



FINANCIAL STATEMENTS **for the year to 31 July 2017**

Charity Number: SCO21174

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1. PERFORMANCE REPORT OVERVIEW

CHIEF EXECUTIVE'S STATEMENT

The year has been a successful one for the College.

We have fulfilled our strategic aims and objectives and achieved the outcomes that we set with the Scottish Funding Council in our Outcome Agreement for 2016-17.

Our Evaluative Report and Enhancement Plan, which forms part of the annual Outcome Agreement process, evaluates the provision and services offered by the College against a range of quality indicators. We have identified many areas of positive practice upon which we can build as we take further steps that put the learner at the heart of all that we do.

We have completed the project to redevelop and extend science, technology, engineering and mathematics learning facilities at the Fraserburgh Campus. Taken together with the earlier '2012 project', we have a Campus of which we are rightly proud and one that is well placed to serve the needs in the north of our Region.

We have presented an outline business case for the next stage of redevelopment of the Aberdeen City Campus, in the heart of the City of Aberdeen, which is the College's main campus. We are working with colleagues at the Scottish Funding Council to move our plans through the next stages of development to secure the funding that we need to allow our transformational vision for the site to become a reality. This investment is critical to the College's ability to provide the dynamic and vibrant Campus that will be well placed to support the ambitious plans that exist for the development of Aberdeen in the coming years.

At our Altens Centre we have considerable specialist resources of world-wide reputation to support learning and skills in key priority sectors for Scotland.

We have adopted an approach of working 'Towards Excellence' that will enable us to shape a vision for the future based on the College offering a range of programmes that are relevant and responsive, ensuring success for all our learners. We have continued to work in partnership to ensure the best possible services.

Our vision for excellence in the future is:

Portfolio – to provide an offer that: meets the needs of the Region; delivers success for all learners; and supports efficient and effective learner journeys

People – to sustain: a strong and confident staff; a culture of respect, innovation, creativity and quality; a successful, confident and engaged student body; exciting and innovative learning and reaching and the highest possible positive learner experience.

Partnership – to be: an excellent and trusted partner recognised for creativity, innovation and driving change; an organisation that is pivotal in and essential to the educational and skills landscape;

Pounds and pennies: to be a financially sustainable college with reduced reliance on SFC income, balanced budgets and financial headroom for investment and to have fit-for-purpose estates and technology

OUR PURPOSE

Legal Status

The College is incorporated under the Further and Higher Education (Scotland) Act 1992. The College is a Scottish charity and is registered with the Office of the Scottish Charities Regulator and is exempt from the corporation tax and capital gain tax. The College receives no similar exemption in respect of Value Added Tax.

Aberdeen College and Banff & Buchan College merged on 01 November 2013 to form North East Scotland College (NESCol). The NESCol Regional Board was established in January 2013, with the assigned College Board of Management for NESCol vesting on 01 November 2013. NESCol employs around 600 staff. Following the merger, NESCol restructured staff roles to take account of the new operating environment.

NESCol is the only further education college located within the North East of Scotland, and provides a wide range of education and training opportunities across the region to meet the needs of individuals, communities

and employers. The College's main (College-owned) centres of delivery are in Aberdeen (three sites), Fraserburgh and Peterhead with two leased community based training centres across the region.

The new College is committed to maintaining its track-record of success and commitment to high standards of service delivery and to improving opportunities for the people of Aberdeen and Aberdeenshire, to helping the region's young people progress to work or higher education and to supporting businesses through professional updating and workforce development.

VISIONS AND VALUES

Our Vision for North East Scotland College is:

“A College that transforms lives and supports regional development”

Our Values are the foundation of all that we do and state what is really important to us. They apply to everyone who comes to the College to learn or work. These are:

Commitment and Excellence

- Understanding and responding to the needs of our students, staff, key stakeholders and customers;
- Being business-like and professional;
- Maintaining a clear focus on our goals and ensuring that these are achieved through effective planning and organisation;
- Achieving excellence by continually evaluating and improving our services;
- Ensuring our processes are consistent, accessible, effective and efficient.

Empowerment and Engagement

- Creating an environment where innovation and creativity are encouraged and can flourish;
- Providing clear direction, information and communication;
- Providing development opportunities to ensure that we have the skills, knowledge and confidence to perform to the best of our ability;
- Giving recognition and praise;
- Encouraging and supporting collaboration.

Respect and Diversity

- Valuing the experience and talent of all;
- Treating others with dignity and respect;
- Creating an accessible, inclusive learning and working environment;
- Being fair, open and transparent to ensure a culture of mutual trust and integrity.

Strategic Aim 1

To create personal and business growth through learning

Strategic Objectives

1. To work with local schools and universities, local authorities and other agencies to promote courses especially in current and emerging skill shortage areas.
2. To ensure that curriculum development and programme design are informed by national evidence and local market research which identifies local, regional and national skills needs.
3. To maintain national specialisms in engineering, oil and gas, maritime, and creative industries.
4. To review and further enhance the development of employability, enterprise, and entrepreneurial skills within programmes to promote learner progress and achievement, and improve the supply of economically valuable skills.
5. To continue to implement effective arrangements for maintaining and improving the quality of learning and teaching, and to react to, and if necessary, challenge influences which would affect the delivery of these functions.

Strategic Aim 2

To provide accessible programmes of study that lead to positive outcomes for students.

Strategic Objectives

1. To ensure that local access to educational opportunity is preserved across the region in order to meet the needs of learners, employers and communities both in cities and rural areas.
2. To work with partners and key stakeholders to increase positive destinations for learners.

3. To work with partners in the public and voluntary sectors to provide appropriately targeted learning opportunities for educationally disadvantaged groups, (including those furthest from the labour market, those with disabilities, those with additional support needs, and looked after young people).
4. To maintain a range of College courses, suited to differing levels of prior experience and learning, in order to provide appropriate progression opportunities within the College, to university or to work-based qualifications.
5. To enhance school/College links and to increase school pupil participation in STEM (science, technology, engineering and mathematics) subjects as part of the College's approach to becoming an early adopter of the Wood Commission recommendations.

Strategic Aim 3

To achieve maximum impact from the available resources.

Strategic Objectives

1. To ensure the financial sustainability of the College,
2. To increase income from non-Scottish Funding Council sources.
3. To develop and implement a regional Estates Strategy that delivers excellent facilities.
4. To reduce the College's impact on the environment.
5. To ensure the recruitment, retention, development, leadership and motivation of suitably qualified and skilled staff.

KEY ISSUES AND RISKS

The College's Risk Management Policy forms part of the College's internal control and corporate governance arrangements. The Policy explains the College's underlying approach to risk management, documents the roles and responsibilities of the Board of Management, the Senior Management Team, and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process the Regional Board will use to evaluate the effectiveness of the College's internal control procedures.

The following key principles outline the College's approach to risk management and internal control:

- The Regional Board has responsibility for overseeing risk management within the College as a whole;
- An open and receptive approach to solving risk problems is adopted by the Regional Board;
- The Principal and the Senior Management Team supports, advises and implements policies approved by the Regional Board.
- The College makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks;
- College managers are responsible for encouraging good risk management practice within their Sectors/Teams;
- Risk is considered and addressed as an integral part of the strategic and operational planning and review process; and,
- Key risk indicators will be identified and closely monitored on a regular basis.

The Regional Board have established a High Level Strategic Risk Register. The document identifies actual critical risks that the College is facing, with a high-level indication of the mitigation that will be applied to each. The following ten critical risks have been identified:

Governance issues: the risk that the reclassification of colleges and other changes to college governance reduce the flexibility of the Regional Board to manage financial and estates issues and to meet targets set out in the Outcome Agreement.

Corporate issues: the risk that the College fails to maintain service continuity because of unforeseen circumstances, including change of governmental and SFC policy.

Commercial issues: the risk that the College becomes reliant on profit from the College company's training for the oil and gas industry, and that this might be reduced by any down-turn in the North Sea oil Sector, thereby threatening the College's financial resilience.

Curriculum issues: the risk that in establishing a nationally influenced regional curriculum, the College fails to deliver its current high level of service and as a result its reputation is damaged and recruitment is affected, or that organisational capacity cannot be realigned in line with the changing governmental requirement or

changing patterns of demand, and the College fails to deliver programmes that are essential for local industry and prosperity.

IT issues: the risk that in implementing the change necessary for the integration of IT services in the College in a difficult financial environment, the College is not able to maintain the robustness and fitness for purpose of IT infrastructure that is essential for course delivery, student services and business services.

Quality issues: the risk that in that changing to a new SFC-driven, self-evaluation model in a climate of reducing human and financial resource will make it difficult to implement successful and robust quality arrangements for improving student outcomes and meeting stakeholder expectations which, in turn, will lead to diminished stakeholder confidence in, and reputational damage for, the college.

Financial issues: the risk that changes to Scottish Government policy, funding levels and the funding methodology, combined with the inflexibility of ONS reclassification, make it difficult to maintain a balanced budget.

Estates and Facilities issues: the risk that much reduced funding and/or the loss of assets, and the implementation of major systemic change may impact on the College's ability to implement its Estates Development Strategy and/or to maintain the necessary quantity, quality and currency of facilities and other resources.

Staffing issues: the risk that in a situation of pay constraint and a return to national collective bargaining will prevent the College from maintaining its position of staff being the highest paid in the sector and may impact adversely on other terms and conditions of employment implemented as part of harmonisation causing disruption. In reducing costs in line with much reduced funding and in adjusting to rapid structural and systemic change, the College may be unable to sustain staffing in critical areas and experiences a significant loss of knowledge and skills.

Demand for College Provision issues: the risk that demand for SFC-funded, SDS-funded and full cost recovery provision diminishes thus reducing available income to the College.

The High Level Strategic Risk Register is an appendix to the College's Strategic Plan and is considered by Regional Board at its Annual Planning Event.

The College has also established an Operational Risk Register which is owned, monitored and reviewed by the Senior Management Team. The Operational Risk Register is structured in line with the critical risks identified in the High Level Strategic Risk Register, and is reviewed monthly.

The Board's Audit and Risk Committee has specific duties in relation to Internal Control and Risk Management.

Internal Control

- Reviewing and advising the Regional Board of the Internal Audit Services (IAS) and the external auditor's assessment of the effectiveness of the College's financial and other internal control systems, including controls specifically to prevent or detect fraud or other irregularities as well as those for securing economy, efficiency and effectiveness reviewing and advising the Regional Board on its compliance with corporate governance requirements and good practice guidance.

Risk Management

- Reviewing the Risk Management Policy, ahead of its consideration by the Regional Board.
- Monitoring the effectiveness of risk management systems, including the College's risk appetite and its Risk Registers – High Level Strategic, and Operational.

The Committee also has specific duties in relation to Internal Audit, External Audit, and Value for Money.

PERFORMANCE SUMMARY

Review of Financial Outturn for the Reporting Period

The Consolidated Statement of Comprehensive Income and Expenditure for the year showed a surplus on the continuing operations after disposals of assets and taxation of £859,000 (FY2015-16: £2,004,000 surplus). After adjusting for the effect of depreciation on re-valued assets, and the realisation of property revaluation gains of previous years, the surplus for the year was £609,000 (FY2015-16: £11,181,000 deficit). The main reason for this change in last year's figures was the substantial movement in the valuation of the Pension Fund deficit. Of the total income of the College, 34% (FY2015-16: 38%) was received from non-SFC sources.

The accumulated deficit on the Income and Expenditure reserve at 31 July 2017 was £2,980,000 (31 July 2016 deficit £3,843,000). The provision for future pension costs arising from early retirement of former staff and the equalisation of pension contributions under the Local Government Pension Scheme and the Scottish Teachers Superannuation Scheme at 31 July 2017 was £7,373,000 (31 July 2016: £7,275,000) whilst the FRS 102 provision for the College's share of the North East Scotland Pension Fund (NESPF) deficit was £25,842,000 (31 July 2016: £23,916,000).

The College's cash and liquid resources position at the end of the year was £3,822,000 (31 July 2016: £1,155,000), this equates to the College having 27 days of cash on hand (FY2015-16: 9 days).

Taxation Status

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar redemption in respect of Value Added Tax.

Treasury Policies and Objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College's treasury management arrangements are governed by the College's financial regulations, which are compliant with the Financial Memorandum with the SFC, as are the College's borrowing arrangements.

Cash Flows

The Colleges cash flow balance increased by £2,667,000 in the year (2015-16 – decrease of £3,868,000).

Liquidity

During the financial reporting period, the College maintained its reserves in accordance with its Reserves Policy, which is to maintain sufficient resources to fund the operation of the College. The Regional Board of Management acknowledges the prohibition set out in the Scottish Public Finance Manual on the accumulation of reserves.

Supplier Payment

The College complies where appropriate with the CBI prompt payment code and has a policy of paying its suppliers within 30 days of invoice unless the invoice is contested. At the time of writing, no interest has been paid under the Late Payments of Commercial Debts (Interest) Act. All disputes are handled as quickly as possible. Suppliers' invoices were paid in 11 days in the year to 31 July 2017 (12 days in the year to 31 July 2016).

Interest paid under Late Payments of Commercial Debts (Interest) Act amounted to £0 during the period (31 July 2016 - £0).

Parliamentary Accountability Report

Fees and charges

There are no items to be disclosed under this heading.

Disclosure of contingent liabilities

There are no items to be disclosed under this heading.

Disclosure of total losses and total special payments

There are no items to be disclosed under this heading.

Resources

The College has net assets of £28,842,000 (31 July 2016: £27,597,000). The current asset to current liabilities ratio is 2.4:1 (31 July 2016: 2.1:1), with the gearing on long term liabilities being 2.6:1 (31 July 2016: 2.7:1).

Non-cash allocation

The Accounts Direction issued by the SFC requires an adjustment to be made depreciation in the table below. The figure is a product of the calculation of the 'cash budget for priorities' noted on page 9. The College has utilised this 'cash budget' in full to meet the cost of implementing pay settlements made in 2015-16. This is an operating cost of £723,000 for the College and therefore should be taken in to account (rather than be removed) in arriving at the College's underlying operating surplus/deficit. On that basis, it is more representative to measure the College's underlying financial position for the year as a deficit of £118,000 rather than a surplus of £605,000.

	2016-17 £'000	2015-16 £'000
Surplus before other gains and losses	769	1,889
Add back:		
- Depreciation (net of deferred capital grant release)	723	587
- Exceptional non-restructuring costs (e.g. impairment)	-	-
- Non-Cash pension adjustments	1,742	1,733
- Donation to Arms-length Foundation	-	-
Deduct:		
- Non-Government capital grants (e.g. ALF capital grant)	(2,629)	(4,078)
- Exceptional income	-	-
- Revenue funding allocated to loan repayments and other capital items	-	-
Underlying operating surplus	605	131

Principal Risks and Uncertainties

The principal risks faced by the College are recorded in the College's High Level Risk Register, which is reviewed annually by the Regional Board. Mitigating actions are in place to address risks. The identified high level risks are:

- the reclassification of colleges and other changes to college governance reduce the flexibility of the Regional Board to manage financial and estates issues and to meet targets set out in the Outcome Agreement (with the SFC);
- the College fails to maintain service continuity because of unforeseen circumstances, including change of governmental and SFC policy;
- the College becomes reliant on profit from the College company's training for oil and gas industry, and that this might be reduced by any down-turn in the North Sea oil sector, thereby threatening the College's financial stability and sustainability;
- the continuing decline in funding in real terms will have a negative impact of the relevance, breadth and quality of curriculum delivery, and hence on student recruitment, retention and attainment, with resultant financial and reputational damage;
- in difficult financial environment, the College is not able to maintain the robustness and fitness for purpose of IT infrastructure that is essential for course delivery, student services and business services;
- changing to a new SFC-driven self-evaluation model in a climate of reducing human and financial resource will make it difficult to implement successful and robust quality arrangements for improving student outcomes and meeting stakeholder expectations, which, in turn, will lead to diminished stakeholder confidence in, and reputational damage for, the College;

- changes to Scottish government policy, funding levels, and the funding methodology combined with the inflexibility of ONS reclassification, make it difficult to maintain a balanced budget;
- much reduced funding and/or the loss of assets and the implementation of major systemic change may impact on the College's ability to implement its Estate Development Strategy and/or to maintain the necessary quantity, quality and currency of facilities and other resources;
- agreements arising from national collective-bargaining may not be compatible with the College's own aspiration to develop flexible workforce arrangements that are aligned with the needs of students and employers and are compatible with the available resources; and,
- demand for SFC-funded, SDS-funded and full cost recovery provision diminishes thus reducing available income to the College.

Cash Budget for Priorities

1. 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.
2. 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	0	587
2015-16 Pay Award	694	242
Other (give detail) Superannuation increases and merger harmonization costs.	0	332
Total impact on operating position	694	1,161
Capital		
Loan repayments	0	0
Provisions pre 1 April 2014	0	0
Total Capital	0	0
Total cash budget for priorities	694	1,161

Resource Limit

The reclassification of colleges as central government bodies means that each college now has to operate within a resource limit which is measured annually at the end of March. The return made by North East Scotland College for the financial year to 31st March 2017, showed that this college recorded break even position on its Revenue and Capital Resource limits. The Revenue Resource Limit (RRL) for the College was £40,482,000 and the Capital Resource Limit was £526,000. These figures differ from the figures shown in this report because:

1. The Resource limit covers a different 12 month from that covered in these accounts – so there are timing differences
2. SFC income is accounted for on a cash basis for the Resource Return (as opposed to accruals basis for these accounts)
3. The charge of depreciation and the release of deferred capital grants is not included in the RRL and is accounted for separately.

Curriculum Measures of Performance

During AY2016-17 curriculum teams made use of quality learner retention, attainment and progression data to inform programme evaluations and clear actions identified where improvement was required. Curriculum teams also had a focus on the performance of their programmes and each had a clear understanding on where improvements had to be made. Most teams have improved their success rates as a result of this approach. A more systematic approach to the review of curriculum performance is in place for each of the schools. The Senior Management Team held meetings with each of the schools Directors and their Faculty Managers and Curriculum Quality Managers to monitor and review performance. These meetings were held in November, February and May and this has led to improvement in attainment across many subject teams.

KEY STATISTICAL RESULTS

Totals	Number Enrolled			Early Withdrawal			Further Withdrawal			Completed: Partial Success			Completed: Successful			SPAR		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Total	19,932	16,251	16,497	2.85%	3.30%	3.72%	7.25%	7.95%	8.15%	22.41%	13.61%	13.37%	67.48%	75.36%	74.87%	69.46%	77.93%	77.76%
Business & Community Development	4,058	3,681	4,030	0.67%	1.30%	1.54%	3.75%	2.91%	3.90%	32.85%	29.48%	26.40%	62.72%	67.21%	68.61%	63.14%	68.10%	69.68%
Creative Industries, Computing, ESOL and Business Enterprise	5,964	3,701	4,055	2.63%	4.03%	3.82%	7.81%	10.51%	9.79%	25.96%	8.46%	9.72%	63.60%	77.01%	76.67%	65.32%	80.24%	79.72%
Curriculum Support	3	38	1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	28.95%	0.00%	66.67%	71.05%	100.0%	66.67%	71.05%	100.0%
Engineering, Science and Technology	4,815	4,767	4,270	3.51%	2.98%	3.61%	7.00%	6.86%	7.87%	11.90%	11.10%	10.37%	77.61%	79.11%	78.15%	80.42%	81.54%	81.07%
Professional Development	47	52	52	0.00%	0.00%	0.00%	0.00%	1.92%	1.92%	14.89%	1.92%	11.54%	85.11%	96.15%	86.54%	85.11%	96.15%	86.54%
Service Industries	5,045	4,012	4,089	4.26%	4.91%	5.94%	9.73%	11.67%	11.08	19.92%	6.80%	7.31%	66.09%	76.62%	75.67%	69.03%	80.58%	80.45%

Part time	Number Enrolled			Early Withdrawal			Further Withdrawal			Completed: Partial Success			Completed: Successful			SPAR		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Total	13,342	9,490	9,566	1.24%	1.73%	2.06%	3.25%	3.64%	4.04%	27.27%	16.41%	15.62%	68.23%	78.60%	78.48%	69.08%	79.98%	80.13%
Business & Community Development	4,046	3,671	4,018	0.67%	1.31%	1.54%	3.76%	2.91%	3.88%	32.95%	29.56%	26.48%	62.61%	67.12%	68.54%	63.03%	68.01%	69.62%
Creative Industries, Computing, ESOL and Business Enterprise	3,187	817	984	0.66%	1.59%	2.13%	3.01%	2.69%	3.76%	38.00%	8.20%	10.26%	58.33%	87.52%	83.84%	58.72%	88.93%	85.67%
Curriculum Support	3	38	1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	28.95%	0.00%	66.67%	71.05%	100.0%	66.67%	71.05%	100.0%
Engineering, Science and Technology	3,285	3,251	2,779	2.31%	1.81%	1.73%	2.80%	3.23%	3.60%	10.29%	10.49%	8.82%	84.63%	84.53%	85.86%	86.63%	86.09%	87.37%
Professional Development	47	52	52	0.00%	0.00%	0.00%	0.00%	1.92%	1.92%	14.89%	1.92%	11.54%	85.11%	96.15%	86.54%	85.11%	96.15%	86.54%
Service Industries	2,774	1,661	1,732	1.48%	2.65%	3.81%	3.39%	6.62%	5.31%	27.04%	3.13%	4.50%	68.10%	87.60%	86.37%	69.12%	89.98%	89.80%
Fulltime	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Total	6,590	6,761	6,931	6.12%	5.50%	6.02%	15.36%	14.01%	13.82	12.55%	9.69%	10.27%	65.98%	70.80%	69.89%	70.28%	74.93%	74.36%
Business & Community Development	12	10	12	0.00%	0.00%	0.00%	0.00%	0.00%	8.33%	0.00%	0.00%	0.00%	100.00%	74.03%	91.67%	73.23%	77.69%	91.67%
Creative Industries, Computing, ESOL and Business Enterprise	2,777	2,884	3,071	4.90%	4.90%	4.36%	13.32%	12.73%	11.72	12.14%	8.53%	9.54%	69.64%	74.03%	74.37%	73.23%	77.69%	77.77%
Curriculum Support	1,530	1,516	1,491	6.08%	5.47%	7.11%	16.01%	14.64%	15.83	15.36%	12.40%	13.28%	62.55%	67.48%	63.78%	66.60%	71.39%	68.66%
Engineering, Science and Technology	2,271	2,351	2,357	7.66%	6.51%	7.51%	17.48%	15.23%	15.32	11.23%	9.40%	9.38%	63.63%	68.86%	67.80%	68.91%	73.66%	73.30%

Key Statistical Results:

The Performance Indicators for 2016/2017 are the NESCol statistics for the period up to 31st July 2017. The comparative data for 2013/14 is the information taken from NESCol's accounts – prior to that the information is taken from Aberdeen College's accounts.

(i) Level of Student Activity

	2016/17	2015/16	2014/15	2013/14	2012/13
WSUMs	-	-	180,919	161,456	134,388
Credits	138,195	141,796	-	-	-

(ii) Enrolments

	2016/17	2015/16	2014/15	2013/14	2012/13
All	18,091	19,607	18,213	25,402	13,855
Full-time	6,931	6,767	6,103	6,968	5,779
Part-time	11,163	12,940	12,110	18,434	8,076

(iii) Headcount

	2016/17	2015/16	2014/15	2013/14	2012/13
Students	14,893	15,077	14,168	21,959	13,872

(iv) Staff Turnover Levels

	2016/17	2015/16	2014/15	2013/14	2012/13
Lecturers	9.7%	6.89%	11.6%	-	17.5%
Support	8.5%	8.28%	16.9%	-	8.7%
Total		-	-	13.68%	-

Employer Engagement

As an organisation which has always been principally in the business of vocational education and skills training it has been relatively easy for the College to respond positively to the Government's renewed emphasis on skills (the 'skills agenda'). Our service to individuals in employment and to employers in the private, public and third sectors consists of a wide range of training opportunities provided in the College's own premises (where the service is subsumed in the wider work of the organisation), an extensive work-based training and assessment service provided by the College's Business and Community Development Team. Programmes were delivered mainly in the North-East of Scotland in partnership with local and national employers and private providers.

PROFESSIONAL ADVISERS

External auditor:	Stephen Reid Partner, Assurance Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EB
Internal auditors:	Wylie and Bisset 168 Bath Street Glasgow G2 4TP
Bankers:	The Royal Bank of Scotland 1 Albyn Place Aberdeen AB10 1BR
Solicitors:	Burness Paull Union Plaza 1 Union Wynd Aberdeen AB10 1DQ

Approved by the Principal and Chief Executive on 8th December 2017.

**Liz McIntyre
Principal and Chief Executive**

2. ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE

BOARD MEMBERS AND KEY COMMITTEES

The undernoted individuals were Members of the Board of Management during the period of these financial statements:

Mr D. Anderson
 Ms A. Bell
 Ms S. Cormack (resigned 24th July 2017)
 Mr M. Dear (staff representative) (appointed 8th May 2017)
 Mr D. Duthie (Vice Chair & Senior Independent Person)
 Mr J. Gall (student representative)
 Mr I. Gossip
 Prof J. Harper
 Mr J. Henderson
 Mrs C. Inglis
 Mrs E. McIntyre (Principal and Chief Executive) (appointed 5th December 2016)
 Ms S. Masson (teaching staff representative) (resigned 20th February 2017)
 Mr R. McGregor (support staff representative)
 Mr K. Milroy (Regional Chair)
 Mr A. Russell
 Ms A. Simpson
 Mr A. Smith
 Mr R. Wallen (Principal and Chief Executive) (retired 31st December 2016)
 Ms K. Wetherall (student representative)

Committees of the Board of Management

The Board of Management has formally constituted several committees with terms of reference. These committees act with delegated authority. Information on the Board's Committees is given below, together with details of membership of key committees during the period to 31 July 2017.

Key Committees:

- Audit and Risk Committee
- Members – Mr D. Anderson, Ms A. Bell, Mr D. Duthie, Mr I. Gossip, Ms C. Inglis, Mr A. Russell, Ms A. Simpson, Mr A. Smith.
- Finance and General Purposes Committee
- Members – Mr D. Anderson, Mr M. Dear, Prof J. Harper, Mr J. Henderson, Ms S. Masson, Ms E. McIntyre, Mr K. Milroy, Mr A. Smith, Mr R. Wallen, Ms K. Wetherall.
- Human Resources Committee
- Members – Ms A. Bell, Ms S. Cormack, Mr J. Gall, Mr I. Gossip, Mr J. Henderson, Ms C. Inglis, Mr R. McGregor, Ms E. McIntyre, Mr K. Milroy, Mr R. Wallen.
- Investment and Project Committee
- Members – Mr D. Anderson, Ms A. Bell, Mr D. Duthie, Prof. J. Harper, Mr J. Henderson, Mr K. Milroy.
- Learning & Teaching and Student Services Committee
- Members – Ms S. Cormack, Mr M. Dear, Mr D. Duthie, Mr J. Gall, Prof J. Harper, Ms S. Masson, Mr R. McGregor, Ms E. McIntyre, Mr A. Russell, Ms A. Simpson, Mr R. Wallen, Ms K. Wetherall.
- Remuneration Committee
- Members – Mr D. Duthie, Mr J. Harper, Ms C. Inglis, Mr R. McGregor, Mr K. Milroy, Ms A. Simpson, Ms K. Wetherall.
- Selection and Appointments Committee
- Members – Ms A. Bell, Mr D. Duthie, Prof. J. Harper, Ms C. Inglis, Mr K. Milroy, Ms A. Simpson.

Member attendance at Board and Committee meetings for the year to 31st July, 2017 is as follows:

Members	Board	F&GP	I&P	HR	A&R	L,T & SS
David Anderson	8/9	4/5	4/5		4/5	
Ann Bell	8/9		4/5	4/5	4/5	
Shona Cormack	8/9			3/5		4/5
Martin Dear	6/9	1/1				1/1
Doug Duthie	8/9		4/5		4/5	4/5
Josh Gall	8/9			5/5		5/5
Ian Gossip	8/9			5/5	5/5	
John Harper	8/9	4/5	1/5			5/5
John Henderson	8/9	4/5	4/5	4/5		
Caroline Inglis	7/9			4/5	3/5	
Sandra Masson	2/3	2/3				2/4
Liz McIntyre	8/8	5/5		3/3		3/3
Robin McGregor	9/9			5/5		
Ken Milroy	9/9	5/5	5/5	5/5		
Drew Russell	6/9				4/5	4/5
Anne Simpson	6/9				4/5	4/5
Adrian Smith	7/9	4/5			4/5	
Rob Wallen	2/2	2/2		2/2		2/2
Karena Wetherall	5/9	3/5				4/5

The College's Board of Management has four scheduled meetings in the year and has several committees through which it conducts its business. Each committee has formally constituted terms of reference. These committees include: the Audit and Risk Committee, Finance and General Purposes Committee, Human Resources Committee, Investment and Project Committee, Learning and Teaching Committee, Remuneration Committee and the Selection and Appointment Committee.

The Finance and General Purposes Committee, among other business, sets the College's annual revenue and capital budgets and monitors performance in relation to approved budgets.

The Selection and Appointment Committee was established by the Board of Management to advise on matters relating to the appointment of Chairs, Vice Chairs and membership of the Board's Committees.

The Board has established arrangements that ensure that a process is in place to ensure appropriate training is given to Board of Management members as required.

The Remuneration Committee makes recommendations to the Board of Management on the service arrangements and remuneration of the Principal and determines the service arrangements and remuneration of the other senior post holders. Details of senior post-holders for the period ended 31 July 2017 are set out in note 6 to the financial statements and the Remuneration Report on pages 19 to 22.

The Audit and Risk Committee meets five times a year, with the College's external and internal auditors in attendance as required. The Audit and Risk Committee advises the College on the appointment of the internal auditor and the auditors' remuneration.

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

Whilst senior staff of the College attends meetings of the Audit and Risk Committee as necessary, they are not members of the Committee.

Governance Steering Group

The Board has established a Governance Steering Group with the following remit:

To support the Board of Management in maintaining high standards of governance by:

- Considering and approving amendments to the Board of Management's Governance Manual
- Ensuring that the Board of Management complies with the Code of Good Governance of Scotland's Colleges
- Providing a forum to consider any governance issues that arise centrally or in other college regions and any possible related implications or considerations for the Board of Management of North East Scotland College.

GOVERNANCE STATEMENT

Introduction

The College is committed to exhibiting best practice in all areas of corporate governance. The following summaries the corporate governance principles which have been applied during the reporting period.

Governing Body

The Regional Board has responsibility for overseeing the business of the College, determining its future direction and fostering an environment in which the College vision and values are achieved and the potential of all learners is maximised. The Regional Board must also ensure compliance with the statutes, ordinances and provisions regulating the College and its framework of governance and, subject to these, take all final decisions on matters of fundamental concern to the College.

The operation of the Regional Board is defined in a Governance Manual which includes Standing Orders, Scheme of Delegation, Code of Conduct and detailed Terms of Reference for the Board and each of its Committees.

The Regional Board meets four times during each academic year. In addition to Regional Board Meetings, the following Standing Committees have also been established:

- Audit and Risk Committee
- Finance and General Purposes Committee
- Human Resources Committee
- Learning & Teaching and Student Services Committee.

The above usually each meet six times during the academic year.

The following additional Committees are held as required:

- Investment and Project Committee
- Remuneration Committee
- Selection and Appointments Committee.

To demonstrate its commitment to maintaining the highest standards of governance, the Board has also established a Governance Steering Group. The Group is comprised of the Regional Chair, Vice Chair and the Board's Equality and Diversity Champion and is supported by the Secretary to the Board. The Group undertakes a key role in monitoring compliance with the Code of Good Governance for Scotland's Colleges, and helps to ensure that the Board remains fully effective by considering and recommending the implementation of any guidance or best practice that is issued to the sector.

The Board has established an annual evaluation process for reviewing its effectiveness. This includes a suite of evaluations – Board, Regional Chair, Committee Chairs, Individual Board Members and Secretary to the Board. The annual process reflects sector guidance issued in "Guidance Notes for Boards in the College Sector: A Board Development Framework".

In February 2017 the College's Internal Auditors undertook an audit of Corporate Governance. The purpose of the audit was to ensure that the College's governance arrangements were adequate. The audit also sought to provide assurance to the Board, via the Audit & Risk Committee, that the arrangements in place are fit for purpose and in line with the Code of Good Governance for Scottish Colleges.

The overall conclusion of the audit was a grading of 'strong', with the auditors stating *"From our review we can conclude that the College has strong Governance arrangements and is complying with the Code of Good Governance for Scotland's Colleges. We can provide assurance that the College has robust policies in place, Board Members receive a detailed induction and training programme, self-reviews are carried out on an annual basis, the Board of Management are receiving detailed reports, Terms of Reference are clear and do not overlap across the Sub-Committees. We can also provide assurance that meetings are planned on an*

annual basis and that there are detailed programmes of work in place." Twenty areas where the College is operating effectively and following good practice were also identified.

During 2016-17 an External Effectiveness Review of the Board of Management was conducted. The Review demonstrated the Board's commitment to and enthusiasm for the continuous improvement of the governance of the college. A number of areas for further development were identified following the Review, with some implemented prior to the end of 2016-17 and all remaining areas to be fully implemented during 2017-18.

Compliance with the 2016 Code of Good Governance for Scotland's Colleges

The Board of Management seeks to comply fully with the Code without exception. During 2016-17 compliance was demonstrated through the outcomes of the internal audit of Corporate Governance and the Board's first External Effectiveness Review.

Corporate Strategy

Arrangements for Strategic Development

Regional Board of Management Annual Planning Event

The holding of this event coincides with the start of the annual planning cycle. The event provides the Board of Management with an opportunity to consider the College's current operating environment and to set the strategic direction for the College for the upcoming planning period. The development of key planning documents, such as the Strategic Plan and Outcome Agreement, is also considered. In recent years the Board has also held a mid-year Planning Event to ensure that developments which may impact on the College's strategic direction and operating environment are reflected upon in a timely manner.

Strategic Planning Policy

The College recognises that the task of developing and implementing strategic planning is complex and requires timely access to complete and accurate information. It also demands effective communication and collaboration between all levels of management and across all College Schools and Departments. The College has therefore established a Strategic Planning Policy which explains the College's underlying approach to strategic planning, the main planning documents and the responsibilities of key parties.

Strategic Plan

The College's Strategic Plan identifies the strategic direction of the College for the coming 3 years and provides context and rationale. The Plan is the corporate planning statement of the Board and establishes its strategic aims and objectives. A number of single-themed strategies developed as part of the planning process support the delivery of the Strategic Plan and Outcome Agreement.

Risk Management and Internal Control

NESCol's Risk Management Policy is owned by the Board of Management and sets out the College's underlying approach to risk management, documents the roles and responsibilities of the Board of Management, the Senior Management Team, and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures.

The College has established two Risk Registers – a High Level Strategic Risk Register, and an Operational Risk Register. The High Level Strategic Risk Register is owned and reviewed by the Board of Management. The Operational Risk Register is owned and reviewed by the Senior Management Team. Both Risk Registers are reflected upon during the setting of the College's Annual Internal Audit Programme.

The Audit and Risk Committee is responsible for reviewing the comprehensiveness, reliability and integrity of assurances, including the College's governance, risk management and internal control frameworks, and making recommendations to the Board of Management as appropriate.

In March 2017 the College's Internal Auditors undertook an audit of Risk Management. The purpose of the audit was to ensure that the College has appropriate risk management arrangements in place and that these have been embedded throughout the whole College. The overall conclusion of the audit was a grading of 'strong', with the auditors stating "The College has strong risk management arrangements in place. The College has a comprehensive Risk Management Policy in place, the College keeps detailed strategic and operational risk registers, the high level strategic risk register is discussed at the annual Board of Management planning event and at Regional Board of Management meetings. The operational risk register is discussed at Senior Management Team meetings. There is a clear process in place for the identification and reporting risks and we note that risk management training was provided to the Regional Board of Management and the Senior Management Team." Six areas where the College is operating effectively and following good practice were also identified.

STATEMENT OF THE RESPONSIBILITIES OF THE REGIONAL BOARD OF MANAGEMENT

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

The Regional Board of Management is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, and the 2016-17 Government Financial Reporting Manual (FReM) issued by the Scottish Government and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council and the College's Regional Board of Management, the Regional Board, through its designated office holder, is required to prepare financial statements for each financial period that give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by the Scottish Government. They are also prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

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

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

The Regional Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council (SFC) are used only for the purposes that they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient, and management of the College's resources and expenditure.

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

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

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

Approved by the Regional Board of Management and signed on its behalf by:

Ken Milroy
Chair of the Board of Management
8th December 2017

ESTATE STRATEGY

Good progress has been made in the period in taking forward the Board's estates development strategy.

In 2016 the College completed work to extend facilities for engineering technologies, construction and science at the Fraserburgh Campus. This investment was funded by grant from the arms-length foundation that was established in 2014 at the time that Scottish colleges were reclassified as 'public bodies'.

The Regional Board has completed its masterplan for the next stage in the redevelopment of the Aberdeen City Campus at Gallowgate and, in 2017, submitted the masterplan to the Scottish Funding Council together with an outline business case (OBC). The condition survey of Scotland's colleges undertaken by the Scottish Funding Council in summer 2017 has shown that the College, in particular the Aberdeen City Campus, has a pressing need for investment to maintain its operations. Fulfilment of the masterplan for the Aberdeen City Campus will remove the backlog maintenance burden facing the site. The College is working with officials of the SFC to progress the preparation of the full business case (FBC) for redevelopment of the Campus. The Regional Board is reliant on grant funding support being made available by the SFC to meet the costs of redevelopment once the FBC has been approved by the SFC.

In addition to addressing some of the College's immediate backlog maintenance needs, work has continued during the year to improve the physical learning environment of the College estate to provide a better service to support learning and teaching. The extent to which this work will continue in the next financial year is dependent on the availability of resources.

BOARD'S STATEMENT ON INTERNAL CONTROL

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

The Board's standing committees and senior management team receive reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the College's academic sectors and teams and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit that include recommendations for improvement.

The Audit and Risk Committee's role in this area is confined to a high level review of the arrangements for internal control.

The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The Board of Management conducts regular reviews of its Governance Manual.

The Board, having responsibility for the overall management of risk and opportunity, has in place a high level strategic risk register. It also has in place a Risk Management Policy to ensure that sound risk management and internal control systems are understood, in place, maintained and monitored, and further training on Risk Management has been delivered by Internal Audit. Such an approach, operated within an effective Board of Management Committee structure, ensures that the Board has in place a robust and formal on-going process for identifying, reporting, evaluating and managing the College's significant risks and reviewing the effectiveness of risk management, business continuity planning and internal control systems. The Board gains added confidence in regard to the comprehensiveness, reliability and integrity of assurances including the College's governance, risk management and internal control framework, via the Audit Committee's Annual Report.

The Board of Management is of a view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place throughout the period ended 31 July 2017 and up to the date of approval of the annual report and accounts. The Board of Management regularly review this process, which accords with the Turnbull guidance on internal control, as applicable to the further education sector.

A programme of internal audit work has been undertaken and the results have provided evidence to the Board that there are strong controls in most areas under review. Areas in which controls were reported as strong

were: budgetary and financial controls; income collection and credit control; management of contact managed services; enrolments, attendance and applications; strategic and business planning; Freedom of Information; Aberdeen Skills and Enterprise Training Ltd (the Board's wholly owned subsidiary company); organisational services; payroll; IT systems; marketing; and School of Service Industries. Substantial controls were identified in areas of: data protection; human resources; information technology systems and the implementation of previous recommendations. The review of payroll identified controls as being weak. Additional audit work was undertaken to provide assurance to the Board on the payroll system and has confirmed that actions have been taken to strengthen controls.

In its report to the Board, the internal auditor highlighted thirteen of its recommendations graded as 'high priority'. Actions have been, or a planned to be, taken to address these matters and strengthen controls in these areas.

The internal auditor has expressed the opinion that the Board of Management of North East Scotland College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time internal audit work was undertaken and that the College has proper arrangements to promote and secure value for money.

Conclusion and Going Concern

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

The Audit and Risk Committee agenda included a regular item for consideration of risk and control and received reports thereon from the Senior Management Team and the Internal Auditors. The emphasis was on obtaining the relevant degree of assurance and not merely reporting by exception.

The Board of Management was of the view that there was an on-going process for identifying, evaluating and managing the College's significant risks, that it had been in place for the year ended 31 July 2017 and up to the date of approval of the annual report and accounts, that it was regularly reviewed by the Board of Management and that it accords with the 2016 Code of Good Governance for Scotland's Colleges.

The Board of Management considered that the College had adequate resources to continue in operational existence for the foreseeable future.

REMUNERATION AND STAFF REPORTS**Remuneration Committee**

The remit of the Remuneration Committee, which meets as required, is to:

- 1) To advise the Regional Board and make recommendations on matters relating to the pay, conditions of service and structure of the College's Senior Management Team and such other staff as the Regional Board of Management may from time to time determine;
- 2) To seek comparative information on salaries and other emoluments and conditions of service in the FE sector;
- 3) To ensure that the performance of the Principal as head of the College is assessed on an annual basis;
- 4) To oversee severance arrangements for senior staff and ensure that account is taken of the SFC Guidance on Severance Arrangements in respect of senior staff. Where consideration of severance arrangements is delegated, to ensure that the boundaries of delegated authority are clear, and to receive formal reports of any severance arrangements.

The following table provides details of the remuneration and pension interests of senior management:

Actuals	12 months ended 31 July 2017			12 months ended 31 July 2016		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary £'000	Pension Benefit £'000	Total £'000
Name						
Ken Milroy, Chair of Board of Management	15-20	-	15-20	15-20	-	15-20
Liz McIntyre, Principal & Chief Executive (from Dec 2016)	85-90	15-20	105-110	-	-	-
Rob Wallen, Principal & Chief Executive (up to Dec 2016)	80-85	-	80-85	145-150	-	145-150
Neil Cowie, Vice Principal – Organisational Services	90-95	20-25	115-120	80-85	55-60	135-140
John Davidson, Vice Principal – Learning & Quality	90-95	25-30	115-120	90-95	135-140	225-230
Elaine Hart, Vice Principal - HR	115-120	25-30	140-145	90-95	75-80	165-170
Roderick Scott, Vice Principal – Finance	100-105	(75-80)	20-25	110-115	25-30	135-140

Notes:

1. Rob Wallen left the College on 31st December 2016. Elaine Hart left the College on 31st July 2017.
2. Liz McIntyre joined the College on 5th December, 2016.
3. Since 1st April, 2014, the Rob Wallen received a payment of £20,000 - £25,000 per annum as a contribution towards his pension benefit. This amount is in addition to the figures shown in the two tables above.

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

From 1 April 2015 the STSS and LGPS changed from a final salary scheme to a CARE scheme where pension is based on career average revalued earnings, taking the average earnings over the employee's working life, while member of the scheme, to calculate pension entitlement. Pension on service up to 31 March 2015 is still however calculated on a final salary basis.

The scheme's normal retirement age is 65.

Contribution rates for all employees are determined annually by the respective pension schemes and can be found in note 31.

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 a career average earnings basis.

Pension Benefits are provided to senior management 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.

Accrued Pension Benefits for senior staff:

Name	Accrued pension at pension age at 31 July 2017	Accrued lump sum at pension age at 31 July 2017	Real increase in pension 1 Aug 2016 to 31 July 2017	Real increase in lump sum 1 Aug 2016 to 31 July 2017	CETV at 31 July 2017	CETV at 31 July 2016	Real increase/ (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liz McIntyre, Principal & Chief Executive (from Dec 2016)	35-40	115-120	0-5	0-5	860-865	825-830	25-30
Rob Wallen, Principal & Chief Executive (up to Dec 2016)	45-50	-	(10-15)	-	-	1,295-1,300	-
Roderick Scott, Vice Principal – Finance	40-45	75-80	(0-5)	(10-15)	900-910	910-915	(15-20)
John Davidson, Vice Principal – Learning & Quality	30-35	-	0-5	-	445-450	365-370	75-80
Elaine Hart, Vice Principal – HR	45-50	-	0-5	-	680-685	565-570	50-55
Neil Cowie, Vice Principal – Organisational Services	15-20	55-60	0-5	0-5	370-375	330-335	15-20

Compensation for loss of office

Fourteen staff left under voluntary exit terms in 2016/17. They received a combined compensation payment of £367,000.

The table below summarises the exit packages by cost band.

Exit package cost band	Total number of exit packages by cost band
<£10,000	3
£10,000 - £25,000	4
£25,000 - £50,000	6
£50,000 - £100,000	1
Total Number of exit packages	14
Total cost (£)	367,000

Median Remuneration

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

The banded remuneration of the highest paid official in the organisation in the financial year 2016/17 was £135,000-£140,000 (2015/16 £145,000-£150,000). The 2016/17 figure is calculated on a pro-rata scale, as there was a change in Principal during the year. This was 3.8 (2015/16 4.2) times the median total remuneration for the College which was £35,512 (2015/16 £33,908).

The College spent £216,000 on Consultancy during the year, but there was no off-payment engagements, nor were there any consultancy payments to staff who had left the College's employment.

The number of senior staff in bands of £5,000 is as follows:

	Year ended 31 July 2017 No. of Senior Staff
£5,001 to £10,000	4
£15,001 to £20,000	1
£80,001 to £85,000	1
£85,001 to £90,000	1
£90,001 to £95,000	2
£100,001 to £105,000	2
£110,001 to £115,000	1
	<hr/> 12 <hr/>

Staff Data as at 31 July 2017	Total	Male	Female
Number of staff (headcount)	571	253	318
Number of staff (FTE)	510	241	269
Number of staff (FTE) on permanent contracts	497	236	261
Number of staff (FTE) on temporary contracts	13	5	8

There were an average of 19 FTE agency staff employed each month by the College.

Note: FTE figures are rounded to the nearest whole number

During the year, the College incurred staffing costs of £25,860,000 and costs of £2,418,000 on agency staff. The number of days lost to sickness during the year was approximately 3,896. This represented 2.93% as a percentage of days available to work.

The College is a “Disability Confident Employer” and as such offers an interview to disabled people who meet the minimum criteria for the job.

The College works with its occupational health service provider to see if it can make reasonable adjustments to support staff with an illness/disability. Further information on the actions taken by the College are detailed in Appendix 5 (Staff data) of its Mainstreaming report, available on the College website.

In addition to the support detailed above, the College, in Appendix 6 of its Mainstreaming Report (organisational development), available on the College website, provides detail of the external, internal and professional development (taught) programmes undertaken by staff by protected characteristic, including disability.

Sustainability Report 2016-17

North East Scotland College fully complies with all aspects of the Climate Change (Scotland) Act 2009 in terms of sustainability reporting.

Signed:

Ken Milroy
Chair of the Board of Management
8th December 2017

Liz McIntyre
Principal and Chief Executive

INDEPENDENT AUDITOR'S REPORT

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

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of North East Scotland College and its group 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 Consolidated and College Statement of Comprehensive Income and Expenditure, Consolidated and College Statement of Changes in Reserves, Consolidated and College Balance Sheet, and the Consolidated Cash Flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2017 and of the college's surplus and the group's 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 and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Responsibilities of the Board of Management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report and accounts

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

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

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

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

Responsibilities for regularity

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

Report on other requirements**Opinions on other 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.

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:

Stephen Reid is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

3. FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the latest Statement of Recommended Accounting Practice (SORP) which outlines how Financial Reporting Standard (FRS) 102 is to be applied in the production of charity accounts. These accounts have also been prepared under the 2016/17 Government Financial Reporting Manual (FReM), which is the technical accounting guide to the preparation of financial statements, issued by the Scottish Government. These accounts conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

These financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and liabilities to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in the FReM.

A reclassification adjustment has been made to the 2015/16 comparative results to reflect FRS 102 defined benefit pension scheme net interest expense within Interest costs rather than payroll costs. This impact of this reclassification is an increase in interest and other finance costs (note 7) of £494,000 for 2015/16 and corresponding reduction in payroll costs (pension costs) (note 31). There is no net impact on total expenditure or net surplus for the year.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary undertakings, Aberdeen Skills and Enterprise Training Limited and Clinterty Estates Limited. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 102, the activities of the College Student's Association have not been consolidated because the College does not control those activities.

Income recognition

Income from tuition fees is recognised in the year in which it is receivable and includes all fees chargeable to students or their sponsors.

Income from contracts and other services rendered is included to the extent of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Income from short term deposits is credited to the income and expenditure account in the period in which it is earned.

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

Grant funding

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

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

Capital grants

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

Government social fund grants

Capital based Government European Social Fund grants are treated as deferred income in the balance sheet and credited to operating profit over the estimated useful lives of the assets to which they relate.

Maintenance of Premises

The cost of maintenance is charged to the Consolidated Statement of Comprehensive Income and Expenditure

Foreign Currency Translation

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

Research and Development

Research and development expenditure is written off as incurred, with the exception of development expenditure incurred on an individual project, which is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Accounting for retirement benefits

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

These are defined benefits schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme.

North East Scotland Pension Fund (NESPF)

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

Scottish Public Pensions Agency (SPPA)

The College participates in the Scottish Teacher's Superannuation Scheme, a defined benefit scheme, which is externally funded and contracted out of State earnings-Related Pension Scheme. The assets of the scheme are held separately from those of the College in a separate trustee-administered fund. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Financial Reporting standard 17 (Retirement Benefits), the scheme is accounted for as if it were a defined contribution scheme. As a result, the amounts charged to the Consolidated Statement of Comprehensive Income and Expenditure represent the contributions payable to the scheme in the year.

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

Defined Contribution Plan

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

Defined Benefit Plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the College's obligation is to provide the agreed benefits to current and former employees and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the College. The Group should recognise a liability for its obligations under defined benefit plans net of plan assets. The net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Employment 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.

Finance leases

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

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability. The lease that the College entered in to for the facility at Ellon has been recognised over a 5 year period, being to the first break clause of the lease.

Operating leases

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

Fixed assets

Assets that have physical substance and are held for use in the supply of services, or for administrative purposes, and that are expected to be used during more than one financial year are classified as Tangible Fixed Assets. Classification as a tangible fixed asset is subject to a de minimis level of £10,000 for vehicles, plant and machinery.

Fixed assets are stated at fair value less accumulated depreciation and accumulated impairment losses.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

Land and buildings are measured using the revaluation model. Under the revaluation model, and in compliance with the FReM, assets are revalued to fair value. The College has a policy of ensuring a full revaluation takes place every 5 years, supplemented by an interim professional valuation in year 3. Depreciation and impairment losses are subsequently charged on the revalued amount.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the College.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives as estimated by the valuer, ranging from 20 years to 60 years.

Leasehold land is depreciated over the life for the lease up to a maximum of 50 years. No depreciation is charged on assets in the course of construction.

Equipment

Equipment, including computers and software, costing less than de minimis per individual item is recognised as expenditure. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over the useful life of the asset as advised by a suitably qualified officer, ranging from 3 years to 20 years.

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Intangible assets and Goodwill

Goodwill arises on consolidation and is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition.

Goodwill is subject to periodic impairment review as appropriate.

Negative goodwill is amortised over 5 years or the service lives of long life assets to which the goodwill is attributed.

Investments

Non-current asset investments are held on the Balance Sheet at amortised cost less impairment.

Investments in subsidiaries are carried at cost (less impairment) in the College's accounts.

Current asset investments are held at fair value with movements recognised in the Surplus or Deficit.

Stock

Stocks consist of catering items. Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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 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.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

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

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

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

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

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

Taxation

The College is an exempt Charity within the meaning of the trustee Investment and Charities (Scotland) Act 2005 and, as such, is a charity within the meaning of section 506 (1) of the Income and Corporation Taxes Act 1988. The College is recognised as a charity by HM Revenue & Customs and is recorded on the index of charities maintained by the Office of Scottish Charity regulator. It is therefore a charity within the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College received no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The College subsidiaries are liable to Corporation Tax in the same way as any other commercial organisation.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallize based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the College is restricted in the use of these funds.

Agency Arrangements

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

Subsequent Expenditure on 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:

- Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed asset in excess of the previously assessed standard of performance;
- Where a component of the tangible fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful economic life, is replaced or restored; or
- Where the subsequent expenditure relates to a major inspection or overhaul of tangible fixed asset that restores the economic benefits of the asset that have been consumed by the entity and have already been reflected in depreciation.

Accounting for Business Combinations

The College merged with Banff and Buchan College on 1 November 2013. Upon transition to FRS 102, the College recognises negative goodwill reflecting the benefit arising as a consequence of no consolidation having been paid by the College for the net value of the assets acquired is included in the consolidated balance sheet as negative goodwill as a deduction from tangible and intangible fixed assets.

CONSOLIDATED AND COLLEGE STATEMENT OF COMPREHENSIVE INCOME & EXPENDITURE**For the year end 31 July 2017**

	Notes	Year ended 31 July 2017 £000		Year ended 31 July 2016 £000	
		Group	College	Group	College
INCOME					
Tuition fees and education contracts	2	10,078	7,207	11,127	7,710
Funding body grants	3	34,094	34,094	33,305	33,305
Other income	4	7,437	8,445	8,981	10,028
Investment income	5	8	7	20	18
Total income		51,617	49,753	53,433	51,061
EXPENDITURE					
Staff costs	6	25,269	24,574	25,585	24,766
Restructuring costs	6	2,489	2,489	1,996	1,996
Other operating expenses	9	20,338	19,405	21,402	20,040
Depreciation	11	2,154	2,095	2,065	1,965
Interest and other finance costs	8	598	598	496	495
Total Expenditure		50,848	49,161	51,544	49,262
Surplus before other gains, losses and shares of operating surplus/deficit of joint ventures and associate.		769	592	1,889	1,799
Gain on disposal of fixed assets		12	12	6	6
Release of negative goodwill	12	109	109	109	109
Surplus before tax		890	713	2,004	1,914
Taxation	18	(31)	-	-	-
Surplus for the year		859	713	2,004	1,914
Unrealised (deficit) on revaluation of land and buildings		-		(4,400)	(4,400)
Actuarial (loss) in respect of pension schemes		(250)	(250)	(8,785)	(8,785)
Total comprehensive income for the year		609	463	(11,181)	(11,271)
Represented by:					
Unrestricted comprehensive income for the year		609	463	(6,781)	(6,871)
Revaluation reserve comprehensive income for the year		-	-	(4,400)	(4,400)
		609	463	(11,181)	(11,271)
Surplus/(Deficit) for the year attributable to:					
Non controlling interest		-		-	-
College		609	463	(11,181)	(11,271)
Total Comprehensive Income for the year attributable to:					
Non controlling interest		-		-	-
College		51,617	49,753	53,433	51,061

The Consolidated and College Statement of Comprehensive Income and Expenditure 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 and Expenditure. Note 1 provides details of the adjusted operating position on a Central Government accounting basis.

CONSOLIDATED AND COLLEGE STATEMENT OF CHANGES IN RESERVES**For the year ended 31 July 2017**

Group	Income and expenditure account			Revaluation	Total excluding	Non-controlling	Total
	Endowment	Restricted	Unrestricted	Interest	Non-controlling	Interest	
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 August 2015	-	5	3,824	35,632	39,461	-	39,461
Deficit from the Comprehensive Statement of Income & Expenditure	-	-	(6,781)	(4,400)	(11,181)	-	(11,181)
Transfers between revaluation and income & expenditure reserve	-	-	(203)	203	-	-	-
Student Support Fund Overspend	-	-	(683)	-	(683)	-	(683)
Total movement for the year	-	-	(7,667)	(4,197)	(11,864)	-	(11,864)
Balance at 1 August 2016	-	5	(3,843)	31,435	27,597	-	27,597
Surplus from the Comprehensive Statement of Income & Expenditure	-	-	609	-	609	-	609
Transfers between revaluation and income & expenditure reserve	-	-	(382)	382	-	-	-
Consolidation adjustment	-	-	636	-	636	-	636
Total movement for the year	-	-	863	382	1,245	-	1,245
Balance at 31 July 2017	-	5	(2,980)	31,817	28,842	-	28,842

College	Income and expenditure account			Revaluation Interest	Total excluding Non-controlling Interest	Non-controlling Interest	Total
	Endowment	Restricted	Unrestricted				
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 August 2015	-	5	3,818	35,632	39,455	-	39,455
Deficit from the Comprehensive Statement of Income & Expenditure	-	-	(6,888)	(4,400)	(11,288)	-	(11,288)
Transfers between revaluation and income & expenditure reserve	-	-	(203)	203	-	-	-
Student Support Fund Overspend	-	-	(683)	-	(683)	-	(683)
Total movement for the year	-	-	(7,774)	(4,197)	(11,971)	-	(11,971)
Balance at 1 August 2016	-	5	(3,956)	31,435	27,484	-	27,484
Surplus from the Comprehensive Statement of Income & Expenditure	-	-	463	-	463	-	463
Transfers between revaluation and income & expenditure reserve	-	-	(382)	382	-	-	-
Consolidation adjustment	-	-	-	-	-	-	-
Total movement for the year	-	-	81	382	463	-	463
Balance at 31 July 2017	-	5	(3,875)	31,817	27,947	-	27,947

Balance Sheet as at 31 July 2017

	Notes	Group 31 July 2017 £000	Group 31 July 2016 £000	College 31 July 2017 £000	College 31 July 2016 £000
Non-current assets					
Negative goodwill	12	(325)	(434)	(325)	(434)
Fixed assets	11	97,502	97,277	97,061	96,953
Investments	13	-	-	30	30
		97,177	96,843	96,766	96,549
Current assets					
Stock	14	20	23	20	23
Trade and other receivables	15	2,595	1,772	2,466	1,820
Asset Held for Resale	17	5,600	5,600	5,600	5,600
Cash and cash equivalents	22	3,822	1,155	2,884	1,012
		12,037	8,550	10,970	8,455
Less: Creditors: amounts falling due within one year	16	(4,996)	(4,088)	(4,805)	(3,794)
Net current assets		7,041	4,462	6,165	4,661
Total assets less current liabilities		104,218	101,305	102,931	101,210
Creditors: amounts falling due after more than one year	19	(42,135)	(42,534)	(41,768)	(42,535)
Deferred tax asset/(liability)	18	(25)	17	-	-
Provisions					
Pension provisions	20	(33,216)	(31,191)	(33,216)	(31,191)
TOTAL NET ASSETS		28,842	27,597	27,947	27,484
Restricted Reserves					
Income & Expenditure reserve – restricted reserve	21	5	5	5	5
Unrestricted Reserves					
Income and Expenditure reserve – unrestricted		(2,980)	(3,843)	(3,875)	(3,956)
Revaluation reserve		31,817	31,435	31,817	31,435
		28,842	27,597	27,947	27,484
Non-controlling interest		-	-	-	-
Total reserves		28,842	27,597	27,947	27,484

The financial statements on pages 28 to 53 were approved and authorised for issue by the Board of Management on 8th December 2017 and signed on its behalf by:

Ken Milroy
Chair of the Board of Management

Liz McIntyre
Principal and Chief Executive

Charity Number: SCO21174

Consolidated Cash Flow Statement
For the period ended 31 July 2017

	Notes	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Cash flow from operating activities			
Surplus for the year (before tax)		923	2,004
Adjustment for non-cash items			
Depreciation	11	2,154	2,065
Amortisation of goodwill	12	(109)	(109)
Decrease/(increase) in stock	14	3	(3)
Decrease/(increase) in debtors	15	(823)	1,455
Increase/(decrease) in creditors	16	908	(4,449)
Increase/(decrease) in pension provision	20	1,742	1,313
Increase/(decrease) in other provisions		(109)	-
Adjustment for investing or financing activities			
Investment income	5	(8)	(20)
Interest payable	8	14	2
Student Support Fund deficit		-	(683)
Profit on the sale of fixed assets		(12)	(6)
Capital grant income		-	-
Net cash inflow from operating activities		4,683	1,569
 Cash flows from investing activities			
Proceeds from sales of fixed assets		12	6
 Capital grant receipts		526	1,013
Payments made to acquire fixed assets		(2,391)	(6,306)
		(1,853)	(5,287)
 Cash flows from financial activities			
Interest Paid		(14)	(2)
Interest element of finance lease and service concession payments		13	20
Repayments of amounts borrowed		(162)	(168)
		(163)	(150)
 Increase/(Decrease) in cash and cash equivalents in the year		2,667	(3,868)
Cash and cash equivalents at beginning of year	22	1,155	5,023
Cash and cash equivalents at end of the year		3,822	1,155

Notes to the accounts**For the year ended 31 July 2017**

1.

	2016-17 £'000	2015-16 £'000
Surplus before other gains and losses (FE/HE SORP basis)	859	2,004
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	1,024	946
Operating surplus on Central Government accounting basis.	1,883	2,950

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

Under the FE/HE SORP, the college recorded an operating surplus of £859,000 for the year ended 31 July 2017. After taking account of the Government non-cash budget, the college shows an "adjusted" surplus of £1,883,000 on a Central Government accounting basis. This demonstrates that the college is operating sustainably within its funding allocation.

2. TUITION FEES AND EDUCATION CONTRACTS

Notes	Year ended 31 July 2017 £'000		Year ended 31 July 2016 £'000	
	Group	College	Group	College
Full time home and EU students	6,190	6,190	6,240	6,240
Full time International students	103	103	143	143
Total fees paid by or on behalf of individual students	6,293	6,293	6,383	6,383
<i>Education contracts:</i>				
Skills Development Scotland	914	914	1,327	1,327
Other tuition	2,871	-	3,417	-
	3,785	914	4,744	1,327
Total	10,078	7,207	11,127	7,710

3. FUNDING BODY GRANTS

Notes	Year ended 31 July 2017 £'000		Year ended 31 July 2016 £'000	
	Group	College	Group	College
Recurrent grant				
Scottish Funding Council (SFC)	29,437	29,437	29,377	29,377
Specific grants				
Childcare funds	821	821	657	657
Release of capital grants	1,130	1,130	1,119	1,119
Other SFC grants	2,706	2,706	1,760	1,760
Transitional funding	-	-	392	392
Total	34,094	34,094	33,305	33,305

4. OTHER INCOME

Notes	Year ended 31 July 2017		Year ended 31 July 2016	
	£'000		£'000	
	Group	College	Group	College
Residences, catering and conferences	1,350	1,350	1,508	1,508
EU revenue grants	5	5	12	12
Farming activities	18	18	12	12
Other income	1,506	2,514	1,279	2,326
Accommodation recharge	905	905	1,124	1,124
Release of deferred income (Foundation)	3,653	3,653	5,046	5,046
Total	7,437	8,445	8,981	10,028

5. INVESTMENT INCOME

Notes	Year ended 31 July 2017		Year ended 31 July 2016	
	£'000		£'000	
	Group	College	Group	College
Other investment income	8	7	20	18
Total	8	7	20	18

6. STAFF COSTS

Notes	Year ended 31 July 2017		Year ended 31 July 2016	
	£'000		£'000	
	Group	College	Group	College
Salaries	20,556	20,146	21,112	20,607
Social security costs	2,149	1,968	1,850	1,644
Other pension costs	2,564	2,460	2,623	2,515
Restructuring costs	2,489	2,489	1,996	1,996
	27,758	27,063	27,581	26,762
Teaching departments	16,236	16,042	16,355	15,962
Teaching support services	903	903	1,032	1,032
Administration and central services	8,063	7,562	8,046	7,620
Premises	67	67	152	152
	25,269	24,574	25,585	24,766
<i>Analysed as:</i>				
Staff on permanent contracts	25,269	24,574	25,585	24,766
Restructuring costs	2,489	2,489	1,996	1,996
	27,758	27,063	27,581	26,762
Restructuring costs				
Provision for future pension costs	1,758	1,758	1,312	1,312
Restructuring costs	731	731	684	684
	2,489	2,489	1,996	1,996

	Year ended 31 July 2017		Year ended 31 July 2016	
	Number Senior post-holders	Number other staff	Number Senior post-holders	Number other staff
£60,001 to £70,000	-	10	-	13
£70,001 to £80,000	-	3	-	-
£80,001 to £90,000	-	-	3	0
£90,001 to £100,000	2	-	-	-
£100,001 to £110,000	1	-	-	-
£110,001 to £120,000	1	-	1	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	1	-	-	-
£140,001 to £150,000	-	-	1	-

The number of persons (including senior post-holders) employed by the College as at 31st July, expressed as full-time equivalents, was:

	Year ended 31 July 2017	Year ended 31 July 2016
Average staff numbers by major category:		
Teaching departments	297	305
Teaching support services	62	67
Administration and central services	147	150
Premises	4	5
	510	527
<i>Analysed as:</i>		
Staff on permanent contracts	498	518
Staff on temporary contracts	12	9
	510	527

7. BOARD MEMBERS AND SENIOR POST-HOLDER EMOLUMENTS

	Year ended 31 July 2017 No.	Year ended 31 July 2016 No.
The number of senior post-holders including the Principal was:	4	5

The emoluments paid to Ms. Liz McIntyre, Principal and Chief Executive, (who is also the highest paid senior post-holder) were £89,000 (2015-16: £149,000) in salary, and £15,000 (2015-16: £0) in employer pension contributions to the Local Government Pension Scheme. Note that these figures reflect the period from 5th December 2016 up to the end of 31st July, 2017. Comparative figures are for the full year up to the end of 31st July, 2016, of the previous Principal and Chief Executive.

The Principal is now a paid up member of the Scottish Teachers Superannuation Scheme. Other senior post-holders are also members of either that Scheme or the North East Scotland Pensions Fund Scheme. The College's contributions to the Scheme in respect of senior post-holders' are paid at the same rate as for other members of staff.

Board of Management

The total remuneration of the Board of Management including pension contributions, benefits in kind and bonuses but excluding the salaries of employee Board members for normal staff duties amounted to:

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Fees for services as non-executive directors of subsidiary companies	6	2
Expenses paid to board members	6	2

8. INTEREST AND OTHER FINANCE COSTS

	Year ended 31 July 2017 £'000		Year ended 31 July 2016 £'000	
	Group	College	Group	College
Interest payable	14	14	2	1
Net interest on pension assets and liabilities	584	584	494	494
	598	598	496	495

9. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Staff costs £'000	Other operating expenses £'000	Depreciation £'000	Interest Payable £'000	Year Ended 31 July 2017 £'000	Year Ended 31 July 2016 £'000
Group						
Teaching activities	20,409	4,805	82	-	25,296	25,996
Residences and catering	-	1,228	-	-	1,228	1,342
Farm	-	14	-	-	14	15
Premises	138	7,607	2,013	-	9,758	9,455
Administration	7,294	3,981	-	14	11,289	11,298
Other expenses	501	285	59	-	845	906
Agency costs	-	2,418	-	-	2,418	2,532
	28,342	20,338	2,154	14	50,848	51,544
College						
Teaching activities	20,065	4,810	82	-	24,957	25,077
Residences and catering	-	1,228	-	-	1,228	1,342
Farm	-	14	-	-	14	15
Premises	138	7,607	2,013	-	9,758	9,455
Administration	7,444	3,544	-	14	11,002	10,797
Other expenses	-	285	-	-	285	301
Agency costs	-	1,917	-	-	1,917	2,275
	27,647	19,405	2,095	14	49,161	49,262

10. TAXATION

	Year Ended 31 July 2017 £'000	Year Ended 31 July 2016 £'000
Recognised in the statement of comprehensive income		
Current tax		
Current tax expense	-	-
Adjustment in respect of previous years	-	-
Current tax expense	0	-
Deferred tax:		
Increase/(Decrease) in deferred tax liability	31	-
Total tax expense	31	-

11. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Fixtures, Fittings and Equipment £'000	Total £'000
Group			
Cost or Valuation			
At 1 August 2016	96,723	8,397	105,120
Additions	2,208	182	2,390
Disposals	-	(3,229)	(3,229)
At 31 July 2017	98,931	5,350	104,281
Depreciation			
At 1 August 2016	1,690	6,154	7,844
Charge for the year	1,857	297	2,154
Disposals	-	(3,219)	(3,219)
At 31 July 2017	3,547	3,232	6,779
Net Book Value			
At 31 July 2017	95,384	2,118	97,502
At 31 July 2016	95,034	2,243	97,277
Inherited			
Financed by capital grant	40,844	717	41,561
Other	54,541	1,400	55,941
At 31 July 2017	95,385	2,117	97,502
College			
Cost or Valuation			
At 1 August 2016	96,724	6,579	103,303
Additions	2,208	-	2,208
Disposals	-	(3,229)	(3,229)
At 31 July 2017	98,932	3,350	102,282
Depreciation			
At 1 August 2016	1,690	4,660	6,350
Charge for the year	1,857	243	2,100
Disposals	-	(3,229)	(3,229)
At 31 July 2017	3,547	1,674	5,221
Net Book Value			
At 31 July 2017	95,385	1,676	97,061
At 31 July 2016	95,034	1,919	96,953

At 31 July 2017, freehold land and buildings included £6.071m (2016: £6.071m) in respect of freehold land and is not depreciated.

12. NEGATIVE GOODWILL ARISING FROM THE ACCOUNTING ACQUISITION OF BANFF & BUCHAN COLLEGE

	Group and College 31 July 2017 £'000
At 1 August 2016	434
Released to income and expenditure account	109
At 31 July 2017	325
Net book value	
At 31 July 2016	434
At 31 July 2017	325

The negative goodwill arising during the period relates to the merger of Aberdeen College and Banff and Buchan College on 1 November 2013. Aberdeen College was the host for the merger and under relevant accounting standard, acquisition accounting has been applied. The negative goodwill represents the fair value of the assets acquired for no consideration. The balance is amortised over five years from 1st July, 2015.

13. NON-CURRENT INVESTMENTS

	Subsidiary Companies £'000
At 1 August 2016 and 31 July 2017	30

The College had transactions with a number of agricultural co-operatives. These organisations award shares based on the level of trading activity undertaken. The value of these shares is not considered material and is included in the accounts at nil value.

The Board of Management owns 100% of the issued ordinary £1 shares of Aberdeen Skills and Enterprise Training Limited, a company incorporated in Great Britain and registered in Scotland. The principal business activity of Aberdeen Skills and Enterprise Training Limited is the provision of quality education and training.

The Board of Management owns 100% of the issued ordinary £1 shares of Clinterty Estates Limited, a company incorporated in Great Britain and registered in Scotland. The principal business activity of Clinterty Estates Limited is the management of the College's teaching farms. The company ceased to trade on 30 April 1998. The company's Directors decided upon this course of action in the light of adverse trading conditions facing agricultural sector.

14. STOCK

	Group and College 31 July 2017 £'000	Group and College 31 July 2016 £'000
Catering Stock	20	23

15. TRADE AND OTHER RECEIVABLES

	31 July 2017		31 July 2016	
	Group £'000	College £'000	Group £'000	College £'000
Amounts falling due within one year				
Other trade receivables	561	325	864	615
Other receivables	4	4	47	64
Amounts owed by subsidiary undertakings	-	147	-	326
Prepayments and accrued income	2,030	1,990	861	815
	2,595	2,466	1,772	1,820

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2017		31 July 2016	
	Group £'000	College £'000	Group £'000	College £'000
Secured loans	163	163	156	156
Trade payables	857	828	45	34
Social security and other taxation payable	85	-	4	4
Accruals and deferred income	3,891	3,814	3,883	3,600
	4,996	4,805	4,088	3,794

17. CURRENT ASSET – HELD FOR RESALE

	31 July 2017 Group and College £'000	31 July 2016 Group and College £'000
Assets held for sale – Balgownie Centre	5,600	5,600
	5,600	5,600

18. DEFERRED TAX

The deferred tax liability recognised in the financial statements is as follows:

	31 July 2017		31 July 2016	
	Group £'000	College £'000	Group £'000	College £'000
Asset/ (Liability) brought forward	17	-	17	-
Other movement in balance	(11)	-	0	-
Income and Expenditure movement in period	(31)	-	0	-
Asset/ (Liability) carried forward	(25)	-	17	-

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 July 2017		31 July 2016	
	Group £'000	College £'000	Group £'000	College £'000
Deferred income	41,928	41,561	42,165	42,165
Secured loans	207	207	369	369
	42,135	41,768	42,534	42,534
Analysis of secured and unsecured loans:				
Due within one year or on demand	163	163	161	161
Due between one and two years	165	165	162	162
Due between two and five years	42	42	207	207
Due after more than one year	207	207	369	369
Total secured and unsecured loans	370	370	530	530
Secured loans repayable by 2019	370	370	530	530
	370	370	530	530

Included in loans are the following:

Lender	Amount £	Term	Interest Rate %	Borrower
Bank of Scotland	2,496,831	2019	0.95 above base	College

Loans comprise an original bank loan of £2,496,831 at 0.95% over Bank of England base rate, repayable monthly over 19 years commencing August 2000. The Board of Management with the approval of the former Scottish Office, has granted the Bank of Scotland a standard security over the Gordon Barracks and Balgownie Centre, for the amount of the bank loan.

The bank facility for ASET is secured by a floating charge over the assets of that company. It is not secured over the assets of the College.

20. PROVISIONS**Group and College**

	Pension costs arising from early retirement £'000	Other – FRS17 £'000	2017 Total £'000	Pension costs arising from early retirement £'000	Other – FRS17 £'000	2016 Total £'000
At 1 August 2016	7,275	23,916	31,191	7,131	13,962	21,093
Additional/ (reduced) provision in period	99	1,926	2,025	144	9,954	10,098
At 31 July 2017	7,374	25,842	33,216	7,275	23,916	31,191

College	Pension costs arising from early retirement £'000	Other – FRS17 £'000	2017 Total £'000	Pension costs arising from early retirement £'000	Other – FRS17 £'000	2016 Total £'000
At 1 August 2016	7,275	23,916	31,191	7,131	13,962	21,093
Additional/ (reduced) provision in period	99	1,926	2,025	144	9,954	10,098
At 31 July 2017	7,374	25,842	33,216	7,275	23,916	31,191

21. RESTRICTED RESERVES

Reserves with restrictions are as follows:

	2017 Total £'000	2016 Total £'000
Balance at 1 August 2016	5	5
New Grants	-	-
New Donations	-	-
Expenditure	-	-
Total restricted comprehensive income for the year:	-	-
At 31 July 2017	5	5

	2017 Total £'000	2016 Total £'000
Analysis of other restricted funds/donations by type of purpose:		
Prize funds	5	5
General	-	-
	5	5

22. CASH AND CASH EQUIVALENTS

Group	At 1 August 2016 £'000	Cash Flows £'000	At 31 July 2017 £'000
Cash and Cash Equivalents	1,155	2,667	3,822
Bank Overdraft	-	-	-
	1,155	2,667	3,822

23. CAPITAL AND OTHER COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2017

	Year ended 31 July 2017		Year ended 31 July 2016	
	Group £'000	College £'000	Group £'000	College £'000
Commitments authorised but not contracted for	70,415	70,415	-	-
Commitments contracted for	104	104	3,144	2,722
	70,519	70,519	3,144	2,722

The Commitments authorised but not contracted for refers to the next stage in the redevelopment of the Aberdeen City Campus at Gallowgate and is referred to in the Estates Strategy section of these accounts on page 19.

24. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 July 2017.

25. LEASE OBLIGATIONS

At the period end the Group and College had annual commitments under non-cancellable operating leases as follows:

	Year ended 31 July 2017			31 July 2016
	Vehicles £'000	Plant & Machinery £'000	Total £'000	£'000
Payable during the year	54	52	106	188
Future minimum lease payments due:				
Not later than 1 year	28	44	72	102
Later than 1 year and not later than 5	9	99	108	184
Total lease payments due	37	143	180	286

26. EVENTS AFTER THE REPORTING PERIOD

There are no events after the Balance Sheet date to note.

27. SUBSIDIARY UNDERTAKINGS

The subsidiary companies (all of which are registered in Scotland), wholly-owned or effectively controlled by the College, are as follows:

Company	Principal Activity	Status	Note
Aberdeen Skills & Enterprise Training Ltd	Provision of quality education and training	100% owned	12
Clinerty Estates Ltd	Management of College's teaching farms	100% owned	12

28. RELATED PARTY TRANSACTIONS

The Board of Management of North East Scotland College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by the Scottish Further and Higher Education Funding Council (SFC).

29. TRANSACTIONS WITH MEMBERS OF THE BOARD OF MANAGEMENT

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 inevitable 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 a material interest are conducted at arm's length and in accordance with normal project and procurement procedures.

The College had transactions during the period or worked in partnership with the following publicly funded or representative bodies in which members of the Board of Management hold or held official positions. The bodies that the College had transactions with that were over £5,000 were Aberdeen Foyer, Colleges Scotland, The Robert Gordon University, the Scottish Qualifications Agency and the University of Aberdeen.

Mr. K Milroy, Chair of the Board of Management, is Chief Executive of Aberdeen Foyer. The College made payments of £402,408 (2015-16: £378,944) and received income of £9,642 (2015-16: £15,474) during the year.

Prof. J Harper is Depute Principal and Ms S Cormack was Vice Principal of The Robert Gordon University. The College made payments of £670 (2015-16 £660), and received income of £48,715 (2015-16 - £53,551) during the year.

Mrs. C. Inglis is the University Secretary and Director of Operations at University of Aberdeen. The College made payments of £290,929 (2015-16 - £104,382) and received income of £30,275 (2015-16 £22,230) during the year.

Both Mrs. E. McIntyre and Mr. R Wallen were Board members of Colleges Scotland during the year. The College made payments of £55,000 (2015-16 £55,000) during the year.

30. TRANSACTIONS WITH MEMBERS OF THE BOARD OF MANAGEMENT (CONT'D)

Member	Organisation	Position
Mr. D. Anderson	Score Diagnostics Ltd	Sales & Marketing Director
Prof J. Harper	The Robert Gordon University	Depute Principal and Vice Chancellor
Mrs. C. Inglis	University of Aberdeen	Secretary & Director of Operations
Mrs. E. McIntyre	Colleges Scotland	Board Member
	ONE Oil and Gas	Board Member
Mr. K. Milroy	Aberdeen Foyer	Chief Executive
	The Robert Gordon University	Member of the Board of Governors
	Colleges Scotland	Board Chair
Mr. R. Wallen	Colleges Scotland	Board Member
	Quality Assurance Agency Scotland	Committee Member
	SCQF Partnership	Board Chair
	SQA Qualifications Committee	Member
	ONE Oil and Gas	Board Member

31. STUDENT SUPPORT FUNDS**Bursaries and other student support funds**

	Bursary £'000	Hardship £'000	EMA £'000	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
At 1 August 2016	-	-	-	-	-
Allocation received in period	7,172	623	316	8,111	6,457
Expenditure in period	6,650	406	313	7,369	7,140
At 31 July 2017	522	217	3	742	(683)

Represented by:

Pre received income (incl in accruals and deferred income)	522	217	3	742	
Charged to College Reserves	-	-	-	-	(683)
	522	217	3	742	(683)

Scottish Funding Council grants are available solely for students, the College acts as paying agent. The Scottish Funding Council has this year accounted for these funds strictly within the allocations per academic and fiscal years, meaning that the excess allocation received needs to be carried forward to 2017/18 for repayment to SFC.

FE and HE Childcare Funds

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
At 1 August 2016	-	-
Allocation received in period	821	657
Expenditure in period	821	(828)
At 31 July 2017	-	(171)

Represented by:

Charged to College Reserves	-	(171)
	-	(171)

Childcare Fund transactions are included within the College Income and Expenditure Account in accordance with the Accounts Direction issued by the Scottish Funding Council.

32. PENSION CONTRIBUTIONS

The College's employees belong to one of two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the North East Scotland Pensions Fund Scheme (NESPF), which are the defined benefit type. The STSS scheme is a notional fund and there are specific regulations regarding the basis on which the actuarial valuation should be carried out. The assets of the NESPF scheme are held in a separate, trustee-administered fund.

North East Scotland Pensions Fund Scheme (NESPF)

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

A formal valuation of the North East Scotland Pension Fund was performed at 31 March 2014 by a qualified, independent actuary.

The principal actuarial assumptions used by the actuary are as follows:

	31 July 2017	31 July 2016
	% pa	% pa
Pension increase rate	2.2%	1.8%
Salary increase rate	3.7%	3.2%
Discount rate	2.5%	2.5%

Average future life expectancies at age 65 are summarised below for a male (female):

Current pensioners male/(female)	22.3(24.9)	22.2 (24.8)
Future pensioners in 20 years' time	24.5(27.8)	24.4 (27.6)

The employer contributions for year to 31 July 2018 will be approximately £1,234,000

The assets in the scheme are:

	Asset allocation value at 31 July 2017 £'000	Asset allocation value at 31 July 2016 £'000
Equities	50,684	43,123
Government Bonds	8,274	7,961
Bonds	1,193	1,327
Property	5,218	4,644
Cash	1,118	1,990
Other	8,050	7,298
	74,537	66,343

The table below compares the present value of the scheme liabilities, based on the actuary's assumptions with the estimated employer assets:

Changes in the fair value of scheme assets are as follows:

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 - restated £'000
Fair value of employer assets	74,537	66,343
Present value of funded obligations	(100,379)	(90,259)
Net Liability	(25,842)	(23,916)
Amount in the balance sheet:		
Liabilities	(25,842)	(23,916)
Assets	-	-
Net liability	(25,842)	(23,916)

The total pension cost to the College in the period was £2,818,000 (2015-16: £2,425,000). The contribution rate payable was 15.7% for the year (2015-16: 15.7%).

The amounts recognised in the Income and Expenditure Account are as follows:

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 - restated £'000
Current service cost	2,188	1,804
Interest on obligation	2,237	2,749
Expected return on employer assets	(1,653)	(2,255)
Losses on curtailments	-	72
	2,772	2,370
Actual return on scheme assets	8,702	5,362
	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Opening fair value of scheme assets	66,343	60,898
Expected return on assets	1,653	2,255
Contribution by members	471	476
Contribution by the employer	1,169	1,212
Contribution in respect of unfunded benefits	44	45
Re-measurement of assets	7,049	3,107
Unfunded benefits paid	(44)	(45)
Benefits paid	(2,119)	(1,576)
Administration expenses	(29)	(29)
Closing fair value of scheme assets	74,537	66,343

Changes in the present value of the defined benefit obligation are as follows:

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 - restated £'000
Opening defined benefit obligation	90,259	74,860
Current service cost	2,188	1,804
Interest cost	2,237	2,749
Contribution by members	471	476
Curtailments	-	72
Re-measurement of liabilities	7,299	11,829
Benefits paid	(2,075)	(1,531)
Closing defined benefit obligation	100,379	90,259
	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
History of experience gains/(losses)		
Scheme assets	74,537	66,343
Defined benefit obligation	(100,379)	(90,259)
Deficit	(25,842)	(23,916)

The transactions in respect of the North East Scotland Pension Fund which are now included in the accounts as required by FRS 102 are as follows:

Analysis of the amount charged to staff costs (Note 5)

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 - restated £'000
Current service cost	2,188	1,804
Curtailments and settlements	-	72
Total operating charge	2,188	1,876

Analysis of the amount credited to investment income

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 - restated £'000
Expected return on pension scheme assets	1,653	2,255
Interest on pension scheme liabilities	(2,237)	(2,749)
Net return	(584)	(494)
Total defined benefit cost recognised in the CIES	(2,772)	(2,370)

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Movement in deficit during the year:		
Deficit in scheme at beginning of the year	(24,649)	(14,651)
Movement in year:		
Current service cost	(2,818)	(2,353)
Contributions	1,169	1,212
Curtailments	-	(72)
Re-measurements	(283)	(8,785)
Deficit in scheme at end of the year	(26,581)	(24,649)

Total actuarial gains/ (losses) recognised in Other Comprehensive Income

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
(Loss) on actuarial assumptions	(7,299)	(11,829)
Remeasurements of scheme assets	7,049	3,107
Unfunded remeasurement	-	(63)
Total actuarial (Loss) in respect of pension scheme	(250)	(8,785)

Scottish Teachers Superannuation Scheme (STSS)

The College participates in the Scottish Teacher's Superannuation Scheme, a defined benefit scheme, which is externally funded and contracted out of State Earnings-Related Pension Scheme. The assets of the scheme are in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The total STSS pension cost for the College was £1,949,000 (2015-16: £1,934,000). This includes £0 (2015-16: £0) outstanding contributions at the balance sheet date. The contributions rate payable by the college was 17.2% for the year (2015-16: 17.2%).

As the scheme is unfunded, there can be no surplus or shortfall. Pension contribution rates will be set by the scheme actuary, at a level to meet the cost of pensions, as they accrue.

An amount of £7,373,000 (2015-16: £7,275,000) included in provisions (note 19), represents future pension costs arising from early retirements.

Group Personal Pension Plan

In addition, the subsidiary company operates a group personal pension plan for employees providing benefits based on defined levels of contribution.