NORTH EAST SCOTLAND COLLEGE

FINANCIAL STATEMENTS for the Sixteen Month Period to 31 July 2015

Charity Number: SCO21174

Index

Operating and Financial Review by the Board of Management

Introduction
The Board of Management of North East Scotland College presents the financial statements of the College and its wholly owned subsidiaries for the 16 month period to 31 July 2015. The Prior Year figures covered the 8 month period to 31st March, 2014.

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 corporation tax and capital gains tax. The College receives no similar exemption in respect of Value Added Tax.

Scope of the Financial Statements
The Board presents the consolidated financial statements of the College and its subsidiary companies. These subsidiary companies are: Aberdeen Skills and Enterprise Training Limited (ASET) (a company engaged in the provision of education and training) and Clinterty Estates Limited (a company that ceased to trade in April 1998). ASET passes the majority of its taxable profits to the College by way of Gift Aid in order to mitigate the tax liability of the Company and to maximise its financial contribution to the College.

Vision
Our vision is a College where lives can be transformed and ambitions realised through:
- inspirational teaching
- high quality services and facilities; and
- flexible and accessible courses responsive to the needs of both employers and the communities that we serve.

Value Statement
We value:
- Our students through focusing on their needs and empowering them to meet their full potential
- Our staff and the contribution they make to meeting the needs of our students and stakeholders
- Our partnerships and links with local communities
- Our links with employers and our ability to contribute to the local, regional and national economy

We aspire to excellence through:
- Accessibility and inclusion
- Innovation and creativity
- Equality and diversity
- Respect for others: staff, students and stakeholders
- Transparency in what we do and how we operate

Strategic Aims
- To offer high quality vocationally relevant learning opportunities to support the skills needs of the North East of Scotland.
- To provide access to and pathways through the College and into further study or work for all those who are able to benefit from them, including those who may encounter barriers to learning.
- To remain a financially stable, well-resourced and sustainable institution that supports the objectives of the Scottish Government.

Regional Priority Outcomes

As stated in Outcome Agreement between the Aberdeen and Aberdeenshire region and the Scottish Funding Council for academic years 2014-17, the regional priority outcomes are:
1. To offer high quality vocationally relevant learning opportunities to support the skills needs of the North East of Scotland.
2. To provide access to and pathways through the College and into further study or work for all those who are able to benefit from them, including those who may encounter barriers to learning.
3. To remain a financially stable, well-resourced and sustainable institution that supports the objectives of the Scottish Government.

Main Achievements
The merger of Aberdeen and Banff and Buchan Colleges took place on 1 November 2013. The expected benefits of merger have been realised. Satisfactory external reviews have provided assurance to the Board of Management that the merger has progressed well.

Operating and Financial Review by the Board of Management (Continued)

This reporting period was one of continuing success for the College and for the people it exists to serve – its students and employer clients. As one of the largest of Scotland's further education colleges, like others, the College is funded each year to deliver an agreed level of service. In the academic year to 31 July 2015 the College has delivered a measured volume of activity that is at least in line with its targeted level.

The College's service was provided at a high level of quality, as attested by the many audits and inspections undertaken, providing objective measures of the various aspects of the standard of service it provides.

There were 166 external verification checks carried out by the Scottish Qualifications Authority (SQA) and other awarding bodies. The College was found to comply with the requirements of the various awarding bodies with the exception of three sanctions which were subsequently rectified and the sanctions were lifted.

The College has, for many years, actively sought external accreditation and has applied for many national standards and competitions as a means of identifying quality improvement measures. External accreditation by respected national bodies also gives our students, employer clients and the general public the assurance that as a publicly-funded body, the College meets a wide range of recognised quality standards.

In 2014-15 the College achieved a number of standards, namely:

BS OHSAS 18001: Standard for Effective Management Systems of Health and Safety
Investors in People
ISO 14001: Environmental Management Standard
Royal Society for the Prevention of Accidents (RoSPA) President's Award
Scotland's Healthy Working Lives – Gold Standard

As in previous years, the College ended this review period in a financially robust position. That said, the reclassification of Scottish colleges as 'public bodies' has changed the criteria by which that position is measured.

Financial objectives
The College's financial objectives are:

- As a minimum, taking one year with another to strive to operate a balanced budget subject to the availability of funding;
- to position the College to meet the challenges of reduced funding arrangements, changed economic circumstances and levels of student recruitment.

Operating and Financial Review by the Board of Management (Continued)

Performance Indicators:

The Performance Indicators for 2014/15 are the NESCOL statistics for the period up to 31st July, 2015. 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

	2014-15	2013-14	2012-13	2011-12	2010-11
WSUMs	180,919	161,456	134,388	146,075	155,070

(ii) Enrolments

	2014-15	2013-14	2012-13	2011-12	2010-11
All	18,213	25,402	13,855	16,456	23,313
Full-time	6,103	6,968	5,779	6,049	5,834
Part-time	12,110	18,434	8,076	10,407	17,479

(iii) Headcount

	2014-15	2013-14	2012-13	2011-12	2010-11
Students	14,168	21,959	13,872	16,131	20,629

(iv) Staff Employment Levels 2014-15

Type of Contract	Number of Staff (Headcount)			Number of Staff (FTE's)		
Total		639			567.89	

(v) Staff Sickness Absence Levels

Year	2014-15	2013-14	2012-13	2011-12	2010-11
Average No. of days per employee	5.28	4.42	5.96	3.84	6.48

(vi) Staff Turnover Levels

	2014-15	2013-14	2012-13	2011-12	2010-11
Lecturers	11.6%		17.5%	13%	8.3%
Support	16.9%		8.7%	14.7%	25.1%
Total		13.68%			

<u>Continuing Professional Development</u>
During the period April 2014 to July 2015 the Organisational Development team underwent some changes including a new structure and an increase in the number of staff. The primary objectives of the team are to
a) implement induction processes to enable new and promoted staff to settle into their roles as quickly and as effectively as possible;
b) put resources in place to ensure that staff either hold or achieve the qualifications required for their posts within a reasonable time scale and
c) Implement appropriate training and development initiatives to ensure that all staff have the skills, knowledge and competencies required for their roles and to meet professional standards where these are established. The team also is responsible for supporting managers and staff across the College to maintain high levels of performance and retain national standards such as IiP accreditation.

<u>Employer Engagement</u>
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.

Operating and Financial Review by the Board of Management (Continued)

Review of Financial Outturn for the Reporting Period

The Income and Expenditure account for the period showed a historical cost deficit on continuing operations after disposals of assets and taxation of £888,000 (FY2013-14: £12,751,000). After adjusting for the effect of depreciation on re-valued assets, and the realisation of property revaluation gains of previous years, the deficit for the period was £384,000. (FY2013-14: £12,485,000). Of the total income of the College, 31% (FY2013-14: 36%) was received from non-SFC sources.

The accumulated deficit on the Income and Expenditure Account at 31 July 2015 was £63,000. (31 March 2014: surplus £692,000). 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 2015 was £7,131,000 (31 March 2014: £5,746,000) whilst the FRS 17 provision for the College's share of the North East Scotland Pension Fund (NESPF) deficit was £13,962,000 (31 March 2014: £14,529,000).

The College's cash and liquid resources position at the end of the period was £5,023,000 (31 March 2014: £4,731,000), this equates to the College having 32 days of cash on hand (FY2013-14 - 31 days).

Physical Developments

In the reporting period the College spent £4,463,000 improving accommodation.

Projects include: the overclad of the Tower and East Blocks at the Aberdeen City Campus; work on the tool workshop in Fraserburgh, and commencement of the Fraserburgh Masterplan works.

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 exemption 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 College's cash balance increased by £292,000 in the period (2013-14– decrease of £15,138,000), operating cash outflow was £206,000 (2013-14: £13,884,000).

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 Board of Management acknowledges the prohibition set out in the Scottish Public Finance Manual on the accumulation of reserves.

The Board of Management has established plans for the next stages of the Board's estates development strategy, which will mainly address the refurbishment of the Fraserburgh Campus and the Aberdeen City Campus. These projects are expected to be funded by grant from an arms-length foundation and from retained property sale proceeds.

Operating and Financial Review by the Board of Management (Continued)

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. Supplier invoices were paid in 12 days in the period to 31 July 2015 (10 days in the year to 31 March 2014).

Interest paid under Late Payments of Commercial Debts (Interest) Act amounted to £nil during the period (31 March 2014 - £nil).

Current and Future Developments and Performance
Outcome Agreement with the Scottish Funding Council
The data available to the College at the time of writing indicates that it is reasonable to expect that the College will meet the commitments set out in the outcome agreement for the academic years 2014-17 that has been agreed with the SFC.

Curriculum Developments
The College will ensure that high quality tuition and support is provided to students to help them achieve their potential in terms of qualifications and vocational, employability, citizenship and personal and social skills by promoting a high quality experience for all students, offering varied and stimulating opportunities for learning, which incorporate new technologies and flexible modes of delivery where appropriate, and high quality support services, underpinned by effective quality management systems and professional development arrangements for staff.

Post Balance Sheet Events
In October 2015, the project to develop the Fraserburgh Campus reached the construction phase with the establishment of a contract with Robertson Construction (Northern) Ltd. The overall budget for the project is £8,550,000, of which £8,141,500 will be funded from grant by an arms-length foundation and the balance from SFC capital grant.

The College is progressing the sale of the site of the former Balgownie Centre, having secured permission from the Scottish Funding Council and Scottish Government to sell the site and retain the proceeds to fund the planned refurbishment of the Gallowgate Centre.

Future Development of the College Estate
Good progress was made during the period in progressing the next phase of the Board's estates development strategy. The progression of the refurbishment of the rest of the Aberdeen City Campus is dependent on the funds realised from the disposal of the site of the former Balgownie Centre. The Board of Management considers it unlikely that significant funding support will be available from the SFC for the foreseeable future.

Work will continue in academic year 2015-16 to improve the College estate. Planned maintenance programmes will be progressed at a budgeted cost of £1,035,000. Investment will continue to improve the College estate and capital works the value of £6,107,000 are planned to take place, of which £4,809,000 will be spent on the extension and refurbishment of engineering technologies training facilities at the Fraserburgh Campus. These will be funded fully by way of grant from an arms-length foundation; the remaining works will be funded from College budgets and anticipated SFC grant.

Resources
The College has net assets of £73,381,000 (31 March 2014; £63,358,000). The current asset to current liabilities ratio is 1.4:1 (31 March 2014: 1.0:1), with the gearing on long term liabilities being 0.81:1 (31 March 2014: 1:1).

Principal Risks and Uncertainties
The principal risks faced by the College are recorded in the College's risk register, which is reviewed biannually. Mitigating actions are in place to address risk. The most significant risks faced by the College are: the loss of income that might arise if the SFC changed the basis on which colleges are funded; from the loss of major customer contracts; and the potential impacts of the reclassification of colleges as 'central government bodies' as from 1 April 2014.

Operating and Financial Review by the Board of Management (Continued)

Stakeholder Relationships
The College has links with many organisations. These include:

Students – prospective, current and graduands
Local communities
Colleges and Universities
Employers and Employer organisations and associations
Charity and Voluntary organisations
Sector Skills Councils
Government and other central authorities
Local authorities
Emergency services
Awarding bodies
NDPBs
Community and economic development organisations

Equality and Diversity
The College is committed to promoting equality of opportunity for all its students and staff in all aspects of College life to ensure that no-one is discriminated against on the grounds of race, colour, religion, sex, marital status, disability, age, social position or sexual orientation.

The College's Equality and Diversity Policy, Inclusiveness Policy, Accessibility Statement, Dignity at Work Policy, Gender Equality Policy, Race Equality Policy and Disability Equality Scheme are published on the College intranet.

<u>Disability Statement</u>
The College is committed to ensuring that people with disabilities and people with learning difficulties are treated fairly. We will, therefore, make reasonable adjustments to ensure that students with disabilities are not substantially disadvantaged.

Deficit resulting from use of depreciation cash
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 the financial period 2014/15 this meant that the College received cash of £1,030,000, which had been earmarked against net depreciation. Without approval to spend this cash, moving the college's I&E into a deficit position, it would have been effectively frozen. The Scottish Funding Council issued guidance to the College on this matter on 30 January 2015 (SFC/AN/03/2015) which provided approval for that cash to be applied to student support, loan repayments and approved local circumstances. North East Scotland college decided to pay £1,028,000 towards its pension fund deficit, which will have the effect of reducing future years' contributions.

The impact of the above has resulted in the reported deficit for 2014/15. However, the Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following its 30 January guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. This position has been agreed with Audit Scotland and the Scottish Government.

Operating and Financial Review by the Board of Management (Continued)

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, 2015, showed that this college operated within its Revenue and Capital Resource limits. The Revenue Resource Limit (RRL) for the College was £57,438,000, and the Capital Resource Limit was £4,255,000. These figures differ from the figures shown in this report because:

1. The Resource limit covers a 12 month period whereas these accounts cover a 16 month period
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.

Disclosure of Information to Auditors

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

PROFESSIONAL ADVISERS

External auditor:	Anne MacDonald Senior Audit Manager Audit Scotland Business Hub 15, 3rd Floor South Marischal College, Broad Street Aberdeen AB10 1AB
Internal auditors:	Wylie and Bisset 168 Bath Street Glasgow G2 4TP
Bankers:	Clydesdale Bank 56 Carden Place Aberdeen AB10 1UP
Solicitors:	Burness Paull Union Plaza 1 Union Wynd Aberdeen AB10 1DQ

Approved by order of the Members of the Board of Management on 7 December 2015 and signed on its behalf by:

Ken Milroy

Ken Milroy
Chair of the Board of Management

Statement of Corporate Governance and Internal Control

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

Code of Good Governance for Scotland's Colleges
The Board of Management has adopted the Code of Good Governance. Self-evaluation of its performance has provided evidence to show that the Board's practice is consistent with the principles of the Code. The Board has established a 'Governance Steering Group' with the purpose of ensuring that the Board's strong approach to governance is maintained.

Statement of full UK Corporate Governance Code compliance
In the opinion of the Board of Management, the College complies with all the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the period ended 31 July 2015.

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

Mr D. Anderson (appointed 01 March 2015)
Ms A. Bell
Ms S. Brimmer (appointed 01 November 2014)
Ms S. Cormack
Mr B. Dunn (teaching staff representative) (term of office ended 31 March 2015)
Mr D. Duthie (Vice Chair)
Mr I. Gossip
Ms K. Gravells (student representative left the Board on 30 June 2015)
Prof J. Harper
Mr J. Henderson (appointed 01 November 2014)
Ms C. Inglis
Ms S. Masson (teaching staff representative) (appointed 03 June 2015)
Ms D. Michie (resigned 30 April 2015)
Mr K. Milroy (Chair)
Prof M. Melvin (left the Board on 31 October 2014)
Mr D. Rennie (student representative left the Board on 30 June 2015)
Mr A. Russell (appointed 01 June 2015)
Ms A. Simpson
Mr A. Smith
Mr S. Smith (support staff representative)
Mr R. Wallen (Principal and Chief Executive)

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 2015.

Key Committees:

- **Audit Committee**
- Members – Mr D Anderson, Ms A. Bell, Ms S. Cormack, Mr D. Duthie, Prof M. Melvin, Ms A. Simpson, Mr D. Russell.

- **Finance and General Purposes Committee**
- Members – Ms S. Brimmer, Mr I. Gossip, Prof J. Harper, Mr J. Henderson, Ms S. Masson, Ms D. Michie, Mr K. Milroy, Mr D. Rennie, Mr A. Smith, Mr R. Wallen.

- **Human Resources Committee**
- Members – Ms S. Brimmer, Mr B. Dunn, Mr I. Gossip, Ms K. Gravells, Mr J Henderson, Ms C. Inglis, Prof M. Melvin, Mr K. Milroy, Ms A. Simpson, Mr A. Smith, Mr R. Wallen.

Statement of Corporate Governance and Internal Control (Continued)

- **Investment and Project Committee**
- Members – Mr D. Duthie, Mr I. Gossip, Mr J. Henderson, Mr K. Milroy, Mr A. Smith.

- **Learning & Teaching and Student Services Committee**
- Members – Mr D. Anderson, Ms A. Bell, Ms S. Cormack, Mr B. Dunn, Mr D. Duthie, Ms K. Gravells, Prof J. Harper, Ms C. Inglis, Ms S. Masson, Mr D. Rennie, Ms A. Simpson, Mr S. Smith, Mr R. Wallen.

- **Remuneration Committee**
- Members – Mr D. Duthie, Mr I. Gossip, Ms C. Inglis, Mr K. Milroy.

- **Selection and Appointments Committee**
- Members – Mr D. Duthie, Mr I. Gossip, Ms C. Inglis, Mr K. Milroy.

The College's Board of Management meets six times 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 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 2015 are set out in note 6 to the financial statements and the Remuneration Report on pages 13 to 14.

The Audit Committee meets six times a year, with the College's external and internal auditors in attendance as required. The Audit 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 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 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 Committee as necessary, they are not members of the Committee.

Corporate Strategy

In respect of its strategic and development responsibilities, the Board of Management meets on three occasions to consider establishment of the College's strategic plan.

Statement of Corporate Governance and Internal Control (Continued)

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 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 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 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 2015 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: purchasing payments and procurement; financial systems; work-based learning; estates management; student records; risk management; corporate governance; Aberdeen Skills and Enterprise Training Ltd (the Board's wholly owned subsidiary company); and the operation of academic Schools. Substantial controls were identified in areas of: fixed asset management and information technology systems. The reviews of human resources, payroll and the implementation of previous recommendations identified controls in those areas as being weak. Additional audit work was undertaken to provide assurance to the Board on the correctness and completeness of data held in the human resources system. Actions have been taken and are planned to be taken to strengthen these controls.

Statement of Corporate Governance and Internal Control (Continued)

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.

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.

Going Concern

The Board of Management considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

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

Ken Milroy	**Rob Wallen**
Chair of the Board of Management	**Principal and Chief Executive**
7 December 2015	

Remuneration Report

Remuneration Committee

The Remuneration Committee is clerked independently from College management – the administrative roles being carried out by the College's solicitors. The Committee has responsibility for recommending to the Board the salaries and conditions of service for members of the College's Senior Management Team, as well as the structure of the SMT. The Committee meets as required.

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

Actuals	**16 months ended 31 July 2015**			**8 months ended 31 March 2014**		
Name	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**
Rob Wallen, Principal & Chief Executive	180 - 185	60 - 65	240 - 245	100 - 105	40 - 45	145 - 150
Roderick Scott, Vice Principal - Finance	150 - 155	25 - 30	175 - 180	75 - 80	25 - 30	100 - 105
Atholl Menzies, Chief Executive & Executive Director of ASET	120 - 125	Note 4		55 - 60	Note 4	
John Davidson, Vice Principal - Learning & Quality	100 - 105	55 - 60	155 - 160	35 - 40	0	35 - 40
Ken Milroy, Chair of Board of Management	25 - 30	0	25 - 30	0	0	0
Elaine Hart, Vice Principal - HR	115 - 120	20 - 25	135 - 140	5 - 10	0	5 - 10
Neil Cowie, Vice Principal - Organisational Services	100 - 105	45 -50	150 - 155	45 - 50	80 - 85	130 - 135
Paul Sherrington, Depute Principal	105 - 110	15 - 20	120 - 125	60 - 65	115 - 120	175 - 180
Sandra Walker, Vice Principal - Curriculum (retired)	115 - 120	75 - 80	190 - 195	55 - 60	25 - 30	80 - 85
Frank Hughes, Vice Principal - Student Services (retired)	30 - 35	10 - 15	40 - 45	45 - 50	15 - 20	65 - 70
Doug Duthie, Vice Chair of Board of Management	5 - 10	0	5 - 10	0 - 5	0	0 - 5
Ian Gossip, Board Member	5 - 10	0	5 - 10	0 - 5	0	0 - 5
David Morgan, Director of ASET	5 - 10	0	5 - 10	0 - 5	0	0 - 5
Adrian Smith, Director of ASET	10 - 15	0	10 - 15	5 - 10	0	5 - 10

Annual Equivalent	**16 months ended 31 July 2015**			**8 months ended 31 March 2014**		
Name	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**
Rob Wallen, Principal & Chief Executive	135 - 140	60 - 65	195 - 200	155 - 160	60 - 65	215 - 220
Roderick Scott, Vice Principal - Finance	110 - 115	15 - 20	130 - 135	110 - 115	35 - 40	150 - 155
Atholl Menzies, Chief Executive & Executive Director of ASET	90 - 95	Note 4		115 - 120	Note 4	
John Davidson, Vice Principal - Learning & Quality	75 - 80	40 - 45	115 - 120	55 - 60	0	55 - 60
Ken Milroy, Chair of Board of Management	20 - 25	0	20 - 25	0	0	0
Elaine Hart, Vice Principal - HR	85 - 90	15 - 20	100 - 105	80 - 85	0	80 - 85
Neil Cowie, Vice Principal - Organisational Services	75 - 80	35 - 40	110 - 115	65 - 70	125 - 130	195 - 200
Paul Sherrington, Depute Principal	75 - 80	10 - 15	90 - 95	90 - 95	170 - 175	265 - 270
Sandra Walker, Vice Principal - Curriculum (retired)	85 - 90	60 - 65	145 - 150	85 - 90	35 - 40	120 - 125
Frank Hughes, Vice Principal - Student Services (retired)	70 - 75	30 - 35	105 - 110	70 - 75	25 - 30	95 - 100
Doug Duthie, Vice Chair of Board of Management	5 - 10	0	5 - 10	5 - 10	0	5 - 10
Ian Gossip, Board Member	5 - 10	0	5 - 10	5 - 10	0	5 - 10
David Morgan, Director of ASET	5 - 10	0	5 - 10	5 - 10	0	5 - 10
Adrian Smith, Director of ASET	5 - 10	0	5 - 10	5 - 10	0	5 - 10

Notes:

1. Frank Hughes left the College on 31/8/14. Paul Sherrington left the College on 30/4/15. Sandra Walker left the College on 30/6/15.
2. Based on the 12 month equivalent figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2014/15 was £135,000–£140,000 (2013/14 £135,000 – £140,000). This was 4.2 (2013/14 5.2) times the median total remuneration for the College which was £33,127 (2013/14 £30,656).
3. From 1st April, 2014, the Principal of the College receives 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.
4. Atholl Menzies is not enrolled in a public services defined benefit pension scheme. The actual contributions made by his employer, ASET Ltd, for the 16 months ended 31st July 2015 were £10,000 - £15,000 (2013/14 £5,000 - £10,000)
5. Sandra Walker received a compensation payment in the range £25,000 - £30,000.

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

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

The 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 29.

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

Name	**Accrued pension at pension age at 31 July 2015**	**Accrued lump sum at pension age at 31 July 2015**	**Real increase in pension 1 April 2014 to 31 July 2015**	**Real increase in lump sum 1 April 2014 to 31 July 2015**	**CETV at 31 July 2015**	**CETV at 31 March 2014**	**Real increase in CETV**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rob Wallen, Principal & Chief Executive	60-65	145-150	0	0	1,315-1,320	1,315-1,320	0
Roderick Scott, Vice Principal - Finance	40-45	85-90	0-5	0-5	865-870	770-775	90-95
John Davidson, Vice Principal - Learning & Quality	20-25	0	0-5	0	285-290	245-250	35-40
Elaine Hart, Vice Principal - HR	40-45	0	0-5	0	565-570	505-510	60-65
Neil Cowie, Vice Principal - Organisational Services	15-20	55-60	5-10	25-30	270-275	220-225	35-40
Paul Sherrington, Depute Principal	45-50	130-135	5-10	20-25	905-910	860-865	30-35
Sandra Walker, Vice Principal - Curriculum (retired)	25-30	45-50	0-5	5-10	500-505	425-430	70-75
Frank Hughes, Vice Principal - Student Services (retired)	25-30	60-65	0-5	0-5	520-525	495-500	20-25

Note that for the above table, Atholl Menzies, Doug Duthie, Ian Gossip, David Morgan and Adrian Smith have been excluded from the list as they are not in receipt of a pension benefit from public service.

Signed:

Ken Milroy
Chair of the Board of Management
7 December 2015

Rob Wallen
Principal and Chief Executive

Statement of the Responsibilities of the Board of Management

The 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 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 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, the 2007 Statement of Recommended Practice Accounting for Further and Higher Education Institutions 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 Board of Management, the 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.

These 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 Board of Management is required to:

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

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council (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 effective 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 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 Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

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

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

Ken Milroy

Ken Milroy
Chair of the Board of Management

7 December 2015

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

I have audited the financial statements of North East Scotland College and its group for the period ended 31 July 2015 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 Income and Expenditure Account, Consolidated Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses, the Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to board members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of the Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the college and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the 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 2015 and of their deficit for the period 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).

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 (Continued)

Opinion on regularity

In my 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.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and

- the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit; or

- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Anne MacDonald CA
Senior Audit Manager
Audit Scotland
Business Hub 15, 3rd Floor South
Marischal College
Broad Street
ABERDEEN
AB10 1AB

8 December 2015

Anne MacDonald is eligible to act as an auditor in terms of Section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Statement of Accounting Policies

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2007: 'Accounting in Further and Higher Education' and the 2014/15 Government Financial Reporting Manual (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of Accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments.

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 2, the activities of the College Students' Association have not been consolidated because the College does not control those activities.

Changes in Accounting Policies

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

In complying with FReM and other guidance, there is now a requirement to accrue the cost of holiday entitlements earned by staff but not taken before the period end which can be carried forward to the following financial year.

Recognition of Income

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 grants, 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 specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with 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.

Recurrent grant from the Scottish Funding Council is recognised in the period in which it is receivable.

Non-recurrent grants from the Scottish Funding Council or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Maintenance of Premises

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

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded 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.

Pension Schemes

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).

Statement of Accounting Policies (Continued)

These are defined benefit 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 Income and expenditure Account 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 Income and Expenditure Account represent the contributions payable to the scheme in the year.

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

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.

Tangible 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.

Recognition
Expenditure on the acquisition, creation or enhancement of Tangible Fixed Assets is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the College and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Classification as a tangible fixed asset is subject to a de minimus level of £10,000 for vehicles, plant and machinery.
Assets are carried in the Balance Sheet using the following measurement bases:

- Land and assets under construction – at cost, not depreciated.
- Buildings and infrastructure – fair value/depreciated replacement cost
- Components – straight line allocation over the useful life of the asset as determined by a suitably qualified officer
- All other assets – fair value, determined the amount that would be paid for the asset in its existing use (existing use value – EUV). Equipment that has a short useful life and/or a low value is reported on a depreciated historical cost basis as a proxy for fair value.

Statement of Accounting Policies (Continued)

Componentisation
Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.

A component may be an individual item or similar items with similar useful lives grouped together.

Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.

Only assets with a gross book value of £20m and over will be considered for componentisation.

Of those assets, for the purpose of determining a "significant" component of an asset, components with a value of at least 25% in relation to the overall value of the asset or over £5m will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.

On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the residual amount of the asset is recognised in the Consolidated Income and Expenditure Account.

Disposals and tangible fixed assets held for sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.
Depreciation is not charged on Assets Held for Sale.
Where assets no longer meet the criteria to be classified as held for sale they will be re-valued at existing use value and reclassified to Tangible Fixed Assets.
When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Consolidated Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Consolidated Income and Expenditure Account also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land) and assets that are not yet available for use (i.e., assets under construction and assets held for sale).
Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer, ranging from 20 years to 60 years
- vehicles, plant and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, ranging from 3 years to 20 years

Statement of Accounting Policies (Continued)

No depreciation is charged in the year of acquisition but a full year's depreciation is charged in the year of disposal.
Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.
The College operates a five year revaluation programme for assets.

Revaluation Reserve
Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation on the revalued amount of these assets is transferred from revaluation reserve to Income and Expenditure Account together with any surplus or deficit on disposal.

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

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

Intangible Assets
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. Amortisation commences in the year in which sales from the related product commence. These assets have been fully depreciated since July 2010.

Accounting for Business Combinations
The College merged with Banff and Buchan College on 1 November 2013. The merger was accounted for by the "acquisition method of accounting" in order to comply with FRS6, Acquisitions and Mergers. Fair values are attributable to the net separable assets and liabilities acquired. The benefit arising as a consequence of no consideration 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.

The fair value of the benefit arising in relation to non-monetary assets is released to the income and expenditure account over the periods in which the non-monetary assets are recovered, whether through disposals or depreciation. The release is aligned with the corresponding depreciation charge relating to the assets.

Investments
Fixed asset investments are carried at historical cost less any provision for a permanent impairment in their value. Current asset investments are included in the balance sheet at the lower of their original cost and net realisable value.

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 economic lives of the assets to which they relate.

Stocks
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.

Statement of Accounting Policies (Continued)

Taxation
As a registered charity the College benefits by being broadly exempt from corporation tax on income it receives from tuition fees, interest and rents. Where appropriate, provision is made for taxation that may arise from the commercial activities of the Board of Management.

The charge for taxation is based on net earnings derived from commercial activities for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

The College is exempt from levying VAT on most of the services it provides. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

Deferred Taxation
Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and tax purposes that are expected to reverse in the future calculated at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is debited or credited to the income and expenditure account except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

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

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

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.

Consolidated Income and Expenditure Account
For the period ended 31 July 2015

	Notes	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
INCOME			
SFC grants	2	**48,786**	19,791
Tuition fees and education contracts	3	**16,628**	8,991
Research grants and contracts		**-**	37
Other income	4	**4,979**	2,101
Investment income	5	**49**	144
Total income		**70,442**	31,064
EXPENDITURE			
Staff costs	6,8	**35,154**	15,538
Exceptional restructuring costs	6,8	**3,137**	1,400
Other operating expenses	8	**30,477**	13,413
Depreciation	8,13	**3,425**	1,369
Interest payable	8,9	**20**	10
	8	**72,213**	31,730
Transfer to foundation	8	**-**	13,175
Total expenditure		**72,213**	44,905
Deficit on continuing operations after depreciation of fixed assets at valuation before release of negative goodwill and tax		**(1,771)**	(13,841)
Release of negative goodwill	14	**853**	1,080
Deficit on continuing operations after depreciation of fixed assets at valuation and release of negative goodwill but before tax		**(918)**	(12,761)
Gain on disposal of assets		**18**	-
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		**(900)**	(12,761)
Taxation	10	**12**	10
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax	11	**(888)**	(12,751)

The income and expenditure account is in respect of continuing activities.

In accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions, bursary and hardship funds have been excluded from the income and expenditure account.

Consolidated Statement of Historical Cost Surpluses and Deficits
For the period ended 31 July 2015

	Notes	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Deficit on continuing operations before taxation		**(900)**	(12,761)
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount	25	**504**	266
Historical cost deficit for the period before taxation		**(396)**	(12,495)
Taxation	10	**12**	10
Historical cost deficit for the period after taxation		**(384)**	(12,485)

Statement of Total Recognised Gains and Losses
For the period ended 31 July 2015

	Notes	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and taxation	25	**(888)**	(12,751)
Movement in prize funds	25	**-**	-
Revaluation of tangible fixed assets	25	**5,852**	-
Actuarial gain / (loss) in respect of pension schemes		**(38)**	(708)
Total recognised gains / (losses) relating to the financial period		**4,926**	(13,459)

Reserves reconciliation

	Notes	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Opening reserves	25	**21,048**	34,507
Prior year adjustment		**560**	-
Total recognised gains / (losses) for the period		**5,041**	(13,459)
Closing reserves	25	**26,649**	21,048

Balance Sheets as at 31 July 2015

	Notes	Group 31 July 2015 £000	As re-stated Group 31 March 2014 £000	College 31 July 2015 £000	As re-stated College 31 March 2014 £000
Fixed assets					
Intangible assets	12	**-**	-	**-**	-
Tangible assets	13	**93,035**	86,153	**92,833**	85,799
Negative goodwill	14	**(543)**	(1,396)	**(543)**	(1,396)
Investments	16	**-**	-	**30**	30
		92,492	84,757	**92,320**	84,433
Current assets					
Assets held for resale	15	**1,075**	1,075	**1,075**	1,075
Stock	17	**20**	15	**20**	15
Debtors	18	**3,227**	5,254	**3,744**	4,781
Short term investments		**-**	2,031	**-**	2,031
Cash at bank and in hand		**5,023**	2,700	**4,463**	2,966
		9,345	11,075	**9,302**	10,868
Creditors: amounts falling due within one year	19	**(6,843)**	(11,461)	**(6,554)**	(11,089)
Net current assets		**2,502**	(386)	**2,748**	(221)
Total assets less current Liabilities		**94,994**	84,371	**95,068**	84,212
Creditors: amounts falling due after more than one year	20	**(537)**	(743)	**(537)**	(743)
Deferred tax asset/(liability)	21	**17**	5	**-**	-
Provisions for liabilities and charges	23	**(21,093)**	(20,275)	**(21,093)**	(20,275)
NET ASSETS		**73,381**	63,358	**73,438**	63,194
Deferred capital grants	24	**46,732**	42,310	**46,732**	42,310
Reserves					
Revaluation reserve	25	**26,707**	20,351	**26,707**	20,351
Restricted reserve	25	**5**	5	**5**	5
Income and expenditure account	25	**(63)**	692	**(6)**	528
Total reserves	25	**26,649**	21,048	**26,706**	20,884
TOTAL		**73,381**	63,358	**73,438**	63,194

The financial statements on pages 19 to 51 were approved and authorised for issue by the Board of Management on 7 December 2015 and signed on its behalf by:

Ken Milroy

Ken Milroy
Chair of the Board of Management

Rob Wallen

Rob Wallen
Principal and Chief Executive

Consolidated Cash Flow Statement
For the period ended 31 July 2015

	Notes	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Net cash (outflow) from operating activities	26	**(206)**	(13,884)
Net cash inflow from returns on investments and servicing of finance	27	**29**	184
Net cash inflow / (outflow) from capital expenditure	27	**671**	(4,739)
Cash on acquisition		**-**	3,398
Net cash inflow / (outflow) before financing		**494**	(15,041)
Net cash outflow from financing	27	**(202)**	(97)
Increase / (decrease) in cash in the period	28	**292**	(15,138)

Reconciliation of net cash flow to movement in net funds

Increase/(decrease) in cash in the period	28	**292**	(15,138)
Outflow from decrease in debt and lease financing	27	**202**	97
Change in net funds in period		**494**	(15,041)
Net funds at beginning of period	28	**3,836**	18,877
Net funds at end of period	28	**4,330**	3,836

1. PRIOR YEAR ADJUSTMENT

This year, for the first time, the SFC required an accrual for untaken annual leave to be included in the accounts. The 2013/14 comparatives have been restated to include the annual leave accrual, as shown below.

	£000
Group Balances reported at 31 March 2014	1,252
Adjustment to accrue untaken annual leave	560
Group Restated Balances at 31 March 2014	692

2. SFC GRANTS

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
SFC recurrent grant (including fee waiver)	**41,660**	16,939
Childcare funds	**999**	327
Release of deferred capital grants	**1,684**	788
Other SFC grants	**1,076**	403
Transitional Funding	**3,367**	1,334
	48,786	19,791

3. TUITION FEES AND EDUCATION CONTRACTS

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
FE Fees - UK	**3,132**	2,390
FE Fees - EU	**-**	-
FE Fees – non EU	**90**	17
HE Fees	**5,252**	2,635
Total fees paid by or on behalf of individual students	**8,474**	5,042
Education contracts:		
Scottish Enterprise	**1,868**	377
Other tuition	**6,286**	3,572
	8,154	3,949
Total	**16,628**	8,991

4. OTHER INCOME

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
European Union funds	**16**	6
Residences and catering	**1,926**	835
Farming activities	**20**	25
Release from deferred capital grants	**-**	-
Accommodation recharge	**1,576**	564
Other income	**1,441**	671
	4,979	2,101

5. INVESTMENT INCOME

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Interest receivable	**49**	144

6. STAFF COSTS

Staff numbers

The figures shown as comparators for the period ended 31st March, 2014, have been adjusted for comparability purposes – staff were reclassified under the new ledger coding system. The average number of persons (including senior post-holders) employed by the College during the period, expressed as full-time equivalents, was:

	Period ended 31 July 2015 No.	Period ended 31 March 2014 No.
Teaching departments	**294**	289
Teaching support services	**46**	51
Administration and central services	**222**	219
Premises	**10**	10
	572	569
Analysed as:		
Staff on permanent contracts	**551**	539
Staff on temporary contracts	**21**	30
	572	569

Staff costs for the above persons:	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Wages and salaries	**27,968**	12,737
Social security costs	**2,240**	1,008
Other pension costs	**4,946**	1,793
Exceptional restructuring costs	**3,137**	1,400
	38,291	16,938
Teaching departments	**23,520**	10,041
Teaching support services	**2,671**	2,462
Administration and central services	**8,755**	2,952
Premises	**208**	83
Sub total	**35,154**	15,538
Exceptional restructuring costs	**3,137**	1,400
Total	**38,291**	16,938
Analysed as:		
Staff on permanent contracts	**35,154**	15,538
Exceptional restructuring costs	**3,137**	1,400
	38,291	16,938

6. STAFF COSTS (CONTINUED)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Exceptional restructuring costs:		
Provision for future pension costs	**1,386**	385
Restructuring costs	**2,318**	1,174
FRS17 pension provision	**(567)**	(159)
	3,137	1,400

Higher paid members of staff:
The College's accounting period is for 16 months, the figures shown below for the period ended 31st July, 2015 are annualized. Similarly, figures included under the period to 31st March, 2014 have also been annualized, as that was an 8 month period. During the period, three higher paid members of staff left the College through the approved voluntary severance scheme. The total cost of severance payments to these 3 staff was £349,824 (2013: £292,786). The number of staff, including the Principal, who received emoluments including benefits in kind and excluding pension contributions in the following ranges was:

	Period ended 31 July 2015		Period ended 31 March 2014	
	Number Senior post-holders	Number other staff	Number Senior post-holders	Number other staff
£50,000 to £60,000	**-**	12	-	8
£60,001 to £70,000	**-**	12	-	3
£70,001 to £80,000	**1**	-	2	-
£80,001 to £90,000	**2**	-	1	-
£90,001 to £100,000	**-**	-	2	-
£100,001 to £110,000	**-**	-	-	-
£110,001 to £120,000	**1**	-	1	-
£120,001 to £130,000	**-**	-	-	-
£130,001 to £140,000	**-**	-	1	-
£140,001 to £150,000	**1**	-	-	-

7. BOARD MEMBERS AND SENIOR POST-HOLDER EMOLUMENTS

	Period ended 31 July 2015 No.	Period ended 31 March 2014 No.
The number of senior post-holders including the Principal was:	**5**	7

The emoluments paid to Mr Robert Wallen, Principal and Chief Executive, (who is also the highest paid senior post-holder) were £184,000 (2013-14: £104,987) in salary, £29,837 (2013-14: £0) in pension compensation, and £0 (2013-14: £17,881) in employer pension contributions to the Local Government Pension Scheme. Note that these figures reflect a 16 month period up to the end of 31st July, 2015, and comparative figures are for a period of 8 months up to the end of 31st March, 2014.

The Principal is now a paid up member of the Local Government Pension Scheme. Other senior post-holders are also members of that 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.

7. BOARD MEMBERS AND SENIOR POST-HOLDER'S EMOLUMENTS (CONTINUED)

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:

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Fees for services as non-executive directors of subsidiary companies:		
Fees paid	-	19
Expenses paid to board members	-	3
	-	22

8. ANALYSIS OF EXPENDITURE

	Staff costs £000	Other operating expenses £000	Depreciation £000	Interest payable £000	Period ended 31 July 2015 £000	As re-stated Period ended 31 March 2014 £000
Teaching activities	26,891	7,128	214	-	34,233	17,406
Residences and catering	-	1,774	-	-	1,774	758
Farm	-	24	-	-	24	10
Premises	208	8,889	2,737	-	11,834	3,535
Administration	10,495	8,567	322	18	19,402	7,468
Other expenses	697	463	152	2	1,314	706
Agency costs	-	3,632	-	-	3,632	1,847
	38,291	30,477	3,425	20	72,213	31,730

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Other operating expenses include:		
Auditors' remuneration (including irrecoverable VAT)		
- external audit services	44	27
- internal audit services	42	30
- external audit other services	15	8
- other audit services	-	-
Rentals under operating leases - land and buildings	-	8
Rentals under operating leases – other	110	102

Other operating expenses also include a donation of £880,000 (2013-14 £13,175,000) to the North East Scotland arms length foundation. The disclosure of the 2013-14 figure is on the face of the Income & Expenditure account on page 24, as per guidance from the Scottish Funding Council.

9. INTEREST PAYABLE

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
On bank loans, overdrafts and other loans:		
Repayable in more than 5 years, by installments	20	10

10. TAXATION

Tax on profit on ordinary activities

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year	**-**	-
Prior year adjustment	**-**	-
Total current tax	**-**	-
Deferred tax:		
Decrease in deferred tax liability	**(12)**	(10)
Tax credit on profit on ordinary activities	**(12)**	(10)

Factors affecting tax charge for the period

Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK 20% (2013-14 – 20%)	**(18)**	(10)
Effects of:		
Capital allowances less than depreciation	**14**	9
Other timing differences	**-**	-
Expenses not deductible	**4**	1
Current tax credit	**-**	-

11. DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Deficit on continuing operations for the year is made up as follows:		
College's deficit for the period	**(811)**	(12,151)
Deficit generated by subsidiary undertakings after accounting for gift aid £2,801,915 transferred the College (2013-14: £1,532,957) and taxation credit of £12,199 (2013-14: credit £10,149)	**(77)**	(39)
	(888)	(12,190)

12. INTANGIBLE ASSETS

	Group Development Expenditure £000	College Development Expenditure £000
Cost		
At 1 April 2014 and 31 July 2015	**134**	-
Amortisation		
At 1 April 2014 and 31 July 2015	**134**	**-**
Net book value		
At 31 July 2015	**-**	**-**
At 31 March 2014	-	-

13. TANGIBLE FIXED ASSETS

	Land and Buildings Freehold	Equipment	Computers	Total
	£000	**£000**	**£000**	**£000**
Group				
Cost or Valuation				
At 1 April 2014	84,333	5,663	2,384	92,380
Additions	4,463	-	-	4,463
Revaluation	2,261	-	-	2,261
At 31 July 2015	**91,050**	**5,663**	**2,384**	**99,097**
Depreciation				
At 1 April 2014	935	3,234	2,058	6,227
Charge for period	2,655	481	289	3,425
Revaluation	(3,590)	-	-	(3,590)
At 31 July 2015	**-**	**3,715**	**2,347**	**6,062**
Net book value				
At 31 July 2015	**91,050**	**1,949**	**37**	**93,035**
At 31 March 2014	83,398	2,429	326	86,153
Inherited	30,002	-	-	30,002
Financed by capital grant	41,695	618	-	42,313
Other	19,353	1,330	37	20,720
At 31 July 2015	**91,050**	**1,948**	**37**	**93,035**
College				
Cost or Valuation				
At 1 April 2014	84,327	3,920	2,259	90,506
Additions	4,462	-	-	4,462
Revaluation	2,261	-	-	2,261
At 31 July 2015	**91,050**	**3,920**	**2,259**	**97,229**
Depreciation				
At 1 April 2014	929	1,817	1,961	4,707
Charge for period	2,661	351	267	3,279
Revaluation	(3,590)	-	-	(3,590)
At 31 July 2015	**-**	**2,168**	**2,228**	**4,396**
Net book value				
At 31 July 2015	**91,050**	**1,752**	**31**	**92,833**
At 31 March 2014	83,398	2,103	298	85,799
Inherited	30,002	-	-	30,002
Financed by capital grant	41,695	618	-	42,313
Other	19,353	1,134	31	20,518
At 31 July 2015	**91,050**	**1,752**	**31**	**92,833**

13. TANGIBLE FIXED ASSETS (CONTINUED)

Inherited land and buildings were independently valued for the purposes of the financial statements by external consultants FG Burnett, Chartered Surveyors & Property Consultants. This full valuation of Heritable Land and Buildings was completed in 2015 by F.G.Burnett, Chartered Surveyors and Property Consultants. The basis of valuation used was open market value, existing use value or depreciated replacement cost, depending on the type of asset being valued. Directly attributable acquisition costs have been included and expected selling costs deducted.

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

If land and buildings had not been revalued they would have been included at the following amounts:

	31 July 2015 £000	31 March 2014 £000
Cost	**55,022**	50,559
Aggregate depreciation based on cost	**(13,657)**	(9,106)
Net book value based on cost	**41,365**	41,453

Included within land and buildings are non-depreciable assets of £5,101,000 (31 March 2014: £4,900,000).

The depreciation charge for the period is analysed as follows:

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Depreciation based on cost	**1,144**	700
Depreciation based on valuation	**2,281**	669
	3,425	1,369
Owned assets	**3,425**	1,369

14. NEGATIVE GOODWILL

	Group & College 31 July 2015 £000
At 1 April 2014	1,396
Release of negative goodwill to income	(853)
At 31 July 2015	**543**

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 individual components are amortised over their estimated useful lives.

15. ASSETS HELD FOR RESALE

	College 31 July 2015 £000	College 31 March 2014 £000
Balgownie Centre	**1,075**	1,075

16. INVESTMENTS

	College 31 July 2015 £000	College 31 March 2014 £000
Investment in subsidiary undertakings	**30**	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 per cent 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 per cent 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 the agricultural sector.

17. STOCK

	Group & College 31 July 2015 £000	Group & College 31 March 2014 £000
Catering stock	**20**	15
	20	15

18. DEBTORS

	Group 31 July 2015 £000	Group 31 March 2014 £000	College 31 July 2015 £000	College 31 March 2014 £000
Amounts falling due within one year:				
Trade debtors	**763**	1,320	**384**	819
VAT	**27**	56	**27**	133
Amounts owed by subsidiary undertakings	**-**	-	**966**	-
Prepayments and accrued income	**2,437**	3,878	**2,367**	3,829
	3,227	5,254	**3,744**	4,781

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 July 2015 £000	As re-stated Group 31 March 2014 £000	College 31 July 2015 £000	As re-stated College 31 March 2014 £000
Loans (secured) (Note 22)	**156**	152	**156**	152
Trade creditors	**160**	406	**109**	294
Other taxation and social security	**612**	526	**451**	473
Amounts owed to subsidiary undertakings	**-**	-	**-**	42
Accruals and deferred income	**5,915**	10,377	**5,837**	10,128
	6,843	11,461	**6,553**	11,089

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

	Group 31 July 2015 £000	Group 31 March 2014 £000	College 31 July 2015 £000	College 31 March 2014 £000
Loans (secured) (Note 22)	**537**	743	**537**	743

21. DEFERRED TAX

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

	Group 31 July 2015 £000	Group 31 March 2014 £000	College 31 July 2015 £000	College 31 March 2014 £000
(Asset)/liability brought forward	**(5)**	15	**-**	**-**
Reallocation from debtors	**-**	(10)		
Income and expenditure movement arising during the period	**(12)**	(10)	**-**	**-**
Liabilities carried forward	**(17)**	(5)	**-**	**-**

The deferred tax asset consists of the tax effect of timing differences in respect of:

Taxation allowances in arrears of depreciation of fixed assets	**(14)**	(4)	**-**	-
Other short term timing differences	**(3)**	(1)	**-**	-
	(17)	(5)	**-**	-

22. BORROWINGS

Loans	Group 31 July 2015 £000	Group 31 March 2014 £000	College 31 July 2015 £000	College 31 March 2014 £000
Loans are repayable as follows:				
In one year or less	**156**	152	**156**	152
Between one and two years	**156**	155	**156**	155
Between two and five years	**314**	314	**314**	314
Five years or more	**67**	274	**67**	274
	693	895	**693**	895

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.

23. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	2015 Pension costs arising from early retirement £000	Other – FRS17 £000	Total £000	**2014** Pension costs arising from early retirement £000	Other – FRS17 £000	Total £000
At 1 April 2014	**5,746**	**14,529**	**20,275**	5,390	10,708	16,098
On acquisition	**-**	**-**	**-**	420	3,271	3,691
Additional/(reduced) provision required in period	**1,385**	**(567)**	**818**	(64)	550	486
At 31 July 2015	**7,131**	**13,962**	**21,093**	5,746	14,529	20,275

College

	2015 Pension costs arising from early retirement £000	Other – FRS 17 £000	Total £000	**2014** Pension costs arising from early retirement £000	Other – FRS 17 £000	Total £000
At 1 April 2014	**5,746**	**14,529**	**20,275**	5,390	10,708	16,098
On acquisition	**-**	**-**	**-**	420	3,271	3,691
Additional/(reduced) provision required in period	**1,385**	**(567)**	**818**	(64)	550	486
At 31 July 2015	**7,131**	**13,962**	**21,093**	5,746	14,529	20,275

Mercers, an independent firm of actuaries at 31 July 2015, carried out a valuation of the existing pension provision under FRS 17.

24. DEFERRED CAPITAL GRANTS

Group and College	Land and Buildings £000	Altens New Build £000	Equipment £000	Total £000
SFC				
At 1 April 2014	29,971	11,138	335	41,444
Cash received	1,658	-	-	1,658
Released to income and expenditure	(1,079)	(320)	(180)	(1,579)
At 31 July 2015	**30,550**	**10,818**	**155**	**41,523**
Other				
At 1 April 2014	393	466	-	859
Cash received	4,448	-	-	4,448
Released to income and expenditure	(28)	(76)	-	(104)
At 31 July 2015	**4,813**	**390**	**-**	**5,203**
Scottish University for Industry				
At 1 April 2014	7	-	-	7
Cash received	-	-	-	-
Released to income and expenditure	(1)	-	-	(1)
At 31 July 2015	**6**	**-**	**-**	**6**
Total				
At 31 July 2015	**35,369**	**11,208**	**155**	**46,732**
At 31 March 2014	30,371	11,604	335	42,310

25. RESERVES

	Revaluation Reserve £000	Restricted Reserve £000	Income and Expenditure Account £000	Total £000
Group				
Restated I&E account - at 1 April 2014	20,351	5	692	**21,048**
Deficit on continuing operations after depreciation of assets at valuation and after taxation	-	-	(888)	**(888)**
FRS 17 actuarial loss	-	-	77	**77**
Transfer from revaluation reserve to income and expenditure account in respect of depreciation	504	-	(504)	**-**
Movement in period	5,852	-	560	**5,852**
At 31 July 2015	**26,707**	**5**	**(63)**	**26,649**
College				
Restated I&E account - at 1 April 2014	20,351	5	528	**20,884**
Deficit on continuing operations after depreciation of assets at valuation and after taxation	-	-	(811)	**(811)**
FRS 17 actuarial loss	-	-	221	**221**
Transfer from revaluation reserve to income and expenditure account in respect of depreciation	504	-	(504)	**-**
Movement in period	5,852	-	560	**6,412**
At 31 July 2015	**26,707**	**5**	**(6)**	**26,706**

Restricted Reserves – This sum represents the amount that College holds in various small prize funds.

26. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Deficit on continuing operations after depreciation of assets at valuation and before tax	**(900)**	**(12,761)**
Depreciation and amortisation	**3,425**	**1,369**
Gain on disposal of assets	**(18)**	**-**
Deferred capital grants released to income	**(1,684)**	**(917)**
Interest payable	**20**	**10**
Interest receivable	**(49)**	**(144)**
Increase in stocks	**(5)**	**(5)**
Decrease/(Increase) in debtors	**3,103**	**(742)**
Decrease in creditors	**(4,063)**	**463**
Movement in prize funds	**-**	**-**
FRS 17 prior year adjustment	**-**	**-**
Increase in Provisions	**818**	**(77)**
Release of negative goodwill	**(853)**	**(1,080)**
Net cash (outflow)/inflow from operating activities	**(206)**	**(13,884)**

27. ANALYSIS OF GROSS CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Returns on investment and servicing of finance		
Interest received	**49**	144
Interest paid	**(20)**	(10)
Net cash inflow from returns on investments and servicing of finance	**29**	134
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	**(4,463)**	(6,539)
Receipts from SFC re capital grants	**6,106**	1,800
Receipts from disposal of assets	**26**	-
Net cash outflow from capital expenditure	**1,669**	(4,739)
Financing		
Movement in debt due within a year	**-**	-
Movement in debt due beyond a year	**(202)**	(97)
Net outflow from financing	**(202)**	(97)

28. CHANGES IN NET FUNDS

	At 31 March 2014 £000	Cash flows £000	Other non-cash changes £000	At 31 July 2015 £000
Short term investments	2,031	(1,767)	-	**264**
Cash in hand and at bank	2,700	1,844	-	**4,759**
	4,731	77	-	**5,023**
Debt due within one year	(152)	202	(206)	**(156)**
Debt due after one year	(743)	-	206	**(537)**
Total	3,836	279	-	**4,330**

29. 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 of 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 2015 % pa	31 March 2014 % pa
Pension increase rate	**2.2%**	2.4%
Salary increase rate	**3.7%**	4.15%
Expected return on assets	**5.59%**	6.2%
Discount rate	**3.7%**	4.4%

Average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	**22**	**22**
Future pensioners	**25**	**25**

The employer contributions for year to 31 March 2015 will be approximately £1,362,000.

29. PENSION CONTRIBUTIONS (CONTINUED)

The assets in the scheme and the expected rates of return are:

	Long term rate of return expected at 31 July 2015	Value at 31 July 2015	Long term rate of return expected at 31 March 2014	Value at 31 March 2014
	%	£000	%	£000
Equities	**7%**	**47,987**	7%	44,874
Government Bonds	**3%**	**5,420**	3%	3,431
Bonds	**4%**	**1,279**	4%	1,180
Property	**6%**	**4,202**	6%	3,110
Cash	**1%**	**2,010**	1%	1,019
Other	**-**	**-**	-	-
		60,898		53,614

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

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Fair value of employer assets	**60,898**	53,614
Present value of funded obligations	**(74,860)**	(68,143)
Net (under)/overfunding in funded plans	**(13,962)**	(14,529)
Present value of unfunded liabilities	**(689)**	(694)
Net liability	**(14,651)**	(15,223)
Amount in the balance sheet:		
Liabilities	**(14,651)**	(15,223)
Assets	**-**	-
Net liability	**(14,651)**	(15,223)

The total pension cost to the College in the period was £2,459,000 (2013-14: £961,000). The contribution rate payable was 19.3% for the period (2013-14: 19.3%).

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

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Current service cost	**2,459**	961
Interest on obligation	**4,022**	1,843
Expected return on employer assets	**(4,467)**	(2,018)
Losses on curtailments	**577**	-
Total	**2,591**	786
Actual return on scheme assets	**6,068**	2,344

29. PENSION CONTRIBUTIONS (CONTINUED)

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

	Period ended 31 July 2015 £000	**Period ended 31 March 2014 £000**
Opening fair value of scheme assets	**53,614**	42,350
Expected return on assets	**4,467**	2,018
Contribution by members	**692**	290
Contribution by the employer	**3,141**	916
Contributions in respect of unfunded benefits	**60**	29
Actuarial gains/(losses)	**888**	327
Business combination	**-**	8,610
Unfunded benefits paid	**(60)**	(29)
Benefits paid	**(1,904)**	(897)
Closing fair value of scheme assets	**60,898**	53,614

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

	Period ended 31 July 2015 £000	**Period ended 31 March 2014 £000**
Opening defined benefit obligation	**68,837**	53,753
Current service cost	**2,459**	961
Interest cost	**4,022**	1,843
Contribution by members	**692**	290
Actuarial losses/(gains)	**926**	1,035
Curtailments	**577**	-
Business combination	**-**	11,881
Unfunded benefits paid	**(60)**	(29)
Benefits paid	**(1,904)**	(897)
Closing defined benefit obligation	**75,549**	68,837

29. PENSION CONTRIBUTIONS (CONTINUED)

History of experience gains/(losses)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Scheme assets	**60,898**	53,614
Defined benefit obligation	**(75,549)**	(68,837)
Deficit	**(14,651)**	(15,223)
Experience adjustments on scheme assets	**888**	327
Experience adjustments on scheme liabilities	**926**	1,035

The pension deficit is recognised in the financial statements, the Group's net assets and Income & Expenditure Account is as follows:

	31 July 2015 £000	Restated 31 March 2014 £000
Net assets excluding pension deficit	**88,032**	78,581
Pension deficit	**(14,651)**	(15,223)
Net assets including pension deficit	**73,381**	63,358
Income & Expenditure Account excluding pension liability	**15,092**	15,915
Pension deficit	**(14,651)**	(15,223)
Income & Expenditure Account including pension liability	**441**	692

The transactions in respect of the North East Scotland Pension Fund which are now included in the accounts as required by FRS 17 are as follows:

Analysis of the amount charged to staff costs (Note 6)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Current service cost	**2,459**	961
Past service cost/(gain)	**-**	-
Curtailments and settlements	**577**	-
Total operating charge	**3,036**	961
Less: contributions paid	**(3,201)**	(945)
Pension costs less contributions paid	**(165)**	16

29. PENSION CONTRIBUTIONS (CONTINUED)

Analysis of the amount credited to investment income (Note 5)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Expected return on pension scheme assets	**4,467**	2,018
Interest on pension scheme liabilities	**(4,022)**	(1,843)
Net return	**445**	175
Net revenue account (expenditure)/income	**(567)**	(159)

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses ('STRGL')

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Actual return less expected return on pension scheme assets	**888**	327
Experience gains and losses arising on the scheme liabilities	**(926)**	(1,035)
Changes in assumptions underlying the present value of the scheme liabilities	**-**	-
Actuarial (loss)/gain recognised in STRGL	**(38)**	(708)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Movement in deficit during the year:		
Deficit in scheme at beginning of the year	**(15,223)**	(11,403)
Movement in year:		
Current service cost	**(2,459)**	(961)
Contributions	**3,201**	945
Curtailments	**(577)**	-
Other finance income	**445**	175
Business combination	**-**	(3,271)
Actuarial (loss)/gain	**(38)**	(708)
Deficit in scheme at end of the year	**(14,651)**	(15,223)

An amount of £689,000 (2013-14: £695,000) included in provisions (note 23), represents future pension costs arising from early retirements.

29. PENSION CONTRIBUTIONS (CONTINUED)

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 £1,936,000 (2013/2014: £904,000). This includes £131,000 (2013/2014: £128,000) outstanding contributions at the balance sheet date. The contributions rate payable by the college was 12.5% from 1 October 2003.

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 £7,131,000 (2013-14: £5,746,000) included in provisions (note 23), 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.

30. CAPITAL COMMITMENTS

	Group 31 July 2015 £000	Group 31 March 2014 £000	College 31 July 2015 £000	College 31 March 2014 £000
Commitments authorised but not contracted for at period end	**1,500**	-	-	-
Commitments contracted for at period end	**8,974**	5,167	**8,974**	5,167
	10,474	5,167	**8,974**	5,167

31. FINANCIAL COMMITMENTS

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

	Land and buildings £000	Other £000	Total £000
Group			
Expiring within:			
One year	-	27	27
One and two years inclusive	-	13	13
Two and five years inclusive	-	-	-
	-	40	40

	Land and buildings £000	Other £000	Total £000
College			
Expiring within:			
One year	-	27	27
One and two years inclusive	-	10	10
Two and five years inclusive	-	-	-
	-	37	37

32. STUDENT SUPPORT FUNDS

Bursaries and other student support funds

	Bursary £000	Hardship £000	EMA * £000	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
At 1 April 2014	**(135)**	**99**	**37**	**1**	1,178
Allocation received in period	**8,533**	**858**	**306**	**9,697**	4,743
Expenditure	**(7,730)**	**(845)**	**(344)**	**(8,919)**	(5,208)
Repaid to funding council as clawback	**-**	**-**	**-**	**-**	-
At 31 July 2015	**668**	**112**	**(1)**	**779**	1
Represented by:					
Repayable to funding council as clawback	**-**	**-**	**-**	**-**	-
Retained by college for students	**668**	**112**	**(1)**	**779**	1
	668	**112**	**(1)**	**779**	1

* EMA is the abbreviation for Education Maintenance Allowances

Funding Council grants are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

32. STUDENT SUPPORT FUNDS (CONTINUED)

FE and HE Childcare Funds

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
At 1 April 2014	**295**	406
Allocation received in period	**999**	621
Expenditure	**(962)**	(284)
Repaid to funding council as clawback	**-**	(448)
At 31 July 2015	**332**	295
Represented by:		
Amount to be repaid	**-**	295
Retained by college for students	**332**	-
	332	295

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

33. 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.

There were no transactions during the period with non-public bodies in which a member of the Board of Management of the College has an interest and which in aggregate exceeded £5,000.

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, The Robert Gordon University, and the North East Articulation Hub.

Mr. K Milroy, chair of the Board of Management, is chief executive of Aberdeen Foyer. The College made payments of £240,070 (2013-14: £140,000) and received income of £18,000 (2013-14: £15,000) during the period.

Prof. J Harper is Depute Principal of The Robert Gordon University. The College made payments of £3,000 (2013-14 £nil), and received income of £61,000 (2013-14 - £17,000) during the period.

Ms. C. Inglis is the University Secretary and Director of Operations at Aberdeen University, and the College made payments of £788,000 (2013-14 - £405,000) and received income of £34,000 (2013-14 £nil) during the period.

33. TRANSACTIONS WITH MEMBERS OF THE BOARD OF MANAGEMENT (CONTINUED)

Member	Organisation	Position
Mr D Anderson	Score Diagnostics Limited	Sales and Marketing Director
Ms S Cormack	The Robert Gordon University	Vice Principal and Pro-Vice Chancellor
Mr D Duthie	Aberdeen Safer Community Trust Ltd	Trustee
Prof. J Harper	The Robert Gordon University	Depute Principal and Vice Chancellor
Ms C Inglis	University of Aberdeen	Secretary to the University
Mr K Milroy	Aberdeen Foyer The Robert Gordon University Colleges Scotland	Chief Executive Member of the Board of Governors Board Member
Mr R Wallen	Colleges Scotland	Board Member

In addition the undernoted individuals were Members of the Board of Management during the period and had no significant transactions with the College: Ms A. Bell, Ms S. Brimmer, Mr B. Dunn, Mr I. Gossip, Ms K. Gravells, Mr J. Henderson, Ms S. Masson, Ms D. Michie, Prof M. Melvin, Mr D. Rennie, Mr A. Russell, Ms A. Simpson. Mr A. Smith, Mr S. Smith.

34. 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).

SFC is regarded as a related party. During the period the College had various material transactions with SFC and with other entities for which SFC is regarded as the sponsor department including Students Awards Agency for Scotland, Skills Development Scotland and a number of other colleges and higher education institutions.

In addition the College and its subsidiary companies had a small number of transactions with other Government Departments and other central government bodies.

35. POST BALANCE SHEET EVENTS

In October 2015, the project to develop the Fraserburgh Campus reached the construction phase with the establishment of a contract with Robertson Construction (Northern) Ltd. The overall budget for the project is £8,550,000, which is to be funded from grant by an arms-length foundation.

The College is progressing the sale of the site of the former Balgownie Centre, having secured permission from the Scottish Funding Council and Scottish Government to sell the site and retain the proceeds to fund the planned refurbishment of the Gallowgate Centre.

36. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 July 2015.

APPENDIX TO THE ACCOUNTS

2014-15 Accounts direction for Scotland's colleges and universities

1 It is the Scottish Funding Council's direction that colleges and universities comply with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts1.

2 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2014-15 (FReM) where applicable.

3 Incorporated colleges are also reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2015.

4 The financial statements should be signed by the chief executive officer and by the chair, or one other member of the governing body.

5 Incorporated colleges should reproduce this Direction as an appendix to the financial statements.

Scottish Funding Council
10 August 2015

[1] A new SORP has recently been approved by the Financial Reporting Council which will be applicable to all UK further and higher education institutions from the 2015-16 reporting year

Mandatory and corporate governance disclosures

1. We draw your attention to the specific mandatory disclosures for higher education institutions and non-incorporated colleges in Appendix 1 and for incorporated colleges in Appendix 2. The corporate governance disclosures required are listed in Appendix 3.

Deadlines

2. Universities, incorporated colleges and non-incorporated colleges are required to provide their annual report and accounts, together with the associated audit reports, to us by 31 December 2015. The financial statements should be prepared with a 31 July year-end. Non-UHI incorporated colleges should prepare accounts for the sixteen month period ended 31 July 2015 with comparatives for the 8 month period ended 31 March 2014.

Appendix 1

Mandatory disclosures – Universities and non-incorporated colleges

Listed below are disclosures which universities and non-incorporated colleges must include in the financial statements.

Treasurer's / Members' report / Operating and financial review

1 A list of members of the governing body and key committees. This should cover all those who served during the period and include any changes up to the date of signing the accounts.

2 A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.

3 A statement on the employment of disabled persons where the average number of all persons employed in the year exceeds 250.

Notes to the accounts

4 The audit fees and non-audit fees paid to external and internal auditors. Institutions with an in-house internal audit service should make it clear that the remuneration is to external auditors under the 'other operating expenses' note.

Corporate governance

5 We require colleges and universities to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the college or university has complied with good practice in this area.

6 It is a condition of the Financial Memorandum with SFC that governing bodies comply with the principles of good governance set out in the 2013 Scottish Code of Good HE Governance or the 2014 Code of Good Governance for Scotland's Colleges. In line with the principle of comply or explain, an explanation should be provided in the event that the institution's practices are not consistent with particular principles.

7 We recognise that each college or university will have its own system of corporate governance, reflecting its particular objectives and management processes. However, in preparing their governance statement, colleges and universities should give due regard to the guidance contained in Appendix 3.

8 Colleges and universities should be aware that their external auditors will be reviewing the corporate governance statement as part of their audit and will be including a reference to this in their audit report.

9 The following paragraphs provide details of college and university specific disclosures that must be included in the annual report and accounts.

University specific disclosures

10 The actual total remuneration of the head of institution, disclosing separately salary, bonus, employer pension contribution and benefits in kind. Where there is a change of head of institution during the year, details should be given separately for each person, noting the dates each was in post.

11 The total number of higher paid staff, including senior postholders, in bands of £10,000, above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £70,000. Payments funded from external sources, including the NHS, should be included in emoluments. The number of senior postholders within each band should be separately identified.

12 The aggregate amount of any compensation for loss of office payable to the head of institution and any staff member earning in excess of £70,000 per annum, or where the costs of all elements of a proposed arrangement amount to more than £100,000, together with the number of people to whom this was payable.

Non incorporated college specific disclosures

13 The actual total remuneration of the head of institution, disclosing separately salary, bonus, employer pension contribution and benefits in kind. Where there is a change of head of institution

during the year, details should be given separately for each person, noting the dates each was in post.

14 The total number of higher paid staff, including senior postholders, in bands of £10,000, above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £50,000. The number of senior postholders within each band should be separately identified.

15 The aggregate amount of any compensation for loss of office payable to the head of institution and any staff member earning in excess of £50,000 per annum, together with the number of people to whom this was payable, or where the costs of all elements of a proposed arrangement amount to more than £75,000.

Appendix 2

Mandatory disclosures – incorporated colleges

1. Colleges are required to comply with the Government Financial Reporting Manual (FReM) for 2014-15 as well as complying with the SORP. SFC Communication number 10 set out the additional disclosures required in college financial statements in order to comply with the FReM (i.e. those areas not addressed in the SORP) and these are set out in the various disclosures below. In cases where there is a conflict between the FReM and the SORP, the latter will take precedence.

2. The disclosures which incorporated colleges must include in the annual report and accounts.

Treasurer's / Members' report / Operating and financial review

3. A list of members of the governing body and key committees. This should cover all those who served during the period and include any changes up to the date of signing the accounts.

4. A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.

5. A statement on the employment of disabled persons where the average number of all persons employed in the year exceeds 250.

6. Details of the college's estates strategy. Further information on this is provided in SFC Communication Number 10 issued 10 December 2013 (http://www.sfc.ac.uk/web/FILES/Guidance_college_reclassification/Reclassification_of_Incorporated_Colleges_Communication_Number_10.pdf)]

Remuneration report

7. Incorporated colleges are required to include within their annual report and accounts a Remuneration Report in accordance with Section 5 (Paras 5.2.21 to 5.2.28) of the FReM. Further information is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388182/FReM_2014-15_final_version_3_for_December_2014_publication.pdf

8. Colleges should also refer to further guidance contained in Employers Pension Notice (EPN) 430 which is available on the Civil Service Pensions website at http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notices/epn430/. Although EPN 430 deals specifically with the Civil Service Pension scheme it does contain a standard format for disclosure and explanations of what should be included in the report in order to comply with the FReM. The Remuneration report should set out the remuneration and accrued pension benefits of senior officials of the College. It is for each college to determine who should be included in the Remuneration report. The FReM guidance (para 5.2.13) indicates that the report should include:

   - the chairman and chief executive; and

   - the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual sections within the reporting entity.

9. An example remuneration report is attached at Appendix 4. It is important to note that individuals have to authorise the inclusion of their salary information in this report. There is a presumption that information about named individuals will be given unless there is specific justification for not disclosing this (see FReM paragraph 5.2.26 for circumstances where non-disclosure is acceptable). If an individual refuses to authorise inclusion of their salary information, the reasons need to be agreed by the employer while the fact that the salary information has not been included should be disclosed within the remuneration report.

Notes to the accounts

10. The audit fees and non-audit fees paid to external and internal auditors.

11. Where the College has incurred a deficit as a result of spending net depreciation cash, an explanatory note should be included in the financial statements. Appendix 5 sets out an illustrative form of words

which has been agreed with Colleges Scotland, the Scottish Government and Audit Scotland. We suggest that colleges adopt this form of words, supplemented, if it is felt necessary, with more detailed information to reflect local circumstances. We recommend that the form of words is included in a note and in the Operating and Finance Review in the annual report and accounts.

12. The total number of higher paid staff, including senior postholders, in bands of £10,000 above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £50,000. The number of senior postholders within each band should be separately identified.

Corporate governance

13. We require colleges to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the college has complied with good practice in this area.

14. It is a condition of the Financial Memorandum with SFC that governing bodies comply with the principles of good governance set out in the 2014 Code of Good Governance for Scotland's Colleges. In line with the principles of comply or explain, an explanation should be provided in the event that the college's practices are not consistent with particular principles.

15. We recognise that each college will have its own system of corporate governance, reflecting its particular objectives and management processes. However, in preparing their governance statement, colleges should give due regard to the guidance contained in Appendix 3.

16. In addition, in preparing the corporate governance statement, colleges should take account of the guidance set out in the Governance Statement section of the SPFM. (http://www.gov.scot/Topics/Government/Finance/spfm/govstate).

17. Colleges should be aware that their external auditors will be reviewing the corporate governance statement as part of their audit and will be including a reference to this in their audit report.

Appendix 3

Corporate governance disclosures

1 Colleges and universities are required to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the college or university has complied with good practice in this area.

2 It is a condition of the Financial Memorandum with the SFC that governing bodies meet the principles of good governance, set out in the 2013 Scottish Code of Good HE Governance or the 2014 Code of Good Governance for Scotland's Colleges. In line with the principle of comply or explain, an explanation should be provided in the event that the institution's practices are not consistent with particular principles.

3 Incorporated colleges should also take account of the requirements of the Governance Statement section of the SPFM. (http://www.gov.scot/Topics/Government/Finance/spfm/govstate).

Corporate governance, risk management and internal control

4 Colleges and universities are required to demonstrate robust governance, maintain a sound system of internal control and to ensure that the following key principles of effective risk management have been applied. Effective risk management:

- covers all risks – including those of governance, management, quality, reputation and finance – but focuses on the most important risks;
- produces a balanced portfolio of risk exposure;
- is based on a clearly articulated risk appetite, policy and approach;
- requires regular monitoring and review, giving rise to action where appropriate;
- needs to be managed by an identified individual and involve the demonstrable commitment of the governing body and the executive leadership; and
- is embedded into normal business processes and aligned to the strategic objectives of the organisation.

5 Colleges and universities are required to review at least annually the effectiveness of their system of internal control.

Format of corporate governance statement

Universities and non-incorporated colleges

6 We recognise that each college and university will have its own system of corporate governance, reflecting its particular objectives and management processes, and the corporate governance disclosures in the annual report will differ accordingly. It is expected that each college and university will tailor its corporate governance statement to reflect its own individual circumstances. However, good practice suggests that a corporate governance statement should include the following sections:

- Introduction, which shows the context and purpose of the corporate governance statement;
- Governing body, outlining the governance structure and the role of college or university committees, and their effectiveness;
- Corporate strategy, outlining the arrangements for strategic development;
- Risk management and internal control, setting out the arrangements for identifying, evaluating and managing risks and the arrangements for monitoring internal controls;
- Going concern, confirming that the college or university is a going concern, with supporting assumptions and qualifications as necessary. This disclosure provides support for the use of

the going concern accounting policy and should not be inconsistent with the disclosures regarding going concern either in the annual report and accounts or the auditors' report thereon; and

- Conclusion, providing any concluding observations or messages.

Incorporated colleges

7 For guidance on the content of Corporate Governance statements, incorporated colleges should refer to the guidance contained in the SPFM http://www.gov.scot/Topics/Government/Finance/spfm/govstate.

Appendix 4

Template for Remuneration Report (for incorporated colleges only)

Remuneration Policy

Colleges should outline here the details of their remuneration policy for the Principal and senior managers and also outline the operation of the Remuneration Committee.

Remuneration including salary and pension entitlements

Salary entitlements[2]

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

	16 months ended 31 July 2015			8 months ended 31 March 2014		
Name	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**
Name A - Actual						
Name B - Actual						

	16 months ended 31 July 2015			8 months ended 31 March 2014		
Name	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**	**Salary £'000**	**Pension Benefit £'000**	**Total £'000**
Name A –Annual Equivalent						
Name B – Annual Equivalent						

[*The above disclosures will be in bands of £5,000. As the table includes salary figures for the 16 months ended 31 July 2015 (Prior year - 8 months ended 31 March 2014) it will also be necessary to disclose annual salary equivalent for each person noted above based on a pro rata figure for 12 months. This is to enable comparability with other public sector bodies.*]

Median Remuneration

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

Based on the 12 month equivalent figures above, the banded remuneration of the highest paid official in the organisation in the financial year 2014-15 was £xxx (2013-14 £xxx). This

[2] Note:

a) The salaries in the above table represent the amount earned in the financial year and include salary, bonuses, overtime and other allowances (as applicable)
b) The value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The x20 multiplier aims to bring public bodies in line with other industries in disclosing an assessed cumulative pension benefit for a standard 20 year period which is the estimated life span following retirement.
c) The details in this table are subject to audit

was x times (2013-14 x times) the median remuneration of the workforce which was £xx (2013-14 £xx).

Accrued Pension Benefits

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

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

The scheme's normal retirement age is X.

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

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

Senior Officials Pension

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

Name	Accrued pension at pension age at 31 July 2015	Accrued lump sum at pension age at 31 July 2015	Real increase in pension 1 April 2014 to 31 July 2015	Real increase in lump sum 1 April 2014 to 31 July 2015	CETV at 31 July 2015	CETV at 31 March 2014	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Name A							
Name B							

Cash equivalent Transfer Value (CETV)

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

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

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

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

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

Real increase in CETV

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

Compensation for loss of office

X employees left under voluntary exit terms during the year. They received a total payment of £xxx.

Signed Principal…………………………… Date…………………

Appendix 5

Deficit resulting from use of depreciation cash – illustrative form of words for 2014/15 accounts (incorporated colleges only)

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 the financial year 2014/15 this meant that the College received cash of £X, which had been earmarked against depreciation. Without approval to spend this cash, moving the college's I&E into a deficit position, it would have been effectively frozen. The Scottish Funding Council issued guidance to the College on this matter on 30 January 2015 (SFC/AN/03/2015) which provided approval for that cash to be applied to student support, loan repayments and to deliver improved services to learners.

The impact of the above has resulted [or contributed £Y to] in the reported deficit for 2014/15. However, the Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following its 30 January guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. This position has been agreed with Audit Scotland and the Scottish Government.