

Annual Report and Accounts for the Year Ended 31 July 2017

Inverness College UHI – SC021197

Contents	Page
Key Management Personnel, Board of Management and Professional Advisors	3
Performance Report	4
Accountability Report	16
Independent Auditor’s Report to the Board of Management, the Auditor General for Scotland and the Scottish Parliament	33
Statement of Comprehensive Income	37
Statement of Changes in Reserves	38
Balance Sheet	39
Statement of Cash Flows	40
Notes to the Financial Statements	41

Key Management Personnel, Board of Management and Professional Advisors

Key Management Personnel

Principal and Chief Executive	Professor Christopher O'Neil
Depute Principal	Roddy Henry
Director of Finance	Fiona Mustarde
Director of Organisational Development	Lindsay Ferries
Director of Business Development	Georgie Parker
Head of Curriculum	Gill Berkeley
Head of Research Development	Melanie Smith
Head of Student Services	Lindsay Snodgrass

Board of Management

A full list of the membership of the Board of Management is given in the Accountability Report. The Chair of the Board of Management is Neil Stewart.

Financial Statement Auditors

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Internal Auditors

BDO LLP
4 Atlantic Quay
70 York Street
Glasgow G2 8JX

Bankers

Royal Bank of Scotland Plc
29 Harbour Road
Inverness IV1 1NU

Solicitors

Harper MacLeod LLP
Alder House
Cradlehall Business Park
Inverness IV2 5GH

Performance Report

The Board of Management of Inverness College UHI present their report and the audited financial statements for the year ended 31 July 2017.

OVERVIEW

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

PRINCIPAL'S STATEMENT

Having moved into our new campus buildings at the start of 2015/16, 2016/17 has been the first full year of normal operations after the settling in period. We are now well and truly embedded in our new campus buildings and the inspirational setting continues to enrich our students' experience.

The opening of quality student residences in August 2016 in the immediate vicinity of our main Inverness campus is an enabler to the first objective in our Strategic Plan for 2017-2020, opportunity and growth in student life, and is a further step towards the identification of Inverness as a 'university city'.

We have had another successful year in terms of Higher Education growth, although our rate of growth has slowed. Further expansion in postgraduate research student numbers demonstrates our ability to attract and retain quality research activity, both students and staff.

Our Further Education offering is supported through strong stakeholder relationships, enabling us to tailor appropriate provision for our communities.

Our financial position for the year is a positive underlying surplus, however it has to be acknowledged that this is in large part due to the application of deferred grant income from the balance sheet that relates to the former campus disposals.

Whilst we undoubtedly have some significant financial challenges ahead, particularly with regard to future government funding and the impact of national pay bargaining, this is an exciting time to be part of Inverness College UHI. We have identified a number of opportunities for growth, and are working towards capitalising on the opportunities available to take us forward in a sustainable manner.

PURPOSE AND ACTIVITIES OF THE COLLEGE

Purpose

Inverness College UHI is one of the largest academic partners in the University of the Highlands and Islands (UHI) and our purpose is to have a transformational impact on the development and prospects of the Highlands and Islands region

Inverness College UHI – SC021197

through the provision of excellence in education, training and research, encouraging individual attainment and driving economic and community development.

We will inspire each other, and our community, providing a safe and supportive environment within which we nurture ambition at every opportunity.

We will enrich our Highland community and have national and international reach, putting Inverness College UHI and the University of the Highlands and Islands on the world map and encouraging inward migration.

Public Benefit Statement

In setting and reviewing the College's strategic objectives, the Board of Management has had due regard for the Scottish Charity Regulator's (OSCR's) guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit. In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

Legal Status

The Board of Management of Inverness College was established under the Further and Higher Education (Scotland) Act 1992 for the purposes of conducting Inverness College UHI. The College is a public benefit entity and a registered charity (Scottish Charity Number SC021197) having its registered offices at 1 Inverness Campus, Inverness, IV2 5NA.

Strategic Plan 2017/20

Our Strategic Plan for 2017 to 2020 is closely aligned to the UHI Strategic Plan and provides a framework to respond to the Highland Single Outcome Agreement and the regional Skills Investment Plan.

The development of the Strategic Plan for the College for the three year period 2017 to 2020 involved extensive consultation and was approved by the Board of Management in November 2016. We have six key themes within our Strategic Plan and within these our key strategic aims, as noted below:

- **Opportunity and growth in student life** – we will build a vibrant campus community that all of our students are proud of, and within which they are engaged and supported to reach their potential. We will strengthen our existing relationships between our students, staff, employers and the wider community to further increase student participation and the student voice.

Inverness College UHI – SC021197

- **Opportunity and growth in curriculum** - we will offer a progressive curriculum that is valued by our students, employers and the communities we serve, and that is delivered in a variety of ways to make it accessible to all. We will ensure the curriculum remains relevant, responsive to demand and aligned with employment opportunities, providing a range of progression pathways that contribute to the economic growth and social cohesion of our region.
- **Opportunity and growth in professional practice** - Recognising that people have the greatest influence on our success, we will operate in a positive culture where we stretch ourselves to deliver the highest standards of service, support and delivery that exceeds expectations.
- **Opportunity and growth in organisational development** - As a highly regarded organisation, we will attract and retain talented employees committed to achieving shared goals. We will create a supportive, collaborative and dynamic environment where students and staff are inspired to learn and develop. Our high performance culture will be underpinned by a dispersed leadership model, within which teams are empowered to deliver and share accountability for outcomes.
- **Opportunity and growth in research and innovation** - We will build upon our successes in research by strengthening our impact and excellence and growing our regional and international reputation. We will continue to support and grow an innovative and inspired postgraduate researcher community. Our research will directly inform innovation and entrepreneurship activity in key sectors regionally and internationally.
- **Opportunity and growth in sustainability** - We will ensure our continuing financial stability by developing income streams and promoting efficient, effective service delivery. We will work collaboratively to enhance the prosperity of the regional economy. We are committed to acting responsibly by protecting our environment, maintaining and developing our infrastructure and managing our risks.

Financial Objectives

Our goal is to optimise financial stability through innovative and careful management. Every effort will be made to maximise the efficient and effective use of funds to support the academic aims and objectives of Inverness College UHI. The current Finance Strategy includes a series of performance indicators to monitor the successful implementation of our financial objectives which are:

- To achieve long-term financial security and match resources with College strategic objectives, on an on-going basis.
- To develop productive capacity to meet current and future learning and resource objectives through the economic, efficient and effective deployment of resources.
- To plan and control the financing of College developments and ensure investment returns are optimised.
- To provide a consistent basis for evaluating strategic alternatives and developing effective financial planning and risk management.
- To integrate and harmonise financial and other College strategies.

Inverness College UHI – SC021197

KEY ISSUES AND RISKS

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

The College has Risk Management and Business Continuity policy statements which are reviewed regularly by the Audit Committee. The Senior Management Team monitors key performance and risk indicators and considers possible control issues.

A strategic risk register is maintained at the College level and is reviewed every quarter by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system. The risk register is rescored on a quarterly basis by the Senior Management Team.

The Senior Management Team and Audit Committee also receive regular reports from internal audit and health and safety which include recommendations for improvement. The internal audit service concentrates on areas of key activities in accordance with the annual internal audit plan approved by the Audit Committee. The internal auditors have direct access to the Chair of the Audit Committee and issue an annual report with an opinion on the adequacy, reliability and effectiveness of the College's internal control systems. The Audit Committee also meets annually with the internal and external auditors without the Senior Management Team.

Outlined below is a description of principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Government funding / Financial Stability of UHI

The College is assigned to the UHI Regional Strategic Body which distributes Further Education funding on behalf of the Scottish Funding Council. The Scottish Funding Council provides the UHI Regional Strategic Body with an allocation of funding for the region and associated outcomes, including credit targets. The UHI Regional Strategic Body then determines how this overall allocation, including the allocation of credit targets, should be apportioned amongst the relevant assigned Colleges.

A similar process is followed for the distribution of Higher Education funding. However, this funding is subject to a significant 'top-slice' to fund the UHI Executive Office services before being allocated to the academic partners.

The College has considerable reliance on continued government funding through the UHI Regional Strategic Body. In 2016/2017, 75% of the College's revenue was ultimately public funded and this level of requirement is not expected to diminish. Given the current tightening of government spending, there can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

Inverness College UHI – SC021197

The key risks which might impact on future government funding available to the College are:

- The Scottish Government reduces HE / FE funding
- Financial instability of other Colleges within UHI
- UHI increases its top-slice

This risk is mitigated in a number of ways:

- Regular finance monitoring reports circulated to budget holders, SMT and Board of management.
- Monitor KPI's reported to Board to ensure we are meeting College activity targets.
- Ensure all budget holders are aware of College financial regulations.
- More efficient working practices, e.g. further savings in procurement.
- Further increase in non-SFC funding, including international, research.
- Monitor class sizes to ensure optimum efficiencies while taking account of access issues and the quality of the student experience.
- Effective partnership working across UHI.

2. National Pay Bargaining

As a signatory to the National Recognition and Procedures Agreement (NPRA), the College is bound to implement the outcomes from the national pay bargaining process. The first stage of this process in relation to teaching staff is nearing completion, with an agreed national pay scale now in place for teaching staff. The new teaching pay scale is being implemented on a transitional basis over a three year period, with the first transition taking place from 1 April 2017. The implementation costs for Inverness College UHI relating to 2016/17 have been funded in full by the Scottish Funding Council.

Going forwards there is a risk that:

- Outcomes of nationally negotiated and agreed pay and conditions result in a model that is unaffordable, unsustainable and does not meet the College's needs.
- Additional funding to cover the increased pay costs resulting from national agreements is not provided by the Scottish Funding Council on an ongoing basis.

This risk is mitigated by:

- Ensuring representation on employer's association, NJNC representation, workforce for the future and other groups as management side develop management side consultation arrangements.
- Continued dialogue with the Scottish Funding Council on the financial implications resulting from these national agreements.

Inverness College UHI – SC021197

GOING CONCERN BASIS

Although the College has net liabilities, this is due to the pension scheme liability and, to a lesser extent, the change in treatment of deferred capital grants. It is our opinion that this does not impact on the College's going concern status.

PERFORMANCE ANALYSIS

Performance Measures

The College measures performance using a number of key performance indicators which fall into three categories: student activity, financial and human resources.

Information on how the college measures performance

The colleges uses a range of measures to monitor and measure performance. For students, these include:

- Activity measures
- Retention and attainment rates
- Satisfaction rates
- Progression to positive destinations

Detailed analysis and explanation of the development and performance during the year

Student recruitment for both FE and HE remained strong in 2016-17. FE activity exceeded allocated credit target for the third year running. Funded undergraduate HE activity, while not meeting the College's ambitious target for growth, still grew by over 50 full-time equivalent students: the third successive year of growth. Modern Apprenticeship activity continued to increase, as did our Foundation Apprenticeship numbers.

Success rates on full-time FE programmes have improved overall year-on-year for the last four years, and are now 2 percentage points above the latest published sector levels. Success rates for learners on part-time FE programmes are high and have been well above sector levels for the last three years. However, success rates on HE programmes fell slightly in 2016-17, with increased numbers of students completing with partial success. Student satisfaction rates remain high overall. Positive destination rates for students, as measured by the College Leaver Destination Survey and the Destination of Leavers form HE Survey, are above 90% for both FE and HE.

2016-17 was the second year in the College's new estate, and also the last year of the 2014-17 Strategic Plan. The new Strategic Plan 2017-20 was developed through extensive engagement between the Board, external stakeholders, managers, staff and students. A Board stakeholder event involving learner representatives, senior representatives from the Highland Council, SDS, HIE and other partners and the Interim Chief Executive of the SFC helped to ensure that the strategic plan is closely aligned with local, regional and national priorities.

Inverness College UHI – SC021197

The college achieved Investors in People (IiP) Gold accreditation in December 2016 and aims to achieve Platinum accreditation by 2020. The first annual re-assessment of the Customer Service Excellence (CSE) award also took place in December 2016. The assessment report identified over 20 areas of good practice and four areas of *compliance plus*, viewed as exceptional or as exemplars to others.

The introduction in 2016-17 of *Sector Development Plans* has enhanced the curriculum planning process. The plans are produced through an environmental scanning process, including the gathering of labour market intelligence, to provide an analysis of industry sectors' needs together with actions and targets relating to the relevant curriculum areas. The plans feed into existing curriculum review and planning processes.

The College complies with the Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

Curriculum Developments/Planning

The curriculum area teams led by the Programme and Development Managers (PDM) continue to review the provision within their area at FE (Further education) and HE (Higher Education) levels. This has resulted in the development of the operation plans for implementation in 2017-18. This process was undertaken in line with our new Strategic Plan where the main strategic aim aligned to the curriculum is “to offer a progressive curriculum that is valued by our students, employers and the communities that we serve, and it is delivered in a variety of ways to make it accessible to all.” To do this the curriculum is being updated, takes into consideration a holistic approach and considers the connections between subjects, teaching methods, engagement with stakeholders and all aspects of learning that create a learner's educational experience. Any changes or new introductions to the curriculum offering are approved through the management structure and the appropriate quality processes, which are working well. Our sector analysis reports continue to provide market intelligence on industry sectors including employers, public bodies as well as government initiatives and their use is embedded in our curriculum and business planning processes together with the involvement of stakeholder groups in curriculum advisory committees and curriculum events.

The main growth in the curriculum has been the increase in the depth and breadth of our higher education provision resulting in a rise in the HE FTE enrolments. This has been achieved by working with other academic partners within UHI whilst being supported by stakeholders and accrediting bodies to plan and introduce curriculum developments collaboratively. The College continues to work with schools on the development and refinement of the senior phase offering and 2017 saw the first pupils successfully graduate from our foundation apprenticeship programmes and either move into employment or further studies. We continue to work with SDS to develop the first level 10 Graduate Level Apprenticeship (GLA) in Civil Engineering in Scotland for delivery during 2018-19, having successfully developed and delivered the Level 8 GLA for the last two years.

The College plans to further grow in HE and in Modern Apprentice provision within 2017-18 in alignment with the new Strategic Plan. In addition, plans are being

Inverness College UHI – SC021197

further developed in several curriculum areas including sport (introduction of outdoor education), computing, engineering, Gaelic, forestry, and health. These developments involve collaboration with partners on the campus as well as industry and public sector bodies.

FINANCIAL POSITION

Financial Results

The surplus on continuing operations, including depreciation charges, for the financial year ended 31 July 2017 is £166,407, compared to a deficit of £1,495,604 for the year ended 31 July 2016. There has been significant movement in deferred capital grants in year related to the disposal of former campus sites which has a positive impact on the position. A positive cash position has been maintained.

The College's 2016/17 underlying operating position is summarised as follows:

Underlying operating position		
	2016-17 £'000	2015-16 £'000
Surplus/(deficit) before other gains and losses	350	(1,496)
Add back:		
- Depreciation (net of deferred capital grant release)	1,451	652
- Exceptional non-restructuring costs		436
- Non-cash pension adjustments	924	721
- Donation to Arms-Length Foundation		
Deduct:		
- Release of grant for asset disposal	1,596	
Underlying operating surplus/(deficit)	1,129	313

The College ended the 2016/17 financial year with an accumulated reserve deficit of £8,538,217. This is due to the pension liability of £10,309,000.

The new NPD assets were capitalised in 2015/16 and are included as fixed assets under land and buildings; as required by FRS102 the NPD assets are stated at fair value.

The related debt is included in the balance sheet as a creditor and is repaid over a 25 year term. The College makes monthly unitary charge payments which include the capital element of the loan and interest.

FRS102 requires the NPD assets to be accounted for as if they were finance leases. As a result, higher interest levels are charged in to the statement of comprehensive income during the initial years and the reverse will happen in the final years of the lease when there will be small amounts of interest and high capital repayments.

Inverness College UHI – SC021197

The table below states the outturn figures for the year 1 April 2016 to 31 March 2017 as reported in the Resource Return to the SFC.

Resource DEL (RDEL)	RDEL £000	CDEL £000
Final resource budget	9,961	202
Expenditure against resource budget	10,090	(1,995)
Under/(overspend) on Resource Budget	(129)	2,197

As per SFC requirements, both the resource budget and expenditure exclude amounts relating to the NPD unitary charge funding and payments.

The negative variance in the RDEL outturn against budget relates to the loss on disposal of the former campus sites at Midmills and part of the Longman campus. The net sale proceeds from the sale of these sites was returned to the Scottish Funding Council.

The CDEL outturn position reflects the income received in respect of these sales.

Cash Budget for Priorities

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

Spend of the College's cash budget for priorities, and impact on the operating position, is detailed below.

Table of cash budget for priorities spend		
Revenue	2016-17 £'000	2015-16 £'000
Student Support		
2015-16 pay award	378	215
Other		
Total impact on operating position	378	215
Capital		
Loan repayments	-	-
Provisions pre 1 April 2014	-	-
Total Capital	-	-
Total cash budget for priorities spend	378	215

Inverness College UHI – SC021197

Taxation Status

The College is a registered charity and is exempt from corporation tax and capital gains tax. The College receives no similar exemption in respect of Value Added Tax.

Treasury Policy

Treasury management is the management of the College's cash flows, its banking and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College has separate treasury management procedures in place.

Cash Flows

The opening cash balance for the year was £3,343,595. The year-end cash balance was £3,763,193, compared with a budget cash balance of £2,462,000. The cash flow position of the College is monitored on a daily basis and has followed the expected pattern throughout the year.

Liquidity

The College had a net current liability of £2,902,768 at the year end, compared with net current liability of £3,882,684, in 2015/16. The increase is largely down to an increase in cash together with a reduction in creditors. The reduction in creditors is largely down to a decrease in deferred income.

Creditor Payment Policy

The College seeks to comply with the CBI Prompt Payment Code and aims to pay its suppliers within 30 days of receipt of invoice, unless the invoice is contested. On the basis of a 10% sampling exercise of creditor invoice payments, the College's average creditor payment period was 28.7 days over the 12 month period to July 2017, compared with the figure of 32.9 days in the 12 months to July 2016. The College did not pay any interest during the year under the late payment of Commercial Debts (Interest) Act 1998.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives.

Tangible resources include the main College campuses at Inverness and Balloch.

Financial

The College has £3,763,193 cash and no long term private sector or bank debt apart from the NPD creditor.

Inverness College UHI – SC021197

People

The College employs 351 people (expressed as full time equivalents), of whom 178 are teaching staff.

Reputation

The College has now built up a strong reputation, both locally and nationally and works closely with its stakeholders. Maintaining a quality brand is essential for the College's success.

Stakeholder Relationships

In line with other colleges and universities, Inverness College UHI has many stakeholders. These include:

- Students
- Staff
- Scottish Funding Council
- Local and national employers
- Local authorities
- Community Planning Partnerships
- Government Offices/ Regional Development Agencies
- The local community
- Partner institutions of UHI
- Scotland's Colleges, other FE and HE institutions
- Trade unions
- Business groups
- Professional bodies

The College recognises the importance of these relationships and engages in regular communication with them through the College website and meetings.

Equal Opportunities Statement

Inverness College UHI is committed to promoting equality and positive relations and values diversity. A comprehensive approach is intended to meet the needs of individuals, to enable engagement with an accessible curriculum in an inclusive learning environment and workplace.

The College is committed to identifying and eliminating unfair and unlawful discrimination across the nine protected characteristics reflected in the Equality Act, these include age, disability, sex, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief and sexual orientation. Where barriers to learning or employment are identified for an individual, the College will deploy resources to provide additional support and access to appropriate opportunities wherever possible.

The College is committed to ensuring effective engagement and support for students with disabilities. Information on sources of support are provided in the student handbook and reinforced by appointed studies advisors. An active Students'

Inverness College UHI – SC021197

Association is effective in engaging across a range of students. The Student Association Executive Committee includes a Vice President responsible for furthering equality matters.

The college use a job evaluation system 'Evaluate', to evaluate all new posts. The gender pay gap as published in January 2016 was 8.35%, a significant decrease from the gender pay gap at the same point in 2013 of 11.27% and in 2014 of 11%.

In furthering our commitment and in line with the Equality Act and building on our successes, the College in April 2017 published our Equality and Diversity Mainstreaming Report and Equality Outcomes, and continues to report on progress on an annual basis. More recently we have enhanced our approach to access and inclusion through our Access and Inclusion strategy and gender action plan.

Disclosure of Information to Auditors

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

Approved by order of the members of the Board on 19 December 2017 and signed on its behalf by:



Neil Stewart
Chair



Professor Christopher O'Neil
Principal and Chief Executive Officer

Inverness College UHI – SC021197

Accountability Report

The Accountability Report consists of the Remuneration and Staff Report, the Statement of the Board of Management's Responsibilities and the Corporate Governance Report.

REMUNERATION AND STAFF REPORT

Remuneration Policy

Inverness College UHI is committed to the principle of equality of treatment in relation to pay for all employees. We aim to ensure that procedures are in place to determine pay and conditions of employment which do not discriminate unlawfully and are free from gender bias. In order to ensure that the College pay system delivers equal pay for work of equal value and that jobs are fairly graded, the College has implemented an analytical job evaluation process. This policy therefore ensures a continuous focus on the job evaluation process as the means of reviewing relative pay in an objective and systematic manner.

The Performance Review and Remuneration Committee consider and make decisions on the remuneration package and conditions of service, and any changes thereof, of the College Principal and such other senior staff as is considered appropriate.

Remuneration including salary and pension entitlements

Salary entitlements

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

Name	Year ended 31 July 2017			Year ended to 31 July 2016		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary	Pension Benefit £'000	Total £'000
Principal – Diane Rawlinson to 4 June 2017	90 - 95	11	101 - 116	105 - 110	23	128 - 133
Depute Principal – Roddy Henry	85 - 90	45	130 - 135	80 - 85	42	122 - 127
Director of Corporate Services to 14 February 2016 – Niall McArthur	-	-	-	30 - 35	10	40 - 45
Director of Corporate Services from 23 May 2016	15 - 20	6	21 - 26	10 - 15	4	14 - 19

Inverness College UHI – SC021197

to 22 November 2016 – Stephen T Wells						
Director of Finance from 1 July 2017 – Fiona Mustarde	5 - 10	32	37 - 42	-	-	-
Director of Organisational Development – Lindsay Ferries	60 - 65	35	95 - 100	55 - 60	22	77 - 82
Head of Curriculum – Gillian Berkeley	55 - 60	13	68 - 73	55 - 60	22	77 - 82
Head of Research – Melanie Smith	50 - 55	15	65 - 70	50 - 55	18	68 - 73
Director of Business Development from 7 September 2015 – Georgina Parker	55 - 60	19	74 - 79	50 - 55	17	67 - 72
Head of Student Services from 1 November 2015 – Lindsay Snodgrass	50 - 55	18	68 - 73	35 - 40	13	48 - 53

Note that Garry Westwater was Interim Director of Corporate Services from 7 December 2016 to 27 January 2017 through an agency for which we paid £9,583 to the agency.

Annual Equivalent

Name	Year ended 31 July 2017			Year ended 31 July 2016		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary	Pension Benefit £'000	Total £'000
Principal to 4 June 2017 – Diane Rawlinson	105 - 110	23	128 - 133	105 - 110	23	128 - 133
Depute Principal – Roddy Henry	85 - 90	45	130 - 135	80 - 85	42	122 - 127

Inverness College UHI – SC021197

Director of Corporate Services to 14 February 2016 – Niall McArthur	-	-	-	55 - 60	22	77 - 82
Director of Corporate Services from 23 May 2016 to 22 November 2016 – Stephen T Wells	55 - 60	19	74 - 79	55 - 60	22	77 - 82
Director of Finance from 1 July 2017 – Fiona Mustarde	60 - 65	32	92 - 98	-	-	-
Director of Organisational Development – Lindsay Ferries	60 - 65	35	95 - 100	55 - 60	22	77 - 82
Head of Curriculum – Gillian Berkeley	55 - 60	13	68 - 73	55 - 60	22	77 - 82
Head of Research – Melanie Smith	50 - 55	15	65 - 70	50 - 55	18	68 - 73
Director of Business Development from 7 September 2015 – Georgina Parker	55 - 60	19	74 - 79	55 - 60	22	77 - 82
Head of Student Services from 1 November 2015 – Lindsay Snodgrass	50 - 55	18	68 - 73	50 - 55	17	67 - 72

Median Remuneration

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

Based on the 12 month equivalent figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2016/17 was £105,000 - £110,000 (2015/16 £105,000 to £110,000). This was 3.1 times (2015/16, 3.2 times) the median remuneration of the workforce which was £34,564 (2015/16, £32,643).

Inverness College UHI – SC021197

Accrued Pension Benefits

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

Both STSS and LGPS are final salary pension schemes. This means that pension benefits are based on the final year's pay and the number of years that the person has been a member of the scheme.

The LGPS scheme's normal retirement age is 65 for pre 1 April 2015 benefits. For post 31 March 2015 benefits, unless a member is aged 60 by 31 March 2020 and retirement age is protected, then normal retirement age will be linked to State Pension Age.

Contribution rates are set annually for all employees and can be found in note 17.

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

Senior Officials Pension

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

Name	Accrued pension at pension age at 31 July 2017	Accrued lump sum at pension age 31 July 2017	Real Increase in pension 1 August 2016 to 31 July 2017	Real Increase lump sum 1 August 2017 to 31 July 2017	CETV at 31 July 2017	CETV at 31 July 2016	Real Increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal – Diane Rawlinson	31	95	1	3	665	629	26
Depute Principal – Roddy Henry	18	43	3	3	316	269	36
Director of Corporate Services from 23 May 2016 – 22 November 2016 Stephen T Wells	1	-	-	-	7	3	3

Inverness College UHI – SC021197

Director of HR – Lindsay Ferries	15	18	2	1	188	155	28
Head of Curriculum – Gillian Berkeley	20	60	1	3	425	396	22
Head of Research – Melanie Smith	10	23	1	-	155	139	11
Director of Business Development from 7 September 2015 – Georgina Parker	3	-	1	-	24	11	9
Head of Student Services from 1 November 2015 – Lindsay Snodgrass	2	-	1	-	15	6	5

Note that the figures in respect of Diane Rawlinson and Stephen T Wells are as at the date of leaving.

Cash Equivalent Transfer Value (CETV)

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

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

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

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

Inverness College UHI – SC021197

Real increase in CETV

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

Compensation for loss of office

No employees left under voluntary exit terms during the year.

Salaries and Related Costs

	2017	2017	2017	2016
	Directly Employed Staff	Seconded and Agency Staff	Total	Total
Wages and salaries	10,782,353		10,782,353	10,404,377
Social Security Costs	1,017,140		1,017,140	833,536
Other pension costs	1,751,726		1,751,726	1,636,821
Total	13,551,219	234,416	13,785,635	13,129,123
Average number of FTE	351		351	343

The College does not hold FTE data in respect of agency staff.

The College employed 235 females and 136 males as at 31 July 2017.

For the year to 31 July 2017, the College lost a total of 2,531 working days to sickness absence. This is an average absence rate of 3.1%.

For the year to 31 July 2017, the College incurred consultancy costs of £0.

Inverness College UHI – SC021197

CORPORATE GOVERNANCE REPORT

DIRECTORS REPORT

Membership of the Board of Management

The Members, who served on the Board of Management during the year 2016-17, and up to the date of the accounts being signed on 19 December 2017, were as follows:

Name	Date of Appointment	Date of Resignation/ end of term	Status of Appointment	Committees served
Louise James	11 October 2010 Appointed 1 August 2016	End of term 31 July 2016 Resigned 31 May 2017	Independent member	Audit Learning and Teaching (Chair) New Campus Project Board Performance Review and Remuneration Search and Nomination Chairs Committee
Diane Rawlinson	18 February 2013	Resigned 4 June 2017	Principal	Finance and General Purposes Learning and Teaching Human Resources (ex officio) New Campus
John Wilson	11 June 2007 Appointed 1 August 2016	End of term 31 July 2016	Independent member	Vice Chair of Board Performance Review and Remuneration (Chair) Search and Nomination Human Resources (Chair) Finance & General Purposes (Chair) New Campus Project Board Chairs Committee Audit Longman Disposal Project Board
Hazel Allen	13 May 2014 Appointed 1 August 2016	End of term 31 July 2016	Independent member	Human Resources Audit (Chair) Performance Review and Remuneration Search and Nomination Chairs Committee New Campus Project Board Longman Disposal Project Board
Neil Stewart	13 May 2014 Appointed as Chair 1 January 2016		Independent member	Chair of Board Search and Nomination (Chair) Human Resources, Finance and General Purposes and Learning and Teaching (ex officio member) Performance Review and Remuneration Chairs Committee (Chair)

Inverness College UHI – SC021197

				New Campus Project Board (Chair) Longman Disposal Project Board (Chair)
Dominic Thierry	1 August 2015	Resigned - 12 September 2016	Teaching Staff member	Learning and Teaching Finance and General Purposes
Helen Miller	1 August 2015		Support Staff member	Finance and General Purposes Learning and Teaching
Brian Henderson	1 January 2016		Independent member	Finance & General Purposes (Chair) Human Resources Performance Review and Remuneration Search and Nomination Chairs Committee New Campus Project Board Longman Disposal Project Board
Lindsey Mitchell	1 January 2016	13 November 2017	Independent member	Audit Human Resources (Chair) Chairs Search and Nomination Performance, Review and Remuneration (Chair)
Steve Walsh	1 January 2016		Independent member	SIM Human Resources (Chair) Audit Learning and Teaching Chairs Search and Nomination Performance, Review and Remuneration (Chair)
Mick Longton	1 January 2016	Deceased – 26 October 2017	Independent member	Finance & General Purposes Learning and Teaching Human Resources
Jaci Douglas	1 June 2016		Independent member	Audit Learning and Teaching
Gavin Ross	1 June 2016		Independent member	Finance & General Purposes Learning and Teaching New Campus Project Board Longman Disposal Project Board
Brenda Dunthorne	1 January 2016 1 June 2016	Resigned 11 March 2017	Co-opted member Independent Member	Finance & General Purposes Human Resources
Kyran McCutcheon	1 September 2016	Resigned 24 November 2016	Student Member	Learning and Teaching

Inverness College UHI – SC021197

Gabriel Starr	1 September 2016 Reappointed 1 September 2017		Student Member	Learning and Teaching
Kate White	12 September 2016		Teaching Staff Member	Learning and Teaching
Ryan McAdam	1 Dec 2016	end of term 31 August 2017	Student Member	Learning and Teaching
Sarah Burton	12 April 2017		Independent Member	Learning and Teaching (Chair) Audit Chairs Search and Nomination Performance, Review and Remuneration
Andrew Gray	12 April 2017		Independent Member	Finance & General Purposes Human Resources
Innes Montgomery	12 April 2017		Independent Member	Audit Human Resources
Fiona Neilson	12 April 2017 20 November 2017		Co-opted member Independent member	Audit Learning and Teaching
Carron McDiarmid	12 April 2017 6 November 2017		Co-opted member Independent member	Finance & General Purposes Human Resources
Ollie Bray	19 June 2017		Independent member	Learning and Teaching
Tom Speirs	12 June 2017		Co-opted Member	Learning and Teaching Finance & General Purposes
Robert Berg	1 September 2017		Student Member	Learning and Teaching
Chris O'Neil	1 September 2017		Principal	Human Resources, Finance and General Purposes and Learning and Teaching (ex officio member) New Campus Project Board Longman Disposal Project Board

Sadly, one of our Board members passed away on 26 October 2017. The College would like to express our thanks to Mick Longton for his valued contribution during his time as a Board member.

The Board Secretary maintains a register of financial and personal interests of the Board members. The Register is available for inspection at:

Inverness College UHI – SC021197

Inverness College UHI

1 Inverness Campus

INVERNESS IV2 5NA

or on the College Website - www.inverness.uhi.ac.uk/about-us/board-of-management

Senior Management Team

Members of the Senior Management Team who influence the decisions of the college as a whole

Name	Position held	Date appointed	Date resigned
Diane Rawlinson	Principal and Chief Executive	18 February 2013	4 June 2017
Roddy Henry	Depute Principal	26 August 2013	
Stephen T Wells	Director of Corporate Services	23 May 2016	22 November 2016
Lindsay Ferries	Director of Organisational Development	30 July 2007	
Georgie Parker	Director of Business Development	7 September 2015	
Garry Westwater	Interim Director of Corporate Services	7 December 2016	27 January 2017
Fiona Mustarde	Director of Finance	1 July 2017	
Chris O'Neil	Principal and Chief Executive	1 September 2017	

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

The members of the Board of Management of the College are required to present audited financial statements for each financial year.

Within the terms and conditions of the revised financial memorandum agreed between the University of the Highlands and Islands (Regional Strategic Body) and the Board of Management of the College, the Board, through its Principal, is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements the Board is required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.
- Indicate how the College has complied with good practice in corporate governance.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to

Inverness College UHI – SC021197

ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder, also having regard to compliance with the Scottish Public Finance Manual, and are presented in accordance with the Accounts Direction issued from time to time by the SFC.

It has general responsibility for taking such steps that are reasonably open to it to safeguard assets of the College and to prevent and detect fraud and other irregularities including any significant problems disclosed in the annual financial statements.

Members of the Board are responsible for ensuring that funds are used only in accordance with the Financial Memorandum with the University of the Highlands and Islands and any other conditions which the University may from time to time prescribe. Members of the Board must ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available.

In addition, members of the Board are responsible for securing the economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the Board are not put at risk.

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

Inverness College UHI – SC021197

GOVERNANCE STATEMENT

Introduction

The College is committed to complying with best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the Code of Conduct for Members of the Board of Management of Inverness College UHI, and the 2016 Code of Good Governance for Scotland's Colleges. Their purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the Board of Management, the College complied with the provisions of the Code of Conduct for members of the Board of Management of Inverness College UHI and with principles of good governance set out in the Code of Good Governance for Scotland's Colleges and it has complied throughout the year ended 31 July 2017.

It is the Board of Management's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Board of Management also takes cognisance of the Guide for Board Members in the College Sector, which complements the Code of Good Governance for Scotland's Colleges and also guidance notes as issued from time to time by Colleges Scotland and applies good practice recommendations where appropriate.

The Board of Management is of the view that there is an on-going process for identifying, evaluating and managing the College's significant risks that have been in place for the year ended 31 July 2017 and up to the date of the approval of the annual report and accounts. This process is regularly reviewed by the Board of Management and it accords with the guidance as issued by the Scottish Funding Council.

Governing Body

The Board of Management is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters, human resources performance indicators and health and safety matters. The Board of Management met five times in 2016/17.

The Board conducts its business through a number of committees. Each committee has formally constituted terms of reference. These committees include:

- Audit Committee.
- Finance and General Purposes Committee
- Performance Review and Remuneration Committee
- Learning and Teaching Committee
- Human Resources Committee
- Search and Nomination Committee
- Chairs Committee
- New Campus Project Board
- Longman Disposal Project Board

Inverness College UHI – SC021197

Committee membership is agreed by the Board and comprises Board members, one of whom is appointed the committee Chair and one the Vice Chair, and are attended and supported by appropriate senior managers at the College. A comprehensive review of the terms of reference of the Board and its Committees took place in September 2017 and were subsequently approved by the Board of Management in October 2017.

There has again been an exceptional level of change in the membership of the Board of Management during the year. Four new independent members were appointed as well as three co-opted members/ reserves, one staff member, one student member and a new Principal. An externally facilitated review of Board Effectiveness was completed in March 2017 and followed by an annual Board Evaluation exercise. This was completed by the 12 board members who had been on the board for longer than 12 months to provide meaningful input to the process.

Induction and Development

The main focus of training and development has been the induction of all the new members referred to above. In addition, members have received training/briefings on the UHI structure and responsibilities, student engagement, health and safety, the impact of FRS102 and FE/HE SORP 2015. Also, members of the Board have attended mandatory Governance Workshop and Senior Independent Member training facilitated by College Development Network and also the Members conference in October 2016.

The Board is supported by an independent Board Secretary. There is a clear division of responsibility in that the roles of the Chair and Principal are separate. The Board considers that each of its non-executive members is independent of management and free from any business or other relationships which could materially interfere with the exercise of independent judgement.

The Board operates according to the terms of its Constitution and Standing Orders. The College has an approved Scheme of Delegation specifying which decisions are reserved by the Board and those matters delegated to management. The Constitution and Standing Orders and the scheme of delegation were also reviewed and subsequently approved by the Board of Management in March 2017. The last part of the Articles of Governance, namely the Terms of Reference of the Board of Management and its Committees were reviewed in October 2017.

Attendance records of Board members at Board and committee meetings are maintained by the Board Secretary and reviewed by the Chair.

The agendas, papers and minutes of all meetings, except those deemed to be confidential by the Board, are available from the Board Secretary at:

Inverness College UHI
1 Inverness Campus
INVERNESS IV2 5NA

or on the college website at
www.inverness.uhi.ac.uk/about-us/board-of-management

Inverness College UHI – SC021197

Formal agendas, papers and reports are issued electronically to Board members in a timely manner prior to meetings. Briefings are also provided on an ad hoc basis.

Appointments or extension of appointments to the Board of Management

In terms of the Post 16 Education (Scotland) Act 2013 and to comply with the College Sector Board Appointments – 2014 Ministerial Guidance, the Further Education Regional Board of the University of the Highlands and Islands approved, following a robust recruitment process, the appointment of four new independent board members and three co-opted members/reserves. Two of the co-opted members have since been appointed as independent members following two resignations. In addition, at the beginning of the academic year, the Board welcomed one new Staff member and one new Student member following formal election processes. The Teaching staff member resigned in September 2016 and an election was held for a replacement. Similarly, the Student President stepped down at the end of November 2016 and the Vice President (Education) was nominated by the Student Executive to the Board. This is an exceptional change in the membership of the board within one academic year.

Audit Committee

The Audit Committee comprises at least five non-executive members of the Board of Management (excluding the Principal and Chair of the Board). The Committee operates in accordance with written terms of reference approved by the Board of Management. The Committee met five times in 2016/17.

The Committee is established in accordance with the Financial Memorandum between the University of the Highlands and Islands and the Board of Management of Inverness College UHI. Its remit is to review and monitor governance, risk management, adequacy of financial management, consider value for money and receive reports and monitor progress on recommendations from internal and external audit and advise the Board appropriately. The Audit Committee advises the College on the appointment of the internal auditors and the auditors' remuneration. The Committee prepares an annual audit report for consideration by the Board of Management.

Finance and General Purposes Committee

The Finance and General Purposes Committee comprises at least five members of the Board of Management. The Committee operates in accordance with written terms of reference approved by the Board of Management. The Committee met four times in 2015/16.

The Finance and General Purposes Committee amongst other matters, recommends to the Board of Management the College's annual revenue and capital budgets, monitors performance in relation to the approved budgets, considers issues relating to the operation of the College estate and reviews other matters of general purpose which are not covered under other committees' terms of reference.

Estates Strategy

The College has been located in the inspirational new facilities at Balloch and Inverness Campus since August 2015. These facilities house the Scottish School of Forestry and the main campus respectively. The relocation represented the

Inverness College UHI – SC021197

culmination of many years of planning and already it has had a transformational impact on the college and its ability to respond effectively to stakeholder need. The main campus within the Inverness Campus had brought the majority of staff together, uniting provision previously delivered at two distinct sites, namely, Midmills and Longman.

The overall objective of the Estates Strategy is to ensure that the College has a fit for purpose estate that delivers value for money, is environmentally sustainable, enables the College to deliver its contribution to the ROA and meets the needs of the communities which it serves.

Performance Review and Remuneration Committee

The Performance Review and Remuneration Committee comprises seven non-executive members of the Board of Management. The Committee operates in accordance with written terms of reference approved by the Board of Management. The Committee met three times in 2016/17. All members of the Committee have completed the mandatory remuneration training.

The Committee monitors the performance review and remuneration of the Principal and such other senior staff as is considered appropriate.

Corporate Strategy

The Board of Management is responsible for the overall strategic development of the College and is the guardian of its vision and mission. The College Strategic Plan for 2017/120 was approved by the Board of Management in December 2016. A number of supporting strategies were developed over the early part of 2017 and were approved by the Board of Management at its meeting in June 2017.

For senior management appointments there is at least one Board member representative on the interview panel.

The Board maintains a comprehensive area of the College website which includes information on the Board members, the committee structure, committee membership and board and committee minutes and agendas.

Risk Management and Internal Control

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

The Board of Management has delegated day-to-day responsibility to the Principal to maintain a sound system of internal control that supports the achievement of the College's aims and objectives whilst safeguarding the public funds and assets, in accordance to the responsibility assigned in the Financial Memorandum between the University of the Highlands and Islands and Inverness College UHI. He is also responsible for reporting to the Board of Management any material weakness or breakdowns in internal control.

The Board has adopted the revised strategic risk register which is in a format which is consistent across the UHI Partnership and has reviewed the key risks to which the

Inverness College UHI – SC021197

College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate these risks. The Board of Management is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that have been in place for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts.

The system of internal control is based on a framework of management information, administrative processes including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board of Management.
- Clear definitions of the responsibilities of, and the authority to delegate to the Depute Principal and other members of the Senior Management Team.
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets.
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns.
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- Comprehensive Financial Regulations approved by the Board of Management
- The adoption of formal project management disciplines.

Inverness College UHI appoints a professional Internal Audit service. Its work is informed by an analysis of risks to which the College is exposed and development of an annual programme of work approved by the Audit Committee and endorsed by the Board of Management. The Internal Auditors provide the Board of Management with reports on internal audit activity within the College. These reports include an independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

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

The Board of Management has therefore concluded that the College has effective systems and processes in place to manage corporate governance and internal control.

Going Concern

In 2014/15 and previously, deferred capital grants were reported as reserves within the balance sheet.

Inverness College UHI – SC021197

From 2015/16 onwards FRS102 requires deferred capital grants to be relabelled as deferred income and deducted from net assets; as such the 2016/17 balance sheet shows a net liability rather than a net asset.

In August 2015, the College moved into 1 Inverness Campus and the balance sheet reflected the capitalisation of the new assets. This development was funded through an NPD arrangement and the College pays a unitary charge for these assets. The accounting treatment for this is as for a finance lease. The structure is such that in the initial years the capital repayment is low with the interest being higher. During the course of the contract, this will reverse with the capital repayment increasing and the interest element decreasing.

Whilst this impacts on the presentation of our financial position, in cash terms there is little impact as the unitary charge payments are largely funded by the Scottish Funding Council.

The Board of Management considers that the College is a going concern as it has adequate resources to continue in operational existence for the next few years. The financial statements have been prepared on this basis.

Approved by order of the members of the Board of Management on 19 December 2017 and signed on its behalf by:



Neil Stewart
Chair



Professor Christopher O'Neil
Principal and Chief Executive Officer

Independent Auditor's Report

Independent auditor's report to the members of the Board of Management of Inverness 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 Inverness College for the year ended 31 July 2017 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Cash Flow Statement and notes 1 to 23 to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Conclusions relating to going concern

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

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

Responsibilities of the Board of Management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report and accounts

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

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

Other information in the annual report and accounts (continued)

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

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on other prescribed matters

We are required by the Auditor General for Scotland to express an opinion on the following matters.

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.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, we have not identified material misstatements in the Performance Report or Governance Statement.

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.



Stephen Reid, (for and on behalf of Ernst & Young LLP)

Ernst & Young LLP,
Atria One
144 Morrison Street,
Edinburgh,
EH3 8EB

Date: *21 December 2017*

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

Statement of Comprehensive Income
Year Ended 31 July 2017

	Notes	2017 £	2016 £
Income			
Funding Council Grants	2	19,766,585	18,479,915
Tuition fees and education contracts	3	3,828,431	3,288,694
Other income	4	2,901,281	2,885,099
Investment income	5	4,708	6,701
Total Income		26,501,005	24,660,409
Expenditure			
Staff costs	6	14,559,692	13,572,813
Other operating expenses	8	6,346,608	6,860,463
Depreciation and impairment	11	1,839,411	2,219,883
Interest payable	9	3,405,613	3,502,854
		26,151,324	26,156,013
Surplus / (deficit) before other gains and losses		349,681	(1,495,604)
(Loss) on disposal of fixed assets		(183,274)	0
Surplus / (deficit) before tax		166,407	(1,495,604)
Corporation tax		0	0
Surplus / (deficit) for the year		166,407	(1,495,604)
Actuarial gain/(loss) in respect of pensions		(164,000)	(1,494,000)
Total comprehensive income for the year		2,407	(2,989,604)
Represented by:			
Unrestricted funds		2,407	(2,989,604)

The statement of comprehensive income is in respect of continuing activities and is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 1b provides details of the adjusted operating position on a Central Government accounting basis.

Inverness College UHI - SC021197

**Statement of Changes in Reserves
Year Ended 31 July 2017**

	Unrestricted Funds £
Balance at 1st August 2015	(5,551,020)
Surplus / (deficit) for the year	(1,495,604)
Actuarial gain / (loss) in respect of pensions	<u>(1,494,000)</u>
Balance at 31st July 2016	(8,540,624)
Surplus / (deficit) for the year	166,407
Actuarial gain / (loss) in respect of pensions	<u>(164,000)</u>
Balance at 31st July 2017	<u>(8,538,217)</u>

Inverness College UHI - SC021197

Balance Sheet

Year Ended 31 July 2017

	Notes	2017 £	2016 £
Non-current assets			
Tangible fixed assets	11	<u>52,252,859</u>	<u>55,841,646</u>
Current assets			
Debtors	12	451,536	409,751
Cash and cash equivalents		<u>3,763,193</u>	<u>3,343,595</u>
		4,214,729	3,753,346
Creditors: amounts falling due within one year	13	(7,117,497)	(7,636,030)
Net current assets / (liabilities)		<u>(2,902,768)</u>	<u>(3,882,684)</u>
Total assets less current liabilities		49,350,091	51,958,962
Creditors: amounts falling due after one year	14	(44,916,894)	(48,595,864)
Provisions	15	<u>(12,971,414)</u>	<u>(11,903,722)</u>
Total net assets / (liabilities)		<u>(8,538,217)</u>	<u>(8,540,624)</u>
Unrestricted reserves		<u>(8,538,217)</u>	<u>(8,540,624)</u>

The accounts were approved by the Board of Management
on 19 December 2017 and signed on its behalf by:



Neil Stewart
Chair



Professor Christopher O'Neil
Principal and Chief Executive Officer

Statement of Cash Flows
Year Ended 31 July 2017

	Notes	2017 £	2016 £
Cashflow from Operating Activities			
Deficit for the year		166,407	(1,495,604)
Adjustment for non-cash items			
Depreciation and impairment	11	1,839,411	2,219,883
Pension costs less contributions payable		913,000	685,000
(Increase) / Decrease in debtors	12	(41,785)	83,869
(Decrease) / Increase in creditors – less than one yea	13	(518,533)	3,137,197
(Decrease) / Increase in creditors – more than one ye	14	(3,678,970)	37,256,947
(Decrease)/Increase in early retirement and other pro	15	(9,308)	45,907
Adjustments for investing or financing activities			
Interest payable	9	243,932	21,230
Interest elements of NPD finance lease	9	3,161,681	3,215,624
Investment Income	5	<u>(4,708)</u>	<u>(6,701)</u>
Net cash inflow from operating activities		2,071,127	45,163,352
Cash flows from Investing and financing activities			
Interest payable	9	(243,932)	(21,230)
Interest element of NPD finance lease	9	(3,161,681)	(3,215,624)
Investment Income	5	4,708	6,701
Proceeds from sales of fixed assets		2,195,000	0
Payments made to acquire fixed assets	11	<u>(445,624)</u>	<u>(43,384,007)</u>
Increase/(decrease) in cash in the year		419,598	(1,450,808)
Cash at the beginning of the year		<u>3,343,595</u>	<u>4,794,403</u>
Cash at the end of the year		<u>3,763,193</u>	<u>3,343,595</u>

Notes to the Financial Statements for the Year Ended 31 July 2017

1a. STATEMENT OF ACCOUNTING POLICIES

Basis of Preparation

The financial statements are prepared in accordance with the Further & Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice (SORP) 2015: Accounting in Further and Higher Education and in accordance with applicable Accounting Standards, including Financial Reporting Standard 102 (FRS 102) and the Government Financial Reporting Manual 2015-16 (FReM). The financial statements conform to the accounts direction published by the Scottish Funding Council (SFC) in June 2017.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of Accounting

The financial statements are prepared on a going concern basis in accordance with historical cost convention modified by the revaluation of certain fixed assets.

Judgements in applying policies and key sources of estimation uncertainty

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

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

Valuation of buildings

College buildings are of a specialist nature and are valued on a periodic basis by an independent, qualified valuer.

Useful economic lives of buildings

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

Recoverable amount of trade debtors

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

Obligations under defined benefit pension schemes

The Board of Management has relied on the actuarial assumptions of qualified actuaries which have been reviewed and are considered reasonable and appropriate.

Inverness College UHI – SC021197

Recognition of Income

Income from grants, contracts and other services rendered is recognised in the income and expenditure account in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. The main annual recurrent grant from SFC, which is intended to meet recurrent costs, is credited directly to the income and expenditure account.

Tuition fees are credited to the Income and Expenditure Account in the year in which they are earned. The College operates a fee waiver policy that provides free access to education to students where they have special educational needs, or they or their partner is receiving a form of recognised benefit.

Government Capital grants

Government Capital Grants, as amounts approved by The Scottish Government or government agency, are paid to the College as required to meet its liabilities during the development process. This is treated as a deferred capital grant and is released to income in accordance with the accrual model as permitted by FRS 102 over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the College to recognise income on a systematic basis over the period in which the College recognises the related costs for which the grant is intended to compensate.

Government revenue grants

Government revenue grants are recognised using the accrual model which means the College recognises the grant in income on a systematic basis over the period in which the College recognises the related costs for which the grant is intended to compensate.

Non-Government grants

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

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

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

Pension Schemes

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

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

Inverness College UHI – SC021197

Administrative and support staff may join the Local Government Pension Scheme (LGPS) which is administered by Highland Council. The fund is a defined benefit pension scheme, providing benefits based on final pensionable pay, which is contracted out of the State Earnings-Related Pension Fund. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

The pension provision shown in the balance sheet has been calculated in accordance with instructions issued by the Scottish Funding Council, using an updated set of actuarial factors that reflect a trend of increased life expectancy.

Tangible Fixed Assets - Land and Buildings

New Campuses

The College procured its new campus buildings at Balloch and Inverness using the Scottish Futures Trust's Non-Profit Distributing (NPD) model (additionally see Service Concession Arrangements note to the accounts, below). The buildings were handed over to the College in July and August 2015 in time for the 2015/16 academic year. Each building design combines an inspirational external appearance with a technologically advanced and functional fit-out to cater for the College's broad FE and HE curricula.

The new NPD assets were capitalised in 2015/16 and are included as fixed assets under land and buildings. The buildings will be depreciated over their expected useful lives of 60 years on a straight line basis. As required by FRS102 the NPD assets are stated at fair value; they were valued by Graham and Sibbald, Chartered Surveyors using the UKGN2 Depreciated Replacement Cost method of valuation as at 1st August 2015.

The related debt is included in the balance sheet as a creditor and is repaid over a 25 year term. The College makes monthly unitary charge payments which include the capital element of the loan together with interest, facilities management and building lifecycle costs which are reported in the income and expenditure account. The Scottish Funding Council provides the College with grants to fund the unitary charge payments with the exception of the facilities management costs and 50% of the building lifecycle costs.

Former Campus

Land and Buildings inherited from the local authority were stated in the balance sheet at valuation (by Shepherd, Chartered Surveyors, in September 2015) less amounts written off by way of depreciation. In 2015/16 the Old Campus buildings were fully written down, just leaving the land value remaining.

Tangible Fixed Assets - Equipment

Individual items of equipment costing £5,000 or more (£30,000 or more for grouped items) are capitalised as Fixed Assets on the Balance Sheet. Equipment costing less than these amounts are written off to the income and expenditure account in the period of acquisition.

Inverness College UHI – SC021197

Equipment is depreciated over its expected useful economic life, on a straight line basis, as follows:

Equipment	6.7 years (15% per year)
Fixtures and Fittings	5 years (20% per year)
Computer equipment	3 years (33.3% per year)

Where Fixed Assets are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grant is credited to a deferred income account and is released to the income and expenditure account over the expected useful economic life of the related asset, on a basis consistent with the depreciation policy or in the case of an NPD asset over the unitary charge payments period.

Subsequent Expenditure on Existing Fixed Assets

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

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

Leased Assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements, which transfer to the college substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Assets which are held under hire purchase contracts, which have the characteristics of finance leases, are depreciated over their useful economic lives.

Service Concession Arrangements

Fixed assets held under service concession arrangements are recognised on the Balance Sheet at the present value of the minimum lease payments when the assets are bought into use with a corresponding financial liability.

Payments under the service concession arrangement are allocated between service costs, finance charges and financial liability repayments to reduce the financial liability to nil over the life of the arrangement.

Inverness College UHI – SC021197

Maintenance of Premises

The College annually determines its maintenance programme which is considered and approved by the Board's Finance and General Purposes Committee. The College is currently in the process of developing a longer-term estates strategy. The cost of maintenance is charged to the income and expenditure account in the period in which it is incurred.

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the rate of exchange. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by the Scottish Funding Council.

Unfunded pensions are accounted for under FRS 12 as required by the Accounts Direction issued by the Scottish Funding Council.

Taxation

As a registered charity the college benefits by being broadly exempt from corporation tax on income it receives from tuition fees, interest and rents. The College is exempted from levying VAT on most of the services it provides to students. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

Agency Arrangements

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the 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 these 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

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

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or when the College has transferred substantially all the risks and

Inverness College UHI – SC021197

rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Employee benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service 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.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Interest receivable

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Debtors

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

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Going concern

The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future, for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

1b Non-cash Allocation

	2016-17 £'000	2015-16 £'000
Surplus/(deficit) before other gains and losses (FE/HE SORP basis)	350	(1,496)
Add back:		
- Non-cash allocation for depreciation (net of deferred capital grant)	1,451	652
- Non-cash allocation for impairment		436
- Release of grant on disposal of assets	(1,596)	
Underlying operating surplus/(deficit)	205	(408)

Following reclassification, colleges received additional non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP

Inverness College UHI – SC021197

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 surplus of £349,681 for the year ended 31 July 2017. After taking account of the Government non-cash budget, the College shows an "adjusted" surplus of £204,219 on a Central Government accounting basis. This demonstrates that the College is operating sustainably within its funding allocation.

Inverness College UHI - SC021197

2. Funding Council Grants	2017	2016
	£	£
SFC Further Education Recurrent Grant	7,742,009	7,407,169
UHI Recurrent Grant	4,417,063	4,436,545
Childcare funds	235,565	244,980
Other specific SFC Grants	4,860,072	4,772,810
Other specific UHI Grants	527,003	486,698
Release of deferred grants (note 16)	1,984,873	1,131,713
	<u>19,766,585</u>	<u>18,479,915</u>

3. Tuition fees and education contracts	2017	2016
	£	£
Higher Education - Home and EU	2,304,270	2,312,614
Higher Education - Overseas	97,613	138,566
Further Education - Home	830,160	513,641
Education contracts	596,388	323,873
	<u>3,828,431</u>	<u>3,288,694</u>

4. Other income	2017	2016
	£	£
Other income generating activities	1,531,318	1,412,326
Other grant income	2,000	503,254
Other income	1,367,963	969,519
	<u>2,901,281</u>	<u>2,885,099</u>

5. Investment income	2017	2016
	£	£
Bank interest	<u>4,708</u>	<u>6,701</u>

6. Staff costs

The average monthly number of persons (including senior post-holders) employed by the College during the period, expressed a full-time equivalents was:

	2017	2016
	Number	Number
Academic/Teaching departments	178	176
Academic/Teaching services	11	17
Research grants and contracts	7	7
Administration and central services	105	102
Premises	7	9
Residences and catering	18	11
Other expenditure	25	<u>21</u>
	<u>351</u>	<u>343</u>

Inverness College UHI - SC021197

Staff costs for the above persons:

	2017	2016
	£	£
Wages and salaries	11,790,825	11,112,847
Social security costs	1,017,140	829,182
Other pension costs	1,751,727	1,630,784
	<u>14,559,692</u>	<u>13,572,813</u>
Academic/Teaching departments	8,060,269	7,796,225
Academic/Teaching services	776,162	749,927
Research grants and contracts	444,088	342,431
Administration and central services	4,179,745	3,709,207
Premises	268,256	238,608
Residences and catering	360,176	253,012
Other expenditure	470,996	483,403
	<u>14,559,692</u>	<u>13,572,813</u>
Staff costs on permanent contracts	14,039,322	13,028,436
Staff costs for short-term and temporary contracts	520,370	544,377
	<u>14,559,692</u>	<u>13,572,813</u>

The number of staff, including senior post-holders and the Principal, who received emoluments (including benefits in kind but excluding pension contributions) in the following ranges was:

	2017	2016
	Number	Number
£60,001 to £70,000	1	0
£70,001 to £80,000	0	0
£80,001 to £90,000	1	1
£90,001 to £100,000	1	0
£100,001 to £110,000	0	1

The outcome of the national bargaining pay negotiations has led to a transitional salary scale to be applied during the implementation period. The transitional scale came into effect on 1 April 2017 and the first payment against this was paid to unpromoted teaching staff in July 2017. Support staff agreed a pay award for 2016/17 of £550 effective from 1 April 2016. £100 of this was paid in June 2016 pending final agreement of the pay award. Once agreement was reached, a further uplift was applied in January 2017.

Inverness College UHI - SC021197

7. Senior post-holders' emoluments

	2017	2016
	Number	Number
Number of senior post-holders including the Principal	8	7
Senior post-holders emoluments are as follows:	£	£
Salaries	483,153	402,945
Pension contributions	48,657	67,771
	531,810	470,716

Emoluments payable to the Principal, who is also the highest paid senior post-holder:

	£	£
Salary	93,538	105,960
Pension contributions	10,607	18,025
	104,145	123,985

The Principal is an ordinary member of the Scottish Teachers' Pension Scheme. The College's contributions to the scheme, in relation to the Principal, are paid at the same rate as for other members of academic staff. The Principal left on 4 June 2017. The new Principal did not start until 1 September 2017.

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

8. Other operating expenses

	2017	2016
	£	£
Academic/Teaching departments and services	760,700	1,023,977
Research grants and contracts	199,810	80,351
Administration and central services	3,568,544	3,765,934
Premises	1,266,007	1,545,755
Residences and catering	513,163	394,651
Other expenditure	38,384	49,795
	6,346,608	6,860,463

Other operating expenses include:

Auditors remuneration (including irrecoverable VAT)		
Internal audit	25,912	19,325
External audit	15,930	16,800
External audit EMA	1,200	1,230
Rents under operating leases:		
Land and buildings	12,000	12,000
Other assets	47,771	151,155

Inverness College UHI - SC021197

9. Interest payable	2017	2016
	£	£
Interest on pension liabilities	243,932	287,230
Interest on finance lease NPD concession	3,161,681	3,215,624
	<u>3,405,613</u>	<u>3,502,854</u>

10. Taxation

As a registered charity, the College is exempt from corporation tax on the income it receives from tuition fees, interest and rents and therefore the College Board believes it has no liability in this regard.

11. Tangible fixed assets	Land and Buildings	Equipment	Total
	£	£	£
Cost or valuation			
At 1 August 2016	53,287,671	5,523,564	58,811,235
Additions	201,095	244,529	445,624
Disposals	(2,325,000)	-	(2,325,000)
At 31 July 2017	<u>51,163,766</u>	<u>5,768,093</u>	<u>56,931,859</u>
Depreciation			
At 1 August 2016	1,245,074	1,724,515	2,969,589
Depreciation charge for year	786,721	1,052,690	1,839,411
Disposals	(130,000)	-	(130,000)
At 31 July 2017	<u>1,901,795</u>	<u>2,777,205</u>	<u>4,679,000</u>
Net book value at 31 July 2017	<u>49,261,971</u>	<u>2,990,888</u>	<u>52,252,859</u>

Land and buildings with a net book value of £1,273,320 have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council, to surrender the proceeds.

12. Debtors	2017	2016
	£	£
Trade debtors	236,095	276,557
Accrued income	67,448	22,435
Financial instrument assets	303,543	298,992
Prepayments	147,993	110,759
	<u>451,536</u>	<u>409,751</u>

Inverness College UHI - SC021197

13. Creditors: Amounts falling due within one year	2017	2016
	£	£
Trade creditors	443,454	727,083
Service concession NPD creditor (see note 14)	529,771	463,048
Accruals	<u>3,198,802</u>	<u>2,591,776</u>
Financial instrument liabilities	4,172,027	3,781,907
Deferred income	2,349,696	2,906,742
Deferred grant income	292,571	690,000
Payroll taxes and social security	<u>303,203</u>	<u>257,381</u>
	<u>7,117,497</u>	<u>7,636,030</u>

14. Creditors: Amounts falling due after one year	2017	2016
	£	£
Service concession NPD creditor (see note below)	<u>37,464,429</u>	<u>38,009,236</u>
Financial instrument liabilities	37,464,429	38,009,236
Deferred grant income	<u>7,452,465</u>	<u>10,586,628</u>
	<u>44,916,894</u>	<u>48,595,864</u>

Service Concession Arrangements

The new Campuses are held under a Service Concession Arrangement which, at a minimum, will be repaid as follows:

	Within One Year	Two - Five Years	More than Five Years	Total
	£	£	£	£
NPD liability creditor repayment	529,771	2,706,147	34,758,283	37,994,201
Interest thereon	3,122,391	12,008,006	33,020,531	48,150,928
Service charges	612,590	2,607,382	15,278,795	18,498,767
VAT	852,950	3,464,307	16,611,522	20,928,779
	<u>5,117,702</u>	<u>20,785,842</u>	<u>99,669,131</u>	<u>125,572,675</u>

Under the arrangements the College makes monthly Service Charge "Unitary Charge" payments. These include capital repayment element of the liability which reduces the amount outstanding in Creditors in the Balance Sheet.

Also within the Unitary Charge are charges for interest on the debt outstanding together with premises service charges both of which are included within the Statement of Comprehensive Income, under Interest payable and Other operating expenses respectively.

The term of the debt is 25 years and the contract end date is 30 April 2040.

The College could deduct amounts where Availability and Performance fell short of contract, during the early period of occupancy.

The Scottish Funding Council provides the College with grants to fund the Unitary Charge with the exception of facilities management costs and 50% of lifecycle costs.

15. Early Retirement and Other Provisions

	Early Retirement Pension £	Defined Pension Liability £	Other Provisions £	Total £
At 1 August 2015	2,123,200	7,053,000	502,614	9,678,814
Expenditure in period	(115,343)			(115,343)
Provision in period	157,394	2,179,000	(17,373)	2,319,021
Interest charged	21,230			21,230
At 31 July 2016	2,186,481	9,232,000	485,241	11,903,722
At 1 August 2016	2,186,481	9,232,000	485,241	11,903,722
Expenditure in period	(115,698)			(115,698)
Provision in period	129,710	1,077,000	(34,252)	1,172,458
Interest charged	10,932			10,932
At 31 July 2017	2,211,425	10,309,000	450,989	12,971,414

The pension provision has been revalued using actuarial tables supplied by the Scottish Funding Council. The net interest rate applied was 0.5%. The above liability is in respect of future pension liabilities arising from early retirals.

The pension liability is as per the actuarial report valuation.

The other provisions mainly relate to the potential for ESF clawback and a pension strain provision.

16. Deferred Income

	SFC £	Other £	Total £
At 1 August 2016			
Land and Buildings	7,139,045	3,112,836	10,251,881
Equipment	918,881	105,867	1,024,748
Cash received			
Land and Buildings	0	242,462	242,462
Equipment	202,051	20,494	222,545
Released to income and expenditure			
Land and Buildings	(133,225)	(1,633)	(134,858)
Equipment	(127,428)	(126,361)	(253,789)
Repayment of grant on disposal	(2,011,727)		(2,011,727)
Release on disposals		(1,596,226)	(1,596,226)
At 31 July 2017			
Land and Buildings	4,994,093	1,757,439	6,751,532
Equipment	993,504	0	993,504

Inverness College UHI - SC021197

17. Financial Commitments

The College had annual commitments under non-cancellable operating leases:

	2017 £	2016 £
Land and buildings:		
Expiring within one year	12,000	12,000
Expiring between two and five years	0	0
	<u>12,000</u>	<u>12,000</u>
Other:		
Expiring within one year	50,002	60,534
Expiring between two and five years	95,063	90,621
Expiring after five years	0	0
	<u>145,065</u>	<u>151,155</u>

18. Further Education Bursary and Other Student Support Funds

	2017 Further Education Bursary £	2017 FE Disc £	2017 EMA £	2017 Other HE Disc £	2017 Total £	2016 Total £
1 August 2016	13,154	0	7,750	5,222	26,126	17,960
Allocation	1,937,740	115,000	109,295	75,592	2,237,627	2,203,701
Expenditure	(1,843,109)	(157,012)	(107,070)	(75,592)	(2,182,783)	(2,192,465)
Repaid to Funding Council as clawback	(66,615)	0	0	(5,222)	(71,837)	(3,070)
College Contribution to funds	6,407	0	0	0	6,407	0
Virements	(47,577)	42,012	0	0	(5,565)	0
31 July 2017	<u>0</u>	<u>0</u>	<u>9,975</u>	<u>0</u>	<u>9,975</u>	<u>26,126</u>

Represented by:

Clawback	0	18,376
Retained	9,975	7,750
	<u>9,975</u>	<u>26,126</u>

Inverness College UHI - SC021197

Further and Higher Education Childcare Funds

	2017	2016
	£	£
1 August 2016	0	0
Allocation	230,000	244,980
Expenditure	(235,565)	(244,980)
Virements	5,565	0
31 July 2017	<u>0</u>	<u>0</u>

19. Capital Commitments

As at July 2017, there were capital commitments of £133,230.

20. Contingent Liabilities

The College is aware that the net disposal proceeds from any future sale of the remainder of the former Longman campus will be require to be repaid to the Scottish Funding Council as part of the funding agreement for the new campus developments. Part of the Longman campus was funded through the Big Lottery Fund and discussions are ongoing in relation to proceeds related to this element of the building.

Inverness College UHI

21. PENSION PROVISIONS

Scottish Teachers' Superannuation Scheme (STSS, Teaching Staff)

The Scottish Teachers' Superannuation Scheme (STSS), in common with most other public service superannuation schemes, has no real fund and is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purposes of determining contribution rates.

Under the definitions set out in Financial Reporting Standard 17: Retirement Benefits, the STSS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has accounted for its contributions as if it were a defined contribution scheme.

The current contribution rates are:

Employees

Actual Pensionable Pay Min	FTE Pay Max	Contribution rate
up to & including	25,999	7.20%
26,000	34,999	8.70%
35,000	41,499	9.70%
41,500	54,999	10.40%
55,000	74,999	11.50%
75,000	and above	11.90%

Employers 17.2%

Pension and Similar Obligations (continued)

Local Government Pension Scheme (Administrative Staff)

The Highland Council LGPS is a funded defined benefit scheme, with the assets held in separate administered funds. The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 31 March 2014. The pension figures reflect the assets and liabilities relating to employees previously employed by Jet 2000 Limited.

The projected pension expense for the year to 31 July 2018 for employer contributions is £634,000 (2017 £576,000).

Inverness College UHI

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 31 July 2016 for the year to 31 July 2017, or date of joining the fund if later).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2017	2016
Discount rate at 31 July	2.7%	2.4%
Future salary increases	4.5%	3.9%
Future pension increases	2.5%	1.9%
Life expectancy from age 65 (years):		
Retiring today	31 July 2017	31 July 2016
Males	22.5	22.5
Females	24.1	24.1
Retiring in 20 years		
Males	24.7	24.7
Females	26.8	26.8

Return on Plan Assets

The return on the Fund in market value terms for the period to 31 July 2017 is estimated based on actual Fund returns as provided by the Administering Authority and index returns where necessary. Details are given below:

- Actual Returns from 1 July 2016 to 30 June 2017 were 17.9%
- Total Returns from 1 August 2016 to 31 July 2017 were 13.1%”

As per the actuary's report.

Inverness College UHI

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year end 31 July 2017

Period ended 31 July 2017	Assets	Obligations	Net (liability)/ asset
	£000	£000	£000
Fair value of plan assets	21,029	-	21,029
Present value of funded liabilities	-	30,261	(30,261)
Present value of unfunded liabilities	-	136	(136)
Opening Position as at 31 July 2016	21,029	30,397	(9,368)
Service Cost			
Current service cost	-	1,316	(1,316)
Past service cost (including curtailments)	-	-	-
Effect of settlements	-	-	-
Total Service Cost	-	1,316	(1,316)
Net Interest			
Interest income on plan assets	508	-	508
Interest cost on defined benefit obligation	-	741	(741)
Impact of asset ceiling on net interest	-	-	-
Total Net Interest	508	741	(233)
Total defined benefit cost recognised in Profit or (Loss)	508	2,057	(1,549)
Cashflows			
Plan participants' contributions	227	227	-
Employer contributions	634		634
Contributions in respect of unfunded benefits	9		9
Benefits paid	(547)	(547)	-
Unfunded benefits paid	(9)	(9)	-
Effect of business combinations and disposals	-	-	-
Expected Closing Position	21,851	32,125	(10,274)
Remeasurements			
Changes in demographic assumptions			
Changes in financial assumptions	-	2,427	(2,427)
Other experience	-	(3)	3
Return on assets excluding amounts included in net interest	2,260	-	2,260
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income (OCI)	2,260	2,424	(164)
Fair value of assets	24,111	-	24,111
Present value of funded liabilities	-	34,420	(34,420)
Present value of unfunded liabilities	-	129	(129)
Closing position as at 31 July 2017	24,111	34,549	(10,438)

Inverness College UHI

Pension and Similar Obligations (continued)

The estimated asset allocation of Inverness College as at 31 July 2017 is as follows:

	31 July 2017		31 July 2016	
	£ 000's	%	£ 000's	%
Equities	16,878	70	14,089	67
Gilts				
Other Bonds	3,858	16	3,996	19
Property	2,893	12	2,523	12
Cash	482	2	421	2
Total	24,111	100	21,029	100

Enhanced early retirements

In the interests of efficiency and effectiveness, certain employees have retired early with enhanced pensions. The cost of the enhancements is borne directly by the College. Provisions include £2,211,425 (2016 £2,186,479) being the valuation of the pension enhancements (Note 14).

The total cost for the College was:

	Year Ended	Year Ended
	31 July 2017	31 July 2016
	£	£
Contributions to Scottish Public Pensions Agency	1,117,190	1,054,696
Contributions to Highland Council Pension Scheme	623,029	554,079
Contributions to NEST	11,507	859
Total pension cost	<u>1,751,726</u>	<u>1,609,634</u>

22. EVENTS AFTER THE REPORTING PERIOD

The College is in the process of arranging the disposal of the former main campus site at Longman Road, Inverness. Disposal proceeds, less costs, will be returned to the Scottish Funding Council in line with the funding agreement in respect of the new campus buildings.

23. RELATED PARTY TRANSACTIONS

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

The College had transactions during the year or worked in partnership with the following publicly funded or representative bodies in which members of the Board of Management hold official positions.

Inverness College UHI

Member	Organisation	Income Transactions 2016-17 £	Expenditure Transactions 2016-17 £	Balance due from at 31 July 2017 £	Balance due to at 31 July 2017 £
Neil Stewart	NHS Highland	31,496	13,891	2,396	-
Jaci Douglas	Highlife Highland Highland Council NHS Highland	1,226 58,320 31,496	- 15,368 13,891	1,226 11,452 2,396	- 58 -
Lindsey Mitchell	NHS Highland	31,496	13,891	2,396	-
Steve Walsh	Highland Council	58,320	15,368	11,452	58
Gavin Ross	Lifescan Scotland Ltd	25,238	-	21,407	-
Innis Montgomery	Cap Gemini	610	-	-	-
Andrew Gray	Tesco PLC	180	-	-	-
Ollie Bray	Kingussie High School Highland Council	- 58,320	76 15,368	- 11,452	- 58
Carron McDiarmid**	Highland Council	58,320	15,368	11,452	58
Fiona Neilson**	Ledingham Chalmers LLP	115			

No Board of Management members, with the exception of the Principal and staff, receive emoluments other than travel and subsistence expenses. The volume of voluntary commitment made was considerable and is greatly appreciated.

The Board of Management of Inverness College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by The Scottish Funding Council (SFC). SFC is regarded as a related party. During the year Inverness College had various material transactions with SFC and with other entities for which SFC is regarded as the sponsor Department eg Student Awards Agency for Scotland. On the basis of guidance from the SFC these transactions do not require to be disclosed.

During the period the College had various material transactions with the University of the Highlands & Islands, which received university title on 2 February 2011. The College receives funding for higher education activity through UHI Executive Office. Funding in respect of further education activity is distributed by UHI Executive Office acting as the Regional Strategic Body to which the College has been assigned.

Inverness College UHI

2016-17 Accounts direction for Scotland's colleges

1. It is the Scottish Funding Council's direction that colleges comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
2. Colleges must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).
3. Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2016-17 (FReM) where applicable.
4. Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2017.
5. The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body
6. Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
30 June 2017

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