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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

LEWS CASTLE COLLEGE**ANNUAL REPORT AND ACCOUNTS FOR THE YEAR TO 31 JULY 2022**

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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
Insurers:	FE Protect Ltd 1 st Floor Cropton House Three Tuns Lane Formby L37 4AQ

PERFORMANCE REPORT

OVERVIEW

Principal's Foreword

The context in which the College operated during 2021/22 was challenging and remains challenging going forward. During this period, the College continued to be impacted by population decline (especially the 16-19 age group), increasing housing and travel issues across the islands and lack of funding to cover the significant cost of distant islands allowance payment. There was an increase in employment opportunities in the region as we emerged from Brexit and the pandemic, which had a significant impact on full time recruitment and HE non-continuation this year. The Western Isles evidenced the highest number of young people (aged 16-19) in Scotland moving into employment with the lowest number in this age group remaining in education. The College also saw an acceleration in the ongoing shift of demand from full to part-time course delivery and continued to increase its short-course and work-based provision, accordingly, delivering over 70% of its FE and over 85% of its HE programmes on a part-time basis.

The College continued to manage the ongoing risks of the Covid-19 pandemic and operated within the guidelines for the sector, maintaining effective health and safety protocols and a safe easing of restrictions towards the end of the year. The College continued to strengthen resource to provide additional support for learning and student mental health and wellbeing. We also worked closely with partners to support our communities, delivering online and hybrid events throughout the year such as online community Ceilidhs, online Gaelic music workshops as part of the 2021 Hebridean Celtic Festival and hosting a hybrid careers fayre with Skills Development Scotland, Developing Youth Workforce and several local employers.

As part of a major rebrand of UHI, the College consulted with students, staff and key stakeholders on the proposal to change its brand name from Lews Castle College to better reflect the intent, reach and operation of the College. Following positive feedback, the College made this change and now operates under the brand of UHI Outer Hebrides – Innse Gall.

During the year, the College continued to progress key strategic priorities and plans, and to work with partners and stakeholders to progress strategies and initiatives at local, regional, and national level. The College worked closely with the local authority, Skills Development Scotland and Highlands and Islands Enterprise to strengthen school and community learning provision and to ensure close development and alignment of Islands Growth Deal projects, both across the Outer Hebrides and pan-islands. The College continued to work within the UHI partnership to develop networked course provision, deliver research projects and to progress the UHI Islands Strategy.

Key estate related developments during this period included gaining Scottish Government approval of the outline business case for the £2 million campus redevelopment project as part of the Islands Growth Deal. The final business case will be submitted for approval in December 2022 ahead of project commencement in June 2023. Phase one of the Cnoc Soilleir build, a joint venture with Ceolas, the Gaelic music and arts community organisation, was completed in May, with a second Phase of construction works to deliver an auditorium and other features currently being discussed and agreed between parties. The Phase 1 build was officially opened by Deputy First Minister, John Swinney, on the 1st September 2022. The completion of the first financial year will be July 2023. Built to 'Passivhaus' standards, it now provides a start-of-the art facility, in the heart of the community of South Uist, from which the College will deliver Gaelic language, music, archaeology and creative arts programmes as well as year-round events.

The College continued to deliver on its Gaelic language plan, increasing its online Gaelic language programmes and to strengthen partnership working and links with the Gaelic communities across the

Performance Report (Continued)

islands. This included development and delivery of a series of Gaelic language, culture and heritage classes throughout the year.

The College achieved a total of 4,928 FE credits against a target of 4,760, 104% of target (compared to 3,476 achievement against a credit target of 4,175, 83% achievement in prior year). The level of enrolments and improvements reflects a resurgence from the previous year which was dominated by consecutive lockdown measures for the most part, as well as curriculum developments and a change in students looking to short courses and more flexibility.

With regard to FE provision, the Scottish Funding Council (SFC) in early 2022 made communications that they were seriously looking at 'clawing back' the value of any unmet credits in the year 2021/22. In respect of the College, as delivery exceeded target this was not an issue and therefore did not impact on any of the numbers reported in these financial statements. To note, SFC communications have also alluded to the prospect of looking at a historic 'claw back' over a three-year period the value of unmet FE target across the UHI Partnership. There has been no provision made for this amount in these financial statements. At present, there is no indication of the likelihood of this happening, nor the value or timescales associated with concluding on the matter. This is a potential risk that the Board of Management and relevant sub-committees will be kept apprised of as and when updates are received.

The College sector is under a hugely challenging set of financial circumstances. In 2020/21, the College began to implement its financial sustainability plan, approved by the Board in 2020 and has to date achieved significant cost reductions through a voluntary severance scheme and restructure of its senior management team which took place in 2021/22. It also achieved its targets for new commercial income as part of a three year plan. The sustainability plan has been reviewed to account for the rapidly changing and increasingly challenging financial environment in which the sector now finds itself and the College is currently running a second phase of voluntary severance in 2022/23.

The College Board made a strategic decision to explore merger with two other UHI colleges - North Highland and West Highland during the year. The three Boards all unanimously voted in favour of merger in November 2022, with submission of the business case to the SFC and Parliament on 4 November 2022. Providing necessary approvals go ahead, a vesting date for the new College will be 1 August 2023. Please refer to note 24 for further information and update on the merger process.

The College was delighted to end 2021/22 with its first face-face student celebrations of success since the pandemic. This provided the opportunity for students who had completed and graduated over the past 2 years to attend an in-person celebration.

.....
Hannah Richie- Muir
 Principal and Chief Executive Officer

Date

Performance Report (Continued)**STRATEGIC PLANNING: PURPOSES AND ACTIVITIES**

The Board presents its report and the audited financial statements for the year ended 31 July 2022. 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. The current 5-year strategic plan of the College, [LCC-UHI-Strategic-Plan-2021-2025.pdf](#), runs from 2021 – 2025 which articulates the following:

Our Vision

To be an excellent, connected, and sustainable learning organisation

Our Mission

To deliver more choice, more opportunity and more chances for our students and communities

Strategic Plan

The College renewed its Strategic Plan in 2021, which covers the period 2021-2025. The plan sets out the key aims and objectives of the College, which are underpinned by agreed priorities and plans. The Board continues to review performance against the strategic KPIs on an annual basis and regularly reviews operational and financial performance against the College operational and financial plan throughout the year.

The three strategic aims of the Plan are underpinned by four core values and behaviours, which guide how we make decisions, and how our staff, students and stakeholders will work with each other.

Strategic Aims	To Create Successful, Employment-ready Students		To Help Build Thriving Communities	To be a connected, sustainable Organisation
	We will develop and deliver high quality, demand-led curriculum and personalised learning and support to more people, across all our communities and through more channels		We will be a trusted and accountable organisation, working in partnership and contributing to the economic and social wellbeing of our communities	We will improve our resilience and reach through increased collaboration and partnership to share resource and expertise and maximise opportunity
Values	Innovation	Excellence	Inclusion	Trust
Behaviours	To continually develop education best practice through creative approaches to learning and teaching and effective use of technology	To continually seek to enhance our performance and the quality of our services, publicly celebrating the achievements of our students and our organisation	To respect individual values, proactively promoting equality and diversity, and supporting individual aspirations	We will be socially responsible and accountable, leading by example and always acting with integrity
Underpinning Strategies and Plans	Curriculum Learning and Teaching, Student Engagement, Corporate Parenting, Research and KE, Gaelic, Financial Sustainability, Estates, People			

Performance Report (Continued)

Implementation of the Strategic Plan

The College's Operational Plan for 2021/22 focused mainly on the requirement to deal with the pandemic crisis; the extreme financial pressures facing the college at the start of the year; and on the recovery and consolidation of previous business improvements in the light of the pandemic situation.

Under each strategic aim, the College delivered as follows:

- **Curriculum Developments and Successful Students**

We continue to implement our curriculum strategy and plans; increasing our short course, part-time provision and micro-credentialling and expand our FE online provision for wider access by our smaller communities across the isles. Priority development areas include energy engineering, construction, maritime, health, creative industries, hospitality, archaeology and education and digital pedagogy.

Our plans to develop curriculum and enhance the quality of the student experience will be facilitated by the planned Campus Redevelopment project, which will involve improved STEM workshop facilities, an immersive technology classroom and new student social and study spaces. The new Cnoc Soilleir build in South Uist now provides a state-of-the-art music and performance centre and a hub for the community and visitors to the area to engage with Gaelic language, culture, and heritage.

We continue to put our students at the centre of all our activity and work in partnership with learners to co-create, design, and develop our curriculum and services. Over the year, we continued to develop our structures and increase resource and services for students to ensure an excellent student experience and high level of student success. To this end we continued to strengthen our partnership with the Highlands and Islands Student Association (HISA) and to work closely with them to ensure the student voice remains central to our decision making and operations. We have and continue to also strengthen partnerships with external agencies to support the health and wellbeing of our students and enhance social and study experiences.

- **Community and Partnership**

We continue to increase our efforts on behalf of the people of the Outer Hebrides and to work with our partners and stakeholders to address concerns about the declining population of the islands and the need to retain and attract people to study, live and work in the region. We continue to work with the Western Isles Community Planning Partnership, the local authority, Highlands and Islands Enterprise and Skills Development Scotland to maximise resource and funding and plan and deliver high quality, accessible services. We have accelerated our work to align our curriculum to be more closely in line with local and regional demand and support the needs of our local economy and our communities. This has included increasing our online FE offer and the flexibility of delivery of programmes for those in work and for the communities in the southern isles.

Our research and knowledge exchange programmes align to the needs of our communities, and we continue to focus on green energy, health, Gaelic and sustainable development research and research projects.

We continue to deliver against our Gaelic strategy to support the Gaelic language, culture and heritage of the Outer Hebrides, including supporting delivery of vocational programmes in the Gaelic language medium and community-based programmes and partnerships.

The rebrand of the College to UHI Outer Hebrides – Innse Gall reflects our aim to be the College and University for the whole of the Outer Hebrides as part of our 'college and university in the community' ethos.

Performance Report (Continued)

- **Sustainable Organisation**

The College commenced implementation of its financial sustainability plan in 2020/21 and continued to deliver against this in 2021/22, progressing actions to improve resilience and sustainability through cost reduction, increased income and strengthened corporate infrastructure.

The decision to progress merger with two partner UHI colleges in 2023 will provide an opportunity to achieve greater organisational resilience and long-term sustainability and growth. Please refer to Note 24, Post Balance Sheet Events, which details the current status of the process and for further updates and communications, these are published on the dedicated website: www.rural-islands-merger.uhi.ac.uk

Key Issues and Risk

There are several issues and risks for the College: many common to the whole sector and others specific to the College.

The principal issues relate to declining capital and revenue funding for the college and university sector and the cost-of-living crisis, including significant pay increase pressures and spiralling energy costs. The College also faces challenges relating to lack of funding to cover distant island allowance payments, the continued population decline across the Outer Hebrides and the impact of high employment levels across the islands.

The four key risks for the College are:

1. Failure to achieve a balanced budget
2. Failure to achieve FE funded targets
3. Failure to achieve HE funded targets
4. Estate not fit for purpose

The College is mitigating these risks through the implementation of its financial sustainability plan to reduce cost and increase commercial income (including commercialising its estate), re-alignment of curriculum and modes of delivery aligned to changing demographics and working patterns, estates development projects and improved recruitment planning and activity.

The College is working in partnership with the local authority, economic agencies, and community groups to co-ordinate plans, share resource and maximise funding opportunities to achieve its plans and play its role to help address the common issues around declining population and attracting people to live, study and work on the islands.

The potential merger with two UHI colleges, as detailed above, will provide opportunities to improve capacity, increase efficiency and effectiveness and grow curriculum and commercial services.

Performance Report (Continued)**PERFORMANCE ANALYSIS***Performance Indicators*

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 2020-21	Actual 2021-22	Target 2021-22	Target 2022-23	Trend
FE Activity in Credits	Number of Credits per year	3,476	4,928	4,760	4,760	↗
Student numbers	Students enrolled on FE courses after census date	875	1,706	1,743	1,743	↗
Overall early retention	Measures student retention before cut-off date	97.2%	97.6%	98%	98%	→
Overall retention	Measures student retention	88.9%	90.8%	95%	95%	→
Student outcome FE	Measures FE student success	74.5%	81.2%	88%	88%	↗
Operating surplus / (deficit) as a % of income	Measures the surplus on continuing operations as a % of total income	3.78%	21.12%	0%	0%	↗
Non SFC income as a % of income	Measures non SFC income as a % of total income	28.0%	32%	32%	32%	→
Staffing costs as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	78.8%	91%	88.3%	88.3%	↗
Current assets : current liabilities	Measures the college's ability to pay its current liabilities	0.77	0.64	1.0	1.0	↘
Days cash	Cash divided by total expenditure less depreciation expressed in days	20.6	13.6	15	15	↘
Staff turnover	FTE staff (permanent) that leave during the year divided by total permanent FTE staff	5.04%	11.65%			
Working days lost through sickness absence	Working days lost per staff FTE	3.11	12.55			

Performance Report (Continued)

Student Recruitment, Achievement and Retainment

A total of 307 students were recruited on to full time courses throughout the College in session 2021/22, with a further 2,015 undertaking part-time courses ranging from short one day courses to Postgraduate level. This compares to 351 full time and 1,121 part time students in 2020/21. Pupils from Secondary Schools throughout the Outer Hebrides are also catered for in timetabled vocational programmes at the College, linked to their school studies.

There was a continued fall in full time student enrolments at both FE and HE this year. However, the College exceeded its FE credit target and achieved a total of 4928 credits against its target of 4760. HE undergraduate funded enrolments were below target at 212 FTE against a target of 254. This reflected the higher-than-normal number of degree students who chose not to continue programmes, as well as a fall in Higher National (HN) recruitment. The College continued to recruit well against its Postgraduate student target.

FE student achievement across all modes of study was 80%, reflecting improvements in retention and partial success from the previous year. Achievement on full-time programmes was lower at 67% and reflected higher withdrawal rates as students left to take up the increased job opportunities that emerged during the year. The high job vacancies in the area continues to impact on full-time student recruitment for 2022-23 and the College continues to adapt its curriculum and delivery to support workplace learning and enable students wishing to take up employment mid-programme to continue to study and complete their qualifications whilst in work.

Student Satisfaction

Student satisfaction continued to be extremely high with 91% of FE students reporting overall satisfaction in the annual Student Satisfaction and Experience survey and 100% of final year HE students returning a positive response to the question relating to overall student satisfaction in the National Student Survey.

Education Scotland Review

The recommendations of the positive Education Scotland progress visit this year were actioned and enhancements were made to the College's evaluation of learning and teaching and self-evaluation processes. A positive Education Scotland visit also took place to review the College's safeguarding arrangements and the College has implemented all recommendations.

Curriculum and Partnership development

The College continued to develop its curriculum and services in line with demand. These included opening a new training restaurant as part of the revitalised hospitality and professional cookery provision, the development and delivery of a national Professional Development Award (PDA) in Sustainable Business Craft Practice (in association with Applied Arts Scotland), development and delivery of online Speak Gaelic courses (in partnership with community and adult learning organisations) and increasing the range of online FE programmes.

The College hosted a series of major events over the year. These included the Uist Unearthed exhibition (a series of cross-islands exhibitions highlighting the development of our virtual archaeology app) and a Research Energy Engineering seminar, which showcased and shared leading research by the College. The College was delighted to host Erasmus students from several European universities as part of a sustainable business practice study and to facilitate the first face-face schools' Lego League Championship since the pandemic.

Performance Report (Continued)

Several partnership agreements were put in place aligned to key strategic developments in the area. These included agreements with energy organisations contracted for Scot Wind developments around the Western Isles, partnerships relating to the Islands Centre for Net Zero initiative, E-sgoil Gaelic language delivery and apprenticeship training plans for the local, economically important Arnish site.

Corporate Governance

The College continued to make substantial headway with improvements in corporate governance matters, including new board member recruitment, a significant reduction of outstanding legacy audit actions and effective progress of its rolling board development plan.

FINANCIAL POSITION

Financial Results

The College made an underlying operating deficit of £446k. This is based on an operating loss of £1,588k for the year, less adjustments for non-cash accounting adjustments related to pension charges and net depreciation. This compares with an underlying operating surplus of £615k and an operating loss of £199k in 2020/21. Note 23 of the accounts contains further details on these adjustments, summarised as follows:

	Year to 31 July 2022	Year to 31 July 2021
	£'000	£'000
(Deficit) for the year as per statement of comprehensive income	(1,588)	(199)
Add back:		
Net Depreciation	455	291
Pension Adjustment – Net service cost	608	505
Pension Adjustment – Net interest cost	59	66
Pension Adjustment – Early retirement provision	20	(48)
Underlying operating (Deficit) / Surplus	(446)	615

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.

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.

There are accumulated reserves of £9,733k (2020/21: £4,449k). The main balance sheet movements were:

Performance Report (Continued)

- Fixed Assets – overall increase of £2,659k primarily due to in year revaluations, and offset by standard depreciation charges. An interim valuation of the estate’s portfolio took place in the year, accounted for the remaining increase in the carrying value of fixed assets, refer to note 11 for further details.
- Current Assets – increase of £246k, largely due to the timing of several higher value sales invoices being raised, and increased income from various research projects, such as “SW-Grow”, a project relating to research on the usage of seaweed and “UVAP” an archaeology research project.
- Creditors due within one year – increase of £792k largely due to changes in the value of Accruals & deferred income and the Holiday accrual. In 2021/22, the College received a cash advance of £653k in the year to assist with cashflow, which was an advance on 2022/23 SFC grant income and disclosed as such within deferred income.
- Creditors due after more than one year – decrease of £411k due to the release of deferred capital grant within the year.
- Provisions – The key movement within provisions in the year relates to the movement of the defined pension liability moving from a prior year liability of £3,480k to a net asset position in the current year, refer to note 16 for further details.

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	2021/22 £'000	2020/21 £'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. In 2021/22, a cash advance was required at year end to ensure the appropriate level of liquidity. This largely driven by the costs of delivering the voluntary severance scheme in June 2022 and a reduction in HE income reducing the cash grant in July 2022. The approved cash flow projections for the period to 31 December 2023 indicate the need for further cash advances from the RSB in line with financial recovery plans. Please refer to the Accounting Policies Note 1, subheading ‘Going Concern’ for further narrative.

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 25 days during 2021/22 (24 days in 2020/21). The College was not required to pay any interest during the year under the late payment of Commercial Debts (Interest) Act 1998.

Performance Report (Continued)***Value for Money***

The College works with Advance Procurement for Universities and colleges (APUC) and seeks to embed sustainability and value for money in its procurement function. 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.

Going Concern

Please refer to the Accounting Note 1, subheading 'Going Concern' for further narrative.

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 Distant Islands Allowance to staff. Discussions with UHI and SFC have clarified that this funding is not currently provided and that the additional cost in 2021/22 to the College of approximately £352k. 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.

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 30 November 2022. In addition to the sustainability reporting, the College is setting out a net zero strategy and operational plans in 2022/23, in part from a UHI wide approach and tailoring for local circumstances, for example planning replacement for campus heating system.

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Hannah Ritchie - Muir
Principal and Chief Executive Officer

Date

ACCOUNTABILITY REPORT

SECTION ONE: STATEMENT OF CORPORATE GOVERNANCE

Directors' Report & Legal Status

The College was established in 1952 and incorporated under the Further and Higher Education (Scotland) Act 1992 on 1 April 1993. It is a registered charity (Scottish Charity Number SC021204) and is recognised by HMRC as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on charitable activities. The College receives no similar exemption in respect of Value Added Tax (VAT).

On 31 March 2014, the Office for National Statistics reclassified the Scottish College sector as a department of central government. Under the Assigned Colleges (University of the Highlands and Islands) Order 2014, the College was assigned to the University of the Highlands and Islands as part of the Highlands and Islands Regional Strategic Body (RSB).

As a legal entity, the College's legal name and title is: Lews Castle College. On 14 March 2022, the Board agreed to adopt the brand name of 'UHI Outer Hebrides followed by Innse Gall' from 28 March 2022 for trading and related purposes. This does not affect the legal status of the Board or the College.

Change to the legal constitution of the College is on the horizon for financial year 2023/24, when the college will merge with two other UHI partners. Further detail on this can be found in note 24- Post Balance Sheet Events.

Board Members – 1 August 2021 to 31 July 2022

It is legislatively prescribed that the Board should comprise between 13 and 18 members. In addition, its membership must include: a chair appointed by the RSB; the principal of the college; two elected staff members (one teaching and one non-teaching); two nominated student members which in the case of the College comprises the LCC Highlands and Islands Student Association (HISA) Depute for UHI Outer Hebrides – Innse Gall, a Class Representative also nominated by HISA and between 7 and 12 non-executive board members appointed by the RSB. Members are appointed to the Board for an initial period of four years, which can be extended for a further four years. Only in exceptional circumstances, and where compelling reasons exist, may a further extension of up to two years be approved.

Recruitment is undertaken by the Regional Strategic Body (RSB), administered by the Board Secretary. During the year, a recruitment campaign was undertaken in May-June 2022 which generated the highest number of applicants experienced by the Board.

There have been a number of changes to the Board over 2021/22. The table below contains the details.

Recruiting Board members is a consistent challenge across the college sector. The Audit Committee has advised the Board to include the risk of a shortfall in Board members and/or skills and competencies in its Risk Register so this continues to be actively kept under regular review and managed.

The Colleges Merger Partnership Board – Governance Group is aware that running any recruitment campaign in the period leading to merger would be unlikely to generate sufficient interest in non-executive membership and so the Group, working with the Board Secretaries of the three merging colleges are working on the development of transitional arrangements to 31 July 2023 to ensure membership remains within legal requirements.

The Board is supported in its work by one external observer being the Chief Executive of Comhairle nan Eilean Siar (CES) and member of the Court of UHI. The Observer is not counted for the purposes of establishing a quorum and has no voting rights.

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's Code of Conduct which is appended to its constitution requires Members to act in accordance with the principles of public life laid down by the Nolan Committee. The Board adopted a new Code in March 2021 and the Code received confirmation of ministerial approval on 16 June 2022.

Governance & Management

The Board is the College's governing body. It is responsible for bringing independent judgement to bear on issues pertaining to the College's strategic direction, reputation, financial wellbeing, the wellbeing of staff and students and establishing high standards of academic conduct and probity. The Board is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. It is supported by committees with specific areas of remit which are set out in its constitution and Scheme of Delegation. Further information on the Board's Governance arrangements is set out in section 2 below – Governance Report.

2021/22 Board Membership (to December 2022):

Board Member	Standing Committee Appointments	Positions Held	Appointed	End Date
Archie Macdonald, Non-executive	F&GP and Remuneration	Board Member	06.11.2018	06.11.2022
		Chair of Board	14.04.2020	13.10.2024
Sue Macfarlane, Interim Principal	F&GP, QL&T	Principal (Int)	08.08.2020	30.09.2022
Hannah Ritchie-Muir, Interim Principal	F&GP, QL&T	Principal (Int)	01.10.2022	31.03.2024
Ian McCulloch Non-executive	F&GP and Remuneration	Chair of F&GP and Senior Independent Member	28.10.2018	28.10.2022
Georgina Marczak, Non-executive	QL&T, Remuneration and Audit	Chair QL&T and Chair Remuneration	03.2020	03.2024
Prof Alison McCleery, Non-executive	QL&T and F&GP	n/a	03.2020	03.2024
Fiona Kolontari, Non-executive	Audit Committee	n/a	15.10.2021	15.10.2025
Steven MacLennan, Non-executive	F&GP	n/a	15.10.2021	15.10.2025
Barbara Keating, Non-executive	F&GP	n/a	25.11.2021	25.11.2025
Anne Frater, Non-executive	F&GP	n/a	15.06.2022	15.06.2026
Ralph Tonge, Non-executive	Audit	Senior Independent Member	27.06.2022	26.06.2026
Sarah Fraser, Non-executive	Audit	n/a	27.06.2022	26.06.2026
Jill Jones, Non-executive	Audit	Chair of Audit	27.06.2022	26.06.2026
Chris Alliston, Non-executive	F&GP	n/a	27.06.2022	26.06.2026
Catherine Yeatman, Non-executive	n/a	n/a	27.06.2022	26.06.2026
Fiona Pearson, Non-executive	QL&T	n/a	06.11.2018	06.12.2021
Billy MacKinnon, Teaching Rep.	Audit	n/a	01.08.2018	25.04.2022
Tyler Daniels, Student (HISA) Rep	n/a	n/a	01.07.2021	28.04.2022

Tamara Zabieglinska, Student (HISA) Rep	n/a	n/a	25.10.2022	
Annie Macsween, Non-executive	QL&T	06.11.2018	06.11.2018	9.12.2021
Martin Malcolm, Non-executive	Audit	None	03.2020	27.10.2021
Ewan Davis HISA Class Rep.	n/a	n/a	29.03.2022	30.06.2022
Note: The 4 Standing Committee Chairs are Members of Nominations/Search/Chairs Committees that meet as and when required.				
The above movements have had the net result of a Board which continues to exceed the government recommendations with regards to gender split. For example, as of 31 July 2022 the Board had 5 men and 9 women.				

2021/22 Meetings Attendance

Name	Board	Audit	F&GP	Search	Remuneration	Audit & F&GP
Archie Macdonald	5/6	2/4*	3/3	1/1	2/2	0/1 **
Sue Macfarlane	6/6	4/4*	3/3	n/a	2/2*	1/1
Ian MacCulloch	6/6	n/a	3/3	1/1	2/2	1/1
Georgina Marczak	2/6	3/3	n/a	1/1	2/2	1/1
Alison McCleery	4/5	n/a	½	n/a	n/a	0/1
Fiona Kolontari	5/5	2/2	n/a	n/a	n/a	0/1**
Steven Maclellan	4/5	n/a	2/2	n/a	n/a	1/1
Barbara Keating	3/5	1/1	n/a	n/a	n/a	n/a
Anne Frater	1/1	n/a	n/a	n/a	n/a	n/a
Ralph Tonge	1/1	n/a	n/a	n/a	n/a	n/a
Chris Alliston	1/1	n/a	n/a	n/a	n/a	n/a
Sarah Fraser	1/1	n/a	n/a	n/a	n/a	n/a
Jill Jones	1/1	n/a	n/a	n/a	n/a	n/a
Catherine Yeatman	1/1	n/a	n/a	n/a	n/a	n/a
Murdoch Macleod	3/3	3/3	n/a	n/a	n/a	1/1
Tyler Daniels	5/5	n/a	n/a	n/a	n/a	1/1*
Ewan Davis	0/3	n/a	n/a	n/a	n/a	n/a
Fiona Pearson	1/1	n/a	n/a	n/a	n/a	n/a
Billy Mackinnon	4/5	2/2	n/a	n/a	n/a	1/1
Martin Malcolm	n/a	1/1	n/a	n/a	n/a	n/a
Norman Macleod	1/1	1/1	n/a	n/a	n/a	n/a

Note: The above is reflective of the various committee memberships throughout 2021/22 (i.e., attendance is noted against meetings members could have attended based on their membership at the time).

**The Member attends by invitation.*

*** The Member was absent due to technological difficulties.*

Membership of the Executive Leadership Team

Name	Role	Appointed/Resigned
Sue Macfarlane	Principal (Interim)	Appointed 10.08.2020 -to 30.09.2022
Hannah-Ritchie Muir	Principal (Interim)	Appointed 01.10.22
	Depute Principal	Appointed November 2020 to 30.09.2022
Kathleen MacDonald	Director of Finance and Resource	Appointed December 2021

Catherine Barron	Head of Quality and Student Support	Temporary Membership to December 2021
Frank Rennie	Head of Research and Postgraduate Growth	Temporary Membership to December 2021
Alasdair MacLeod	Head of Finance and Estates	Temporary Membership to December 2021

The Principal's Executive Leadership Team (ELT) is responsible for the operational management of the College and considers issues of performance, internal control & risk, and advises the principal on strategy and any issues relevant to the running of the College. Membership of the ELT during the reporting period was as follows: -

The College Management Team (CMT) comprises departmental managers and advises on day-day management concerns, including setting and monitoring of operational plans and risk and resolution of cross-college operational matters.

Statement of Board of Management's responsibilities

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 to present audited financial statements for each financial year. The audited financial statements for 2021/22 were presented to the Board on 13 December 2022.

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 2019 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 near 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, endorsed by the Board of Management, 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 misstatement or loss.

Register of Interests

The College maintains a Register of Board Members Interests. The register is available to any member of the public who wishes to examine it and a summary is available on the college, [Board of management - Board Publications \(uhi.ac.uk\)](#). Declarations by Board members of any conflicts of interest are recorded in the minutes of the appropriate Board and Committee meetings.

Personal data related incidents

In 2021/22, the College had no reported personal data incidents (2020/21 – Nil). Further information on Data security is set out in section 2 below – Governance Statement.

Auditor

The Auditor General for Scotland has appointed Ernst & Young to undertake the audit for the year ended to 31 July 2022.

Disclosure of information to auditors

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

Approved by order of the members of the Board on 13 December 2022 and signed on its behalf by:

Signed.....

Archie Macdonald
Chair of Lews Castle College UHI Board of Management

SECTION 2 - GOVERNANCE STATEMENT

This governance statement is written to assist the reader of the financial statements understand how the principles have been applied and provide supplementary information to the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in the College in the year to 31 July 2022 and reports the Board's assessment of the effectiveness of these arrangements.

It is a condition of the Financial Memorandum with the RSB that the Board meets the principles of good governance, set out in the 2016 Code of Good Governance for Scotland's Colleges. The following items describe the manner in which the College has applied the principles set out in the Code:

- **Board Membership**

See Part A 'Accountability Report' from page 14 above.

- **Constitution**

The Board operates according to the terms of its Constitution, [Board of management - Board Publications \(uhi.ac.uk\)](#), which includes the Board's Standing Orders and a Scheme of Delegation specifying which decisions are reserved by the Board and those matters delegated to Committees and management. The Board's Standing Orders were reviewed in 2020. A full review of all governance material for reporting to the Board in December 2022 is underway on the basis that the Board is asked to make any necessary revisions as required prior to the completion of a full review. This piece of work was re-scheduled from Spring 2022 as confirmed by the Board in its the rolling Board Development Plan.

- **Meetings of the Board**

The full Board holds a minimum of four meetings a year. In 2021/22, four ordinary meetings took place and two extra-ordinary meetings. 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 2021/22, and this has continued into 2022/23. Additionally, the Board holds an annual strategic meeting in August / September of each year which is dedicated to reviewing the Board's Strategy, strategic development and aligning that with its financial resources.

Chairs meet quarterly before Board and Committee meetings to undertake business/pre-agenda planning. The Chairs, Principal and Board Secretary meet regularly to ensure effective working relationships between members and constructive dialogue with officers. A timetable of deadlines is in operation to ensure Members receive agendas and reports one week before a meeting in compliance with Standing Orders. In compliance with the Code, the Principal supports the Board Secretary in the timely submission of reports so that Board members receive sufficient information in an appropriate form and have sufficient time to consider and scrutinise before meetings. Agendas and papers are issued digitally, but paper copies are also provided on request so as not to exclude any reader. Agendas, papers and minutes of all Board and Committee meetings, (except those deemed confidential) are available from the Board Secretary or on the college website at: <https://www.outerhebrides.uhi.ac.uk/about-us/board-of-management/board-and-committee-agendas--minutes/>

- **Delegation to Committees & Officers**

Matters reserved to the Board are set out in its Constitution and include final decisions on issues of corporate strategy, the review and approval of annual budgets, the Annual Accounts, the External Auditor's Report, and the appointment and dismissal of the Principal and Board Secretary. As required by the Code, the Board has made provision for the following committees listed below, as well as responsibilities for Officers, detailed as follows:

- **Audit Committee**

The Committee's responsibilities include the compilation of an annual audit report for consideration by the Board, recommending the approval of the Annual Accounts to the Board as well as advising and reviewing and monitoring governance arrangements. The Committee also receives and considers reports from the Scottish Funding Council as they affect the College's business, and monitors adherence to the regulatory requirements and has responsibility for reviewing the Board's risk management framework, its strategic risks and consideration of management's review of operational risks.

The Committee advises the Board on the appointment and remuneration of internal auditors who have direct access to the Chair of the Board of Management and to the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and the Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans.

- **Finance & General Purposes Committee**

The Committee's responsibilities include approving all key decisions to be taken in relation to finance, monitoring actual performance against budget and key performance indicators, making recommendations to the Board on capital expenditure, investments and borrowing, setting tuition fee levels and making recommendations with regard to these, overseeing systems of financial control and delegated authority, liaison with External Auditors to ensure that the Annual Accounts show a true and fair view and exhibit regularity of spend, ensuring consideration is given to value for money and compliance with the SFC and UHI Financial Memorandums as well as the College's existing buildings and estates. The Committee also has responsibility for setting the direction and oversight of all personnel matters relating to the function of the Board of Management as employer of the College's staff which includes overseeing the development and auditing of all human resource strategies and work streams. Staff are of critical importance in the delivery of learning and teaching services, and this cost represents a significant resource. By taking a more holistic perspective in the scrutiny of high-level aspects of the finance, estates and HR functions and their inter dependencies, the Committee helps the Board fulfil its statutory responsibilities in these areas to best effect so as to achieve its strategic aims.

- **Remuneration (and performance) Committee**

The Remuneration Committee comprises the four Chairs on the basis that the Board Chair cannot chair the Committee. The Committee's terms of reference were revised in June 2021. The Committee is responsible for considering, approving, and reporting to the Board on decisions regarding the remuneration package, terms, and conditions (including the annual reviews of such) and, where appropriate, severance payments of the College Principal & Chief Executive and College Executive Team and in so doing ensuring the efficient and effective use of public funds. In addition, the Committee retains an overview of wider HR and workforce issues within the College and must bring any relevant matters to the attention of the Finance & General Purposes Committee and the Board. It also undertakes robust scrutiny of proposed severance schemes and settlement agreements before recommending approval to the Board and onwards to the RSB/SFC (in line with the SFC Guidance on Severance).

- **Quality learning & Teaching Committee**

All matters requiring Board consideration and approval in 2021/22 were submitted directly to the Board. This was following a decision to temporarily dis-solve its Quality, Learning & Teaching Committee due to the reduced Board membership at that time and when meetings had also been reduced to two in any academic session due to a lack of substantive business. There is no requirement to have in place a QL&T Committee, and although the Board considered reconstitution of the committee in October 2022, the conclusion of that was to continue with current arrangements as they are working well and for any future changes to be part of the merged college's remit.

- **Chairs/Nominations/Search Committee**

The Chairs/Nominations and Search Committees comprise the Chairs of each of the Committees. The Principal does not attend meetings of these Committees unless invited to do so. The Search Committee undertakes and completes the recruitment and selection of the preferred applicant for the appointment of Principal by the Board subject to the approval of terms and conditions by the RSB. The Nominations Committee is convened on the direction of the RSB, to nominate candidates for the approval by the RSB to fill vacancies on the Board. The Chairs Committee can take urgent decisions between meetings when calling an extra-ordinary meeting is not required. If timescales permit, decisions of the Committee would usually be in the form of a recommendation to the Board or referred for a written decision of the Board so that Board Members are not excluded from taking a decision on matters that would otherwise have been presented to a Committee or the Board. There was one meeting of the Search Committee in 2021/22 and no meetings of the Chairs' Committee although one meeting of the latter took place in October 2022. Two members took part in the Nominations Committee constituted by the RSB to run a recruitment campaign for non-executive Board Members in May – June 2022.

- **Principal**

The Board has delegated day-to-day responsibility to the Principal & Chief Executive for maintaining a sound system of internal control which supports the achievement of the College's strategies and policies, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with responsibilities in the Financial Memorandums (FM) between College and UHI and the SFC. In compliance with the FM, the Principal, as the Board's Accountable Officer, is responsible for the approval of financial statements for each financial year that give a true and fair view of the state of the affairs of the College and the surplus or deficit for that year for Board consideration and approval. As the Accountable Officer, the Principal is also required to provide an annual Certificate of Assurance to the Scottish Funding Council (to coincide with their Financial Year End of 31 March). The latest return was on 22 April 2022 which confirmed that controls have been, and are, working well.

In line with the Board's process for agreeing performance targets for the Principal which was recommended by the Remuneration Committee and approved by the Board in October 2021, performance measures were agreed between the Chair and the Principal following the Board Strategy event in October 2021 and approved by the Board in December 2021. Similar arrangements followed in 2022 following the Strategy event in September 2022 with a report on new targets for 2022/23 having been considered by the Remuneration Committee in September 2022, and approved by the Board in October 2022 in line with the timescales set out in the process. The process is now embedded and provides for a system of review at six-month intervals and an annual salary review.

- **Board Secretary**

The Board Secretary's remit includes responsibility for facilitating good governance and advising Board members on the proper exercise of their powers, including in relation to relevant legislation; the Board's compliance with its Financial Memorandum, the Good Governance Code, its Standing Orders, Scheme of Delegation and their behaviour and conduct in relation to the Board's Code of Conduct. In compliance with the Code, the Secretary has an unambiguous right to speak at Board and Committee meetings to convey any concerns they may have about governance and reporting on any unresolved concerns about the governance of the body to the relevant funding body (i.e., SFC or the RSB). All members have access to the advice and services of the Secretary who maintains a register of financial and personal interests of members.

- **Board Performance**

Annual appraisal of all Members has been re-scheduled to November 2022 when Member and Chair review meetings will be undertaken by the Chair and that the Chair's review will be conducted by the Senior Independent member. Board Members should comply with the nine principles of public life inherent in its Code of Conduct and the Member appraisal process will provide an opportunity to review this. Members receive Induction on appointment and other development opportunities are arranged by the Board. Members are also encouraged to make use of CDN Training. An evaluation of Training

needs will be undertaken following the evaluation of Board Member performance by the Chair in November 2022.

- **Compliance with the Code of Governance**

It is a condition of the Financial Memorandum with the RSB that the Board meets the principles of good governance, set out in the 2016 Code of Good Governance for Scotland's Colleges. The College has worked over recent years towards implementing all the changes recommended by the Cabinet Secretary's Good Governance Task Force to ensure compliance in all areas of the Code.

The College complies with the principles of the 2016 Code of Good Governance for Scottish Colleges ("the Code") and continues to identify and work on areas where improvements can be made in meeting the obligations set down in the Code. The first formal evaluation of compliance with each of the 82 principles contained in the Code of Good Governance for Scottish Colleges 2016 ('the Code') was undertaken by the Board in October 2021 and revisited in October 2022. A Red-Amber-Green (RAG) rating assesses the Board's overall performance against 'the Code.' Based on the initial evaluation, the College complies with the 82 principles set out in 'the Code' with five areas for improvement identified, one area C23 – Financial & Institutional Sustainability has been graded red which factors in sector and public sector wide challenges and four areas have been graded amber on the basis that actions will be undertaken on these by the end of December 2022 at which point will be rated green. These are: D23 Board Evaluation (see External Effectiveness Review below); and D20, 23 & 24 which are interlinked and related to Board Member appraisal and training (see Board performance above).

- **External Effectiveness Review**

A Rolling Board Development Plan - Governance was approved by the Board in June 2021 which included the 12 recommendations contained in the 2021 External Effectiveness Review (EER) (which took account of findings of the 2021 Internal Effectiveness Review) and 3 additional recommendations made by the Assessor. The Plan also includes any recommendations made by the External Auditor in their report on the annual audit of the end of year accounts. EERs are currently conducted every three years. A copy of the 2021 EER and the Development Plan was sent to the RSB and published on the College's website. Work on the action plan is ongoing and is reported to the Audit Committee and the Board on a quarterly basis. Due to absence and the withdrawal of the UHI 'Thinking Board' resource and a need to put in place alternative JISC survey arrangements, the 2022 Internal Effectiveness Review was delayed from Spring/Summer 2022 but will take place in November 2022.

- **Governance Improvement Actions**

The Board now has arrangements in place to evaluate compliance and demonstrate a coherent understanding and rationale for where improvement/development is required which is then assessed in terms of overall significance in its rolling Board Development Plan that sets out arrangements to address any outstanding matters. The Board then monitors progress on a quarterly basis and, if necessary, sets out areas on non-compliance in the Annual Governance statement accompanying the Annual Accounts as set out above.

- **External audit Improvement actions**

The Board received a red rating for Governance in 2019/20 from External Audit (EA). Following significant progress made in 2020/21, the Board received an amber rating in the 2020/21 EA Report. The Audit Committee and Board review the external and internal audit findings with recommendations being incorporated within the development plan and monitor accordingly. During 2021/22, all five of the recommendations were closed demonstrating significant progress.

- **Covid-19**

As set out in the Performance Report, there was an on-going process for identifying, evaluating, and managing the College's significant risks in response to Covid-19 that was in place for the year ended 31 July 2022. This process involved development and continuous 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 statutory agencies.

- **Strategy**

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. As set out in the Performance Report, a re-scheduled strategy event took place on 1 October 2021 when the Board reviewed the College's shared mission, vision, values, aims and objectives ensuring alignment with the UHI Strategic Framework and new Strategic Plan 2022-27 against the background of the ongoing options appraisal and the financial challenges facing the College. The plan is to be underpinned by a number of enabling strategies and plans, including the College Operational Plan and that in turn, these will be reflected in individual staff objectives. The Board also approved measures and reporting on the basis that SMART targets will be set against the Board's priorities and commitments and the level of reporting will be in line with capacity and maturity of college systems whilst ensuring compliance and good governance.

- **Internal Control**

Assessment of the effectiveness of internal controls

Lews Castle College has an internal audit service, who report to the Board, the work of which concentrates on areas of key activities determined in accordance with the annual internal audit plan approved by the Board. In 2021/22 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 budget setting process, with the annual budget being approved by the Board of Management
- preparation of regular management accounts
- regular monitoring of budgets by the Board and senior management
- ongoing review of the reporting requirements of the Board
- regular review of the Risk Register by the Board and Audit Committee

The internal auditors issue an annual report that gives an opinion of the adequacy, reliability and effectiveness of the college's internal control system and in their annual review for 2021/22 confirmed that: "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."

- **Risk**

The risk register and mitigating actions are discussed at all Audit and Board meetings. The College currently uses the standard UHI Risk Register format in compiling and presenting the register. A new Risk Policy was approved in December 2021 in response to an Internal Audit recommendation and the new policy clarifies the role of the Board of Management and its committees in the development and review of risk management. An annual review of the register took place in October 2022 which included considering whether risks were appropriately ranked based on likelihood and impact and considering whether mitigating controls highlighted as being in place were adequate. Board training for risk appetite and management is to be undertaken early in 2023.

- **Estates Strategy**

As stated in the Performance Report, the College is currently developing its estates plan and reviewing outstanding backlog and maintenance issues, priorities and sources of funding.

- **Data security**

In terms of governance, the College has comprehensive IT policies and procedures in place. All staff are required to undertake IT Security and Data Protection training on induction and refresher within two years. The College has implemented a programme of work to ensure compliance with the General Data Protection Regulations which came into force in May 2018. During the year information registers have been updated to ensure that they are compliant with Article 30 requirements. Following the recent UHI cyber incident in 2020/21, the College and UHI partnership has stronger controls in place to mitigate the risk around any further incidents. There were no lapses of data security in 2021/22.

- **Going Concern**

The Board regularly considers the College's forecasts and financial projections and confirms that the College is a going concern as described in the Code of Good Governance for Scotland's Colleges 2016. Please refer to "Going Concern" section of Accounting Policies in Note 1 for further detail on the assessment of going concern.

Conclusion

The College is committed to exhibiting best practice in all aspects of corporate governance. The substantive areas for improvement in Governance arrangements set out in the External Auditor's report to the Board in March 2021 and in the EER 2021 have been addressed or are well underway as set out in the Board's Rolling Board Development Plan which are being monitored at every meeting of the Board and the Audit Committee.

The institution complies with all the principles of the 2016 Code of Good Governance for Scotland's Colleges, and it has complied throughout the year ended 31 July 2022.

Approved by order of the members of the LCC UHI Board of Management on 13 December 2022 and signed on its behalf by:

.....
Archie Macdonald
Chair of Board

Date

SECTION TWO: REMUNERATION AND STAFF REPORT

The Remuneration Committee convened once during the year and comprises the four sub-committee Chairs on the basis that the Board Chair cannot chair the Committee. The role of the remuneration committee is to determine the salary scales for key staff, and the remuneration within these scales of the most senior post-holders, including the Principal.

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

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

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

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 and Directors receive the same settlement. It is then for the Committee to decide whether or not the Principal should receive a pay award.

In the year 2020/21, the Remuneration Committee was not convened, predominantly due to the focus of the organisation being on dealing with the Covid-19 pandemic and the impact of that on students and staff. When the committee met in June 2022, they took the opportunity to look back at the prior year (2020/21), in absence of an in-year meeting taking place, as well as consideration for 2021/22. The outcome for both years included a pay award for members of ELT consistent with the nationally agreed pay award for all other staff and in line with Public Sector Pay Policy. The committee decision was approved by the Board and the RSB accordingly and in adherence to the relevant governance standards.

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

Name	12 Months ending 31 July 2022			12 Months ending 31 July 2021		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary £'000	Pension Benefit £'000	Total £'000
Iain Macmillan - Principal (In post until 9 August 2020)	-	-	-	25-30	Nil*	25-30
Sue Macfarlane - Interim Principal (since 10 August 2020)	90-95	25-30	110-115	90-95	75-80	110-115
Hannah Ritchie-Muir – Depute Principal (since 2 November 2020)	75-80	20-25	90-95	55-60	45-50	70-75
Kathleen Macdonald – Director of Finance and Resources (Since 6 December 2021, 0.6fte)	60-65 (FTE)	5-10	65-70	-	-	-

*Iain Macmillan retired during the 2020/21 financial year and so did not accrue any further benefit. Using the UK Government Financial Reporting Manual calculation, the pension benefit would be a decrease of £84,032.

Remuneration and Staff Report (Continued)

The non-executive members of the Board of Management listed in Accountability Report are not included in this remuneration report and did not receive any salary or benefits.

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. Per the manual, disclosed salary covers both pensionable and non-pensionable amounts and should include: gross salaries; overtime; recruitment and retention allowances; payment in lieu of notice; severance or ex-gratia payments.

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 Scottish Teachers Superannuation Scheme (STSS) and, as such, pays contributions and receives benefits at the same rate as all other members.

Name	Accrued pension at pension age at 31 July 2022	Accrued lump sum at pension age at 31 July 2022	Real increase (decrease) in pension 1 August 2021 to 31 July 2022	Real increase in lump sum 1 August 2021 to 31 July 2022	CETV at 31 July 2022	CETV at 31 July 2021	Real increase (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Iain Macmillan	-	-	-	-	-	362	(362)
Sue Macfarlane	20	59	1	3	475	447	17
Hannah Ritchie-Muir	17	52	1	3	327	301	18
Kathleen Macdonald	12	0	12	0	6	0	4

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.

Remuneration and Staff Report (Continued)**Real Increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market 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 2022.

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%	0
1% - 50%	3
51% - 99%	0
100%	0
Percentage of pay bill spent on facility time	
Total cost of facility time	£12,096
Total Pay Bill	£6,518,043
Percentage of the total pay bill spent on facility time	0.19%
Paid Trade Union Activities	
Time spent on trade union activities as a % of total paid facility time hours	100%

Fair Pay – Pay Multiples

Colleges are required to disclose the relationships between the remuneration of the highest paid official and the median remuneration of their workforce, summarised as follows:

	2021-22 £'000	2020-21 £'000	Change %
Range of workforce remuneration	20-93	20-90	-
Highest paid official remuneration	93	90	3.3%
Median (total pay & benefits)	33	35	(5.8%)
Median (salary only)	33	35	(5.8%)
Ratio	100%	100%	100%
25 th Percentile (total pay & benefits)	22	21	4.8%
25 th Percentile (salary only)	22	21	4.8%
Ratio	100%	100%	100%
75 th Percentile (total pay & benefits)	43	42	2.4%
75 th Percentile (salary only)	43	42	2.4%
Ratio	100%	100%	100%

Remuneration and Staff Report (Continued)

Based on the 12-month equivalent figures above, the remuneration of the highest paid official in the organisation in the financial year 2021-22 was £93k (2020-21 £90k). This is the annualised salary for the highest paid official. This was 2.8 times (2020-21 2.6 times) the median remuneration of the workforce which was £33k (2020-21 £35k).

Staff comparison

The College employed 90 (86 in 2020/21) females and 53 (54 in 2020/21) males as at 31 July 2022.

Sickness absence data

The average sickness absence rate over the period 1 August 2021 to 31 July 2022 was 4.8% (2020/21 1.5%). The absence rate for 2020/21 was artificially low due to most staff working from home under Covid-19 restrictions for much of the year.

Staff Policies

The College's Recruitment Policy and procedures provide for the full and fair consideration for employment by the College of applicants who declare a disability. This is undertaken through the application of a guaranteed interview scheme, whereby disabled candidates who (on application) meet the minimum criteria for the job are guaranteed an interview. Disabled employees are protected from discrimination by law and we will implement reasonable adjustments, on a case-by-case basis, to ensure disabled employees are not disadvantaged.

Expenditure on Consultancy

There is nothing to report under the above for Lews Castle College.

Off – Payroll Engagements

There is nothing to report under the above for Lews Castle College.

Compensation for loss of office

During the financial year 2021/22, permission was obtained from the SFC and the College's RSB to offer a voluntary severance program, to all staff members, as a key part of the College's financial recovery plan. The Scheme was approved, and eight individuals deemed eligible left employment in June 2022. The scheme was funded via core resources.

The total of termination packages was £172k, for 8 members of staff. The maximum settlement was £31k, the minimum £14k and the median £21k.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed (including any voluntary redundancies)	Total number of exit packages by cost band
<£10,000	0	0	0
£10,000 - £25,000	0	5	5
£25,000 - £50,000	0	3	3
Total number of exit packages	0	8	8
Total Cost	£0	£172,000	£172,000

Remuneration and Staff Report (Continued)

Note: The total value disclosed in the table relates to the severance package only, £172k. In addition to that, some of the staff received additional payments for accrued annual leave, which would take the total of payments made to those employees to £196k.

Other Employee Matters

Staff turnover is included in the Performance Report above on Page 9, KPI table.

For part of the reporting period the college had to continue to respond to the Covid- 19 pandemic and various Government guidelines and requirements. In line with the sector, college activities were delivered remotely with staff working from home or being furloughed for a period from late March 20. Extensive efforts have been made in relation to curriculum and service review and adaption to support learning and teaching activities, on a blended approach in session 20/21 and the beginning of 2021/22 in line with the Scottish Government route map. This has required consultation with trade union and staff representatives and a collaborative approach to the implementation of arrangements to ensure the continued safety and wellbeing of staff, students and those associated with the college.

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

Please see further staff cost disclosures, in line with the SFC Accounts Direction, within the financial statements at Notes 6 and 7. Specifically, staff costs distinguished between those on permanent and temporary contracts are disclosed in note 6 and the number of senior staff in each pay band is disclosed in note 7.

Parliamentary Accountability Report

There is nothing to report under the above for Lews Castle College.

.....
Hannah Ritchie- Muir
Principal and Chief Executive Officer

Date

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

Reporting 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 2022 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, Consolidated and College Statement of Changes in Reserves, Consolidated and College Balance Sheet, and the Consolidated and College Statement of Cash Flows and notes to the financial statements, including 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 2022 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for 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 five 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the college and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the college and its group. However, we report on the college's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Board of Management for the financial statements

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

In preparing the financial statements, the Board of Management is responsible for assessing the 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 there is an intention to discontinue the operations of the college and its group.

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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with [my/our] responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the college is complying with that framework;
- identifying which laws and regulations are significant in the context of the college;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the college's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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.

Reporting 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. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, 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.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on the audited part of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. 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.

Other information

The Board of Management is responsible for other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on the Performance Report and Governance Statement

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

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

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

December 2022

Ernst & Young LLP 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 2022

	Note	Year to 31 July 2022 (Consolidated & College) £'000	Year to 31 July 2021 (Consolidated & College) £'000
Income			
SFC grants	2	4,959	4,999
Tuition fees and education contracts	3	780	699
Other grant income	4	725	755
Other operating income	5	612	487
Total Income		7,076	6,940
Expenditure			
Staff costs	6/8	6,518	5,469
Other operating expenses	8	1,230	920
Depreciation	8/11	857	684
Interest payable	9	59	66
Total Expenditure		8,664	7,139
(Deficit)/Surplus for the year		(1,588)	(199)
Actuarial gain / (loss) in respect of pension schemes		4,933	1,578
Unrealised surplus on revaluation of tangible assets		3,426	-
Total comprehensive gain / (loss) for the year		6,771	1,379
Represented by:			
Unrestricted comprehensive income for the year		6,771	1,379
Attributable to the College		6,771	1,379

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

The notes on pages 39-53 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 2022

	Income & Expenditure Account Unrestricted	Revaluation Reserve	Total
	£'000	£'000	£'000
Balance at 1 August 2020	(5,127)	8,197	3,070
(Deficit) / Surplus from the income and expenditure statement	(199)	-	(199)
Other comprehensive income	1,578	-	1,578
Transfers between revaluation and income and expenditure reserve	132	(132)	-
Total comprehensive income for the year	1,511	(132)	1,379
Balance at 31 July 2021	(3,616)	8,065	4,449
(Deficit) / Surplus from the income and expenditure statement	(1,588)	-	(1,588)
Other comprehensive income	4,147	-	4,147
Gain on Revaluation	-	3,424	3,424
Transfers between revaluation and income and expenditure reserve	132	(132)	-
Total comprehensive income for the year	2,691	3,292	5,983
Balance at 31 July 2022	(925)	11,357	10,432

COLLEGE STATEMENT OF CHANGES IN RESERVES

Year ended 31 July 2022

	Income & Expenditure Account Unrestricted	Revaluation Reserve	Total
	£'000	£'000	£'000
Balance at 1 August 2020	(5,127)	8,197	3,070
(Deficit) / Surplus from the income and expenditure statement	(199)	-	(199)
Other comprehensive income	1,578		1,578
Transfers between revaluation and income and expenditure reserve	132	(132)	-
Total comprehensive income for the year	1,511	(132)	1,379
Balance at 1 August 2021	(3,621)	8,065	4,444
(Deficit) / Surplus from the income and expenditure statement	(1,588)	-	(1,588)
Other comprehensive income	4,147	-	4,147
Gain on Revaluation	-	3,424	3,424
Transfers between revaluation and income and expenditure reserve	132	(132)	-
Total comprehensive income for the year	2,691	3,292	5,983
Balance at 31 July 2022	(930)	11,357	10,427

CONSOLIDATED AND COLLEGE BALANCE SHEET AS AT 31 JULY 2022

	Note	Group 2022 £'000	College 2022 £'000	Group 2021 £'000	College 2021 £'000
NON-CURRENT ASSETS					
Tangible fixed assets	11	17,845	17,845	15,186	15,186
Investments		1	1	1	1
		<u>17,857</u>	<u>17,857</u>	<u>15,187</u>	<u>15,187</u>
CURRENT ASSETS					
Debtors	13	1,042	1,037	753	748
Cash and cash equivalents		290	290	365	365
		<u>1,332</u>	<u>1,327</u>	<u>1,118</u>	<u>1,113</u>
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	14	(2,203)	(2,203)	(1,411)	(1,411)
NET CURRENT (LIABILITIES)					
		<u>(871)</u>	<u>(876)</u>	<u>(293)</u>	<u>(298)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>16,975</u>	<u>16,970</u>	<u>14,894</u>	<u>14,889</u>
Creditors: amounts falling due after more than one year	15	(5,870)	(5,870)	(6,281)	(6,281)
Provisions					
Pension Provisions	16	(673)	(673)	(684)	(684)
Defined benefit liabilities	16	-	-	(3,480)	(3,480)
Total NET ASSETS					
		<u>10,432</u>	<u>10,427</u>	<u>4,449</u>	<u>4,444</u>
RESERVES					
Income and expenditure reserve – unrestricted		(925)	(930)	(3,616)	(3,621)
Revaluation reserve		11,357	11,357	8,065	8,065
Total Reserves					
		<u>10,432</u>	<u>10,427</u>	<u>4,449</u>	<u>4,444</u>

These financial statements on pages 34-53 were approved on 13th December 2022 by the Board of Management and are signed on its behalf by:

.....
Archie Macdonald
Chair of the Board of Management

.....
Hannah Ritchie- Muir
Principal

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR TO 31 JULY 2022

	Year to 31 July 2022 £'000	Year to 31 July 2021 £'000
Cash outflow from operating activities		
(Deficit)/Surplus for the year	(1,588)	(199)
Adjustment for non-cash items		
Depreciation	857	684
(Increase) / Decrease in debtors	(290)	(168)
Increase / (Decrease) in creditors	614	(151)
(Decrease) / Increase in pension provision	422	203
Net cash inflow from operating activities	<u>15</u>	<u>369</u>
Cash flows from investing activities		
Payments made to acquire fixed assets	(90)	(146)
	<u>(90)</u>	<u>(146)</u>
Cash flows from financing activities		
Interest paid	-	-
	<u>-</u>	<u>-</u>
(Decrease)/Increase in cash and cash equivalents in the year	<u>(75)</u>	<u>223</u>
Cash and cash equivalents at beginning of the year	365	142
Cash and cash equivalents at end of the year	290	365

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 JULY 2022**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). 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 College is a public benefit entity under the requirements of FRS102.

The consolidated financial statements, including 2020/21 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.

Going Concern

At 31 July 2022 the College reported a deficit of £1,557k and an underlying deficit of £415k after adjusting for non-cash accounting adjustments. At the year-end it held net assets of £10,432 and net current liabilities of £876k. The net current liability position reported in these Financial Statements is largely due to the adoption of the Financial Reporting Standard 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 £401k. The College held cash of £290k at the balance sheet date and had no bank loans. The College in the year did however require a cash advance of £652k from the Regional Strategic Body in the last month of 2021/22 to ensure liquidity and to support the exceptional restructuring costs of the voluntary severance delivered in the year, a key part of the organisation's financial recovery plans. Subsequent to the yearend the College held £300k as at 31st October 2022 and has utilised no further financing support in the year to date.

Going forward the College forecasts to make a technical accounting deficit of £573k in 2022/23 and further cash advances may be required from the Regional Strategic Body, with the current projected cash balance at the end of the going concern period to December 2023 projected to be c. £550k. The current economic climate has contributed to this position with regards to high inflation and expectations and pressures around public sector pay increases. The Board of Management monitors the financial position on a routine basis, and should the forecast position deteriorate through the year, appropriate mitigating action to maintain the College's financial position will be taken, for example a further round of voluntary severance is being undertaken in the second quarter of 2022/23. Should the College forecast a shortfall in liquidity through the going concern assessment period it has confirmed that the Scottish Funding Council and the RSB 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/RSB at a later date.

Whilst the financial landscape across the whole of the public sector remains challenging at best, with the tertiary education sector under enormous strain; the decision to progress with a new merged entity, vesting in August 2023 will provide greater organisational resilience and long-term sustainability and growth for the College, as services will continue within this new entity. Please refer to note 24 for further information on the merger.

On the basis on the going concern assessment, these financial statements have been prepared on a going concern basis.

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 full valuation was carried out in July 2019, and an interim valuation was undertaken for inclusion in 2021/22 financial statements.

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.

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 and are disclosed, as required by FRS 102. 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 to spread the cost of pensions over employees' working lives with the College. The contributions are determined by an actuary based on 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.

Where the valuation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover its share of the surplus, either through reduced contributions in the future or through refunds from the plan.

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, Lews Castle College (Trading Ltd), undertaking is stated at cost.

Phase one of the Cnoc Soilleir build, a joint venture enterprise with Ceolas, was officially opened on the 1st September 2022. The completion of the first financial year will July 2023. For inclusion in Financial Statements 22/23, this investment will be considered under the equity method, FRS 102 section 14.

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 2022 £'000	Year to 31 July 2021 £'000
2 SFC GRANTS		
SFC recurrent grant (including fee waiver)	3,225	3,562
UHI Millennium Institute recurrent grant	1,241	1,031
Release of deferred capital grants – buildings	183	174
- equipment	53	60
Other SFC grants	257	173
	<u>4,959</u>	<u>5,000</u>
3 TUITION FEES AND EDUCATION CONTRACTS		
FE fees – UK	122	48
HE fees	584	644
Education contracts	73	7
	<u>780</u>	<u>699</u>
4 OTHER GRANT INCOME		
UHI	53	50
Release of deferred capital grants – buildings	166	159
Other grants	506	546
	<u>725</u>	<u>755</u>
Note: Other grants contains £0 in 2021/22, (£67,289 in 2020/21) received from HMRC Job Retention scheme. This involved up to 27 staff between August 2020 & June 2021.		
5 OTHER OPERATING INCOME		
Catering	52	14
An Cotan Nursery fees	253	237
Room hire	59	15
Other income	247	221
	<u>612</u>	<u>487</u>
6 STAFF COSTS	Year to 31 July 2022 £'000	Year to 31 July 2021 £'000
Wages and salaries	4,691	3,928
Social security costs	410	365
Other pension costs	729	660
Increase in holiday accrual	81	11
	<u>5,911</u>	<u>4,964</u>
Defined benefit pension charges	607	505
Total	<u>6,518</u>	<u>5,469</u>
Academic/teaching departments	3,356	3,199
Academic/teaching services	264	205
Research grants and contracts	109	113
Administration and central services	1,420	938
Premises	463	415
Other expenditure	288	218
Catering and nursery	421	381
Sub Total	<u>6,321</u>	<u>5,469</u>

Voluntary severance and termination costs	197	0
Total	6,518	5,469

Analysed as:

Staff on permanent contracts	6,406	5,337
Staff on temporary contracts	112	132
Total	6,518	5,469

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

	Number 2022	Number 2021
Academic/teaching departments	51	50
Academic/teaching services	5	5
Research grants and contracts	6	7
Administration and central services	24	23
Premises	11	11
Catering and nursery	12	12
Total	109	108

7 EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF

No member of the Board of Management received a fee for services (2020/21: £Nil).

Travel & hospitality paid to Board members has been under £500 in each year and so has been rounded to £Nil. (2020/21: £Nil).

	£	£
Emoluments of the Principal:		
Salary	92,717	91,356
Employer's pension contributions	21,325	21,012
	114,041	112,368

The Principal is an ordinary member of the Scottish Teachers Superannuation Scheme (STSS).

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

	2021/22	2020/21
£60,001 to £70,000	2	-
£70,001 to £80,000	1	1
£80,001 to £90,000	-	-
£90,001 to £100,000	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 31 July 2022 Total	to 31 July 2021 Total	to
	£'000	£'000	£'000	£'000	£'000	£'000	
Academic/teaching departments	3,508	159	-	-	3,667	3,296	
Academic/teaching services	264	48	-	-	312	283	
Research grants and contracts	109	0	-	-	109	556	
Administration and central services	1,464	386	55	59	1,964	885	
Premises	463	468	801	-	1,732	1,443	
Other expenditure	288	120	-	-	408	276	
Catering & nursery	421	43	-	-	464	395	
Childcare	0	5	-	-	5	4	
	6,518	1,230	857	59	8,664	7,138	

Other operating expenses include:

Auditor remuneration:

Internal audit
External audit

	Year 31 July 2022 £'000	to 31 July 2021 £'000
	13	13
	32	25
	45	38

Lease Obligations

Total rentals payable under operating leases:

	2022 £'000	2021 £'000
Payable during the year	13	13
Future minimum lease payments due: Not later than 1 year	25	0

The leases are in respect of office printers and photocopiers.

9 INTEREST PAYABLE

Net return on pension assets/liabilities

	2022 £'000	2021 £'000
	59	66
	59	66

10 TAXATION

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

11 TANGIBLE FIXED ASSETS OF THE COLLEGE

<u>Current year:</u>	Buildings Feudal	Asset Under Construction	Equipment	Vehicles	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 August 2021	16,275	-	1,758	16	18,049
Additions	69	2	9	10	90
Revaluations	1,376	-	-	-	1,376
At 31 July 2022	17,720	2	1,767	26	19,516
Depreciation					
At 1 August 2021	1,249	-	1,597	16	2,862
Charge for year	801	-	53	3	857
Revaluation	(2,050)	-	-	-	(2,050)
At 31 July 2022	0	-	1,650	19	1,659
Net Book Value					
At 31 July 2022	17,720	2	117	7	17,856
At 31 July 2021	15,028	0	159	0	15,187

All assets are financed by capital grant.

<u>Prior Year:</u>	Buildings Feudal	Asset Under Construction	Equipment	Vehicles	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 August 2020	16,222	-	1,665	16	17,903
Additions	54	-	92	-	146
At 31 July 2021	16,276	-	1,757	16	18,049
Depreciation					
At 1 August 2020	624	-	1,538	16	2,178
Charge for year	624	-	60	-	684
At 31 July 2021	1,248	-	1,598	16	2,862
Net Book Value					
At 31 July 2021	15,028	-	159	-	15,187
At 31 July 2020	15,598	-	127	-	15,725

All assets are financed by capital grant.

11 TANGIBLE FIXED ASSETS OF THE COLLEGE (continued)

Buildings of net book value of £3,114k 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 had its property portfolio fully revalued 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. The valuation was carried out by a RICS qualified surveyor. As per reporting requirements, valuations are required within a five-year timeframe, and an interim valuation to take place during that period.

An interim valuation was undertaken in 2021/22 on all properties, by the College's independent valuer, FG Burnett, as at 31st July 2022 on the basis of fair value (market value or depreciated replacement costs where appropriate). The values were computed in accordance with the Royal Institute of Chartered Surveyor's Statement of Asset Valuation Practice and Guidance notes. The overall increase in the value of the properties was £3,424 which was credited to the revaluation reserve.

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.

Lews Castle College has significant interest in a joint venture enterprise with Ceolas Ltd, Cnoc Soilleir. Phase one of the Cnoc Soilleir build was completed in 2022, with a second Phase of construction works to deliver an auditorium and other features currently being discussed and agreed between parties. The Phase 1 build was officially opened by deputy First Minister, John Swinney, on the 1st September 2022. For inclusion in Financial Statements 22/23, this investment will be considered under the equity method, FRS 102 section 14. The completion of the first financial year will July 2023.

13 DEBTORS

	Group as at 31 July 2022 £'000	College as at 31 July 2022 £'000	Group as at 31 July 2021 £'000	College as at 31 July 2021 £'000
Amounts falling due within one year:				
Trade debtors	119	119	84	84
Prepayments and accrued income	923	918	669	664
	<u>1,042</u>	<u>1,037</u>	<u>753</u>	<u>748</u>

Financial instrument assets comprise, cash and cash equivalents, trade debtors and accrued income. The value of these financial instruments is £1,281k (2020/21: £1,060k).

14 CREDITORS: Amounts falling due within one year

	Group as at 31 July 2022 £'000	College as at 31 July 2022 £'000	Group as at 31 July 2021 £'000	College as at 31 July 2021 £'000
Trade creditors	40	40	16	16
Bursary creditor	178	178	335	335
Other taxation and social security	240	240	193	193
Due to Subsidiary	5	5	5	5
Accruals and deferred income	1,229	1,229	440	440
Deferred capital grant	402	402	393	393
Holiday accrual	106	106	25	25
Other creditors	3	3	4	4
	<u>2,203</u>	<u>2,203</u>	<u>1,411</u>	<u>1,411</u>

Financial instrument liabilities comprise of trade creditors, bursary creditors, due to subsidiary, accruals, and other creditors. The value of these financial instruments is £664,886 (2020/21: £793,194).

15 CREDITORS: Amounts falling due after more than one year

	Group as at 31 July 2022 £'000	College as at 31 July 2022 £'000	Group as at 31 July 2021 £'000	College as at 31 July 2021 £'000
Deferred capital grant	5,870	5,870	6,281	6,281
	<u>5,870</u>	<u>5,870</u>	<u>6,281</u>	<u>6,281</u>

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Pension Costs £'000	Defined Benefit Liability £'000	Total £'000
As at 1 August 2021	674	3,480	4,154
Utilised in the year	(2)	-	(2)
Unused amounts reversed in year	-	(3,480)	(3,480)
As at 31 July 2022	<u>672</u>	<u>-</u>	<u>672</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). Details of total pensions costs for each scheme are set out below. A £20k movement in the early retirement provision has been charged to Staff costs on the SOCIE.

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.

16 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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 2022 were £409,822 (2021 £421,891).

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 2022 was £343,000 (2020/21, £258,000) of which employer's contributions totalled £258,000 (2020/21, £233,000) and employees' contributions totalled £85,000 (2020/21, £76,000).

The actuary estimates that employer's contributions to the scheme will be £256,000 in 2022/23.

Principal Actuarial Assumptions

	At 31 July 2022	At 31 July 2021
Rate of increase in salaries	3.55%	3.65%
Rate of increase for pensions in payment/inflation	2.75%	2.85%
Discount rate for liabilities	3.5%	1.6%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The assumptions noted above relate to expectations across the duration of the scheme and therefore are based on longer-term estimations. The assumed life expectancies on retirement age 65 are:

	At 31 July 2022	At 31 July 2021
Current pensioners		
Males	20.8	20.9
Females	23.3	23.5
Future pensioners		
Males	22.0	22.3
Females	25.3	25.5

The estimated split of assets as at 31 July 2022 is as shown below:

	31 July 2022	31 July 2021
Equities	68%	70%
Bonds	11%	14%
Property	17%	10%
Cash	4%	6%

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year end 31 July 2022

	Assets £'000)	Obligations £'000	Net (liability) / asset £'000
Fair value of plan assets	11,237	-	11,237
Present value of funded liabilities	-	14,637	(14,637)
Present value of unfunded liabilities	-	8	(8)
Opening Position as at 31 July 2021	11,237	14,645	(3,408)

Service cost	-	866	(866)
Net interest			
Interest income on plan assets	181	-	181
Interest cost on defined benefit obligation	-	240	(240)
Total net interest	181	240	(59)
Total defined benefit cost recognised through Income and (Expenditure)	181	1,106	(925)
Cashflows			
Plan participants' contributions	85	85	-
Employer contributions	258	-	258
Contributions in respect of unfunded benefits	(225)	(225)	-
Benefits paid	(1)	(1)	-
Unfunded benefits paid	1	-	1
Expected closing position	11,536	15,610	(4,074)
Remeasurements			
Changes in demographic assumptions	-	(52)	52
Changes in financial assumptions	-	(5,334)	5,334
Other experience	-	29	(29)
Return on assets excluding amounts included in net interest	(424)	-	(424)
Total remeasurements recognised in Other Comprehensive Income (OCI)	(424)	(5,357)	4,933
Fair value of plan assets	11,112	-	11,112
Present value of funded liabilities	-	10,246	(10,246)
Present value of unfunded liabilities	-	7	(7)
Less share of assets not recognised under FRS 102	(859)	-	(859)
Closing position as at 31 July 2022	10,253	10,253	-

The above movements in plan assets and liabilities result in a net asset of £354k at 31 July 2022 (2020/21, net liability of £3,408k). In 2021/22, where the calculation results in a net asset, recognition of the asset is limited to the extent to which the College can recover the surplus through reduced contributions in the future or through refunds from the scheme. The College assessed the recoverability of the asset on this basis and determined that it was appropriate that the plan surplus in 2021/22 was not recognised in line with the requirements of FRS 102.

The yearend liability is calculated to include an estimated uprating of current and deferred pension benefits in relation to the 2023 pension increase order for the scheme. This is based on RPI and CPI rates at 31 July 2022, equating to 9.9%. The actual increase will be agreed in March 2023 and may be subject to change on finalisation. Any changes from the assumed rate will be accounted for as actuarial adjustments in future years.

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, except for the special payments made under the voluntary severance scheme which was run in 2021/22. Details of 'Compensation for loss of office' is noted on Page 28, reported under the Remuneration Report of these Financial Statements.

18 CONTINGENCIES AND CAPITAL COMMITMENTS

There were no contingencies or capital commitments at 31 July 2022 (2020/21, 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. During the year £97,340 of unspent prior year funds were returned. No students were denied access to funding because of this.

	Y/E 31/07/22 FE Bursary £'000	Y/E 31/07/22 FE Hardship £'000	Y/E 31/07/22 EMAs £'000	Y/E 31/07/22 Other £'000	Y/E 31/07/22 Total £'000	Y/E 31/07/21 Total £'000
Balance b/f	151	22	2	9	184	150
Funds received in year	259	4	4	18	258	238
Expenditure	(134)	(4)	(3)	(23)	(164)	(165)
Repaid to SFC as clawback	(47)	-	-	-	(47)	(39)
Intra-region allocation	(50)	-	-	-	(50)	0
Balance c/f	<u>179</u>	<u>22</u>	<u>3</u>	<u>4</u>	<u>208</u>	<u>184</u>
Represented by:						
Retained for students	<u>179</u>	<u>22</u>	<u>3</u>	<u>4</u>	<u>208</u>	<u>184</u>
	<u>179</u>	<u>22</u>	<u>3</u>	<u>4</u>	<u>208</u>	<u>184</u>

20 CHILDCARE FUNDS

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Balance b/f	15	15
Funds received in year	6	7
Expenditure	<u>(5)</u>	<u>(7)</u>
Balance c/f	<u>16</u>	<u>15</u>
Represented by:		
Retained for students	<u>16</u>	<u>15</u>
	<u>16</u>	<u>15</u>

21 RELATED PARTY TRANSACTIONS

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Payments		
Bayhead Bridge Centre – Rent	-	15
Cnoc Soilleir	5	-
Stornoway Port Authority	1	-
UHI	23	18
Receipts		
UHI	205	124
Cnoc Soilleir	21	-
Stornoway Port Authority	3	-

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 £1,501k for the year ended 31 July 2022. After adjusting for the non-cash allocation provided under government rules, the college shows an "adjusted" deficit of £359k on a Central Government accounting basis.

The deficit is attributable to other factors reflected in the adjusted operating table as explained in the performance report.

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Deficit before other gains and losses (FE/HE SORP basis) for academic year	(1,588)	(199)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	455	291
Operating (deficit) / surplus on Central Government accounting basis for academic year	(1,133)	92

23 ADJUSTED OPERATING POSITION

The Adjusted Operating Position in the Performance Summary on page 11 contains the following:

Item	Value £'000	Source
Total depreciation	857	SOCI
Total deferred grant	(402)	Notes 2 & 4
Net depreciation	<u>455</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 608 Note 16
(FRS102 Staff cost adjustment)

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 59 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 20 Note 16
provision year-end revaluation charged to
SOCI

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

The College Board made a strategic decision to explore merger with two other UHI colleges - North Highland and West Highland in 2021/22. A positive consultation on the outline proposal for merger took place early 2021/22, followed by independent financial and legal diligence as well as a 10-week consultation (staff, students and public) on the final business case which began in August 2022.

The three Board's all unanimously voted in favour of merger in November 2022, with submission of the formal business case to the Scottish Funding Council on the 4th of November 2022, before the case will be laid before Parliament. Providing necessary approvals go ahead within the current timescales, the vesting date for the new College will be 1st August 2023.

Whilst this is disclosed as a non-adjusting post balance sheet event in the presented financial statements. The decision to progress with merger in 2023 will provide an opportunity to achieve greater organisational resilience and long-term sustainability and growth.

The decision to merge, will result in a final year of accounts for Lews Castle College to be presented as at 31st July 2023, after which services will continue in the new legal entity formed as part of the merger process.

APPENDIX 1

ACCOUNTS DIRECTION FOR SCOTLAND'S COLLEGES 2021-22

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 2021-22 (FReM) where applicable. In cases where there is a conflict between the FReM and the SORP, the latter will take precedence.
4. Incorporated colleges and Glasgow Colleges' Regional Board must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2022.
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
18 July 2022