	97	9,592
Net book value					
At 31 July 2018	16,765	0	92	0	16,857
Net book value					
At 1 August 2017	17,526	11	129	2	17,668
Inherited	3,348	0	0	0	3,348
Financed by capital grant	9,630	0	92	0	9,722
Other	3,787	0	0	0	3,787
Net book value					
At 31 July 2018	16,765	0	92	0	16,857

Inherited assets and those financed by capital grant may only be sold with prior consent of the

Scottish Funding Council (SFC). The College is obliged to use sales proceeds in accordance with the instructions of the SFC.

Notes to the Financial Statements (continued)

Land and buildings were revalued in June 2017 by an independent valuer. The basis of valuation was depreciated replacement cost. The property valuations were split into component parts being:- Main Building, Roof, Windows, Plant & Machinery, Heating and where appropriate Kitchens. In 2017-18 property values were increased by 2.5%.

If inherited land and buildings not been revalued they would have been included at 31 July 2018 as:

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

14. Trade Debtors and other receivables

	As at 31 July 2018 £000	As at 31 July 2017 £000
Trade Debtors	264	180
Prepayments and accrued income	228	206
Other debtors	133	1
	<u>625</u>	<u>387</u>

15. Creditors: Amounts falling due within one year

Bank Loans and overdrafts	59	55
Trade creditors	288	224
Other creditors	182	73
Other taxation and social security	114	114
Accruals and deferred income	475	481
Deferred income – government capital grants	168	380
	<u>1,286</u>	<u>1,327</u>

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

Bank loan	1,276	1,335
Deferred income – government capital grants	9,586	9,614
	<u>10,862</u>	<u>10,949</u>

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

In one year or less	59	55
Between one and two years	63	59
Between two and five years	213	200
In five years or more	1,000	1,076
	<u>1,335</u>	<u>1,390</u>

The term loan is held with Lloyds Bank. The principal sum will be repaid in monthly instalments over a twenty five year period at a fixed rate of interest, with interest calculated monthly. There is no security given over assets, but covenants have been agreed.

Notes to the Financial Statements (continued)**17. Provision for Liabilities and Charges****Enhanced Pensions – Early Retirements**

Opening Provision	735	748
Additional Provision	(8)	47
	727	795
Charged to Provision in Year	(60)	(60)
Closing Provision	667	735

Local Government Pension Scheme - Provision

Opening Provision	8,018	7,380
Contributions in the year	(449)	(452)
	7,569	6,928
Additions in the year	1,105	1,090
Remeasurements in the year	(6,036)	0
Closing Provision	2,638	8,018
Total Provision	3,305	8,753

The Provision for Enhanced Pensions has been revalued using actuarial tables provided by the SFC. The net interest applied was 0.5%.

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

18. Cash and cash equivalents

	At 1 August 2017 £000	Cashflows £000	Other changes £000	At 31 July 2018 £000
Cash at bank and in hand	501	(99)	-	402
	501	(99)	-	402

19. Capital commitments

At 31 July 2018 the College had capital commitments contracted of £65,754.

20. Pension and similar obligations**Accrued pension benefits**

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

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

Notes to the Financial Statements (continued)

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

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

Scottish Teachers Superannuation Scheme (STSS)

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

Under the definitions set out in Financial Reporting Standard 102, the STSS is a multi-employer Pension Scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has accounted for its contributions as if it were a Defined Contribution Scheme. The agreed contribution rates for future years are variable rates for employees based on salary ranges, Employers contribution rate is 17.4%.

Local Government Superannuation Scheme

The Highland Council Pension Fund is a funded Defined Benefits Scheme, with the assets held in separate trustee administered funds. The total contributions made for the year ended 31 July 2018 were £594,000 (2017 - £593,000) of which Employer's contributions totalled £441,000 (2017 - £438,000) and Employees' contributions totalled £153,000 (2017 - £155,000). The agreed contribution rates for future years are variable rates for employees based on salary ranges, Employers contribution rate is 17.9%.

Total pension cost for the year	2018	2017
	£000	£000
Teachers' Pension Scheme:contributions paid	355	329
Local Government Pension Scheme:		
Contributions paid	441	438
FRS 102 charge	<u>434</u>	<u>359</u>
Charge to the Statement of Comprehensive Income	<u>875</u>	<u>797</u>
Enhanced pension charge to Statement of Comprehensive Income		
Total Pension Cost for Year within staff costs	<u>1,230</u>	<u>1,126</u>

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

Principal Actuarial Assumptions at the Balance Sheet Date:-

	2018	2017
Rate of Increase in Salaries	3.4%	4.5%
Rate of Increase in Pensions	2.4%	2.5%

Inflation Assumption (RPI)	-0.5%	-0.5%
Inflation assumption (CPI)	0.5%	0.5%
Discount rate for scheme liabilities	2.8%	
2.7%		

Notes to the Financial Statements (continued)

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

Equities	71%	70%
Bonds	14%	16%
Property	12%	12%
Cash	3%	2%

The assumed life expectations on retirement age 65 are:-

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

The Employer contributions for the year to 31 July 2018 will be approximately £420,000

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

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Charged to staff costs:		
Current service costs	(883)	(800)
Past service costs	0	(11)
Total charged to staff costs	(883)	(811)
Credit/charge for net return on pension scheme:		
Interest income	473	367
Interest cost	(695)	(548)
Net interest charged	(222)	(181)
Credit/charge to other comprehensive income:		
Return on assets	1,470	1,632
Other experience	2,700	2
Gains and losses arising on changes in financial assumptions	1,866	(1,732)
Actuarial Gain/(Loss)	6,036	(98)

Total charge to the SOCI	4,931	(1,090)
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Analysis of the movement in deficit during the year:		
Deficit in scheme at start of year	(8,018)	(7,380)
Service costs	(883)	(811)
Employer contributions	449	452
Net interest costs	(222)	(181)
Actuarial gain/(loss)	6,036	(98)
Deficit in scheme at end of year	(2,638)	(8,018)

21. Financial Commitments

At 31 July 2018 the College had annual commitments under non-cancellable operating leases as shown:

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Land and Buildings		
Payable during the year	112	112
Future minimum lease payment due:		
Not later than 1 year	112	112
Later than 1 year and not later than 5 years	446	446
Later than 5 years	112	223
Total lease payments due	670	781
Other		
Payable during the year	104	97
Future minimum lease payment due:		
Not later than 1 year	80	79
Later than 1 year and not later than 5 years	45	95
Later than 5 years	0	0
Total lease payments due	125	174

22. Losses and Special Payments

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

23. Post Balance Sheet Events

As a result of a High Court decision on 26 October 2018, pension schemes which have members with Guaranteed Minimum Pensions (GMPs) must take action to address inequalities in those GMPs if they were contracted-out of the State scheme between 1978 and 1997. The University / College considers it is likely that this ruling will impact the defined benefit scheme in which it is a participating employer and may result in the recognition of additional liabilities. As a consequence of this ruling, trustees of pension schemes will need to consider the integrity of their pension scheme data, the adjustments to benefits that may be necessary and any implications for scheme liabilities and funding. The High Court ruling on 26 October 2018 creates an obligation on that date for the Trustees

to amend the scheme rules to reflect the consequences of the ruling . Therefore this is considered to be a non-adjusting event after the reporting period. The calculation of any additional liabilities will be a complex and lengthy process and as such the financial effect of any adjustment that may arise cannot be estimated at this stage. Any adjustment will be reflected in the financial statements for the year ended 31 July 2019.

Notes to the Financial Statements (continued)

24. Related Party Transactions

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

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

Member	Organisation	Position
J McGillivray	Highland Council	Councillor

Income transactions totalling £3,384 and expenditure transactions totalling £35,961 were made with Highland Council. At 31st July 2018 our Highland Council creditor balance was £1,072 and debtor balance was £768.

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

Notes to the Financial Statements (continued)

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

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

During the period the College also had material transactions with Argyll College. This is a collaborative partnership between The North Highland College and Argyll College. The Scottish Funding Council provides The North Highland College with funding for Further Education delivery for it and Argyll College, and accounts to the SFC for the fundable Credits activity.

Notes to the Financial Statements (continued)

25. Bursaries and Other Student Support Funds

	2017-18	2017-18	2017-18	2017-18	2016-17
	FE Bursary £'000	EMAs £'000	Other £'000	Total £'000	Total £'000
Balance b/fwd	0	(24)	89	65	34
Allocation received in year	1,397	74	158	1,629	1589
Expenditure	(1,330)	(91)	(148)	(1,569)	(1,550)
Repaid to funding council as clawback	0	0	0	0	0
College contribution to funds	0	0	0	0	0
Intra-region allocations	0	0	0	0	(8)
Virements	0	0	0	0	0
Balance c/fwd	67	(41)	99	125	65
Represented by:					
Repayable to funding council as clawback		(41)		(41)	(23)
Repayable to region	67		99	166	88
Retained by college for students					

FE and HE childcare funds

	2017-18 £'000	2016-17 £'000
Balance b/fwd	7	4
Allocation received in year	136	112
Expenditure	(136)	(109)
Repaid to funding council as clawback	0	0
College contribution to funds Intra-region allocations	0	0
Virements	0	0
Balance c/fwd	7	7
Represented by:		
Repayable to funding council as clawback	7	7

Repayable to region	0	0
Retained by college for students	0	0

Notes to the Financial Statements (continued)

2017-18 Accounts direction for Scotland's colleges

1. It is the Scottish Funding Council's direction that colleges comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
2. Colleges 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 (for assigned colleges).
3. Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2017-18 (FReM) where applicable.
4. Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2018.
5. The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.
6. Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
13 July 2018