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University of the
Highlands and Islands
Lews Castle College

Oilthigh na Gàidhealtachd
agus nan Eilean
Colaisde a' Chaisteil

LEWS CASTLE COLLEGE

Colaisde a' Chaisteil

STORNOWAY, ISLE OF LEWIS

Charity Registration No. SC021204

Year to 31 July 2020

LEWS CASTLE COLLEGE

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR TO 31 JULY 2020

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PROFESSIONAL ADVISERS

External Auditor:	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
Internal Auditor:	TIAA Ltd Artillery House Fort Fareham Newgate Lane Fareham PO14 1AH
Bankers:	Royal Bank of Scotland 17 North Beach Street STORNOWAY HS1 2XH
Solicitors:	Macdonald Maciver & Co 20 Francis Street STORNOWAY HS1 2NB
Actuaries:	Hymans Robertson LLP 163 George Street GLASGOW G2 2JJ

PERFORMANCE REPORT

Overview

The activity target agreed for the College with the University of the Highlands and Islands as Regional Strategic Body was reviewed and set in 2017/18 at 5,348 credits and remains the target for 2019/20.

During 2019/20 the College achieved a total of 4,157 Credits of activity, compared to the target level above. This largely reflects the impact of the Covid-19 pandemic, which resulted in closure of on-campus activity from March 2020. The College converted a number of courses to fully online delivery in order to complete as many students in the academic year as possible, however, a number of students on highly practical courses were deferred to the following year. The national lock down also impacted on the ability of the College to deliver a number of credit-bearing school-based and practical short courses normally delivered from April each year.

The guarantee of the Scottish Funding Council to maintain funding levels for 2019/20 ensured that the Regional Strategic Body received no reduction in funding and funding levels for the College for both FE and HE was retained.

Covid-19

The onset of Covid-19 restrictions from March 2020 had serious implications for the operation of the College and the focus from that point was on repurposing teaching, assessment and student support arrangements to ensure current students could complete their qualifications or progress to their next level of study. Arrangements for staff homeworking were put in place and a review of processes was carried out to ensure there were no significant issues or risks to critical operations, communications or reporting.

Curriculum planning for 2020-21 took place to ensure as much of the planned curriculum as possible could be provided and a high-level risk assessment was put in place in line with developing Government guidance. Significant work took place across our campuses to prepare for socially distanced learning and working ahead of the new academic year. Adaptations were made to College estate to ensure 2 metre distancing and safe working. Health and Safety protocols were developed ahead of any phased on-campus activity from August 2020.

PURPOSES AND ACTIVITIES OF THE ORGANISATION

The Board presents its report and the audited financial statements for the year ended 31 July 2020.

Scope of the Financial Statements

The Financial Statements cover all activities of the College. The College also has a trading company, Lews Castle College (Trading) Limited, which is currently dormant.

Mission Statement

To deliver excellent learning and teaching, research and enterprise: locally, regionally, nationally and internationally.

Strategic Plan

In March 2018, after a period of consultation with stakeholders, the College Board of Management approved a revised Strategic Plan (Strategic Vision and Aims) covering the period 2018 – 2023. The Board have continued to monitor performance against the key performance indicators in the Plan on an annual basis.

The 4 strategic aims in the Plan are linked to four core values that guide how we make decisions, and how our staff, students and stakeholders will work with each other:

Our Strategic Aims	Our values
Have a clear organisational identity with an attractive curriculum offer.	Provide leadership We will strengthen our existing partnerships and inspire those we collaborate with, by example, to achieve our shared vision.
Promote equal opportunities for all staff and students to achieve their personal aims.	Embrace Fairness We will give a high value to inclusiveness and will treat individuals with respect and assist them in the pursuit of their personal objectives.
Match student achievement to local, regional, and national demands.	Pursue Excellence We will seek to help students and staff develop the essential skills to achieve their academic and personal best.
Be a socially responsible and accountable organisation.	Be Accountable We will fulfil our obligations and responsibilities to all stake holders in the pursuit of a sustainable strategy for educational excellence.

The organisational and management arrangements put in place during 2017-18 remain in place during 2019/20, however, a number of key senior postholders indicated their intention to retire at the end of the academic year, which resulted in a review of the senior management structure as part of succession planning. The Board approved a change to the senior management structure ahead of implementation in August 2020-21.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE

Student Centred Approach

We continue to put our students at the centre of all our activity and we will continue to develop our structures and resource allocation to ensure an excellent student experience and high level of student success. This includes reviewing our student services and student guidance models and ensuring appropriate resource levels for key support services.

To this end we will also continue to work closely with the Highlands and Islands Student Association (HISA) to ensure the student voice is central to what we do.

Curriculum

We will continue to increase our efforts on behalf of the people of the Outer Hebrides and, working with our partners, become a major force for addressing concerns about demographic change. We will develop our curriculum in line with local and regional demand to support the needs of our local economy and our communities. We will design, organise and promote our courses to attract students living in the Outer Hebrides and from elsewhere so that we achieve the funded student numbers that are conditions of grant from the Scottish Funding Council. In doing this, we will ensure our programmes meet fundability criteria, and regularly monitor progress against targets.

The realisation of our ambitions and vision will require us to make best use of our people, our natural, economic and cultural environment, our expertise in digital learning, our excellent estate, and our growing reputation for specialist courses. In doing so, we will retain more of our people in the islands and bring increasing numbers of new people to the Outer Hebrides - to learn, to engage in research, and to develop new businesses that will benefit from co-location with innovative applied research.

Our planning will take account of the impact of Covid on the economy and communities we serve and we will develop our curriculum to ensure we are responsive to the upskilling and reskilling that will be required for the post-Covid recovery.

Curriculum Developments

A revised curriculum strategy and plan will be developed in the coming year, which will be based on stakeholder engagement to ensure the curriculum becomes even more closely aligned to local and regional skills needs. Priority developments will be in the areas of:

- Health and social care
- Construction, maritime
- Food and drink
- Gaelic,
- renewable energy and energy efficiency,
- Digital skills
- Public administration

There will be a greater emphasis on development of digital-based learning and widened access to both FE and HE provision across all College locations.

Key developments for the College during 2019/20 included:

Islands Deal

The College plans to take forward a campus redevelopment proposal as part of the Islands Deal and will work with partners to progress this over the next 2 years.

UHI Islands Strategy

The College has worked with University partners to establish a University Islands Strategy, which commits to locating University roles at the 3 island colleges and collaboration to grow and promote areas of activity including FE vocational skills provision.

Cnoc Soilleir

The College will extend its number of learning centres from October 2021 and transfer its HNC music provision to the Cnoc Soilleir building as well as delivering planned new Gaelic language and media activity there.

KEY ISSUES & RISKS

Covid-19 - The College will continue to plan its provision and operations for next year to take account of the likely restrictions and future risks associated with the Covid-19 pandemic. This includes further conversion of curriculum and student support to support increased remote learning and repurposing policies and procedures to support remote working practices.

Although the College is small, we still provide a wide-ranging tertiary curriculum to our students. Principal risks relate to maintaining student numbers into the future in a context where the curriculum offer is necessarily wide and the demographic challenges, both local and further afield, mean that the student market is reducing. The increasing nature of our provision is becoming part-time and this puts further strain on resource to deliver. It is important that the levels of funding for the College are, at the least, maintained.

As funding for FE activity has reduced, staffing has been reduced as a result. National Bargaining has significantly increased staffing costs. This has been mitigated by receiving additional funding and it is essential that this funding continues to be available. There continues to be an anomaly in relation to lack of funding of the distant islands allowance, which is paid to staff by the College and is a significant cost. This anomaly requires to be resolved.

Regional responsibilities have been accommodated within existing resources and work continues on plans for potential sharing of resources and services across the partnership. While there are future potential benefits of this work for the College, this work continues to demand a high level of senior management time and resource.

Risks and opportunities are reviewed and scrutinised by the Audit Committee of the Board on an ongoing basis.

STAKEHOLDER RELATIONSHIPS

We value the contribution of our students and staff to the success of the College and we continue to encourage their participation in the planning and delivery of our activities.

We have two principal partnerships:

- The first of these is with the University of the Highlands and Islands (UHI) and other academic partners in UHI.
- At local, Outer Hebrides, level, the College works with other organisations to secure efficiencies and plan effectively for the delivery of services related to education, training and research. In particular, we work with NHS Western Isles, Comhairle nan Eilean Siar, Highlands and Islands Enterprise and other agencies in the Outer Hebrides Community Planning Partnership. We are fully committed to our membership of the Outer Hebrides Community Planning Partnership and work closely with partner organisations to plan and implement single outcome agreements that provide a coherent set of activities for our communities.

We continue to deploy staff to develop links with major industry and business partners and to establish liaison groups for local employers in both the public and private sectors.

Equal Opportunities and Employment of Disabled Persons

We are committed to ensuring equal opportunities for all and we are actively developing our equality arrangements.

Disclosure of Information to Auditor

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditor is 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 auditor is aware of that information.

PERFORMANCE SUMMARY**Financial Results**

The College made an underlying operating surplus of £21,000. This is based on an operating loss of £737,000 for the year, less adjustments for non-cash accounting adjustments related to FRS 102 pension charges and net depreciation. This compares with an underlying deficit of £23,000 last year. Note 23 of the accounts contains further details on these adjustments, summarised as follows:

	Year to 31 July 2020	Year to 31 July 2019
	£'000	£'000
Surplus/(Deficit) for the year as per statement of comprehensive income	(737)	(470)
Add back:		
Net Depreciation	306	127
Pension Adjustment – Net service cost	329	322
Pension Adjustment – Net interest cost	54	23
Pension Adjustment – Early retirement provision	69	(25)
Underlying operating Surplus / (Deficit)	21	(23)

One consequence of college reclassification as central government bodies is that from 1 April 2014, while colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, they are now also required to comply with Central Government budgeting rules. This affects amongst other things, the way in which non-cash depreciation charges are treated and how the colleges spend the cash funds earmarked for depreciation. There is potential for this spend to move the college's Statement of Comprehensive Income into a deficit position.

The impact of the above has contributed £306,000 to the reported surplus/deficit for the 2019-20 accounting year. However, the Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following its 30 January 2015 guidance, should be treated as a 'technical' deficit and should not be interpreted on its own, as a challenge to the College's ongoing financial sustainability. Audit Scotland accepts that a deficit arising from the use of cash funding originally provided for non-cash depreciation does not indicate an underlying financial sustainability concern.

There are accumulated reserves of £3,070,000 (2019: £5,465,000). The main balance sheet movements were:

- Fixed Assets – decrease of £573,000 due to depreciation and additions.
- Current Assets – increase of £78,000 due to movement in debtors and bank balance.
- Creditors due within one year – increase of £137,000 largely due to changes in the value of deferred capital grant and accruals & deferred income.
- Creditors due after more than one year – decrease of £398,000 due to the release of deferred capital grant within the year.
- Provisions – increase of £2,171,000 due to movements in the pension provisions.

The table below shows the actual resource requirement for the funding year to 31 March 2020 against the forecast.

Year to 31 March 2020	Actual	Budget	Variance
	£'000	£'000	£'000
Income	3,501	2,870	631
Expenditure	7,372	6,741	631
Total (Resource DEL)	3,871	3,871	0
Capital DEL	0	0	0

Cash Budget for Priorities

Following reclassification as a central government body from 1 April 2014, the College is now required to comply with Central Government budgeting rules. In addressing the impact of these rules, Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities. The budget was spent as outlined below.

Revenue Priorities	2019/20 £'000	2018/19 £'000
2015/16 Lecturers Pay Award	47	47
Estates costs	96	96
Total	143	143

Taxation Status

The College is registered with the Office of the Scottish Charities Regulator as a Scottish Charity and is exempt from corporation tax and capital gains tax. The College receives no similar exemption in respect of Value Added Tax.

Cash Flows and Liquidity

The nature of the College's operations is such that there can be considerable unpredictable variation in the timing of cash inflows and outflows. The approved cash flow projections for the period to 31 July 2021 indicate no requirement for an overdraft facility. Forecasts approved by the Board of Management, as part of its Financial Forecast Return in July 2020, indicate that the College would be able to operate through 2020/21 without the need of a bank overdraft.

Creditor Payment Policy

The College complies with the CBI Prompt Payment Code and has a policy of paying its suppliers within 30 days of the invoice unless the invoice is contested. All disputes and complaints are handled as quickly as possible.

The College's average payment period was 42 days during 2019-20 (24 days in 2018-19). The extended period was due to the complications of adjusting to home working. This has now been resolved. The College was not required to pay any interest during the year under the late payment of Commercial Debts (Interest) Act 1998.

RESOURCES

We will continue to make the most of our resources and expertise to provide as good a service to our students and other customers as is possible. We will work with our UHI partners to deliver efficiencies in the way we operate as part of our progress towards long-term financial stability and security, so that we can concentrate our energies on learning, teaching, scholarship, research and commercialisation of that research.

Underpinning our ambitions is our need to grow our staff. We will ensure that continuing professional development is funded and delivered so that we support and sustain the professional development of our staff, and by doing so, continue to offer high quality learning experiences to our

students. As a fully committed partner, we will develop our staff as appropriate so that they can contribute to the growth and development of the University of the Highlands and Islands.

The College continues to seek funding to cover the additional costs arising from the requirement to pay an Islands Allowance to staff. These additional costs are not currently provided for in the funding arrangements. Discussions with UHI and SFC have clarified that this funding is not currently provided and that the additional cost in 2019/20 to the College was £320,000. Receipt of this additional funding would allow the College to develop its curriculum offer to provide for the needs of the local community and economy.

Value for Money

Value for money (VFM) is considered as a matter of course during the work of Internal Audit and issues identified are reported to the College.

Overall, there was evidence to support the College's achievement of VFM regarding the economy, efficiency, and effectiveness of the systems reviewed.

Performance Indicators

A total of 246 students were recruited on to full time courses throughout the College in session 2019-20, with a further 321 undertaking part-time courses ranging from short one day courses to Postgraduate level. This compares to 357 full time and 1,894 part time students in 2018/19. The reduction in numbers is mostly due to the inability to deliver short courses during the post-lockdown period in 2020. Pupils from Secondary Schools throughout the Outer Hebrides are also catered for in timetabled vocational programmes at the College, linked to their school studies.

In accordance with SFC requirements, the College is required to publish and report progress against targets for national priorities. These indicators monitor the implementation of the College's financial objectives. The performance indicators used by the College measure actual results as follows:

KPI	Purpose	Actual 2018-19	Actual 2019-20	Target 2020-21	Trend
FE Activity in Credits	Number of Credits per year	5,266	4,157	5,445	
Student numbers	Students enrolled on FE courses after census date	2,069	1,523	1,900	
Overall early retention	Measures student retention before cut-off date	99.2%	97.8%*	90%	
Overall retention	Measures student retention	95.5%	94.0%*	96%	
Student outcome FE	Measures FE student success	88.4%	89.1%*	85%	
Operating surplus / (deficit) as a % of income	Measures the surplus on continuing operations as a % of total income	(0.36%)	0.30%	0%	
Non SFC income as a % of income	Measures non SFC income as a % of total income	30.7%	27.6%	32.0%	
Staffing costs as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	79.8%	80.4%	89.9%	
Current assets : current liabilities	Measures the college's ability to pay its current liabilities	0.63	0.63	1.0	
Days cash	Cash divided by total expenditure less depreciation expressed in days	6.9	7.6	15	
Staff turnover	FTE staff (permanent) that leave during the year divided by total permanent FTE staff	7.81%	11.8%		
Working days lost through sickness absence	Working days lost per staff FTE	10.96	9.04		

*SFC have not (as yet) published the 2019/20 PI data due to delays in assigning outcomes to Covid-19 deferred students. These figures may be subject to change.

I can confirm that the College has complied with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009. The Schedule to the 2015 Order sets out the required content for the report to Scottish Government and the report was submitted on time on 29 November 2020.

Date 5 March 2021

Sue Macfarlane
Principal

ACCOUNTABILITY REPORT**Corporate Governance Report****Legal Status**

The College was established in 1952 and incorporated under the Further and Higher Education (Scotland) Act 1992 on 1 April 1993. The College is a registered charity (Scottish Charity Number SC021204) for the purposes of the Charity and Trustee Investment (Scotland) Act.

Directors' report**Members**

The Members who served on the Board of Management during the year, and up to the date of the accounts being signed, were as follows:

Board Member	Committees Served during the year	Status of Appointment	Date of Board Appointment	Date of Retiral
Ian Minty	Board Chair	Independent	01/09/2016 06/11/2018	7/04/2020
Archie Macdonald	Board Chair F&GP	Independent Independent	06/11/2018 14/04/2020 06/11/2018	14/04/20
Iain Macmillan	Board	Principal	01/01/2012	09/08/2020
Sue Macfarlane	Board	Principal	08/08/2020	
Amanda Jane MacIver	Board Audit	Independent	01/06/2016	31/05/2020
Billy Mackinnon	Board	Academic Staff	01/08/2018	
Norman Macleod	Board	Support Staff	01/08/2018	
Florence Jansen	Board	Student	01/08/2018	
Aaron Steele	Board	Student		
Annie Macsween	Board Audit L&T Chair	Independent	06/11/2018	
Ian McCulloch	Board F&GP Chair	Independent 14/4/2019	06/11/2018	
Fiona Pearson	Board	Independent	06/11/2018	
Prof Alison McCleery	Board	Independent	March 2020	
Bill McMillan	Board	Independent	March 2020	
Georgina Marczak	Board	Independent	March 2020	
Martin Malcolm	Board	Independent	March 2020	
Dr Murdoch Macleod	Board	Independent	April 2020	

A record of Member's attendance at meetings is shown in Appendix 2.

Statement of Board of Management's responsibilities

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

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Regional Strategic Body, the University of the Highlands and Islands, and the College's Board of Management, the Board of Management, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council 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
- 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, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- Regular reviews of key performance indicators and business risks and quarterly reviews of 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 formal detailed appraisal and review according to approval levels set by the Board of Management
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance & General Purposes Committee
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose Head provides 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, including internal financial control

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

Governance Statement

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

Introduction

The College is committed to exhibiting best practice in all areas of corporate governance. This summary describes the manner in which the College has applied the principles in the 2016 Code of Good Governance for Scotland's Colleges. Its purpose is to help the readers of the financial statements understand how the principles have been applied.

Governing Body

The Post-16 Education (Scotland) Act makes the Court of the University of the Highlands and Islands accountable for all college and university level education in the Highlands and Islands. The Further Education Regional Board is the committee of the Court which ensures the colleges in the region work together to meet the needs of their respective communities as well of those of the wider area. The Chair of Lews Castle College UHI Board of Management is an ex-officio member of the Further Education Regional Board.

In 2019/20 the Board of Management consisted of 16 members comprising of the Chair, The Principal, two students members, two staff members and ten independent members. The Board met five times during the year, The Audit Committee and the Finance and General Purposes Committee both met three times. A newly constituted Learning and Teaching Committee met twice.

Appointments or extension of appointments to the Board of Management

In 2020, five new members were appointed. No members had their appointment extended.

Board Effectiveness Review

A Board Effectiveness Review was conducted in December 2017 and resulted in a number of Recommendations and an Action Plan which the Board monitors at Board meetings. Progress was made in 2019 towards completing the recommended actions and work will continue to complete the outstanding points noted in the Statement of Compliance below.

Board Evaluation and Development

Board Members engaged in a self-evaluation exercise in August 2019 using the Thinking Board evaluation tool. The exercise resulted in several overarching themes and a Board Development Plan for 2019 to 2020.

Audit Committee

The Audit Committee comprises of the Audit Committee Chair, and three other independent members. The Board Chair and the Principal are not members but attend at the invitation of the Committee, the Head of Finance, the internal and external auditors are usually in attendance.

The Committee operates in accordance with the written terms of reference approved by the Board of Management. It compiles an annual audit report for consideration by the Board of Management. Its remit is to advise the Board and to review and monitor governance, monitor risk management, consider reports from internal auditors, and monitor progress on recommendations for the improvement of the College's systems. 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. The Audit Committee advises the College on the appointment and remuneration of internal auditors. The Committee met four times in 2019/20 and meets privately with External Audit at least once per year.

Remuneration Committee

The Remuneration Committee comprises of the Chair or the Board along with the Committee Chairs of Audit, F&GP and QLT. The Committee operates in accordance with the written terms of reference approved by the Board of Management. Its remit is to advise the Board on the remuneration and

benefits of the Principal and other senior staff. The Committee met twice in 2019/20 to consider the Principal and other senior staff salaries.

Estates Strategy

The College Estates Strategy is evidence-based and allows the College to continue with its programme of aligning its estate to the emerging needs of students and curriculum delivery requirements going forward. The College buildings have all been built or substantially upgraded since 1999 and provide good quality facilities. In addition to its own buildings the College also leases teaching accommodation from Taigh Chearsabhagh in North Uist to deliver art courses. The Estates Strategy will be reviewed in 2020-21 in light of the Cnoc Soillier Development in South Uist. A full revaluation of the College's property assets was completed in 2018/19 by a third-party valuer. An interim valuation is expected to be undertaken in 2022/23.

Review of non-compliance in 2019/20

The College complies with all principles of the 2016 Code of Good Governance for Scotland's Colleges with the exception of the points outlined below. The College is taking action to address this as outlined below and expects to be fully compliant by Summer 2021.

The following areas of non-compliance were identified in 2019/20. The actions taken are noted beside each finding.

No.	Findings	Action
1	Most Board Members identify the need to address management succession and leadership issues.	Management Succession and Development Plan to be undertaken during 2021.
2	Some Board Members consider the College to be a lacking in strategic direction with no active plan or business model.	Facilitated Board Strategy Event to be undertaken during 2021.

In the prior year, there were two areas of non-compliance identified. One (A14) was addressed by the appointment of an independent Board member noted below. The other (D24) will be addressed through an Effectiveness Review undertaken during 2021 as noted below.

External Effectiveness Review

An external Review of Board Effectiveness was undertaken in December 2019 which resulted in 25 recommendations which have been the focus of successive external follow-up audits. Progress has been made on these. A further External review was due to be undertaken in 2020 but the deadline for this has been extended to 30 April 2021.

Internal Board Effectiveness Review – Board Evaluation & Development

An internal effectiveness review was undertaken in August 2019 using the UHI 'Thinking Board' evaluation tool. This resulted in several over-arching themes and a Board Development Plan with 3 recommendations for 2019/20. Progress has been made on these as set out below in the 'Statement of Compliance'. In light of the decision to extend the period for the next External Review to 30 April 2021, another Internal Effectiveness Review will be undertaken in 2021.

Compliance with the Code of Governance

. It is the Board of Management's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct and discussions relative to this have been recorded in the minutes of meetings at which such matters have been discussed. The Board of

Management also takes cognisance of the Guide for Board Members in the College Sector, which complements the Code of Good Governance for Scotland's Colleges and also guidance notes as issued from time to time by Colleges Scotland and applies good practice recommendations where appropriate.

The Board appointed a Senior Independent Member in December 2019.

In response to Covid-19, there was an on-going process for identifying, evaluating, and managing the College's significant risks that was in place for the year ended 31 July 2020. This process involved development and continually review of high level risk assessments and actions, a review of process and procedures in light of remote working, including risk of fraud, and establishing robust health and safety protocols, weekly risk monitoring and reporting. In managing the impact of Covid-19, the College has complied with advice and guidance provided by the Scottish Government and other pertinent agencies.

The College recognises the wider Regional and National framework that its governance and management activities operate within together with the challenges and opportunities for UHI and Academic Partners in the wider UHI and regionalisation context. The Chair and Principal continue to be engaged in this and reports on developments at a Strategic level are regularly submitted to the Board so that Members might engage in discussions around such developments.

The Board considers that each of its non-executive members is independent of management and free from any business or other relationships which could materially interfere with the exercise of independent judgement. The Board operates according to the terms of its Constitution and Standing Orders. The College has an approved Scheme of Delegation specifying which decisions are reserved by the Board and those matters delegated to management. Attendance records of Board members at Board and committee meetings are maintained by the Board Secretary and reviewed by the Board. The agendas, papers, and minutes of all meetings, except those deemed to be confidential by the Board, are available from the Board Secretary.

In the year ended 31 July 2020 the system of internal financial control was based on administrative procedures, including segregation of duties appropriate to the size of organisation. The Principal continues to monitor and review financial control arrangements and reports to the Board of Management.

The system of financial control includes:

- a comprehensive budget setting process, with the annual budget being approved by the Board of Management
- preparation of regular management accounts and revision of the budget for the second half of the period
- regular monitoring of budgets by senior management
- ongoing review of the reporting requirements of the Board
- regular review of the Risk Register by the Audit Committee

The College includes risk assessment as an integral part of the strategic and operational planning process. The role of the Board of Management and its committees in the development and review of risk management has been clarified, and relevant risks are identified and systematically addressed through the regular review of the Risk Register.

Internal Auditor's Annual Report Conclusion

The internal auditors stated in their annual review:

"TIAA is satisfied that, for the areas reviewed during the year, Lews Castle College has reasonable and effective risk management, control and governance processes in place. This opinion is based solely on the matters that came to the attention of TIAA during the course of the internal audit reviews carried out during the year and is not an opinion on all elements of the risk management, control and governance processes or the ongoing financial viability or your ability to meet financial obligations which must be obtained by the College from its various sources of assurance."

Despite the challenges presented by the Covid-19 pandemic, the internal auditors were able to complete all the work contained in their 2019/20 annual plan.

Details of any significant lapses of data security

In 2019/20 there were no lapses of data security.

Going Concern

The Board of Management confirms that the College is a going concern as described in the Code of Good Governance for Scotland's College 2016 and that the financial statements have been prepared on this basis. The accounting policies on page 32 comment on the going concern aspects of the preparation of the accounts.

Impact of Covid-19 Pandemic

As a result of the Covid-19 pandemic, the College moved all Board and Committee meetings to virtual platforms. This allowed for the governance structures to be maintained throughout the period of 2019/20, and has continued into 2020/21.

Conclusion

The Board continues to develop the governance arrangements of the College to ensure that it attains full compliance with the Code of Good Governance.

Remuneration and staff report

REMUNERATION REPORT

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

The remuneration policy of the College is such that any salary increase is applied equally to all Academic staff, Support staff and Senior Managers. Following agreement for all other staff grades, it is normal practice that a proposal is then put to the Remuneration Committee to recommend that the Principal receives the same settlement. It is then for the Committee to decide whether or not the Principal should receive a pay award.

As the only member of staff who is appointed directly by the Board of Management, and the only member of the Board who is remunerated (other than the staff representatives), the Principal is the only post which requires Committee approval and therefore the only post required to be identified individually in the remuneration report.

The Principal retired shortly after the end of the financial year.

The following table provides detail of the full remuneration and pension interests of the Principal.

Name	12 Months ending 31 July 2020			12 Months ending 31 July 2019		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary £'000	Pension Benefit £'000	Total £'000
Iain Macmillan – Principal	80-85	31	115-120	80-85	32	110-115

As per the UK Government Financial Reporting Manual, the value of the pension benefit is calculated as the real increase in pension over the year 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. This does not represent any actual payment made during the financial year by either the employee or the College. The Principal is an ordinary member of the Highland Council Pension Fund and, as such, pays contributions and receives benefits at the same rate as all other members.

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 2020	Accrued lump sum at pension age at 31 July 2020	Real increase in pension 1 April 2019 to 31 July 2020	Real increase in lump sum 1 April 2019 to 31 July 2020	CETV at 31 July 2020	CETV at 31 July 2019	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Iain Macmillan	20-25	15-20	0-2.5	0-2.5	390	352	31

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.

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.

Trade Union Activity

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

Relevant union officials

Number of employees who were relevant union officials during the relevant period:	Full-time equivalent employee number:
3	0.26

Percentage of time spent on facility time

Percentage:	Number of employees:
0%	-
1% -50%	3
51% -99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time:	£14,289
Total pay bill:	£5,363,833
Percentage of the total pay bill spent on facility time:	0.27%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours:	100%
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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.

Based on the 12-month equivalent figures above, the remuneration of the highest paid official in the organisation in the financial year 2019-20 was £79,843 (2018-19 £76,318). This is the annualised salary for the highest paid official, with the tables above including backdated pay award going back to 2018/19 which was approved by the Remuneration Committee in the year. This was 2.4 times (2018-19 2.5 times) the median remuneration of the workforce which was £33,221 (2017-18 £31,325).

No employees left under voluntary exit terms during the year. There were two posts made redundant and compensation for loss of office payments totalling £23,100 made. Both payments were calculated using statutory terms (2018/19 - £nil) and were approved by the Remuneration Committee.

The College employed 79 females and 53 males as at 31 July 2020.

Please see further staff cost disclosures, in line with the SFC Accounts Direction, within the financial statements at Notes 6 and 7.

Sue Macfarlane
Principal

Date 5 March 2021

Independent auditor's report to the members of the Board of Management of Lews Castle College, the Auditor General for Scotland and the Scottish Parliament**Report on the audit of the financial statements****Opinion on financial statements**

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

In our opinion the accompanying financial statements:

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

Basis of opinion

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

Conclusions relating to going concern basis of accounting

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Independent auditor's report to the members of the Board of Management of Lews Castle College, the Auditor General for Scotland and the Scottish Parliament (Continued)

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

Risks of material misstatement

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

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board'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 ability of the college and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and our independent auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance

Independent auditor's report to the members of the Board of Management of Lews Castle College, the Auditor General for Scotland and the Scottish Parliament (Continued)

conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

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

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

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

Responsibilities for regularity

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

Report on other requirements**Opinions on matters prescribed by the Auditor General for Scotland**

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or

Independent auditor's report to the members of the Board of Management of Lews Castle College, the Auditor General for Scotland and the Scottish Parliament (Continued)

- We have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

Date: 8 March 2021

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

**College and consolidated Statement of Comprehensive Income and Expenditure
31 July 2020**

	Note	Year to 31 July 2020 (Consolidated & College)		Year to 31 July 2019 (Consolidated & College)	
		£'000	£'000	£'000	£'000
Income					
SFC grants	2	5,036		4,398	
Tuition fees and education contracts	3	760		814	
Other grant income	4	644		454	
Other operating income	5	515		675	
Interest		0		1	
Total Income			6,955		6,342
Expenditure					
Staff costs	6/8	5,589		5,064	
Other operating expenses	8	1,364		1,227	
Depreciation	8/11	685		498	
Interest payable	9	54		23	
Total Expenditure			<u>7,692</u>		<u>6,812</u>
(Deficit)/Surplus before other gains losses			(737)		(470)
(Deficit)/Surplus before tax			(737)		(470)
(Deficit)/Surplus for the year			(737)		(470)
Unrealised surplus on revaluation of land and buildings			0		4,330
Actuarial (loss) / gain in respect of pension schemes			(1,658)		(1,317)
Total comprehensive (loss)/gain for the year			(2,395)		2,543
Represented by:					
Unrestricted comprehensive income for the year			(2,395)		2,543
Attributable to the College			(2,395)		2,543

All of the above relate to the continuing activities of the Group and College.

The notes on pages 31 – 46 form part of the Financial Statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Year ended 31 July 2020

	Income & Expenditure Account Unrestricted £'000	Revaluation Reserve £'000	Total £'000
Balance at 1 August 2018	(1,209)	4,131	2,922
Surplus/(deficit) from the income and expenditure statement	(470)	0	(470)
Other comprehensive income	(1,317)	0	(1,317)
Gain on revaluation	0	4,330	4,330
Transfers between revaluation and income and expenditure reserve	132	(132)	0
Total comprehensive income for the year	(1,655)	4,198	2,543
Balance at 1 August 2019	(2,864)	8,329	5,465
Surplus/(deficit) from the income and expenditure statement	(737)	0	(737)
Other comprehensive income	(1,658)	0	(1,658)
Gain on revaluation	0	0	0
Transfers between revaluation and income and expenditure reserve	132	(132)	0
Total comprehensive income for the year	(2,263)	(132)	(2,395)
Balance at 31 July 2020	(5,127)	8,197	3,070

COLLEGE STATEMENT OF CHANGES IN RESERVES
Year ended 31 July 2020

	Income & Expenditure Account Unrestricted £'000	Revaluation Reserve £'000	Total £'000
Balance at 1 August 2018	(1,214)	4,131	2,917
Surplus/(deficit) from the income and expenditure statement	(470)	0	(470)
Other comprehensive income	(1,317)	0	(1,317)
Gain on revaluation	0	4,330	4,330
Transfers between revaluation and income and expenditure reserve	132	(132)	0
Total comprehensive income for the year	(1,655)	4,198	2,543
Balance at 1 August 2019	(2,869)	8,329	5,460
Surplus/(deficit) from the income and expenditure statement	(737)	0	(737)
Other comprehensive income	(1,658)	0	(1,658)
Gain on revaluation	0	0	0
Transfers between revaluation and income and expenditure reserve	132	(132)	0
Total comprehensive income for the year	(2,263)	(132)	(2,395)
Balance at 31 July 2020	(5,132)	8,197	3,065

CONSOLIDATED AND COLLEGE BALANCE SHEET AS AT 31 JULY 2020

	Note	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
NON-CURRENT ASSETS					
Tangible fixed assets	11	15,725	15,725	16,298	16,298
Investments		1	1	1	1
		<u>15,726</u>	<u>15,726</u>	<u>16,299</u>	<u>16,299</u>
CURRENT ASSETS					
Debtors	13	585	580	529	524
Cash and cash equivalents		142	142	120	120
		<u>727</u>	<u>722</u>	<u>649</u>	<u>644</u>
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	14	<u>1,155</u>	<u>1,155</u>	<u>1,018</u>	<u>1,018</u>
NET CURRENT (LIABILITIES)					
		<u>(428)</u>	<u>(433)</u>	<u>(369)</u>	<u>(374)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		15,298	15,293	15,930	15,925
Creditors: amounts falling due after more than one year	15	(6,688)	(6,688)	(7,106)	(7,106)
Provisions					
Pension Provisions	16	(1,053)	(1,053)	(973)	(973)
Defined benefit liabilities	16	<u>(4,487)</u>	<u>(4,487)</u>	<u>(2,385)</u>	<u>(2,385)</u>
Total NET ASSETS					
		<u>3,070</u>	<u>3,065</u>	<u>5,465</u>	<u>5,460</u>
RESERVES					
Income and expenditure reserve - unrestricted		(5,127)	(5,132)	(2,864)	(2,869)
Revaluation reserve		8,197	8,197	8,329	8,329
Total Reserves					
		<u>3,070</u>	<u>3,065</u>	<u>5,465</u>	<u>5,460</u>

These financial statements on pages 26 to 46 were approved on 5 March 2021 by the Board of Management and are signed on its behalf by:

Archie Macdonald
Chair of the Board of Management

Sue Macfarlane
Principal

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR TO 31 JULY 2020

	Year to 31 July 2020 £'000	Year to 31 July 2019 £'000
Cash outflow from operating activities		
(Deficit)/Surplus for the year	(737)	(470)
Adjustment for non-cash items		
Depreciation	685	498
Decrease/(Increase) in debtors	(56)	(158)
(Decrease)/Increase in creditors	(273)	656
Increase/(Decrease) in pension provision	513	320
Adjustment for investing or financing activities		
Investment income	0	1
Net cash inflow from operating activities	<u>132</u>	<u>847</u>
Cash flows from investing activities		
Payments made to acquire fixed assets	(111)	(890)
	<u>(111)</u>	<u>(890)</u>
Cash flows from financing activities		
Interest paid	0	0
	<u>0</u>	<u>0</u>
(Decrease) in cash and cash equivalents in the year	<u>21</u>	<u>(43)</u>
Cash and cash equivalents at beginning of the year	121	164
Cash and cash equivalents at end of the year	142	121

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 JULY 2020**1 ACCOUNTING POLICIES****Basis of Preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019, and in accordance with applicable Accounting Standards including Financial Reporting Standard 102 (FRS 102). Management have reviewed requirements of the new SORP and have confirmed that no material changes were required. They have been prepared in a form prescribed by the Scottish Ministers and in accordance with paragraph 28 of schedule 2 of the Further and Higher Education (Scotland) Act 1992 and in accordance with the Accounts Direction published by SFC. The accounts have been prepared under the historical cost convention.

The consolidated financial statements, including 2018/19 comparatives, include the College and its subsidiaries, as detailed at note 12. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. All intra-group sales and profits are eliminated fully on consolidation.

The College is a public benefit entity under the requirements of FRS102.

Judgements in applying policies and key sources of estimation uncertainty

In preparing the financial statements, the Board of Management is required to make estimates and assumptions which affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The Board of Management are satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied as follows:

Estimate and basis:**Valuation of buildings:**

College buildings are of a specialist nature and are valued on a periodic basis by an independent, qualified valuer. The last valuation was carried out in July 2019.

Useful economic lives of buildings:

Buildings are depreciated over their expected remaining useful economic life as assessed by an independent, qualified valuer. Buildings owned by the College are split into components and each component is valued and depreciated separately. Land owned by the College is not depreciated.

Recoverable amount of trade debtors:

Trade debtors are reviewed by appropriately experienced senior management team members with appropriate provision for non-payment of debt being charged to the financial statements as required.

Obligations under defined benefit pension schemes:

The Board of Management has relied on the actuarial assumptions of qualified actuaries which have been reviewed and are considered reasonable and appropriate. The Highland Pension Fund has disclosed a material uncertainty around the valuation some of its asset portfolio held at 31st March 2020, specifically in relation to property investments. While this may not have existed at the 31st July 2020 there is ongoing judgement around the valuation of these assets.

Going Concern

At 31 July 2020 the college reported a deficit of £737,000 and total comprehensive loss of £2,395,000. After adjusting for non-cash accounting adjustments, the College made an underlying operating surplus of £21,000. At the yearend it held net assets of £16,453,000 and net current liabilities of £1,155,000. The net liability position reported in these Financial Statements is due to the adoption of the Financial Reporting Statement FRS 102 which has resulted in the reclassification of Government Capital Grants previously disclosed in Reserves, being partly disclosed under liabilities less than one year to the value of £378,932. The college held cash of £142,372 at the balance sheet date and had no bank loans. Subsequent to the yearend the College held £570,157 as at 28 February 2021 and has utilised no further financing support.

Going forward the College forecasts to make a technical accounting deficit of £640,000 in 2020/21, but with a small underlying surplus of around £20,000. The College forecasts to continue to make a small underlying surplus through its going concern assessment period to the end of March 2022. Through this period the College forecasts to hold cash no lower than £100,000. The Board of management monitors the financial position on a routine basis and should the forecast position deteriorate through the year will take appropriate mitigating action to maintain the College's financial position. Should the College forecast a shortfall in liquidity through the going concern assessment period it has confirmed with the SFC they would provide support through advanced payments of core grant in aid, although this would be an advance of funding and would be recouped by SFC at a later date.

Fixed Assets

By a direction from the SFC, buildings must now be revalued every five years and depreciated in line with their remaining useful life, as assessed by a suitably qualified surveyor.

Equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the year of acquisition, except where the item forms part of a group costing more than £5,000. All other equipment is capitalised at cost.

Depreciation

Buildings are depreciated based on the value of the building itself and the associated services within it. The life of the buildings is assessed independently of each other. The value of the land is not subject to depreciation. Depreciation is provided only on equipment at the following rates:

Buildings:	Straight line over remaining useful life
Equipment:	15% straight line
Motor Vehicles:	25% straight line
IT Equipment:	25% straight line

Retirement Benefits

All new members of staff have the option of joining a pension scheme. The schemes currently open to new members of staff are the Scottish Teachers Superannuation Scheme (STSS) and the Highland Council Pension Fund (HCPF).

In the event of staff taking early retirement, the full liability of the College is calculated and charged to the Consolidated Income and Expenditure Account on the year of retirement, with a corresponding provision established in the Balance Sheet. Full provision has been made for those pension costs which do not arise from externally funded defined benefit schemes.

Highland Council Pension Fund (HCPF)

The HCPF is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Lews Castle College. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using

projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the statement of financial activities represents the service cost expected to arise from employee service in the current year.

Scottish Teachers Superannuation Scheme (STSS)

Lews Castle College participates in the STSS pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of Lews Castle College. Lews Castle 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, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

Recognition of Income

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.

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.

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

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

Taxation

The College has been granted charitable status by HM Revenue and Customs, as determined by the Finance Act 2010. Accordingly, it is exempt from Corporation Tax on the services it provides.

The College however is required to pay VAT. As most of the services provided are exempt VAT supplies, the College is unable to recover all the input VAT it incurs on goods and services purchased.

Investments

The investment in the subsidiary undertaking is stated at cost.

Bursaries and Other Student Support Funds

In accordance with Scottish Funding Council (SFC) guidelines, funds received from SFC and SAAS for the payments of Bursaries and other Student Support awards are not included in the College's Income and Expenditure Account, as the College acts only as paying agent. Some childcare funding and costs are recognised in the income and expenditure, as broken down in note 20.

Maintenance of Premises

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

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.

Financial instruments

Financial instruments are recognised in the Balance sheet when the College becomes party to the contractual provisions of the instrument. All of the College's financial instruments are classified as 'basic' in accordance with Chapter 11 of FRS102. All of the College's financial instruments are initially measured at transaction price. At the end of each reporting period, basic financial instruments are measured at amortised cost.

Financial assets are de-recognised when the contractual rights to the cash flows from asset to expiration, or when the College has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry

Employee benefits

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Creditors

Short term creditors are measured at the transaction price.

	Year to 31 July 2020 £'000	Year to 31 July 2019 £'000
2 SFC GRANTS		
SFC recurrent grant (including fee waiver)	3,511	2,869
UHI Millennium Institute recurrent grant	1,195	1,225
Release of deferred capital grants – buildings	166	165
- equipment	60	82
Other SFC grants	103	57
	<u>5,035</u>	<u>4,398</u>
3 TUITION FEES AND EDUCATION CONTRACTS		
FE fees – UK	123	167
HE fees	599	580
Education contracts	38	67
	<u>760</u>	<u>814</u>
4 OTHER GRANT INCOME		
UHI	1	19
Release of deferred capital grants – buildings	152	124
- equipment	0	0
Other grants	491	311
	<u>644</u>	<u>454</u>
<p>Note: Other grants contains £67,647 received from HMRC Job Retention scheme. This involved up to 23 staff between March & July. A smaller number of staff continued to be on furlough into 2020/21.</p>		
5 OTHER OPERATING INCOME		
Catering	48	64
Nursery fees	239	235
Room hire	27	18
Other income	202	358
	<u>516</u>	<u>675</u>
6 STAFF COSTS	Year to	Year to
	31 July	31 July
	2020	2019
	£'000	£'000
Wages and salaries	4,237	3,766
Social security costs	367	347
Other pension costs	625	619
(Decrease) / Increase in holiday accrual	(30)	10
	<u>5,199</u>	<u>4,742</u>
Defined benefit pension charges	390	322
Total	<u>5,589</u>	<u>5,064</u>

Academic/teaching departments	3,185	2,913
Academic/teaching services	197	169
Research grants and contracts	100	85
Administration and central services	1,094	938
Premises	394	393
Other expenditure	253	212
Catering and nursery	366	354
Total	5,589	5,064
Analysed as:		
Staff on permanent contracts	5,458	4,908
Staff on temporary contracts	132	156
Total	5,589	5,064

The average number of full-time equivalent employees, including higher paid employees, during the year was:

	Number 2020	Number 2019
Academic/teaching departments	50	50
Academic/teaching services	5	5
Research grants and contracts	5	3
Administration and central services	23	22
Premises	11	11
Other expenditure	1	2
Catering and nursery	13	14
Total	107	107

7 EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF

No member of the Board of Management received a fee for services (2019: £Nil)

	Year to 31 July 2020 £'000	Year to 31 July 2019 £'000
Travel and subsistence paid to members of the Board	2	4
Hospitality	-	-
	<u>2</u>	<u>4</u>
	£	£
Emoluments of the Principal:		
Salary	84,783	82,960
Employer's pension contributions	15,007	14,684
	<u>99,789</u>	<u>97,644</u>

The Principal is an ordinary member of the LGPS.

The number of higher paid staff, including the Principal, who received emoluments (for a 12 month period) in the following ranges was:

	2020	2019
£60,001 to £70,000	3	-
£70,001 to £80,000	-	-
£80,001 to £90,000	1	1

All higher paid staff are ordinary members of the appropriate pension scheme and contributions were paid at the same rates as other ordinary members. No member of staff received any benefits in kind.

All higher paid staff received the same increase in salaries as other staff.

The Principal is the only senior member of staff who is a member of the Board of Management of the College.

8 ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Staff Costs	Oper'g Exps	Depr'n	Interest Payable	Year to 31 July 2020 Total	Year to 31 July 2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Academic/teaching departments	3,185	150	0	0	3,335	3,160
Academic/teaching services	197	48	0	0	245	219
Research grants and contracts	100	0	0	0	100	85
Administration and central services	1,094	620	60	54	1,828	1,380
Premises	394	417	625	0	1,436	1,282
Other expenditure	253	86	0	0	339	260
Catering & nursery	366	38	0	0	404	409
Childcare	0	5	0	0	5	17
	5,589	1,364	685	54	7,692	6,812

Other operating expenses include:		Year to 31 July 2020 £'000	Year to 31 July 2019 £'000
Auditor remuneration:	internal audit	11	10
	external audit	26	21
		37	31

Lease Obligations

Total rentals payable under operating leases:

	2020	2019
	£'000	£'000
Payable during the year	13	13
Future minimum lease payments due:		
Not later than 1 year	0	13

The leases are in respect of office printers and photocopiers.

9 INTEREST PAYABLE

	2020	2019
	£'000	£'000
Net return on pension assets/liabilities	54	23
	<u>54</u>	<u>23</u>

10 TAXATION

The College is not liable to any corporation tax on its activities.

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11 TANGIBLE FIXED ASSETS OF THE COLLEGE

	Buildings	Equipment	Vehicles	Total
	Feudal			
Cost	£'000	£'000	£'000	£'000
At 1 August 2018	12,651	1,503	16	14,170
Additions	802	88	0	890
Disposals	-	-	-	-
Revaluation	2,732	0	0	2,732
At 31 July 2019	16,185	1,591	16	17,792
Depreciation				
At 1 August 2018	1,158	1,424	12	2,594
Charge for year	440	54	4	496
Disposals	-	-	-	-
Revaluation	(1,598)	0	0	(1,598)
At 31 July 2019	0	1,478	16	1,494
Net Book Value	16,185	113	0	16,298
At 31 July 2019				
At 31 July 2018	11,493	79	4	11,576
Inherited	-	-	-	-
Financed by capital grant	16,185	113	0	16,298
Other	-	-	-	-
At 31 July 2019	16,185	113	0	16,298

	Buildings Feudal £'000	Equipment £'000	Vehicles £'000	Total £'000
Cost				
At 1 August 2019	16,185	1,591	16	17,792
Additions	37	74	0	111
Disposals	0	0	0	0
At 31 July 2020	16,222	1,665	16	17,903
Depreciation				
At 1 August 2019	0	1,478	16	1,494
Charge for year	624	60	0	684
Disposals	0	0	0	0
At 31 July 2020	624	1,538	16	2,178
Net Book Value				
At 31 July 2020	15,598	127	0	15,725
At 31 July 2019	16,185	113	0	16,298
Inherited	0	0	0	0
Financed by capital grant	15,598	127	0	15,725
Other	0	0	0	0
At 31 July 2020	15,598	127	0	15,725

Buildings of net book value of £3,114,000 have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council, to surrender the proceeds. The Land on which the College is located is owned by the college in terms of a Feu Disposition by the Stornoway Trust which allows use of the land, and the buildings on it, for educational purposes only. Since the abolition of feudal ownership in 2004 however, it is much more doubtful that such pre-2004 restrictions could be enforced.

The College has revalued its property as at 31 July 2019, following the direction of the Scottish Funding Council, using the Depreciated Replacement Cost method of valuation. The valuation was first included in 2015/16 accounts following the transition to the latest Statement of Recommended Practice in accordance with FRS102. An interim valuation is expected to be undertaken in 2022/23.

The valuation was carried out by a RICS qualified surveyor. Site visits were undertaken during September 2019.

12 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Lews Castle College has an investment of £2 in Lews Castle College (Trading) Ltd, a company registered in Scotland. Its issued share capital is two ordinary shares of £1 each, both of which are held by Lews Castle College. The company is currently dormant.

Lews Castle College has a 27% interest in Greenspace Live Limited which has an accounting date of 31 March. The College does not participate in the operational or financial policies of Greenspace and therefore does not consolidate their accounting statements with that of the College.

13 DEBTORS

	Group as at 31 July 2020 £'000	College as at 31 July 2020 £'000	Group as at 31 July 2019 £'000	College as at 31 July 2019 £'000
Amounts falling due within one year:				
Trade debtors	65	65	128	128
Prepayments and accrued income	520	515	401	396
	<u>585</u>	<u>580</u>	<u>529</u>	<u>524</u>

Financial instrument assets comprise: cash and cash equivalents, trade debtors and accrued income. The value of these financial instruments is £690,626 (2018/19: £604,671).

14 CREDITORS: Amounts falling due within one year

	Group as at 31 July 2020 £'000	College as at 31 July 2020 £'000	Group as at 31 July 2019 £'000	College as at 31 July 2019 £'000
Trade creditors	20	20	22	22
Bursary creditor	308	308	272	272
Other taxation and social security	184	184	181	181
Due to Subsidiary	5	5	5	5
Accruals and deferred income	243	243	131	131
Deferred capital grant	379	379	371	371
Holiday accrual	14	14	44	44
Other creditors	3	3	3	3
	<u>1,156</u>	<u>1,156</u>	<u>1,028</u>	<u>1,028</u>

Financial instrument assets comprise: trade creditors, bursary creditors, due to subsidiary, accruals and other creditors. The value of these financial instruments is £573,644 (2018/19: £428,545).

15 CREDITORS: Amounts falling due after more than one year

	Group as at 31 July 2020 £'000	College as at 31 July 2020 £'000	Group as at 31 July 2019 £'000	College as at 31 July 2019 £'000
Deferred capital grant	6,688	6,688	7,086	7,086
	<u>6,688</u>	<u>6,688</u>	<u>7,086</u>	<u>7,086</u>

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Pension Costs £'000	Defined Benefit Liability £'000	Total £'000
As at 1 August 2019	973	2,385	3,358
Provision in year	69	2,102	2,170
As at 31 July 2020	<u>1,042</u>	<u>4,487</u>	<u>5,529</u>

The pension provision relates to future pension enhancement costs arising from early retirements.

The College's employees belong to two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Highland Council Pension Fund (HCPF). The total pension cost for the year was:

The Scottish Teachers' Superannuation Scheme (STSS)

The STSS is an unfunded defined benefit pension scheme where contributions payable are credited to the Exchequer and a set of investments maintained.

The College paid a contribution rate of 17.2% until 31 August 2019, since then the contribution rate has been 23%. The pension charge recorded by the College during the year was equal to the contributions payable. Contributions paid in the year ended 2020 were £391,953 (2019 £395,097).

The Highland Council Pension Fund (HCPF)

The HCPF is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 July 2020 was £311,000 of which employer's contributions totalled £233,000 and employees' contributions totalled £78,000.

The actuary estimates that employer's contributions to the scheme will be £233,000 in 2020/21

Principal Actuarial Assumptions

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.1%	3.4%
Rate of increase for pensions in payment/inflation	2.2%	2.4%
Discount rate for liabilities	1.4%	2.1%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectancies on retirement age 65 are:

	At 31 July 2020	At 31 July 2019
Current pensioners		
Males	21.9	21.9
Females	24.3	24.3
Future pensioners		
Males	23.3	23.3
Females	26.1	26.1

The estimated split of assets as at 31 July 2020 is as shown below:

	31 July 2020	31 July 2019
Equities	68%	72%
Bonds	15%	15%
Property	11%	11%
Cash	6%	2%

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year end 31 July 2020

	Assets £'000)	Obligations £'000	Net (liability) / asset £'000
Fair value of plan assets	9,268		9,268
Present value of funded liabilities		11,653	(11,653)
Present value of unfunded liabilities		10	(10)
Opening Position as at 31 July 2019	9,268	11,663	(2,395)
Service cost		635	(635)
Net interest			
Interest income on plan assets	196		196
Interest cost on defined benefit obligation		250	(250)
Total net interest	196	250	(54)
Total defined benefit cost recognised through Income and (Expenditure)	196	885	(689)
Cashflows			
Plan participants' contributions	78	78	
Employer contributions	233		233
Contributions in respect of unfunded benefits	1		1
Benefits paid	(185)	(185)	
Unfunded benefits paid	(1)	(1)	
Expected closing position	9,590	12,368	(2,778)
Remeasurements			
Changes in demographic assumptions			
Changes in financial assumptions		1,441	(1,441)
Other experience		(57)	57
Return on assets excluding amounts	253		253

included in net interest			
Total remeasurements recognised in Other Comprehensive Income (OCI)	253	1,384	(1,637)
Fair value of plan assets	9,337		9,337
Present value of funded liabilities		(13,815)	(13,815)
Present value of unfunded liabilities		(9)	(9)
Closing position as at 31 July 2020	9,337	(13,824)	(4,487)

17 LOSSES AND SPECIAL PAYMENTS

There were no amounts written off during the period in respect of losses and special payments either under a general delegated authority from SFC or on specific authority.

18 CONTINGENCIES AND CAPITAL COMMITMENTS

There were no contingencies or capital commitments at 31 July 2020 (2019: NIL).

19 BURSARIES AND OTHER STUDENT SUPPORT FUNDS

Scottish Funding Council bursary grants and Student Awards Agency for Scotland student support funds are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

	Y/E 31/07/20 FE Bursary £'000	Y/E 31/07/20 FE Hardship £'000	Y/E 31/07/20 EMAs £'000	Y/E 31/07/20 Other £'000	Y/E 31/07/20 Total £'000	Y/E 31/07/19 Total £'000
Balance b/f	110	21	3	3	137	109
Funds received in year	149	7	13	19	188	216
Expenditure	(136)	(5)	(13)	(21)	(175)	(188)
Repaid to SFC	-	-	-	-	-	-
Creditor	-	-	-	-	-	-
Virements	-	-	-	-	-	-
Balance c/f	<u>123</u>	<u>23</u>	<u>3</u>	<u>1</u>	<u>150</u>	<u>137</u>
Represented by:						
Repayable to SFC	-	-	-	-	-	-
Retained for students	<u>123</u>	<u>23</u>	<u>3</u>	<u>1</u>	<u>150</u>	<u>137</u>
	<u>123</u>	<u>23</u>	<u>3</u>	<u>1</u>	<u>150</u>	<u>137</u>

20 CHILDCARE FUNDS

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Balance b/f	16	15
Funds received in year	9	26
Expenditure	(10)	(25)
Repaid to SFC	-	-
Balance c/f	<u>15</u>	<u>16</u>
Represented by:		
Repayable to / (Receivable) from SFC	-	-
Retained for students	<u>15</u>	<u>16</u>
	<u>15</u>	<u>16</u>

21 RELATED PARTY TRANSACTIONS

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Payments		
Bayhead Bridge Centre - Rent	0	0
REHIS	0	1
UHI	32	19
Greenspace Live	2	5
Receipts		
UHI	120	227
Stornoway Port Authority	3	1

All transactions involving organisations in which a member of the Board may have an interest, including those identified above, are conducted in accordance with the College's Financial Regulations and usual procurement procedures.

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.

The Chair of the Board sits on the FE Regional Board, which allocates the FE funding to Colleges, but there is no equivalent opportunity to influence the allocation of HE funds to Colleges.

22 IMPACT OF DEPRECIATION BUDGET ON STATEMENT OF COMPREHENSIVE INCOME

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 £737,000 for the year ended 31 July 2020. After adjusting for the non-cash allocation provided under government rules, the college shows an “adjusted” deficit of £431,000 on a Central Government accounting basis.

The deficit is attributable to other factors reflected in the adjusted operating table and also the impact of Covid-19 as explained in the performance report.

	Year ended 31 July 2020	Year ended 31 July 2019
	£'000	£'000
Surplus/(deficit) before other gains and losses (FE/HE SORP basis) for academic year	(737)	(470)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	306	127
Operating surplus/(deficit) on Central Government accounting basis for academic year	(431)	(343)

23 ADJUSTED OPERATING POSITION

The Adjusted Operating Position in the Performance Summary on page 9 contains the following:

Item	Value £'000	Source
Total depreciation	684	SOCI
Total deferred grant	<u>(378)</u>	Notes 2 & 4
Net depreciation	<u>306</u>	

Depreciation does not have an immediate cash impact on the institution and, in any case, capital expenditure will largely be funded by government grants so the charge is taken out.

Pension adjustment - Net service cost (FRS102 Staff cost adjustment)	329	Note 16
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The adjustments to the pensions charge represent the net service cost (i.e. the present value of projected benefits resulting from employee service in the current year less cash contributions paid)

Pension adjustment - Net interest costs	54	Note 16
The net interest cost is the interest accumulated on the pension liability and this is offset against the current year's interest earned on pension assets.		

Pension adjustment - Early retirement provision year-end revaluation charged to SOCI	69	Note 16
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The early retirement provision adjustment relates to the gain/loss arising from the actuarial valuation during the year. This excludes any adjustments to valuations as a result of adding or deleting employees.

24 POST BALANCE SHEET EVENTS

There are no Post Balance Sheet events to disclose.

APPENDIX 1**2019-20 Accounts direction for Scotland's colleges**

1. It is the Scottish Funding Council's direction that institutions comply with the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
2. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).
3. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2019-20 (FReM) where applicable.
4. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2020.
5. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
6. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
17 July 2020

Lews Castle College UHI Governance Committee Meetings

August 2019 to July 2020

Meetings Attendance Record

Name	27 th Aug 2019 F&GP	3 rd Sep 2019 Audit	8 th Oct 2019 Board	29 th Oct 2019 Audit	19 th Nov 2019 L&T	10 th Dec 2019 F&GP	10 th Dec 2019 Audit	17 th Dec 2019 Board	28 th Jan 2020 L & T	28 th Jan 2020 F&GP	17 th Mar 2020 Audit	14 Apr 2020 Board	8 Jun 2020 F&GP	23 June 2020 Board
Florence Jansen			X					X	X			X		X
Archie Macdonald	X		O			X		X		X		X	X	X
A Jane Maciver		X	O				X	X			X	X		
Billy Mackinnon			X		X			X	X			X		X
Norman Macleod			X					X				X		X
Iain Macmillan	X	X	X	X		X	X	X	X	X	X	X	X	X
Annie MacSween		X	X	X	X		X	X	X		X	X		X
Ian McCulloch	X		O			X		X		X		X	X	X
Ian Minty	X	O	X	X		O	O	X	X	X	X			
Christine Morrison		X	X	X			O	O			X	X		X
Fiona Pearson			O		X			X	X			X		X
Aaron Steel			X					X		X		X		X
Georgina Marczak												X		X
Bill McMillan												X		X
Martin Malcolm												X		X
Murdoch Macleod												X		X
Alison McCleery												O		X

X – PRESENT O – ABSENT, C – CANCELLED