MORAY COLLEGE UHI

Annual Report and Financial Statements for the year ended 31 July 2019

University of the Highlands and Islands
Moray College

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Performance Report

OVERVIEW

Principal's foreword

2018/19 has been another challenging but rewarding year for Moray College UHI as it continues to fulfil its mission of transformation both within its own community in Moray, and also in the wider Highlands and Islands region. This Performance Report for the year ended 31 July 2019 provides an overview of the College, its purpose and priorities, its performance over the year, and the risks it faces and addresses.

The College has now completed the third and final year of its Financial Recovery Plan ("FRP"), which it put in place following its 2015/16 results. The FRP has enabled the College to again finish the year within the Scottish Government's guidelines for a "balanced budget". It has reported a deficit of c£242k against an original FFR for 2018/19 of c£100k deficit (excluding pension adjustments). Although the FRP has brought an element of financial stability to the college in the past three years, nationally agreed but unfunded cost-of-living increases for staff, combined with changes to employer contribution rates for teachers' pensions and concerns about local allocations of national bargaining funding, have provided an immediate challenge to this hard-won position of recovered stability.

The College's revised curriculum planning processes ensured that it remained on target throughout the year with regards to its regional FE Credit allocation (18,807) and slightly exceeded this total (19,146) at year end. Higher Education ("HE") enrolment of 937.0 full-time equivalent students (FTEs) in 2018/19 was an increase of 5.2 FTEs compared to the previous year's total (931.8 FTEs).

Having delivered its highest ever level of FE full-time student attainment in 2017/18, the college continued work on its Education Scotland-validated Enhancement Plan to consolidate this performance in the context of continuing financial constraints and a national lecturers' pay dispute which disrupted teaching, assessment, and the resulting of assessments. Full-time student attainment of 67.9% has remained above the 17/18 national average of 66.1%.

Student satisfaction, as measured through the College's Learner Survey report for 2018/19, (incorporating the SFC Student Satisfaction and Engagement Survey) was also assessed in the middle of the national pay dispute and showed a slight decrease from the previous year's score (92.6% against 93.9% in 2017/18). Throughout the year the College's students took part in Scotland and UK-wide skills competitions, with podium finishes in hair and beauty, electrical, plumbing, hospitality and horticulture.

The College continued to frame all of its work within its adopted 'CORE' UHI values of collaboration, openness, respect, and excellence. It conducted a staff survey in March 2019 to review changes in staff attitudes and issues over the past three years. Despite the much stronger financial position of the college; improved pay, conditions and recognition for most staff; and improvement across all four key indicators of student retention, attainment, satisfaction, and positive destinations, there were no significant movements in scoring or comments from the previous staff survey in 2016.

The college progressed key developments on a number of fronts in 2018/19. Throughout the year it continued to lead work on two projects, and to support community partners on other projects that formed Moray's submission to the UK and Scottish governments for Growth Deal funding. The Growth Deal is a long-term plan designed to transform the Moray economy and address concerns around encouraging young people to live and work in the area, and also gender inequality in employment. The first round of funding was announced at the college by both governments on 11 July 2019.

The College continued to be a key partner of DYW Moray in the design and delivery of Skills Pathways (for ages 3-18), and worked closely with Moray Council and Moray's schools through the co-design of Senior Phase provision, S3 Taster Days for all secondary pupils, and supported 'Meaningful May'

Performance Report (continued)

employability and work placement provision for S5 pupils. On 1 August 2019 the college became the host organisation and employer for the staff of DYW Moray.

The College also further developed opportunities to work with major employers in Moray through the Flexible Workforce Development Fund. It hosted and led a number of STEM-based activity events with partners including local employers, and was successful in promoting further uptake of Modern Apprenticeships and, in particular, Foundation Apprenticeships.

Within the region, the College again played an important role in the wider UHI partnership through its programme and module leaderships, and its teaching to support students across the region and beyond. The most recent degree to be launched after development at the college, the BSc (Hons) in Integrative Health again recruited successfully, and also provided Scotland's 'Student of the Year 2018' in the CDN awards announced during the year. Planning continued for the launch of two new degrees developed with UHI partners in Applied Software Development and in Optometry which are now looking to recruit their first students for September 2020 starts.

The Board of Management began the year with a very successful Development Day for both the Board and its senior executives, facilitated by the Rector of the University Foundation. In terms of governance and management, the College continued work to ensure compliance with the Code of Good Governance and in 2018/19 maintained a gender balance within both its non-executive Board members and its senior executive team.

I am delighted to present this report which evidences continuation of the college's transformation here in Moray, alongside the planned three-year financial recovery. The challenges facing the sector, and facing this college in particular, however, should not be underestimated. The college's recent history of significant improvements in student performance, key involvement in the development of new HE provision in the regional university, and leadership on behalf of its community partners of two key projects in the Moray Growth Deal, have all been achieved while delivering three years' of improved financial performance.

The college, however, enters 2019/20 facing around £1.0m of adverse movements in funding and costs that have been largely outwith the college's control, and which now represent a severe challenge both to sustaining this level of performance improvements, and to the college's capacity to drive forward future developments.

Signed by

David Patterson
Principal and Chief Executive

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STRATEGIC PLANNING: PURPOSE AND ACTIVITIES

The College's Strategic Plan 2016-2021 articulates the following:

Mission Statement

The purpose of the College is:

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

Vision Statement

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

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

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

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

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

Values Statement

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

- collaboration
- openness
- respect
- excellence

These statements are further articulated in five Strategic Aims, with accompanying Strategic Objectives, which are driving the activities of the College over the rest of the period of this Strategic Plan to 2021.

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

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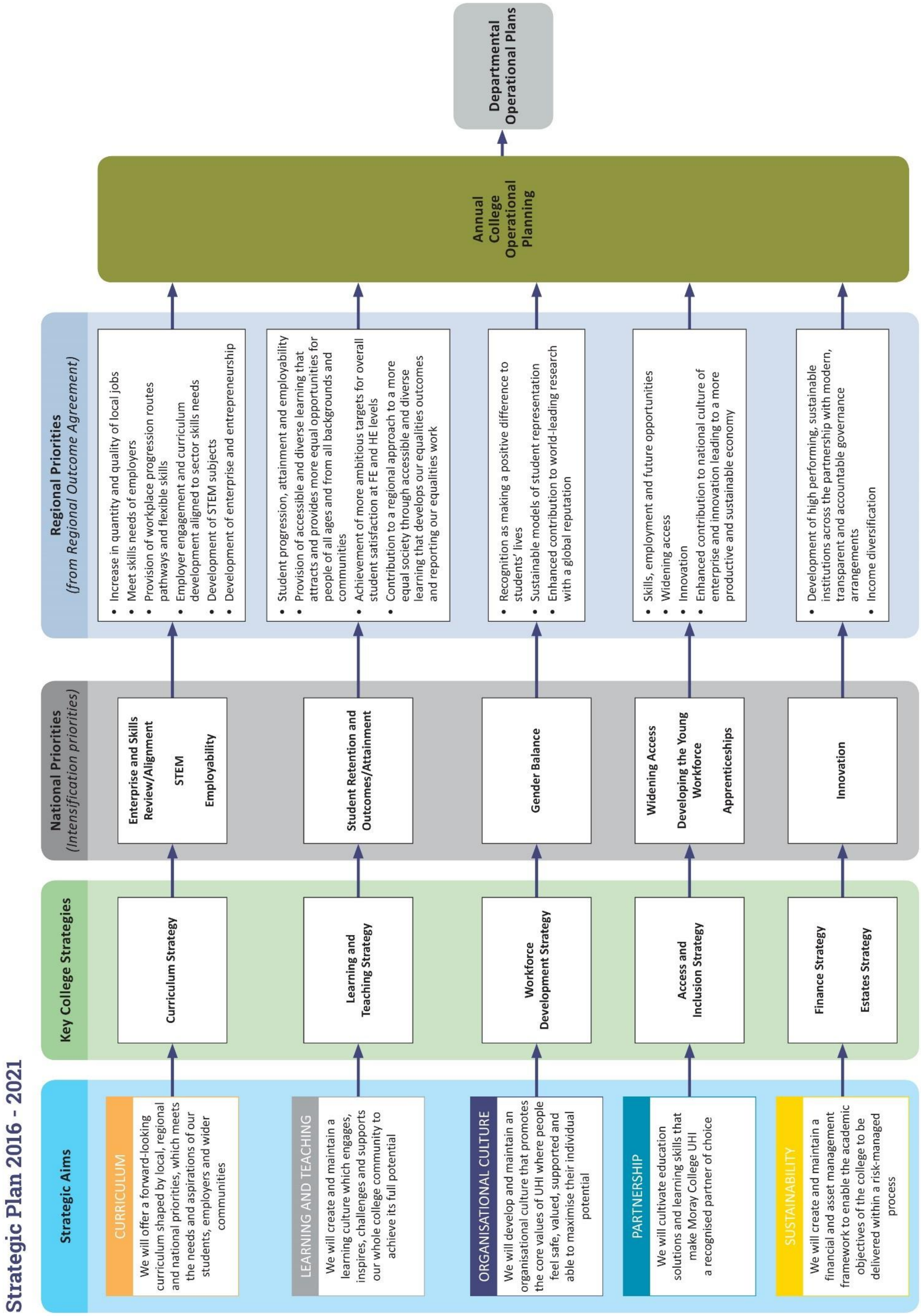

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Implementation of the Strategic Plan

The College's Operational Plan for 2018/19 focused on key actions within each of the five strategic areas. It had at its core the Enhancement Plan agreed with Education Scotland and derived from its Evaluative Review (College self-evaluation) under the new quality arrangements. To this were added actions relating to its Higher Education provision, and enabling actions relating to the development of its organisational culture, partnership work, and financial sustainability. The Operational Plan for this year therefore prioritised and focussed on:

- Curriculum: *mapping and gap analysis to ensure that the curriculum offer is responsive to local needs; review and further development of the Senior Phase school offer; audit and implementation of the college's FE Course Design Principles; HE development plans*

- Learning and Teaching: *introduction of a systematic and supportive process for evaluation of learning and teaching; attainment and progress monitoring focussing on 'at risk' courses; development of a learning and teaching 'scholarship' culture; delivery of further teaching staff professional development opportunities*

- Organisational Culture*: approval and planned implementation of a new Workforce Planning and Development Strategy; regional actions to review the Staff Review process; implementation of national bargaining agreements and deadlines; identifying and embedding positive behaviours supporting the core values*

- Partnership: *progression of Moray Growth Deal proposals; support of regional actions for improved access to timely data; progression of key actions within the Moray Skills Investment Plan; support of progress towards the UHI FE Single Policy Environment*

- Sustainability: *continued implementation of the Financial Recovery Plan; further development of commercial income sources; planning and delivery of £1.3m-worth of 'backlog maintenance' works; review of Health and Safety policy and processes with implementation of agreed actions*

KEY ISSUES AND RISKS

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

i. *Financial Planning Risks:* The College has now successfully delivered its three-year FRP delivering an underlying operating surplus in each year. There remain however, unfunded upward pressures on pay and other costs, particularly those relating to employer contributions to teachers' pensions and nationally agreed cost-of-living increases. There also remains lack of clarity over long-term funding to meet national bargaining costs. The college has challenged Colleges Scotland calculations that have resulted in a small clawback of funding from the college, whereas in reality those costs have increased. Anomalies in how the region is distributing monies to support harmonisation costs are also believed to be disproportionately disadvantaging this college. Without resolution or any external mitigation of these issues, the college can only plan to deliver a balanced budget over the next few years by engaging in a further set of very robust cost reduction actions.

ii. *Campus estate not fit for purpose:* The national Conditions Survey for Colleges in Scotland, run by the SFC in 2017, identified high priority maintenance backlog issues for the College to ensure that its buildings are waterproof and wind-tight. (No allowance was made within these costs to create either a DDA-compliant building nor a 21st Century learning environment). After the first year's payment for work of £1.3m there remains c.£12m of SFC's estimated backlog maintenance costs to meet over the next 4 years, for which only £270k funding has been

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allocated in 2019/20. As mitigation for this, the college continues to facilitate short term changes in timetabling etc. to offset the impact on students with, for example, physical disabilities, but short of national changes in capital funding or new models for capital investment, there is little of significance that the college can do to resolve fundamental issues with the estate.

iii. *Brexit and its impact on public finances:* This risk is one held in common with the rest of the University and College sectors, including risks to both capital and revenue funding for developments, and risks such as the reduction of EU student enrolments in future years. The college has secured European funding (though ESIF) for its current curriculum projects and has secured in principle continuation of collaboration with the majority of its ERASMUS partners in Europe. The college continues to be part of the group receiving regular SFC updates on this issue.

iv. *Failure to seize the financial, reputational and developmental benefits offered by the Moray Growth Deal:* The Growth Deal provides the opportunity to create a step-change in how the college can support aerospace and advanced technology developments in Moray, scale-up for micro-businesses across Moray and the wider region, and also contribute to the cultural quarter developments planned for Elgin. These once-in-a-generation opportunities also present financial, reputation and developmental risks should these projects not be adequately planned, resourced and delivered. The college has appointed a Project Manager to oversee its proposed Growth Deal projects. It has convened working groups involving both external and internal (UHI) partners to drive successfully its projects to completion of Outline Business Case documentation***.*** Regular updates are given to its Board members.

PERFORMANCE ANALYSIS

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

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

As part of its continuing work during the year to ensure compliance with the Code of Good Governance, the Board oversaw the development of a KPI Dashboard against which to assess performance on key indicators linked the College’s five Strategic Aims. Performance indicators monitored and reported throughout the year included the three key in-year measures used by Audit Scotland in their annual report on Colleges in Scotland, namely: student retention, attainment, and satisfaction.

Student recruitment

In 2018/19, the College delivered a total of 19,146 credits (2017/18 18,978), against a target of 18,807 credits across its FE provision funded by SFC grant. A lower than forecast recruitment of full time FE learners led to the College withdrawing from ESIF funded activity and the ESIF credits (190) and associated student support funds were re-distributed to other Highlands and Islands region partners.

The Highlands and Islands region has, overall, exceeded delivery targets by c1.7% with partners finding activity targets more challenging to achieve compared to previous sessions.

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Moray College delivered a total full-time equivalent (FTE) HE students of 937.0 (2017/18 had 931.8 FTEs). This generated grant-in-aid income from UHI of £2,706k (2017/18 £2,697k), and represents a further increase on the previous record level of HE recruitment achieved in session 2017/18.

Student retention

The College's recruitment, pre-start and induction processes have in recent years contributed to a strong early retention of students above the Scotland average. In 2018/19 Early Retention was 98.9% (201/18 95%).

The College's overall student retention figure in 2018/19 was 78% (2017/18 75.5%) which is the highest recorded for the college and is two percentage points above the Scotland average.

Student attainment

Through its agreed Evaluative Review and Enhancement Plan validated by Education Scotland, the College put in place actions in 2017/18 to address the previous year's dip in full-time FE attainment. This resulted in not only the full recovery of that previous decrease, but also a final figure for full-time student attainment that was the best that the College has achieved this decade.

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

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

The College makes use of students' attendance and progress data in year to monitor all FE courses. Course Review is used to support those courses with low attainment (under 50%). Using MORAGAA (Moray Red, Amber, Green, Attendance and Attainment) tracking and reviews, to monitor progress and ensure proactive intervention in-year has seen an increase in retention.

A range of information on student feedback, retention, attendance and attainment is accessed and used by all course teams in the evaluation of their provision within year as well as at the end of the year, and informs any changes to course design, delivery, and scheduling.

Other performance measures

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

At the start of the year, the Master Chefs of Britain Charity dinner, saw students and staff working alongside world-class chefs to raise £6,000 for charity. Later in the year, Lorna McNee a past Hospitality student competed for the second time on the Great British Menu to be crowned the winner for her 'Lime and Sunshine, There's Enough For Everyone' dessert.

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A Plumbing apprentice won the regional heat in Scotland, to progress to compete in the finals of the Worldskills UK event at the N.E.C in Birmingham. Additionally, a female Electrical Installation student participated in the Worldskills 'Women in Construction and Engineering' programme designed to address the industry's gender imbalance. Later in the year, an Electrical Installation apprentice won the regional heat and then the Scottish heat of EMAC (Electro Technical Modern Apprentice Competition) and now goes forward to the UK finals in November.

A HNC Horticulture student, won Silver Gilt for her garden display at the Gardening Scotland Competition. With the help of a SCQF Level 6 Horticulture student they created a fantastic display.

College Development Network (CDN) Student of the Year was awarded to Teresa Elliott, a 4th year BSc (Hons) Integrative Health student. The award recognised an individual student who has made a significant investment of talent and time which has a positive impact on others within the college and/or in their community. The Federation of Holistic Therapists also nominated Teresa as a Student of the Year finalist and she has been recognised by the UHI Exam Board for achieving an 'A' in all her modules at Level 9 and 10.

A Light Vehicle Maintenance and Repair student received an award for best researched business idea in the UHI Business Competition. Her concept was to offer a mobile mechanics service which would include providing advice classes to empower car users to deal with garages and their own vehicles.

Built environment students have been busy designing and constructing picnic benches for Chivas Brothers to use at one of their distilleries using wood supplied by the company. This was an excellent project for the students, giving them a valuable opportunity to show their skills and abilities.

Staff from Moray College UHI, Moray Council, DYW Moray, RAF and local employers also collaborated to deliver:

- A STEM Celebration week for school pupils from Primary 2 to Secondary 2. Activities included practical STEM workshops led by students studying Science, Computing, Engineering and PGDE Primary and Secondary Teaching; a 'Build a Bloodhound' competition and the regional heat of the 'Primary Engineer' competition.

- Sector Skills Days. Students, staff and employers delivered skills workshops and talks to S3 pupils, showcasing a range of career options aligned to the Moray Skills Pathway.

- Bloodhound Training to increase the number of 'Rocketeers' able to deliver Bloodhound activities.

Skills for Choice students have embarked on a two year project to transform amenities in Elgin's Cooper Park. Their work this year has involved renovating the Cricket Pavilion, Boat Shed and cleaning out the pond as well as fund raising, designing and starting the construction of an adventure golf course.

Moray's first Blue Light Festival was organised by 3rd year BA (Hons) Event Management students. This fantastic event attracted over 300 people to the college to enjoy family friendly stalls including Fire Scotland, Scottish Ambulance, Police Scotland, Morayvia, HM Coastguard, Scottish Fire and Rescue Service Heritage Trust & 2622 Sqn.

The Hospitality and Tourism Academy team were finalists for the RAF Benevolent Fund 'Outstanding Support from an Organisation' award for their continued fundraising efforts. Raising over £6,400 the staff and students have held a number of fundraising events.

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Student satisfaction

The College's annual Learner Survey for 2018/19, incorporating the SFC Student Satisfaction and Engagement Survey saw overall satisfaction for FE at 92.6%. This included a 62% response rate from FE full-time students. There has been a significant increase in agreement that the College's Student Association (HISA) influences change for the better, from 56% in 2017/18 to 81% in 2018/19. Students reported positively (over 90%) across a range of aspects, including in relation to their time at college developing their skills and knowledge for the workplace, access to and quality of resources, and being on the right course.

Curriculum developments

A curriculum strategy has been developed and a review of the curriculum portfolio has been initiated in line with the Moray Skills Investment Plan (SIP) actions. Course programmes have been mapped against the priority sectors in the curriculum strategy and a gap analysis was undertaken to ensure curriculum planning is responsive to workforce and skills planning needs.

The curriculum strategy also provides guidance for staff to ensure the FE learner experience is work relevant, contextualised, appropriate and engaging. All FE FT frameworks have been reviewed and all FE FT programmes have completed an FE Curriculum Design Principles audit to identify improvement themes which focus on developing the skills, knowledge and attitudes needed to progress to gainful employment or further study.

This session, significant change occurred in a number of subject areas. FE Art introduced programmes awarded by the University of the Arts, London (UAL); provision at SCQF Level 5 in Childcare and Early Education and in Health and Social Care were combined, streamlined and modified to provide a range of pathway options leading to different careers in Child, Health and Social Care; the introduction of Foundation Apprenticeships in Creative and Digital Media and Modern Apprenticeships in Engineering continued the expansion of apprenticeship opportunities.

Other new curriculum programmes included:

- Rural Skills (Senior Phase programme)
- Skills for Work: Laboratory Science (Senior Phase programme)
- Introduction to Engineering SCQF level 4
- C&G Diploma (Level 3) in Light Vehicle Maintenance SCQF Level 6
- HNC Horticulture
- HNC Beauty Therapy
- Year 4 BSc (Hons) Integrative Healthcare.

The Curriculum Strategy has been a key driver to initiate change. Consequently, curriculum review activities have led to the approval of a high volume of course modifications and new courses which will be introduced in the next academic session.

The range of established or bespoke training delivered via the Flexible Workforce Development Fund has continued to grow and diversify. Not only has the demand increased for training to develop leadership and management skills, there has also been a demand to deliver specific qualifications such as the SVQ Healthcare Support (Clinical) and to develop new UHI CPD awards in Leadership and Management.

Other significant curriculum development work includes:

- The adoption of the UHI Customer Relationship Management (CRM) System which will ensure GDPR compliance and assist with tracking, managing and monitoring employer interactions

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across the UHI partnership. By the end of June 70% of FE and HE courses were active and the remaining courses will be added by the end of August.

- Agreement of a Memorandum of Understanding with IBM to develop a working relationship to enhance the development and delivery of the new degree in Applied Software Development.

- Staff from the Computing and Digital Media department leading a UHI research project "*Adapting our curriculum to reflect the impact of digital technologies*". The project involves horizon scanning to identify new and emerging technologies likely to impact on the employment of our graduates in the next 5-10 years.

- Erasmus activity which saw fifteen members of Moray staff participate in teaching and training mobilities to partner universities in Spain, Romania, Finland, France, Poland and Bulgaria. Incoming mobility saw Moray welcome fourteen staff from Hungary, Poland, Romania, Finland, Slovakia and Spain and fifteen students from Germany, Czech Republic, Hungary, Finland, France and Romania studying in Business, Social Sciences, Engineering and for the first time, Horticulture.

Education Scotland Review

Education Scotland formally endorsed the Moray College UHI EREP for AY 2017/18 and implementation and review of the updated Enhancement Plan has been carried out to support improvements across the provision, particularly in relation to the implementation of Learning and Teaching Review. This process formally engages teaching staff to reflect on their professional practice and takes a coaching approach in using professional dialogue to inform actions and enhancements to teaching practice. Implementation has been positive, with all staff who have engaged in review agreeing that Learning and Teaching Review promotes and supports a culture of quality improvement and is supportive and developmental for practitioners.

A UHI partnership approach to Essential Skills Policy development has also been undertaken, with a policy approved to be implemented in 2019/20.

Evaluation activity has been ongoing from October 2018 with all curriculum areas and support teams engaging in support and curriculum committee meetings. These have been carried out in accordance with the national improvement project outcomes, and have enabled both staff, students and stakeholders to be more actively involved in evaluation and enhancement planning activity.

FINANCIAL POSITION

Financial results

The College's strategic financial aims have been to:

- Maintain its levels of Further Education (FE) provision, and to grow FE activity where funding opportunities exist.

- Development and growth in Employability Funding and Modern Apprenticeships.

- Generate annual growth in its levels of Higher Education (HE) in line with the strategic aims of the University of the Highlands and Islands (UHI).

- Grow non-funded activity.

Performance Report (continued)

- Engage proactively in regional work to reduce costs and share services. While there has been some progress with regards to College specific initiatives, further benefits remain largely dependent on the development of a shared service mechanism across the UHI partnership.

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

Total income increased in 2018/19 from £12.56m to £13.36m (an increase of c6.3%), this was primarily due to additional funding in respect of National Bargaining (c£550k), one-off VAT rebates (c£120k), and an increase in Nursery income of (c£50k).

Total expenditure increased from £13.02m to £14.04m (up by 7.8%). Key factors affecting this were increases in payroll costs (i.e. funded national bargaining costs and unfunded cost of living) c£860k and a year on year net increase in non-cash pension adjustments of c£160k (this being the FRS102 pension adjustment and the SFC unfunded enhanced early retirees).

HE Recurrent Grant income for 2018/19 was c£8k more than the previous year. This being due to an increase in year on year HE FTE's.

FE Recurrent Grant income for 2018/19 was less than the previous year, the primary factors being a regional reduction in FE funding and the current disputed allocation of FE income the college received from the RSB (Teaching Grant element) of c£70k.

Impact of FRS102 on Local Government Pension Scheme

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

In 2018/19 the College had a deficit before pension remeasurements of £679k (2017/18 deficit £461k). Excluding non-cash items of net depreciation and non-cash pension costs, this was a surplus of £98k (compared to a surplus of £160k in the previous year).

The underlying operating position of the College is illustrated below:

Underlying Operating Position		
	2018/19	**2017/18**
	£'000	**£'000**
Deficit before other gains and losses	**(679)**	**(461)**
Add back:		
- Depreciation (net of deferred capital grant release)*	450	442
- Pension adjustment - Net service cost (FRS102 Staff cost adjustment)	379	520
- Pension adjustment - Net interest costs	53	-
- Pension adjustment - Early retirement provision	(8)	(244)
Deduct:		
- Non-Government capital grants (e.g. ALF capital grant)	-	-
- Exceptional income	-	-
- Revenue Funding allocated to loan repayments and other capital items**	97	97
Underlying Operating Surplus	**98**	**160**

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* 2017/18 re-stated based on calculated SFC net depreciation for Moray College.

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

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

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

Table of Cash Budgets for Priorities Spend		
Revenue	**2018/19**	**2017/18**
	£'000	**£'000**
Student Support	209	209
Pay Award	118	118
Other	-	-
Total Impact on Operating Position	**327**	**327**
Capital		
Loan Repayments	97	97
Provisions pre-1 April 2014	-	-
Total Capital	**97**	**97**
Total Cash Budget for Priorities Spend	**424**	**424**

However, it should be noted that 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.

Liquidity

The operating cash inflow for 2018/19 was £540k (2017/18 operating cash inflow 260k).

The average closing monthly cash balance in 2018/19 was £1,705k (including student support funds) and the year-end balance was £1,172k – which is inclusive of student support funds of c£200k. In 2017/18 the average closing monthly cash balance was £900k (including student support funds), with a year-end balance of £769k (which included student support funds of £485k).

The average cash position for 2018/19 is significantly influenced by the level of Backlog Maintenance funding awarded to the college for 2018/19 (£1.33m) – all of which was committed to be spent prior to the SFC required date of 31 March 2019.

Loan interest payable for the year was £20k (2017/18 loan interest payable £17k).

Creditor payment policy

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

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Agreed funding for 2019/20

For 2019/20, we have been allocated a budget of £8,524k (PY this was £8,933k) through the regional funding board. This includes SFC and UHI grants of £8,100k and net depreciation of £424k.

The above is exclusive of any National Bargaining Funding for 2019/20.

Going Concern

Over the past three years of the college's Financial Recovery Plan significant improvements have been made to get the College into a financially sustainable position, and one where the college's underlying operating position has been well within the its SFC net depreciation.

This was achieved by the new Principal and Board putting in place a three-year Financial Recovery Plan, which from 2016/17 to 2018/19 has delivered the planned impact of an underlying operating surplus in each year. This successful plan was based on reduction and rigorous control of both staffing and non-staff costs, and an increase of income through non-core funding routes.

The college has driven down its non-staff operating expenditure by 25% over the past five years, now having one of the lowest 'opex'-to-turnover ratios in the region, and when compared to similarly sized colleges in Scotland. It has also made significant staffing reductions in the two years prior to 2018/19 which were then partially reversed through income- or funding-generated posts, and through the impact of new lecturers' terms and conditions from national bargaining on staffing numbers required.

In the same five-year period the college has also increased its commercial/non-funded income by 81% and its other income (excluding one-off adjustments) by 36%. Its core funding, however, has remained flat despite an increase in the volume of student delivery. The region reduced elements of the college's FE grant funding by over £0.5m in 2016/17, and its HE funding per full-time equivalent student has declined by 6% in cash terms and by 15% in real terms, when adjusted for inflation.

At 31 July 2019 the College had net assets of £8.6 million. However, despite the previous strong financial recovery, adverse movement of £1.0m in funding and costs at the start of 2019/20 resulted in the college setting a budget for AY2019/20 that was not balanced (i.e. one that would have a deficit of no more than the college's net depreciation level of c£450k).

The key adverse movements (c£1m) include the following:

- Cost of living increases for staff that have been nationally agreed but are unfunded (£340k)
- Additional unfunded costs of changes in staff terms and conditions through national bargaining, exacerbated by HE delivery arrangements in the UHI region (£267k)
- Increases in Employer Pension Contributions for Lecturing staff for which funding has only currently been agreed until March 2020 (£105k)
- Two disputed reductions in National Bargaining funding, one calculated by the SFC from Colleges Scotland figures, and the other by the Region (£95k)
- Removal of transitional funding previously paid by the Region to partially offset reductions of c£500k in funding, previously imposed by the Region (£203k)

Just under half of the above volume of movements are common to all colleges in the sector this year, with the balance being regional or college-specific issues.

The College's current budget for AY 2019/20 is forecasting a deficit of £605k (before any non-cash pension adjustments) resulting in a non-balanced deficit of £254k. The Board of Management has

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sought and received assurance from UHI in its role as the College's Regional Strategic Board (RSB) that, if required, adequate financial support will be provided; in the form of allowing the College to draw down on funding in advance.

Executive level discussions have been held with the UHI Executive Office to explore a sustainability enhancement plan that will bring the College's performance for AY2019/20 back within Scottish Government guidelines.

The college is seeing strong growth in its employer-driven and Foundation Apprenticeship provision at present and is also expecting to be able to grow its HE income in the immediate future through the launch of, and growth of numbers on, new recently approved UHI degrees that it has helped to develop. It is also expecting to significantly grow both its commercial and funded work in Years 3-5 of its FFR, through its leadership of two key projects within the Moray Growth Deal. The medium term future of the Moray College UHI is therefore believed to be one of great opportunities and strong growth. The immediate challenges of funding and unfunded cost increases however need to be addressed by both the college and its funders to ensure that firm foundations can continue to be built to make the planned future happen.

The financial position continues to be challenging for the College, and the financial pressures extend beyond 12 months from the date of approving these financial statements. We have, however, concluded that the College is a public body providing statutory services and as such will remain a going concern as long as this is the case. The financial statements for the College for 2018/19 have therefore been prepared on a going concern basis.

Authorised for issue and approved by order of the members of the Board on 16 December 2019 and signed on its behalf by:

Mr D Patterson
Principal and Chief Executive

Performance Report (continued)

PROFESSIONAL ADVISERS

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

Accountability Report

CORPORATE GOVERNANCE REPORT

Directors' Report

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

In terms of governance and management, there were some changes in respect of Board (and subcommittee) membership during Academic session 2018/19. Two Board members resigned due to work commitments. Both of these Board members were members of the Audit Committee and consequently, this left the Audit Committee with very low membership. In order to avoid the issue of meetings not being quorate, the Board recruited two new Co-opted members to the Audit Committee. They now have received College and UHI Induction and commenced with effect from 1 August 2019. In order to ensure they have a full understanding of the current work of the Board of Management and how it related to Audit, they receive Board papers although they do not sit on the full Board. The Support Staff representative also resigned from the Board with effect from 15 March 2019 and so there was a vacancy which was filled at the start of 2019/20. There were three vacancies for non-executive members on the Board of Management after Year End, and the recruitment process for these has now been successfully completed subject to University Court approval.

As at 31 July 2019, the Board comprised of one male executive director and 12 non-executives (5 male and 7 female).

The above movements have had the net result of a Board which still meets the government recommendations with regards to gender split.

The members who served on the Board of Management during 2018/19 and up to the date of approval of the annual report and financial statements are shown below:

Name	Occupation	Membership	Start Date	End Date
Mr David Patterson	Principal	Finance & General Purposes Chairs Staff Governance	29 February 2016	
Mrs Patricia Eddie	Support Staff Member (Nursery Manager)	Audit Staff Governance Remuneration	5 June 2018	15 March 2019
Mrs Rosemary McCormack	Teaching Staff Member (Head of Curriculum)	Finance & General Purposes Staff Governance Remuneration	19 September 2017	
Mr Joe Bodman	Local Government Officer (Retired) 40 Years' experience of working across the education sector, predominantly	Finance & General Purposes Staff Governance Learning, Teaching and Quality Committee	01 December 2010	

	Secondary and Further Education.	Moray Community Planning Partnership Employers Association		
Mr James Knowles	Retired – Considerable public sector experience, Volunteer and Business mentor	Finance & General Purposes	01 December 2015	
Mr David Dalziel	Strategic Fellow at the Cabinet Office Emergency Planning College with a background at a senior level in the emergency services	Remuneration (Convener) Staff Governance (Convener) Audit Nominations Chairs Joint Consultative/Negotiating	01 July 2016	01 June 2019
Mr Murray Easton (Vice Chair)	Finance Executive and Qualified Accountant with over 30 years' experience in the Oil & Gas industry	Finance & General Purposes (Convener) Chairs Remuneration Nominations	01 July 2016	
Mr Peter Graham (Chair)	Fellow of the Royal Institution of Chartered Surveyors. Runs his own business acting as a land agent for various Moray and Highland estates	Finance & General Purposes Chairs Remuneration Nominations	01 July 2016	
Mrs Joan Johnston (Senior Independent Member)	25 years' experience working internationally in the luxury textile sector, as a board director, university programme leader, online business owner and most recently as a design consultant	Chairs Nominations Remuneration Leaning, Teaching and Quality Committee	01 July 2016	
Dr Jessie McLeman	Experienced manager in the water and telecommunications sectors, with particular experience in dealing with regulatory matters	Audit (Convener) Chairs Remuneration Nominations	01 July 2016	
Mr John Yorston	Principal Designer and Head of QHSSE, Within senior management team for EDP Renewables UK and Moray Offshore Renewables	Audit Learning, Teaching & Quality	01 July 2016	4 March 2019
Miss Caroline Webster	Over 20 years as Chartered Building	Finance & General Purposes	01 August 2017	

	Surveyor. Manages local office department of Building Surveying and Architectural services as part of wider national team			
Mrs Deborah Newton	Audit compliance partner and training principal for firm of Chartered Accountants. As well as being responsible for the audit of the statutory accounts of companies and regulated clients	Audit Finance & General Purposes (In attendance)	01 August 2017	
Mrs Seonaid Mustard	Has wide experience of teaching across the area in various roles in both state and private sectors. Has a particular interest in the importance of life long access to education	Staff Governance Learning, Teaching and Quality	01 August 2017	
Ms Manon Wells-Jesus	HISA Representative	Audit Learning, Teaching and Quality Committee Remuneration	1 August 2018	31 July 2019
Mr Nathan Sanderson	HISA Representative	Finance and General Purposes Learning, Teaching and Quality Committee Remuneration	1 August 2018	

Accountability Report (continued)

A summary of the Board members, and meetings attended during 2018/19 is shown below:

Member	Board	Audit Committee	Finance & General Purposes Committee	Staff Governance Committee	Remuneration Committee	Joint Audit/Finance and General Purposes Committee
Mr D Patterson	5/5	n/a	4/4	3/3	n/a	1/1
Mr P Graham	5/5	n/a	4/4	n/a	1/1	1/1
Mr M Easton	5/5	n/a	4/4	n/a	1/1	1/1
Mr J Bodman	5/5	n/a	4/4	1/3	n/a	1/1
Mr J Knowles	4/5	n/a	4/4	n/a	n/a	1/1
Mr D Dalziel	4/4	0/1	n/a	1/2	1/1	0/1
Mrs J Johnston	4/5	n/a	n/a	n/a	1/1	n/a
Dr J McLeman	5/5	3/3	n/a	n/a	1/1	1/1
Mr J Yorston	2/3	1/2	n/a	n/a	n/a	1/1
Mrs D Newton	4/5	3/3	n/a	n/a	n/a	1/1
Mrs S Mustard	5/5	n/a	n/a	3/3	n/a	n/a
Mrs R McCormack	5/5	n/a	4/4	3/3	1/1	1/1
Mrs C Webster	5/5	n/a	4/4	n/a	n/a	1/1
Mrs P Eddie	3/3	2/2	n/a	2/2	n/a	1/1
Mr N Sanderson	5/5	n/a	2/4	n/a	0/1	0/1
Ms M Jesus Wells	3/5	2/3	n/a	n/a	0/1	0/1

The above is reflective of the various committee memberships throughout 2018/19 (i.e. attendance is noted against meetings members could have attended based on their membership at the time).

Statement of Board of Management's Responsibilities

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

In preparing the financial statements, the Board is required to comply with the requirements of United Kingdom Generally Accepted Accounting Practice as adapted for the higher and further education sector by the 2015 Statement of Recommended Practice (the SORP) and the Government Financial Reporting Manual (FReM) and in particular to:

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

Accountability Report (continued)

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

- prepare the financial statements on a going concern basis.

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

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

Accountability Report (continued)

Governance statement

Introduction

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

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

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

As a result of conclusions and recommendations from the Annual Board and Committee review in 2017/18, a Board Development day was held in August 2018 which Board members and members of the Strategic Leadership Team (SLT) attended. During this event both the Board members and members of the SLT were encouraged to have open and frank discussions on how to improve issues raised in the effectiveness review going forward. The result was that a number of actions were agreed and followed up on and this has resulted in much better communications and relationships during the current session.

One of the key recommendations was that Curriculum areas have a 'Link' Board member attached to them who would be invited to key meetings and events held by the curriculum teams with the aim of gaining a better understanding of the College's core business of learning and teaching rather than simply the financial and audit/governance matters that necessarily concern a Board of Management.

A further recommendation was that the Clerk to the Board attend monthly meetings of the Strategic Leadership Team with the objective of further improving communications and clarifying expectations of the Board to the SLT. This development has worked well with actions arising from Board and Committee meetings being acted upon in a far more timely manner.

The Board recently undertook a third annual review of Board and Committee Effectiveness (including evaluation of the Board, Committee Chairs and evaluation of the Clerk).

As part of this review, individual one-to-one development meetings took place between every Board member and the Chair and Vice Chair. Discussions including any recommendations for CPD and training was recorded and followed up.

The third annual effectiveness review of the Board and Committee has just been completed and the analysis signifies a marked improvement in all areas and indicates that the issues raised during the previous effectiveness review have all been addressed satisfactorily and that the Board and the executive have been working very effectively together over the past year. Work continues to progress on a remaining issue, raised by our external auditors, in relation to the risk associated with the Audit Committee assuming a management role as a result of the level of scrutiny and challenge applied that can verge into operational matters.

The Board held a further annual development event in August 2019 with the SLT and the same facilitator, the focus of the development event being on consolidation and improvement as a College.

Accountability Report (continued)

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

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

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

Governing Body

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

The Staff Governance Committee's terms of reference include the Staff Governance Standards as determined by Colleges Scotland and the STUC. This committee met 3 times during the year to consider various strategic staffing issues including developing a set of core values for staff linked to the College strategic plan. Work on this is now at an advanced stage and has included holding a Staff Survey and the results of this are currently under consideration by the Board and will be followed up during session 2019-20 by this Committee.

The F&GP was convened 3 times during the year. Its purpose is to ensure a sound system of internal financial management and control, monitoring performance of that system on a regular basis throughout the accounting period. It recommends to the Board the College's annual revenue and capital budgets, and monitors performance in relation to the approved budgets. It also approves and recommends the Annual Report and Financial Statements to the Board. The Director of Finance attends the F&GP Committee but not as a member.

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

The Remuneration Committee met once during the session 2018/19 to consider the salaries of the Principal and the Strategic Leadership Team.

At the start of the current academic session a decision was made for the Learning, Teaching and Quality Committee to become a standing Committee of the Board. This Committee previously existed as one of the College's operational Committees although a member of the Board of Management was in attendance. This Committee now includes 4 non-executive Board members and both HISA representatives, the Principal and the Teaching staff representative included in its membership. The Committee met 3 times during the academic session and considered all aspects of learning and

Accountability Report (continued)

teaching, including teacher education, research, quality enhancement including the annual evaluative report and enhancement plan and the Annual Student Satisfaction and Engagement Report.

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

Statement of Compliance

The College complies with the principles of the 2016 Code of Good Governance for Scottish Colleges ("the Code") with the following three exceptions, comprising two issues:

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

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

Towards the end of session 2018/19 when constructing the College's budget for 2019-20, it became apparent that, due to factors largely outwith its control, mainly in relation to implementing national bargaining, the College was facing a significant deficit and that it would be unable to submit a budget that was within Ministerial guidance of £450K deficit. The College made its RSB aware of the situation. Upon submission of its FFR the Board took a decision to write to the Auditor General alerting her to this fact that a budget to the RSB and SFC had been submitted that was not yet compliant with the above guidelines. Since then the College has worked with officers of its RSB to bring the budget back within the ministerial guidelines and this is ongoing at the time of writing.

D21 – Board Member appointment, induction and Training - The board must ensure that new committee members receive a committee induction and have their specific training needs assessed and met. Explanation follows:

Towards the end of Session 2018-19, two new co-opted members were appointed to the audit Committee. The start of their appointment was August 2019. Also, the newly appointed HISA Rep joined the Audit Committee at the same time. These members were given a College and UHI Induction in May 2019 and were also advised that they needed to complete the College Development Network online governance training and in particular the Audit Module. That work was still outstanding at the time the compliance with the Code of Good Governance was being assessed, but has now been completed.

The Principal's Strategic Leadership Team considers issues of performance, internal control and risk and advises the Principal on strategy, operational planning and control, and any issues relevant to the running of the College. Members of the Strategic Leadership Team during session 2018/19 are shown below:

<u>1 August 2018 – 31 July 2019</u>

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

Accountability Report (continued)

Risk management and internal control

The Audit Committee membership during the 2018/19 session comprised Board members with external and internal auditors in attendance as appropriate. The committee provides assurance to the Board on governance, internal control and risk management, as well as financial reporting issues. It considers detailed reports on internal controls, including recommendations for improvement along with management responses and implementation plans. It may also consider reports from the Scottish Funding Council and Audit Scotland, and it monitors adherence to regulatory requirements.

The Annual Internal Audit Report for 2018/19 submitted by the College's internal auditor concluded that, with the exception of the three actions still required from the Health and Safety audit, the College has adequate and effective arrangements for risk management, control and governance.

An audit register is used by senior management to periodically review and progress all outstanding recommendations and that is also reviewed by the committee. During session 2017/18 a large number of outstanding actions were cleared and this was commended in the Internal Auditor's Annual Report. During the current session (2018/19) the executive worked hard to maintain this progress and to ensure all recommended audit actions were completed in a timely fashion. At the time of writing 3 audit actions remain overdue, two of which relate to the internal audit on health and safety. The Audit Committee has agreed to extend the deadline for completion of these to 31/01/2020. A third audit action related to risk management remains overdue but this is due to an UHI wide IT issue which is currently being considered.

The internal audit activity in 2018/19 included the following areas:

- Payroll
- Quality Assurance and Improvement
- Health and Safety
- Procurement

The Internal Audit for Payroll resulted in an overall level of Assurance of Good with no significant weaknesses and no recommendations for improvement noted.

The Internal Audit on Quality Assurance and Improvement resulted in an overall level of assurance of Satisfactory, with one Objective being Satisfactory with no significant issues. Objective 2 resulted in Good with no significant issues.

The Internal Audit on Health and Safety resulted in an overall level of assurance of Requires Improvement with 2 Level 2 and 1 Level 3 Actions required. The 'Overall Grading' of 'Requires Improvement' reflects that although significant improvements have been made to date in implementing and updating H&S related policies and procedures there is still further work to be progressed in this area.

The Internal Audit on Procurement resulted in an overall level of assurance of Satisfactory with 4 level 3 Recommended Actions for improvement. Actions related to a Procurement Report being provided to SLT annually and Procurement Training to be delivered to all staff.

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

Accountability Report (continued)

The annual follow-up review by the Internal Auditor confirmed that the College had made excellent progress in addressing outstanding actions from previous years, with all matters now formally agreed as being completed/closed-off with the internal auditors.

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

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

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

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

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

Details of any significant lapses of data security

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

Conclusion

The Board of Management has no matters to report in respect of failures in the expected standards of good governance, risk management and control for the period ending 31 July 2019, other than the continuing work to secure a balanced budget position within its current budget and FFR .

Authorised for issue and approved by order of the members of the Board on 16 December 2019 and signed on its behalf by:

Mr P Graham Chair	Mr D Patterson Principal and Chief Executive

Accountability Report (continued)

Remuneration and staff report

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

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

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

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

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

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

Remuneration including salary and pension entitlements

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

			12 months ended 31 July 2019		
Name	**Post**	**Salary £'000**	**Pension Benefit £'000[1]**	**Total £'000**	**Full Time Annual Equivalent £'000**
David Patterson	Principal and Chief Executive	95-100	30-35	130-135	135-140
Derek Duncan	Director	55-60	20-25	80-85	80-85
Chris Newlands	Director	45-50	35-40	80-85	95-100
Nikki Yoxall*	Director	55-60	150-155	210-215	210-215
Carolyn Thomson	Director	55-60	30-35	90-95	95-100
Nicholas Clinton**	Director	60-65	0-5	70-75	60-65

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

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

Accountability Report (continued)

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

			12 months ended 31 July 2018		
Name	**Post**	**Salary £'000**	**Pension Benefit £'000[2]**	**Total £'000**	**Full Time Annual Equivalent £'000**
David Patterson	Principal and Chief Executive	95-100	30-35	125-130	125-130
Anne Lindsay*	Assistant Principal	55-60	5-10	60-65	60-65
Tom McGarry*	Assistant Principal	45-50	0-5	50-55	55-60
Derek Duncan	Director	30-35	10-15	65-70	65-70
Chris Newlands	Director	55-60	40-45	95-100	95-100
Carolyn Thomson	Director	55-60	5-10	60-70	60-70
Nicholas Clinton	Director	55-60	5-10	60-70	60-70

*The Assistant Principals left the college in September 2017

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

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

Notes:

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

Fair pay disclosure

Based on the 12 month figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2018/19 was in the range £100k-£105k (2017/18 £95k-£100k). This was 3.65 times (2017/18 4.02 times) the median remuneration of the workforce which was in the range £25k-£30k (2017/18 - £20k-£25k).

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

Accountability Report (continued)

Senior Officials Pension

Pension benefits are provided to senior officials on the same basis as all other staff. The accrued pension benefits for senior officials are set out in the table below, together with the pension contributions made by the College. Special responsibility allowances have been excluded from pension benefit calculations.

Name	Accrued pension at pension age at 31 July 2019	Accrued pension at pension age at 31 July 2018	Real increase in pension 1 August 2018 – 31 July 2019	Real increase in lump sum 1 August 2018 – 31 July 2019	CETV at 31 July 2019	CETV at 31 July 2018	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
David Patterson	5-10	0-5	0-5	0-5	91	57	34
Derek Duncan	10-15	10-15	0-5	0-5	230	182	48
Chris Newlands	25-30	20-25	0-5	5-10	654	577	77
Nicola Yoxall	5-10	0-5	5-10	0-5	71	5	66
Carolyn Thomson	20-25	15-20	0-5	0-5	287	248	39
Nicholas Clinton*	0-5	5-10	0-5	0-5	0	8	0

* Nicholas Clinton formally transferred to Moray College during the year (previously being seconded from UHI) during the year to 31 July 2019.

Cash equivalent Transfer Value (CETV)

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

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

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

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

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

Accountability Report (continued)

Real increase in CETV

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

STAFF REPORT

Number of senior staff by band

Salary band in £'000	2019	2018
0-5	-	-
5-10	-	-
10-15	1	-
15-20	-	-
20-25	-	-
25-30	-	-
30-35	-	1
35-40	-	-
40-45	-	2
45-50	1	1
50-55	-	-
55-60	3	3
60-65	-	-
65-70	-	-
70-75	-	-
75-80	-	-
80-85	-	-
85-90	-	-
90-95	-	-
95-100	1	1
TOTAL	6	8

Staff numbers and costs

	2019	2019	2019	2018
	Directly employed staff £'000	Seconded and agency staff £'000	Total £'000	Total £'000
Wages and salaries*	7,895	63	7,958	7,352
Social security costs	710	-	710	378
Other pension costs	1,861	-	1,861	1,244
Total	10,466	63	10,529	8,974
Staff Numbers (FTE)	246	0.8	246.8	230

*2018 costs include Voluntary Severance Scheme ("VSS") payments of £90k.

The seconded staff noted above relates to the Director of Finance, who was seconded to the College from its RSB until 31 May 2019 when the position was transferred fully over to the College.

Accountability Report (continued)

Staff comparison

On 31 July 2019 there were 308 contracted staff, 218 females and 90 males as at 31 July 2019 (2017/18 207 females, 88 males).

Sickness absence data

The average sickness absence data rate over the period 1 August 2018 to 31 July 2019 was 2.74% (2017/18 2.67%).

Facility time

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, the College provided the following support through paid facility time for union officials working at the College during the year ended 31 July 2019.

Relevant Union Officials

Number of employees who were relevant union officials during the relevant period	Full time equivalent employee number
3	2.82

Percentage of time spent on facility time

Percentage of time	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	£14,359
Total pay bill	£9,434,487
Percentage of the total pay bill spent on facility time	0.15%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours	1.13%

Staff Policies

Moray College UHI have retained membership of the Disability Confident Scheme which aims to help employers employ and retain disabled people and those with health conditions.

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

- Actively looking to attract and recruit disabled people.
- Providing a fully inclusive and accessible recruitment process.
- Offering an interview to disabled people who meet the minimum criteria for the job.
- Flexibility when assessing people so disabled job applicants have the best opportunity to demonstrate that they can do the job.

Accountability Report (continued)

- Proactively offering and making reasonable adjustments as required.
- Encouraging our suppliers and partner firms to be Disability Confident.
- Ensuring employees have appropriate disability equality awareness.

Expenditure on Consultancy

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

Off-payroll engagements

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

Compensation for loss of office

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

Parliamentary Accountability Report

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

Other Employee Matters

During the reporting period there was significant industrial action with a number of strike days and action short of strike being undertaken by members of EIS/FELA. This was in furtherance of a national pay dispute which has now been settled with an agreed pay award and a National Working Practices Agreement. A national Job Evaluation exercise for support staff roles relevant to the National RPA has also commenced and is likely to be continue into the next reporting period and beyond.

Mr P Graham
Chair

Mr D Patterson
Principal and Chief Executive

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

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Moray College for the year ended 31 July 2019 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the College Statement of Comprehensive Income and Expenditure, College Statement of Changes in Reserves, College Balance Sheet, and the Statement of Cash Flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college as at 31 July 2019 and of the deficit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

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

Conclusions relating to going concern

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

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

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

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

Responsibilities of the Board of Management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual report and accounts

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

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have

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

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on other matters prescribed by the Auditor General for Scotland

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

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

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

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

Matters on which we are required to report by exception

We are required by the 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.

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

Use of our report

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

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

Date:

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

Statement of Principal Accounting Policies

Basis of preparation

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

Basis of accounting

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

Basis of consolidation

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

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

Going Concern

The accounts are prepared on the going concern basis, which provides that the entity will continue in operational existence for the foreseeable future. The grounds for which are outlined on page 16 of these financial statements.

Changes in Accounting Policies

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

Recognition of income

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

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

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

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

Statement of Principal Accounting Policies (continued)

Grant Funding

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

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

Donations and endowments

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

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

Capital Grants

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

Retirement benefits

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

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

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

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

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

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

Statement of Principal Accounting Policies (continued)

asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Scottish Public Pensions Agency (SPPA)/ Defined Contribution Scheme

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

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

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

Unfunded pension provision

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

Employment benefits

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

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

Foreign currency translation

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

Fixed Assets

Recognition

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

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

Statement of Principal Accounting Policies (continued)

Measurement

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

All assets are measured subsequently at fair value as follows:

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

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

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

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

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

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

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

Subsequent expenditure

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

Revaluations and Impairment

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

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

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

Statement of Principal Accounting Policies (continued)

Depreciation

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

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

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

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

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

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

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

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

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

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

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

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

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

Intangible Assets

Recognition

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

Statement of Principal Accounting Policies (continued)

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

Leased assets

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

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

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

Stocks

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

Taxation

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

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

Provisions

Provisions are recognised in the financial statements when:

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

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

Contingent assets and liabilities

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

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

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

Statement of Principal Accounting Policies (continued)

Agency arrangements

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

Financial instruments

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

Financial assets

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

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

A provision for impairment of loans and receivables is established when there is objective evidence that the College will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loan and receivable is impaired.

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

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

Financial Liabilities

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

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

Key sources of judgement and estimation uncertainty

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

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

Statement of Principal Accounting Policies (continued)

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

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

Revaluation reserve

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

Statement of Comprehensive Income and Expenditure for the year ended 31 July 2019

	Note	31 July 2019 £'000	31 July 2018 £'000
Income			
Funding body grants	1	8,823	8,940
Tuition fees and education contracts	2	2,274	2,249
Research grants and contracts	3	516	335
Other income	4	1,752	1,037
Total Income		**13,365**	**12,561**
Expenditure			
Staff costs	5/6	10,467	9,412
Other operating expenses	7	2,789	2,837
Depreciation	11	768	756
Interest payable	8	20	17
Total Expenditure		**14,044**	**13,022**
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before tax		(679)	(461)
Loss on disposal of assets	11	-	-
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		(679)	(461)
Taxation	9	-	-
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax	10	(679)	(461)
Remeasurement of pension scheme assets and liabilities	25	(3,490)	5,738
Unrealised surplus on revaluation of land and buildings	11	1,019	-
Total comprehensive income and expenditure for the year		**(3,150)**	**5,277**

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

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

Statement of Changes in Reserves
for the year ended 31 July 2019

	General Reserve 31 July 2019 £'000 (Note 19)	Revaluation Reserve 31 July 2019 £'000 (Note 18)	Total 31 July 2019 £'000
Balance at 1 August 2017	**(7,185)**	**13,709**	**6,524**
Deficit from the income and expenditure account	(461)	-	(461)
Other comprehensive income	5,738	-	5,738
Transfers between revaluation and income and expenditure reserve	478	(478)	- -
Balance at 1 August 2018	**(1,430)**	**13,231**	**11,801**
Deficit from the income and expenditure account	(679)	-	(679)
Other comprehensive income	(3,490)	1,019	(2,471)
Transfers between revaluation and income and expenditure reserve	426	(426)	-
Balance at 31 July 2019	**(5,173)**	**13,824**	**8,651**

Statement of Financial Position
as at 31 July 2019

	Notes	as at 31 July 2019 £'000	as at 31 July 2018 £'000
Non-current assets			
Fixed assets	11	25,413	24,894
		25,413	**24,894**
Current Assets			
Stock		88	59
Trade and other receivables	12	534	379
Cash and cash equivalents		1,171	769
		1,793	1,207
Creditors: amounts falling due within one year	13	(2,479)	(1,969)
Net current liabilities		**(686)**	**(762)**
Total assets less current liabilities		24,727	24,132
Creditors: amounts falling due after more than one year	14	(7,305)	(7,487)
Provisions	16	(8,771)	(4,844)
TOTAL NET ASSETS		**8,651**	**11,801**
UNRESTRICTED RESERVES			
Revaluation reserve	18	13,824	13,231
General reserve	19	(5,173)	(1,430)
TOTAL RESERVES		**8,651**	**11,801**

The financial statements on pages 39 to 71 were authorised for issue and approved by the Board of Management on 16 December 2019 and were signed on its behalf on that date by:

Mr P Graham
Chair

D Patterson
Principal and Chief Executive

Cash Flow Statement
for the year ended 31 July 2019

	Notes	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Cash inflow from operating activities	20	540	260
Returns on investments and servicing of finance	21	(17)	(12)
Capital expenditure and financial investment	22	(24)	(75)
Financing	23	(97)	(97)
Increase/(decrease) in cash in the year		**402**	**76**

Note to the Cash Flow Statement

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year		402	76
Change in net debt resulting from cash flows	24	97	97
Movement in net funds in year		499	173
Net funds at 1 August 2018		192	19
Net funds at 31 July 2019	24	**691**	**192**

Notes to the Financial Statements

1. Funding body grants

	2018/19 Total £'000	2017/18 Total £'000
SFC recurrent grant (including fee waiver)	5,466	5,575
UHI recurrent grant – HE provision	2,705	2,697
Formula capital funding	116	201
FE childcare funds	250	242
Release of deferred capital grants (SFC)	89	79
Other SFC grants – FE provision	121	41
Other UHI grants – HE provision	76	105
	8,823	**8,940**

2. Tuition fees and education contracts

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
FE fees – UK	474	605
HE fees	1,369	1,358
SDS contracts	318	267
Other contracts	113	19
	2,274	**2,249**

3. Research grants and contracts

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Release of deferred capital grants (UHI)	229	234
European funds	15	(11)
Other grants	272	112
	516	**335**

Notes to the Financial Statements (continued)

4. Other income

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Catering and residences	317	339
Nursery	222	173
Hairdressing and beauty	60	58
Voluntary Severance Funding (SFC)	-	90
Cost Pressure Uplift (SFC)	741	193
ELS Income	17	13
ALF income	55	-
Rent	73	40
Other income	267	131
	1,752	**1,037**

5. Staff numbers and costs

Staff numbers (full-time equivalent):	Year ended 31 July 2019	Year ended 31 July 2018
Academic/Teaching departments	110	100
Academic/Teaching services	33	32
Administration and central services	63	60
Premises	13	13
Other expenditure	19	16
Catering and residences	8	8
	246	**229**
Staff on permanent contracts	207	193
Staff on temporary contracts	39	36
	246	**229**

Notes to the Financial Statements (continued)

Staff costs:	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Academic/Teaching departments	5,401	4,634
Academic/Teaching services	1,031	946
Administration and central services	2,253	2,208
Premises	325	343
Other expenditure	793	476
Catering and residences	219	195
Voluntary severance	-	90
Pension movement	445	520
	10,467	**9,412**
Wages and salaries	7,896	7,180
Social security costs	710	621
Other pension costs	1,861	1,521
Voluntary severance		90
	10,467	**9,412**

Pension provision adjustment

In accordance with SFC guidance the pension provision in respect of unfunded enhanced early retirements has been revalued using the 2018/19 SFC guidance. An interest rate of 0.0% has been used (2017/18 interest rate 0.5%) which resulted in a decrease in provision of £8k (2017/18 decrease of £243k). This adjustment is included in the other expenditure section of staff costs (above) as well as the adjustment made in respect of FRS102.

Included in staff costs under 'other expenditure' are adjustments in respect of the FRS102 pensions adjustments amounting to £445k (2017/18 £520k).

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

	Year ended 31 July 2019		Year ended 31 July 2018	
	Senior post-holders	Other staff	Senior post-holders	Other Staff
£ 60,001 to £ 70,000	-	-	-	-
£ 70,001 to £ 80,000	-	-	-	-
£ 80,001 to £ 90,000	-	-	-	-
£ 90,001 to £100,000	1	-	1	-
	1	**-**	**1**	**-**

Notes to the Financial Statements (continued)

6. Senior post-holders' emoluments

	Year ended 31 July 2019 Number	Year ended 31 July 2018 Number
Senior post-holders including the Principal:	**6**	**7**

Senior post-holders' emoluments including the Principal:	**£'000**	**£'000**
Salaries	335	377
Pension contributions	68	61
	403	**438**

Amounts paid to the Principal:	**£'000**	**£'000**
Salary	99	96
Pension contributions	22	21
	121	**117**

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

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

7. Other operating expenses

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Academic/Teaching departments and services	815	802
Administration and central services	705	788
Agency staff	169	194
Premises	819	748
Other expenditure	94	105
Catering and residences	187	200
	2,789	**2,837**

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

Notes to the Financial Statements (continued)

Other operating expenses include:	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Auditors' remuneration:		
external audit	20	15
internal audit	18	16
Disbursements of childcare funds to students	250	242
Legal services	9	38
Hire of plant and machinery – operating leases	47	62
Hire of other assets - operating leases	15	15

8. Interest payable

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	20	17
	20	**17**

9. Taxation

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

10. Total comprehensive income expenditure of the year

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Total comprehensive income expenditure for the year is made up of the following:		
Deficit for the year	(679)	(461)
Remeasurements of pension scheme assets and liabilities	(3,490)	5,738
	(4,169)	**5,277**

Notes to the Financial Statements (continued)

11. Tangible fixed assets

	Freehold Land and Buildings £'000	Plant & Machinery £'000	Fixtures, Fittings and Equipment £'000	Assets in the Course of Construction £'000	Total £'000
Cost / Valuation					
At 1 August 2018	24,807	2,873	958	36	28,674
Additions	31	64	173	-	268
Completion of construction	-	-	-	-	-
Revaluation	(156)	-	-	-	(156)
Disposals*	-	(32)	-	-	(32)
At 31 July 2019	**24,682**	**2,905**	**1,131**	**36**	**28,754**
Depreciation					
At 1 August 2018	658	2,508	614	-	3,780
Charge for year	597	116	55	-	768
Revaluation	(1,175)	-	-	-	(1,175)
Disposals*	-	(32)	-	-	(32)
At 31 July 2019	**80**	**2,592**	**669**	**-**	**3,341**
Net book value					
At 31 July 2018	**24,149**	**365**	**344**	**36**	**24,894**
Net book value					
At 1 August 2019	**24,602**	**313**	**462**	**36**	**25,413**
Inherited	11,755	-	-	-	11,756
Financed by capital grant	12,488	213	365	-	13,067
Other	359	100	97	36	592
Net book value					
At 31 July 2019	**24,602**	**313**	**462**	**36**	**25,413**

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

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

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

Notes to the Financial Statements (continued)

Had land and buildings not been revalued historically they would have been included at 31 July 2019 as:

	£'000
Cost	13,852
Aggregate depreciation based on cost	(3,074)
Net book value based on cost	10,778

12. Trade and other receivables

	As at 31 July 2019 £'000	As at 31 July 2018 £'000
Trade debtors	253	166
Prepayments and accrued income	66	173
Other debtors	215	40
	534	**379**

13. Creditors: Amounts falling due within one year

	As at 31 July 2019 £'000	As at 31 July 2018 £'000
Loans and overdrafts (secured)	97	85
Payments received in advance	824	159
Trade creditors	59	47
Other creditors	230	171
Other taxation and social security	249	182
Accruals and deferred income	494	515
Amounts owed to the University of the Highlands and Islands	-	-
Bursary and access funding	199	483
Capital grants	327	327
	2,479	**1,969**

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

	As at 31 July 2019 £'000	As at 31 July 2018 £'000
Bank loan (secured)	52	102
Moray Council loan	345	403
Capital grants	6,909	6,982
	7,306	**7,487**

Notes to the Financial Statements (continued)

15. Borrowings

Bank loans and overdrafts	**As at 31 July 2019 £'000**	**As at 31 July 2018 £'000**
The Royal Bank of Scotland loan is repayable as follows:		
In one year or less	50	50
Between one and two years	53	51
Between two and five years	-	51
	103	**152**

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

Moray Council loan

	As at 31 July 2019 £'000	**As at 31 July 2018 £'000**
The Moray Council loan is repayable as follows:		
In one year or less	47	47
Between one and two years	47	47
Between two and five years	141	141
In five years or more	156	203
	391	**438**

The Moray Council loan is secured over College buildings.

16. Provisions for liabilities and charges

	Early retirement pension costs £'000	**Pension costs £'000**	**Other £'000**	**2018/19 Total £'000**	**2017/18 Total £'000**
At 1 August	2,640	2,198	6	4,844	10,305
Expenditure in the year	(159)	-	-	(159)	(159)
Additional provision required in year	159	-	-	159	159
Revaluation adjustment	(8)	3,935	-	3,927	(5,461)
Pension valuation changes	-	-	-	-	-
At 31 July	**2,632**	**6,133**	**6**	**8,771**	**4,844**

Notes to the Financial Statements (continued)

17. Financial Instruments

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

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

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

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

Financial assets and liabilities

	Long term		**Current**	
	31 July 2019	**31 July 2018**	**31 July 2019**	**31 July 2018**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets – loans and receivables				
Trade and other receivables			253	166
Cash and cash equivalents			1,171	769
Total loans and receivables			**1,424**	**935**
Financial liabilities at amortised cost				
Trade and other payables			539	400
Long term borrowing	397	505		
Total financial liabilities at amortised cost	**397**	**505**	**539**	**400**

Notes to the Financial Statements (continued)

Income, expense, gains and losses

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

31 July 2018		31 July 2019		
£'000		£'000	£'000	£'000
		Financial liabilities	Financial assets	
		Liabilities measured at amortised cost	Loans and receivables	Total
(17)	Interest expense	(20)		**(20)**
-	Gains on revaluation	-		**-**
	Losses on revaluation	-	-	-
(17)	**Net gain / (loss) for the year**	**(20)**	**-**	**(20)**

Fair values of assets and liabilities

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

- Estimated interest rates at 31 July 2019 for loans from the bank are 2% and from Moray Council 4.55%
- No early repayment or impairment is recognised
- The fair value of trade and other receivables is taken to be the billed amount

The fair values are as follows:

	31 July 2019		31 July 2018	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Borrowing repayable				
Moray Council	391	430	438	473
Royal Bank of Scotland	103	209	152	210
Total	**494**	**639**	**590**	**683**

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

Notes to the Financial Statements (continued)

Risks associated with financial instruments

Liquidity risk

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

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

	Royal Bank of Scotland		Moray Council		**Total**	
	31 July 2019 £'000	31 July 2018 £'000	31 July 2019 £'000	31 July 2018 £'000	**31 July 2019 £'000**	**31 July 2018 £'000**
Less than one year	50	50	47	47	**97**	**97**
Between 1 and 2 years	53	51	47	47	**100**	**98**
Between 2 and 5 years	-	51	141	141	**141**	**192**
In five years or more	-	-	156	203	**156**	**215**

Interest rate risk

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

Credit risk

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

Credit risk in respect of receivables is limited, due to the organisation's customer base being large and diverse. Our historical experience of collecting receivables, supported by the level of defaults, is that the credit risk is higher for amounts receivable from individuals than from businesses. We carry out an impairment review of receivables each year to identify an appropriate level of provision. Balances are considered for impairment on an individual basis and by reference to the extent to which they become overdue. The maximum credit risk exposure at the reporting date is £253k (2018: £166k), being the sum of cash and cash equivalents and trade and other receivables. The fair values are not significantly different to carrying values.

Notes to the Financial Statements (continued)

18. Revaluation reserve

	As at 31 July 2019 £'000	As at 31 July 2018 £'000
At 1 August	13,231	13,709
Revaluations in the year	1,019	-
Transfer from revaluation reserve to general reserve in respect of depreciation on revalued assets	(426)	(478)
At 31 July	**13,824**	**13,231**

19. General Reserve

	Income and Expenditure Account Reserve £'000	Pension liability £'000	Total 2019 £'000	Income and Expenditure Account Reserve £'000	Pension liability £'000	Total 2018 £'000
At 1 August	768	(2,198)	**(1,430)**	231	(7,416)	**(7,185)**
Deficit from the Statement of Comprehensive Income and Expenditure	(234)	(445)	**(679)**	59	(520)	**(461)**
Transfer from revaluation reserve	426	-	**426**	478	-	**478**
Remeasurement of pension scheme assets and liabilities	-	(3,490)	**(3,490)**	-	5,738	**5,738**
At 31 July	**960**	**(6,133)**	**(5,173)**	**768**	**(2,198)**	**(1,430)**

Notes to the Financial Statements (continued)

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

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Deficit on continuing operations after depreciation of assets at valuation and tax	(679)	(461)
Depreciation	768	756
Deferred capital grants released to income	(318)	(313)
Interest payable	20	17
(Increase)/decrease in stocks	(29)	15
(Increase)/decrease in debtors	(155)	135
Increase/(decrease) in creditors	507	(176)
Increase in provisions	426	287
Net cash flow from operating activities	**540**	**260**

21. Returns on investments and servicing of finance

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Interest received	-	-
Interest paid	(17)	(12)
Net cash flow from returns on investments and servicing of finance	**(17)**	**(12)**

22. Capital expenditure and financial investment

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Purchase of tangible fixed assets	(268)	(160)
Deferred capital grants received	244	85
Disposal of land and building		-
Net cash flow from capital expenditure and financial investment	**(24)**	**(75)**

23. Financing

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Debt due beyond a year:		
repayment of Moray Council loan	(47)	(47)
repayment of bank loan	(50)	(50)
Net cash flow from financing	**(97)**	**(97)**

Notes to the Financial Statements (continued)

24. Analysis of changes in net funds

	At 1 August 2018 £'000	Cash flows £'000	Other changes £'000	At 31 July 2019 £'000
Cash at bank and in hand	769	402	-	1,171
	769	402	-	1,171
Debt due within 1 year	(85)	97	-	12
Debt due after 1 year	(492)	-	-	(492)
	192	**499**	**-**	**691**

25. Pension and similar obligations

Accrued pension benefits

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

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

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

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

Scottish Teachers Superannuation Scheme (STSS)

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

Total contributions for the year ended 31 July 2019 were £1,085k (2017/18 £948k) of which employers contributions totalled £716k (2017/18 £627k) and employees contributions totalled £369k (2017/18 £321k). Total contributions for the year included £118k outstanding at the balance sheet date (2017/18 £80k).

The current contribution rates are:	Employees	Banded rates salary based ranging 7.2% to 11.5%
	Employers	17.2% from 01.09.2015 (14.9% until 31.08.2015)

Notes to the Financial Statements (continued)

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

FRS 102

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

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

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

The actuary estimates the liability using a range of assumptions to which a discount factor is applied to determine the current value. The discount factor applied in 2019 was 2.2% (2018 2.9%).

To reflect the pension liability on the balance sheet, the provision increased by £3,935k (decreased by £5,218k in 2017/18), which was largely due to the actuarial assumptions applied.

North East Scotland Pension Fund (NESPF)

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

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

Total contributions for the year ended 31 July 2019 were £898k (2017/18 £903k) of which employers contributions totalled £707k (2017/18 £617k) and employees contributions totalled £191k (2017/18 £286k). Total contributions for the year included £79k outstanding at the balance sheet date (2017/18 £69k).

The current contribution rates are:	Employees	Tiered rates based on salary ranging 5.5% to 9.7%.
	Employers	22.0% from 01.04.2019 (21.8% until 31.03.2019)

Notes to the Financial Statements (continued)

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

	Year ended 31 July 2019 £'000	**Year ended 31 July 2018 £'000**
Current service cost	977	948
Interest on obligation	53	185
Administration expenses	13	11
Past service cost	122	-
Expected return on employer assets	-	-
Effect on curtailments	-	15
Total	**1,165**	**1,159**
Other comprehensive income and expenditure		
Remeasurements (assets and liabilities)	**(3,490)**	**5,738**

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

	As at 31 July 2019 £'000	**As at 31 July 2018 £'000**
Present value of the defined benefit obligation	25,700	20,375
Present value of unfunded benefit obligations	207	197
Fair value of plan assets	(19,774)	(18,374)
Net liability	**6,133**	**2,198**

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

	Year ended 31 July 2019 £'000	**Year ended 31 July 2018 £'000**
Opening defined benefit obligation	20,572	22,586
Current service cost	977	948
Interest on pension liability	593	585
Contribution by members	191	168
Past service cost	122	-
Remeasurements (liabilities)	-	-
Expenditure Gain	-	(1,674)
Loss/(Gain) on assumptions	3,837	(1,663)
Curtailments	-	15
Unfunded benefits paid	(14)	(13)
Benefits paid	(371)	(380)
Closing defined benefit obligation	**25,907**	**20,572**

Notes to the Financial Statements (continued)

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

	Year ended 31 July 2019 £'000	**Year ended 31 July 2018 £'000**
Opening fair value of scheme assets	18,374	15,170
Expected return on assets	540	400
Contribution by members	191	168
Contribution by the employer	706	626
Contributions in respect of unfunded benefits	14	13
Remeasurement of assets	347	2,401
Unfunded benefits paid	(14)	(13)
Benefits paid	(371)	(380)
Administration expenses	(13)	(11)
Closing fair value of scheme assets	**19,774**	**18,374**

The assets in the scheme are:

		Value at 31 July 2019		**Value at 31 July 2018**
	%	**£'000**	**%**	**£'000**
Equities	60.1	11,884	63.6	11,687
Government Bonds	5.9	1,167	7.6	1,396
Bonds	1.2	237	1.3	239
Property	7.6	1,503	10.7	1,966
Cash	5.6	1,107	2.8	514
Other	19.6	3,876	14.0	2,572

Basis for Estimating Assets and Liabilities

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

The Scheme has been assessed by Mercer Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2017 rolled forward to 31 July 2020.

Notes to the Financial Statements (continued)

The significant assumptions used by the actuary are as follows:

	Year ended 31 July 2019 % pa	Year ended 31 July 2018 % pa
Pension increase rate	2.2	2.1
Salary increase rate*	3.7	3.6
Discount rate	2.2	2.9
Average future life expectancies at age 65 are summarised below:		
Future pensioners (males / females)	25.8 (28.1)	25.6 (27.9)
Current pensioners (males / females)	22.9 (25)	22.7 (24.9)
The employer contributions for year to 31 July 2020 will be approximately	731	636

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

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

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

Impact on the Defined Benefit Obligation of the scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Longevity (increase or decrease in 1 year)	493	(493)
Rate of inflation (increase or decrease by 0.1%)	529	(529)
Rate of increase in salaries (increase or decrease by 0.1%)	80	(80)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(518)	518

Impact on the College's Cash Flows

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

The total contributions expected to be made to the Local Government Pension Scheme by the College in the year to 31 March 2020 is £731k. If actual assumptions are the same, the total pension cost recognised in the Statement of Comprehensive Income and Expenditure in 2020/21 is estimated to be £1,407k.

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

Notes to the Financial Statements (continued)

26. Non-cash allocation

The College's adjusted operating position as at 31 July 2019 is illustrated below:

	2018/19	2017/18
	£'000	£'000
Deficit before other gains and losses (FE/HE SORP basis)	(679)	(461)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	886	718
Operating surplus on Central Government accounting basis	**207**	**257**

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

Under the FE/HE SORP, the College recorded an operating deficit of £693k for the year ended 31 July 2019. After taking account of the Government non-cash budget, the College shows an "adjusted" surplus of £193k on a Central Government accounting basis. This demonstrates that the College is operating sustainably within its funding allocation.

27. Capital commitments

At 31 July the College had no capital commitments.

28. Financial commitments

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

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
Land and Buildings		
Falling due within one year	9	9
Falling due within one and two years	-	-
	9	**9**
Other		
Falling due within one year	28	38
Falling due within one and two years	57	58
Falling due within two and five years	22	51
	107	**147**

Notes to the Financial Statements (continued)

29. Related party transactions

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

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

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

Aggregate transactions with the University of the Highlands and Islands*:

FE funding	£5,658,082	(2018 – £5,575,376)
HE funding	£2,710,777	(2018 - £2,696,580)
Sales ledger	£253,461	(2018 - £152,225)
Purchase ledger	£144,497	(2018 - £170,917)
Debtor	£5,875	(2018 - £17,085)

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

30. Post balance sheet events

The College had no post balance sheet events.

31. Bursaries and other student support funds

	FE Bursaries £'000	FE Hardship £'000	EMA £'000	HE Hardship £'000	2018/19 Total £'000	2017/18 Total £'000
At 1 August	334	24	24	27	409	285
Allocation received in year	1,296	49	120	44	1,509	1,722
ESIF Advance	-	-	-	-	-	-
Expenditure	(1,475)	(73)	(121)	(49)	(1,718)	(1,404)
Repaid to Funding Council as clawback	-	-	-	-	-	(194)
Virements	-	-	-	-	-	-
At 31 July	**155**	**-**	**23**	**22**	**200**	**409**
Represented by:						
Repayable to UHI as clawback	-	-	-	-	-	-
Repayable to Region for Re-distribution	-		-	22	22	385
Repayable to Funding Council as clawback	-	-	-	-	-	-
Retained by College for students	155	-	23	-	178	24
	155	**-**	**23**	**22**	**200**	**409**

Notes to the Financial Statements (continued)

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

32. Childcare funds

	2018/19 £'000	2017/18 £'000
At 1 August	76	18
Allocation received in year	174	300
Expenditure	(250)	(242)
Repaid to Funding Council as clawback	-	-
Virements	-	-
At 31 July	**-**	**76**
Represented by:		
Repayable to UHI as clawback	-	-
Repayable to Region for Re-distribution	-	63
Repayable to Funding Council as clawback	-	-
Retained by College for students	-	13
	-	**76**

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

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

1. It is the Scottish Funding Council's direction that institutions[3] comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts[4].

2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.

3. 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).

4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018-19 (FReM) where applicable.

5. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2019.

6. 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.

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

Scottish Funding Council
5 July 2019

[3] The term "institutions" includes colleges and Glasgow Colleges' Regional Board

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