

Scottish Charity No. SC021189

**DUMFRIES AND GALLOWAY COLLEGE**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD**

**1 AUGUST 2016 TO 31 JULY 2017**

Contents

	Page
<b>Performance Report</b>	
<b>Performance Overview</b>	
Principal's Statement on Performance	3
Purpose and Activities of Dumfries and Galloway College	4
Strategic Outcomes	4
Key Issues and Risks Affecting Dumfries and Galloway College	5
Performance Summary	6
<b>Performance Analysis</b>	
Financial Objectives	8
How We Measure Performance	8
Development and Performance During the Year	9
<b>Accountability Report</b>	
Corporate Governance Report	14
Governance Statement	20
Statement of Board of Management's Responsibilities	21
Remuneration and Staff Report	23
<b>Independent Auditor's Report</b>	29
<b>Annual Accounts</b>	
Financial Statements	32
Appendix - Accounts Direction from the Scottish Funding Council	55

The financial statements were approved and authorised for issue on 12 December 2017.

**Professional Advisers**

**External Auditors:**

Scott Moncrieff  
Chartered Accountants  
Exchange Place 3  
Semple Street  
Edinburgh

**Internal Auditors:**

RSM Risk Assurance Services LLP,  
6th Floor  
25 Farringdon Street  
London

**Bankers:**

Royal Bank of Scotland  
2nd Floor  
62 Hamilton Road  
Motherwell

Bank of Scotland  
Level 6  
110 St Vincent Street  
Glasgow

**Solicitors:**

Grieve, Grierson, Moodie and Walker  
14 Castle Street  
Dumfries

MacRoberts Solicitors  
152 Bath Street  
Glasgow

## Performance Report

### Performance Overview

The purpose of this Overview is to give a short summary, with sufficient information to provide an understanding of Dumfries and Galloway College, its purpose, key risks facing the College in achieving its objectives, and how the College has performed over the period to July 2017.

### Principal's Statement on Performance

Dumfries and Galloway College aspires to be an 'outstanding college', and aims to deliver the highest quality learning for our students, to make a positive contribution to the local and national priorities, and to utilise the expertise of our staff to deliver continuous improvements. Improving attainment will be a key priority, particularly in curriculum areas with low performance indicators.

During 2016-17 the College has continued to make good progress towards its vision and aspirations, which are set out in its five-year strategic plan, Vision 2020.

The College achieved its target for student numbers during 2016-17, with 30,338 credits achieved against a target of 30,067. The number of full time students decreased overall, but part-time numbers increased by 8%, which includes a large increase in students studying for part-time Higher Education courses. Student achievements also increased during 2016-17, but as levels of success and retention are below the sector average, the College is developing an action plan to improve this. Learner satisfaction and post-course success are above the sector average, and the College will continue to develop positive partnerships with Universities and community planning partners in order to deliver a broad range of not only articulation routes to Higher Education but also vocational opportunities, work placement, and employment.

Dumfries and Galloway College is committed to efficiency of delivery and corporate functions, which remains very challenging given the economic make-up of the region and the context of constraints of public funding and reclassification of colleges in Scotland as public bodies. The budget for 2016-17 included planned expenditure in order to maximise the use of cash resource, with the aim of achieving an underlying break-even result. These financial statements show an underlying operating surplus of £35,000 before accounting for the disposal of fixed assets, accruing pension liabilities of £646,000 and cash budget for priorities of £354,000, taking the overall net position to a deficit of £980,000.

The College is committed to improving the life chances for young people and adults in the Region by offering a breadth of curriculum at both campus locations that is aligned to relevant regional and national needs. Ongoing developments require to be balanced against other budget priorities.

The Executive and Curriculum Management structure was reviewed during the year, in order to ensure that we continue to be able to respond to a changing environment, improve our service to learners and the sustainability of the College. The new structure was in place for the start of the 2017-18 academic year, and should ensure that we are responsive and effective, with authority, accountability and empowerment placed as close to the learner as possible in order to continue to meet our strategic objectives.

The uncertainty over future pay costs and the full implementation of changes arising from Collective Bargaining agreements for the sector will continue to have an impact on the operating results and cash balances for the College. The College will continue to carry out internal planning and monitoring to assess then impact on future sustainability.

## Performance Report (continued)

### Purpose and Activities of Dumfries and Galloway College

The Board of Management of Dumfries and Galloway College was established under The Further and Higher Education (Scotland) Act 1992 for the purpose of conducting Dumfries and Galloway College. The College is a registered charity (Scottish Charity Number SC021189) for the purposes of the Charities and Trustee Investment (Scotland) Act 2005, and is exempt from corporation tax and capital gains tax. The College receives no similar exemption in respect of Value Added Tax.

Dumfries and Galloway College is a single college in a single region. Dumfries and Galloway Council is the sole Local Authority for the region. The College is the only general further education college in the region and potential learners and employers are dependent on it to deliver a curriculum which meets their needs. The College delivers further and higher education across a broad range of curriculum areas from access level to SCQF level 8, to approximately 1,600 full-time and 4,800 part-time learners through its campus locations in Dumfries and 75 miles away in Stranraer.

Dumfries and Galloway College is located in the beautiful South West of Scotland. It is 77 miles from Glasgow and 79 miles from Edinburgh to the town of Dumfries, where the College's main campus is located. In particular, the Crichton Campus brings the choice of university learning to a region that in the past people have had to leave to attend university. A smaller campus is located in Stranraer in the west of the region, 75 miles from Dumfries and offers a range of full and part-time programmes.

Due to the characteristics of the Region, the College will remain financially challenged. In particular, the need to duplicate a wide range of curriculum and services in Stranraer affects both financially and course viability. Small learner numbers and demand makes it difficult to sustain some provision and some courses require to be structured differently than those in Dumfries, for example by combining different levels of learner or using mixed delivery methods - for existing and new provision.

The College's approach to learning is a reflection of the rural locality, the local economy and the changing patterns of lifestyles. As a major employer and a dynamic rural learning institution, the 'digital' revolution has been strongly embraced by us and its many forms are fast becoming the basis for the College's operations and delivery.

Although the College has two campuses and many learning partnerships across the region, we are a College without walls - creating flexible learning opportunities to suit everyone. This means learning opportunities are varied and abundant - from full time courses to flexible, part time courses, learning in College and at home, work or elsewhere. The range of learning includes basic skill development to degree level, including articulation links with Universities.

Our Strategic Plan, Vision 2020, sits alongside the College's Regional Outcome Agreement which sets out how we will meet the Scottish Government's expectations and deliver value for money for the public investment we receive.

The Scottish Government's post-16 education reform policies are to improve life chances; support jobs and growth; and ensure sustainable post-16 education, and the intention of developing a world-class vocational educational system. The Scottish Funding Council's strategic aims of High Quality Learning and Teaching - identifies four priority outcomes which are supported by the College's strategic plan.

### Strategic Outcomes

The College Strategic Outcomes are:

*We will provide opportunities to access and progress through education and training at all levels;*

*We will deliver education and training that is a route to employment and career development and is aligned to local and national economic need;*

*We will be the first choice for recruitment, training and development of the workforce;*

*We will enable communities to grow and develop through local education and training;*

*We will support more businesses to start-up, grow and diversify;*

*We will enable people to build their independence and confidence in a supported environment.*

**Performance Report (continued)****Strategic Outcomes (continued)**

We continue to have confidence in achieving our vision, but it is also essential that we are able to demonstrate its relevance and contribution to the achievement of both Scottish Government and SFC priorities. We are committed to regularly monitor progress towards delivery of the strategic outcomes. From 2017-18 the College will implement the new SFC and Education Scotland quality arrangements, which integrates quality arrangements evaluation with outcome agreement evaluation and reporting. We will produce an integrated evaluation report and enhancement plan in October each year.

**Key issues and risks affecting Dumfries and Galloway College**

The College has an established Risk Management Policy and Risk Assessment Procedure, in order to provide a systematic way of identifying, recording, monitoring and reporting risks to ensure the College is able to meet its objectives. The Risk Management Policy outlines the approach to risk management and defines the key principles, processes and responsibilities for the management of risk across the College.

Risk Management is an integral part of the overall governance arrangements of the College, and as such there are specific responsibilities for people and groups undertaking different roles in the organisation. The Board of Management determines the risk appetite for the College, and considers reports on the operation of Risk Management arrangements through the work of the Audit Committee, The Principal, reporting by auditors and annual accounts. The Audit Committee consider the corporate Risk Register at each committee meeting, as well as any internal and external audit reports involving risk and risk management.

The Executive Management Team has day to day responsibility for the management of the system of internal control including risk management, and the member of the Executive Management Team responsible for planning maintains the College Risk Register, which is updated and considered regularly by the Executive Management Team as well as the Audit Committee. The likelihood and impact of each risk is scored together with mitigating actions, in order to identify the residual risks which require to be monitored on an ongoing basis.

The following risks from the College Risk Register have been identified as key risks:

- **National Pay Bargaining.** The impact of National Pay Bargaining on the College finances and staffing remains uncertain. The threat of future industrial action would be detrimental to learners achieving their qualifications as well as staff moral;

- **Ability to achieve activity targets.** The Executive Management Team carry out a robust planning process in order to establish a Curriculum Plan each year, and an Operational Plan to support the curriculum. The funding received from the Scottish Funding Council is dependent on the College achieving its activity targets each academic year. A number of procedures have been established in order to achieve the target each year, and early warning strategies are being implemented in order to improve early retention. However, environmental pressures may impact on retention and this will continue to be monitored. The impact of full implementation of SFC's simplified funding methodology will continue to be monitored.

- **Ability to achieve attainment targets** - real-time monitoring systems are in place, and strategies have been developed to improve retention and student success, which are monitored at course level and through the Self-Evaluation process. KPI and data analysis will be carried out during 2017-18 and new academic structures have been established to allow closer monitoring.

- **College Reclassification.** The impact on reclassification of the Scottish College sector as public bodies on 1 April 2014 for budgeting and financial reporting has reduced the flexibility of the College to manage financial and estates issues, and meet targets in the Outcome Agreement with the Scottish Funding Council. Internal planning and monitoring processes have been changed in order to minimise the impact of reclassification on learners. The College has been grateful to receive grant support from the Scottish Colleges Foundation to fund estates developments to enhance provision for learners, but the future availability of funds is uncertain. The changes to accounting and budget requirements, and the utilisation of depreciation cash budget and pension revaluation adjustments has had a significant impact on the reported deficit for the year and the College reserves.

## Performance Report (continued)

- **Cyber Resilience** - work is ongoing to assess the College cyber security systems, standards and procedures in order to comply with the requirements of the Scottish Public Sector Cyber Resilience Framework. There may be an impact on teaching and learning if new systems are necessary in order to gain accreditation under the framework.

- **Crichton Campus Partners' review of property and provision in Dumfries**. The College has established shared services with the Universities of Glasgow and the West of Scotland including some shared building space and library services as well as articulation agreements for learners. The University of the West of Scotland are currently undertaking a 'Transformational Project' in respect of their services and the College will continue to discuss any potential impact on our shared services and articulation arrangements.

- **Public Sector Funding Cuts**. The continued uncertainty over public sector financial allocations beyond 2017-18 and potential funding cuts will have an impact on the curriculum provision and student services. Scenario planning and budgetary review will be undertaken to minimise the impact on learners and staff;

## Performance Summary

The College performed well against its targets during 2016-17. Activity targets were exceeded, with 30,338 credits delivered against a target of 30,067. The underlying operating position, which excludes pension valuation adjustments and planned expenditure from depreciation cash, was a break-even result.

### Student Numbers

During academic year 2016-17, the College delivered 30,338 credits against a target of 30,067 (2015-16 - 29,871 delivered against the target of 30,371). Total numbers for student enrolments increased from 6,474 in 2015-16 to 6,827, an increase of 5%. Within these overall numbers full-time student numbers decreased to 1,560 from 1,600, which represents a reduction of 102 full time FE students but an increase of 62 full time HE students. Total numbers for part-time students increased by 5% from 2015-16 levels, with part-time HE students increasing by 437 to 1,185 during 2016-17.

### Student Achievements

The overall numbers of full-time students successfully completing their programme of study in 2016-17 was 65%, which shows a 1% improvement on 2015-16. The split between full-time Further Education and Higher Education student achievements was FE - 62% and HE - 71% (2015-16 - 61% and 71%).

Successful completion for part-time students decreased from 76% to 57% for FE students and from 71% to 36% for HE students.

The College has established a short-life working group to review the student attainment and retention strategy and develop an action plan for improvement.

### Quality Assurance and Enhancement

Education Scotland carried out their review of Dumfries and Galloway College in April 2016, and reported that the College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders.

### Curriculum Developments

The College's curriculum is increasingly shaped by employer involvement and further engagement of employers and industry boards in the design and support of the delivery of courses is a key objective of all curriculum areas.

The College continues to map its curriculum to key industries and learner need across both campuses.

The College has continued to take action to address gender imbalance in all schools programmes, by promoting choices to both genders and dispel perceptions of stereotypical career choices influenced by gender. The College has offered sessions where pupils can try non-traditional vocational activities, as well as providing guidance, school visits and highlighting role models including college staff, and events such as competitions for schools.

## Performance Report (continued)

The College currently delivers on a range of energy, engineering and computing courses, with all Computing and Digital Media now mapped to the Science, Technology, Engineering and Maths (STEM) framework. The College has started to include life skills mathematics in some of its Healthcare and Social care programmes, with biology embedded into Reablement and Skills for Work Healthcare. In addition, a range of STEM courses are now being offered to schools, including Computing Science, Digital Design and Animation, Design Engineering and Construct, and Electrical Engineering.

The College now chairs the Dumfries and Galloway Renewable Energy Partnership Group, which focuses on looking at the economic opportunities in the area and development and the College development of skills and training. The Energy Centre delivers energy courses as well as an energy awareness session to all full-time Construction students, including Sustainability. SOLAR, Biomass, Heat Pumps, and Oil Boiler (OFTEC oil) qualifications are all now being delivered in the Energy Centre, enhancing the qualification of College apprentices to carry onto BPEC certifications for emerging technologies.

The College is committed to implementing the new SFC and Education Scotland quality arrangements 'How Good is our College?', which integrates quality arrangements with Outcome Agreement evaluation and reporting. Comprehensive systems are now in place to review and enhance curriculum quality, planning, retention and outcomes, including self-evaluation by teams. A short-life working group has been established to develop strategies to improve levels of retention and success.

## Future Developments

Dumfries and Galloway College aspires to be an 'outstanding college', and aims to deliver the highest quality learning for our students, to make a positive contribution to the local and national priorities, and to utilise the expertise of our staff to deliver continuous improvements. Improving attainment will be a key priority, particularly in curriculum areas with low performance indicators.

Work will continue to identify opportunities to enhance collaboration with other Crichton campus partners, to identify future curriculum delivery, explore joint student association activities and explore further opportunities for co-location.

The College has a well established partnership with Dumfries and Galloway Council, and has been providing pupils in all 16 secondary schools in the region with the opportunity to achieve vocational qualifications at SCQF levels 4 to 7 as an integral part of their senior phase curriculum. The College aims to increase its senior phase programme activity in the next three years, by increasing the number of places we offer.

The College aims to become a STEM Centre of Excellence, and is exploring partnership opportunities with the Scotland's Rural College (SRUC) and the Dumfries Learning Town. The College also plans to develop its engineering facilities in the Stranraer campus.

The College is committed to supporting the Scottish Government's plans for expansion in early learning and childcare. An increase in demand for qualified childcare practitioners will provide an opportunity for the College to provide additional; training, up skilling and recognised qualifications for practitioners. The College will work with Dumfries and Galloway Council to establish the impact on the Region's nursery provision, and address the need for workforce expansion by offering HNC Early years/ Childhood Studies to senior phase school pupils as well as increasing work-based learning, including MA and SVQ offerings.

The College will aim to contribute to the reduction in youth unemployment and improving life chances during 2017-18, and to support learners to complete their study and achieve successful outcomes. We will continue to ensure provision is efficiently delivered, is accessible and meets national, regional and local employer needs.

The College will continue to seek opportunities to develop formal articulation routes, including engineering opportunities with Herriot Watt University, the University of Strathclyde and the Open University as well as Edinburgh Napier University.



## Performance Report (continued)

### Future Developments (continued)

Priority outputs to be delivered in 2017-18 are:

- achieving the increased activity target of 30,336 credits;
- increasing student retention and attainment;
- an increase in the numbers of students entering positive destinations;
- a curriculum which reflects the skills requirements and meets the needs of the region; and
- an increase in non-SFC income as a percentage of total income.

The College has set an ambitious target for both retention and attainment, which take account of the SFC ambitions of sector average student successful outcome of 69% for full time further education programmes. A new Curriculum Management structure has been introduced in order to ensure the College is responsive to the changing environment, and that authority, accountability and empowerment are placed as close the learners as possible.

## Performance Analysis

### Financial Objectives

The College's financial objectives following reclassification are:

- To operate a balance between operating income and expenditure, and achieve a break-even position;
- To manage the College's annual budget in line with the requirements of the Scottish Public Finance Manual, HM Treasury's Consolidated Budget Guidance and balance the budget in Resource and cash terms each year;
- To maintain cash balances throughout the year at a level that is compatible with the efficient operation of the College.

The College requires to manage its income and expenditure against Scottish Government budget control limits, and maintain broadly the same level of working capital year on year.

The College has been able to apply to the Scottish Colleges Foundation to seek funding for estates and other developments which may not have been affordable from the College's operating budget. A grant of £24,000 was released during the year to 31 July 2017 which met the costs of some further estates developments (2015-16 - £286,000). In addition, £255,000 was received in July 2017 to fund the purchase of engineering equipment. The grant has been deferred and will be utilised in academic year 2017-18.

### How we measure performance

The College Outcome Agreement with the Scottish Funding Council (SFC) sets out what the College plans to deliver in return for funding. The Outcome Agreement reflects the College's commitment to responding to the educational and skills needs within the Dumfries and Galloway Region. The 2016-17 SFC Outcome Agreement aligned to the Scottish Funding Council's six national priorities:

**Efficient regional structures** - to deliver an efficient regional structure to meet the needs of the Dumfries and Galloway Region;

**High quality & efficient learning** – to ensure that learner journeys are as short, efficient and effective as possible and that learners experience the highest quality of learning and teaching and achieve successful outcomes:

**Access for people from widest range of backgrounds** - to improve access to further and higher education for people from the widest possible range of backgrounds;

**Right learning in the right place** – to secure coherent provision of further and higher education in Scotland:

**A developed workforce** - To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce;

**Sustainable institutions** - to secure, well managed and financially and environmentally sustainable colleges.

## Performance Report (continued)

### How we measure performance (continued)

The College Board of Management and Committees regularly measure and monitor progress towards delivery of the targets set out in the outcome agreement through regular reporting of Key Performance Indicators. The Key Performance Indicators which the Board monitors and reviews at each meeting are: Activity; Retention (both early and further); Student Outcomes; and Income and Expenditure. Target and actual performance is measured throughout the year, and actions agreed, with the objective of achieving targets by the end of the academic year.

The College also produces an annual outcome agreement self evaluation report.

A 'Key Indicator Report' is reviewed at each meeting of the Board of Management as a measure of actual performance against target. The following areas are included within the report:

- Activity/ Credits
- Enrolments
- Retention (both early and further)
- Student Outcomes
- Income and expenditure

The Learning & Teaching Committee of the Board also monitors academic performance, including retention, progression and outcomes, including sector comparators. In addition the Human Resources Committee of the Board monitors staffing.

Education Scotland carries out periodic reviews of Scottish Colleges on behalf of the Scottish Funding Council with the aim of providing assurance on the quality of Scottish Education and promote improvement and innovation to enhance learners' experiences.

The College is committed to implementing the new SFC and Education Scotland quality arrangements 'How good is your College?'. This new approach integrates quality arrangements with outcome agreement evaluation and reporting. The College will produce an evaluation report and enhancement plan in October 2017.

Comprehensive systems are in place to review and enhance curriculum quality, planning, retention and outcomes. These systems include self evaluation by teams, as well as a number of management reporting tools which provide information in various formats to enable staff to monitor key areas across the curriculum, including admissions, enrolments, credits, and other performance indicators for specific courses, faculties and across the whole College.

### Development and performance during the year

Education Scotland carried out an independent review of the quality of provision in Dumfries and Galloway College in February 2016, and reported their findings in April 2016. The report issued by HM Inspectors concludes that 'Dumfries and Galloway College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders. This judgement means that, in relation to quality assurance and enhancement, the college is led well, has sufficiently robust arrangements to address any identified minor weaknesses, and is likely to continue to improve the quality of its services for learners and other stakeholders'.

## Performance Report (continued)

## Development and performance during the year (continued)

The Scottish Funding Council measure the volume of activity in credits - One credit is equivalent to 40 hours of learning.

	<u>2016-17</u>	<u>2015-16</u>
Credits achieved	30,338	29,871
Credits per FTE staff	141	140
<i>Target Credits</i>	30,067	30,371
Full-time equivalent funded places	2,022	1,991
Enrolments	6,827	6,474
Early Student Retention		
- Full Time Further Education	102	129
- Full Time Higher Education	40	26
Student Retention		
- Full Time Further Education	211	215
- Full Time Higher Education	63	62
Student Outcomes:		
- Full Time Further Education	62%	60%
- Full Time Higher Education	71%	71%
Operating deficit (inclusive of IAS 19 adjustments)	(£980,000)	(£833,000)
Deficit as a % of total income	7.87%	6.69%
Deficit as a % of total expenditure	7.30%	6.27%
Staff costs (excluding fundamental restructuring costs) as a % of total expenditure	65.0%	60.9%
Ratio of current assets to current liabilities	0.73	0.82
Days cash to total expenditure excluding depreciation	49	59
Non SFC income as a % of total expenditure	17.7%	19.0%

**Performance Report (continued)****Financial Out-turn for the period**

The College operating results are for a twelve month accounting period, from 1 August 2016 to 31 July 2017. The results for the period show an operating deficit of £980,000, which includes the additional planned expenditure from depreciation cash budgets of £354,000 as well as a net charge of £646,000 included in the Statement of Comprehensive Income to reflect the pension valuation changes for the Local Government Pension Scheme and unfunded pension provisions at 31 July 2017, in accordance with the technical accounting requirements as detailed at Note 19.

The Central Government budgeting rules will require the College to continue to administer its budgets in compliance with the Government Financial Reporting Manual, and aim to meet the Resource Department Expenditure Limits for budget reporting purposes.

The College Balance Sheet at 31 July 2017 shows a decrease in total reserves of £1,081,000 from balances at 31 July 2016, which includes an increase of £742,000 to £8,250,000 in the deficit for the Local Government Pension Scheme as detailed at Note 19. College bank balances shows a decrease during the period which reflects a reduction in funds which were retained to meet Lennartz liabilities as disclosed at Notes 15 and 16.

**Cash budget for priorities**

As highlighted previously, the impact of ONS reclassification of the Scottish College sector as central government bodies for budgeting and financial reporting has reduced the flexibility of the College to manage financial and estates issues, and meet targets in the College's Regional Outcome Agreement with the Scottish Funding Council.

Following the Scottish College sector reclassification as central government bodies from 1 April 2014, while colleges continue to prepare accounts under the FE/ HE Statement of Recommended Practice, they are also now required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-cash depreciation charges are treated for budgeting purposes and how the colleges spend the cash funds (cash budget for priorities) which were previously ear marked for depreciation.

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

	2016-17 £000	2015-16 £000
<b>Revenue</b>		
2015-16 Pay award	77	96
Curriculum developments	-	284
Staff Voluntary Severance Scheme	265	-
Staff Settlement payment	12	-
<b>Total cash budget for priorities spend</b>	<b>354</b>	<b>380</b>

**Underlying Operating position**

The impact of the above accounting and budgeting requirements on the College's underlying operating position is as follows:

	2016-17 £000	2015-16 £000
<b>Deficit before other gains and losses</b>	<b>(965)</b>	<b>(833)</b>
<b>Add back:</b>		
- Depreciation (net of deferred grant release)	354	390
- Non-cash pension adjustments	646	464
<b>Underlying operating surplus</b>	<b>35</b>	<b>21</b>

**Performance Report (continued)****Review of Resource outturn for the year ended 31 March 2017**

Following the reclassification of colleges as public bodies on 1 April 2014, the college has been required to comply with government accounting and budgeting rules on a financial year basis (i.e. to the end of March). The college is given a revenue resource budget (RDEL) and a capital resource budget (CDEL) and must account for this budget on a financial year basis. The resource budgets and final outturn for the 2016-17 budgeting period are outlined below:

	RDEL	CDEL
	£000	£000
Resource budget for year ended 31 March 2017	10,846	0
Expenditure against resource budget	11,098	0
Net underspend/ (overspend) against budget	<u>(252)</u>	<u>0</u>

The outturn reflects the clawback of unspent student support funding for the period to March 2016 and a reduction in SFC funding for the shortfall in 2015-16 credit targets .

In addition, the College received a non-cash budget from the Scottish Government to cover depreciation costs.

**Payment Practice Code**

The College has implemented the 'Better Payment Practice Code'. As such, we aim to pay suppliers within the agreed credit terms and deal with all disputes and complaints as quickly as possible. The proportion of year-end creditors to the aggregate invoiced amounts during the academic year was 1.6% (2015-16 - 1.53%). The College did not pay any interest on late payments as defined under the Late Payment of Commercial Debts (Interest) Act 1998.

**Taxation Status**

The College has been entered into the Scottish Charity Register (Reference SC021189) 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.

**Performance Report (continued)****Environmental Considerations and Sustainability Reporting**

Dumfries and Galloway College is committed to improving environmental performance, raising the profile of sustainability education and reducing its impact upon contributing to climate change. The staff, students, campus partners and wider community have the right to expect, that the College as a responsible institution, acts positively to promote behaviour change and reduce the impact upon the environment.

The College has developed a comprehensive 5 year Climate Change Action Plan to achieve reduced emissions. The Climate Change Action Plan 2015-2020 emphasises the College's commitment to reducing carbon dioxide emissions over the short to medium term, and illustrates how savings will be made through efficiencies and improved use of resources in addition to helping meet the wider objectives of the Climate Change (Scotland) Act 2009. The College has set a target to reduce carbon emissions by 20% by 31 December 2019 from the 2014 baseline data measurements, and in December 2016 an update to the College Finance and General Purposes Committee noted a reduction of 9% in overall emissions for calendar year 2015. A copy of our Carbon Management Plan 2015-20 which provides detailed information in respect of our works towards facilitating greater sustainability can be accessed using the following web link:

[https://www.dumgal.ac.uk/dumgalcontent/uploads/2016/03/Climate\\_Change\\_Action\\_Plan\\_Dec2015.pdf](https://www.dumgal.ac.uk/dumgalcontent/uploads/2016/03/Climate_Change_Action_Plan_Dec2015.pdf)

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

**Going Concern**

The financial statements have been prepared on the going concern basis, which provides that the organisation will continue in operational existence for the foreseeable future. The deficit reported in the Statement of Comprehensive Income includes £354,000 of 'net depreciation cash' expenditure and accounting adjustments for the LGPS pension valuation and other unfunded pension provisions of £646,000. In addition, deferred government capital grants of £23,377,000 have been disclosed as creditors in the financial statements in accordance with FRS 102. The creditors relating to deferred capital grants do not represent future cash outflows for the College. These technical accounting adjustments are not considered to have an impact on the College's ongoing financial sustainability.

Carol Turnbull

12 December 2017

Principal



## Accountability Report

### Corporate Governance Report

#### Board of Management

The Regional Board for Dumfries and Galloway College comprises of the Chair, the Principal, two student members, two staff members and eleven non-executive members. The College recognises the important role Board members have in acting as ambassadors for the College as well as providing a governance role.

The College's Regional Board is responsible for bringing independent judgement to bear on issues concerning the College's strategic direction, performance, resources and standards of conduct. In addition the Board is responsible for systems of internal control. The Board reviews its effectiveness on an annual basis through a robust self evaluation process. The members who served on the Board of Management during the year and up to the date of signature of this report are set out on below.

The Board is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against targets, capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. Agendas, minutes, papers and reports of all meetings are available on the College website: [www.dumgal.ac.uk](http://www.dumgal.ac.uk)

The Board of Management has a strong and independent non-executive element and no individual or group dominates its decision making process. The Board of Management considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

Dumfries and Galloway College Board of Management met six times during the 2016-17 financial period and conducts its business through a number of committees. All of these committees are formally constituted with terms of reference approved by the Board of Management. The committees comprise non-executive members of the Board of Management and are all chaired by a Member of the Board. These committees include a Human Resources Committee, a Finance and General Purposes Committee, a Board Development Committee (includes appointments), a Remuneration Committee, a Learning and Teaching Committee and Audit Committee. All committees are required to report back to the Board on their activities.

The Chair meets with each member of the Board on an annual basis as part of the Board's process of evaluating the effectiveness of board members. The evaluation of the Board Chair is undertaken by the Vice Chair. The performance of the Board Chair is also evaluated by the Scottish Government, as regional college chairs are appointed by the Scottish Ministers and are personally accountable to them.

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

The Board Secretary maintains a register of financial and personal interests of the members of the Board of Management. The register is available for inspection at Bankend Road, Dumfries and on the College website: [www.dumgal.ac.uk](http://www.dumgal.ac.uk)

All Board Members are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Board Secretary, who is responsible for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Board Secretary are matters for the Board of Management as a whole.

An external Board Governance Effectiveness Review was undertaken in January 2017. The report in February 2017 concluded that 'the college meets its obligations under the Code of Good Governance and, in a number of areas, promotes highly effective governance'.

**Accountability Report (continued)****Corporate Governance Report (continued)**

The undernoted individuals are the current members of the Board of Management:

Janet Brennan  
Hugh Carr  
Anthony Conlon (Student member)  
Ros Francis  
Barry Graham  
John Henderson  
Kenny Henry (Support Staff Member)  
Delia Holland (Vice Chair)  
Naomi Johnson  
Brian Johnstone (Regional College Chair)  
Pat Kirby  
Stuart Martin  
Karen McGahan  
Rob Orr  
Leah Thomas (Student member)  
Carol Turnbull (Principal and Chief Executive)  
Ian White (Lecturing Staff Member)

The following individuals were also Board members in the period from August 2016 up to 31 July 2017:

Emma Curtis (Student Member, term of office finished June 2017)  
Scott Hardie (Student Member, resigned December 2016)

A short biography of each Board member, together with their Register of Interests, can be accessed on our website using the following link: <http://www.dumgal.ac.uk/dumgalportal/index.php?pageid=BOM-profiles>

Kay Bird acted as Board Secretary for the period August 2016 to February 2017, with Ann Walsh taking over from March 2017.

**Executive Management Team**

The Board of Management has delegated day to day responsibility for running the College to the Executive Management Team.

The undernoted individuals are the current members of the Executive Management Team:

Carol Turnbull (Principal)  
Andrew Glen (Vice Principal Planning and Performance) from May 2017  
Helen Pedley (Director of Organisational Development and Facilities)  
Andy Wright (Vice Principal Learning and Skills)

In addition, Jannette Brown was Vice Principal Corporate Services and Governance until April 2017.

**Committees of the Board of Management**

The Board of Management has formally constituted several committee 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 at 31 July 2017.



**Accountability Report (continued)****Corporate Governance Report (continued)****Key Committees:**

## Human Resources Committee

Members - Janet Brennan, Ros Francis, Stuart Martin (Chair), Rob Orr, Carol Turnbull and Ian White

## Board Development Committee (Previously Selection and Appointments Committee)

Members - Hugh Carr, Delia Holland, Brian Johnstone (Chair), Stuart Martin and John Henderson

## Remuneration Committee

Members - John Henderson, Delia Holland (Chair), Brian Johnstone and Ian White

## Audit Committee

Members - Hugh Carr (Chair), Naomi Johnson, Delia Holland, Pat Kirby and Stuart Martin

## Finance and General Purposes Committee

Members - Ros Francis, John Henderson (Chair), Kenny Henry, Karen McGahan and Carol Turnbull

## Learning and Teaching Committee

Members - Anthony Conlon, Barry Graham, John Henderson, Kenny Henry, Delia Holland (Chair), Naomi Johnson, Rob Orr, Leah Thomas, Carol Turnbull and Ian White.

**Appointments to the Board of Management**

Following regionalisation of Scottish colleges and their designation as public bodies, Regional Chairs are appointed by the Scottish Minister and are subject to the Public Appointments process.

Any new appointments to the Board of Management are a matter for consideration by the Board as a whole. The Board has a Board Development Committee, which is responsible for the selection and appointment of any new member for the Board's consideration. Any appointment is also now subject to approval by the Cabinet Secretary for Education and Lifelong Learning.

**Human Resources Committee**

The primary purpose of the Human Resources Committee is to ensure that the College is operating within all legal requirements relating to employment law and other legislation affecting employment. The committee also approves the HR strategy and monitors actual performance against KPI's to include staff welfare, staff establishment, turnover, sickness, and absence. The Committee meets once per year.

**Board Development Committee**

The Board Development Committee was previously the Selection and Appointments Committee. The remit of this committee was revised and strengthened during 2015-16 to ensure compliance with the Code of Good Governance for Scotland's Colleges and the Board Development Framework. The Board Development Committee now has responsibility for advising the Board of Management on matters relating to members of the Board of Management, including Board Member appointment, balance of skills and experience, induction and training, balance in relation to equality as well as Board evaluation and development. The Committee meets at least once per year.

**Remuneration Committee**

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration, terms and conditions (and, where appropriate severance payments) of the Principal, members of the Executive Management Team and the Secretary to the Board. The Committee meets at least once per year. Details of the remuneration of senior post-holders for the period ended 31 July 2017 are set out in note 8 to the financial statements.

**Accountability Report (continued)****Corporate Governance Report (continued)****Audit Committee**

The Audit Committee comprises a minimum of three members of the Board of Management (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Board of Management.

The Audit Committee meets a minimum of four times a year, and provides a forum for reporting by the College's internal, regularity and financial statements auditors. The auditors have access to the Committee for independent discussion, without the presence of College management.

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report 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 such recommendations have been implemented.

The Audit Committee also advises the Board of Management on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

**Finance and General Purposes**

The Finance and General Purposes Committee is responsible for ensuring compliance with the Financial Memorandum and Financial Regulations. It recommends the annual budget to the Board and monitors actual performance against budget. The Committee also makes recommendations to the Board on matters relating to the development and management of its property and facilities. The Committee meets four times per year.

**Learning and Teaching Committee**

The Learning and Teaching Committee has overall responsibility for monitoring the direction and performance of learning and teaching and the quality of the learners experience at the College. The Committee meets four times per year.

**Corporate Strategy**

The Board of Management adopted the Code of Good Governance for Scotland's Colleges in January 2015. The Selection and Appointments Committee was strengthened during 2015-16, and is now the Board Development Committee. The remit of the Committee includes Board Member induction and training as well as Board Evaluation. An annual self-evaluation process has been established which includes a review of performance over the last 12 months, and an assessment of external and internal changes which are likely to impact on the Board in the next 12 months. Areas for development are identified and a Development Plan produced which is monitored throughout the year. Progress against the Development Plan is assessed as part of the following year's performance review.

A Board Strategic Session is included in the Board calendar each year.

**Risk Management and Internal Control*****Scope of Responsibility***

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

The Board of Management has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Dumfries and Galloway College and the SFC. She is also responsible for reporting to the Board of Management any material weaknesses or breakdowns in internal control.

**Accountability Report (continued)****Corporate Governance Report (continued)*****Purpose of the system of internal control***

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Dumfries and Galloway College for the period ended 31 July 2017 and up to the date of approval of the annual report and accounts.

***Capacity to handle risk***

The Board of Management has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board of Management is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board of Management.

***Risk and control framework***

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

- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines, where appropriate.

The College manages the risks faced by adopting robust management practices. The planning processes, self-evaluation and sector review, and audit processes are designed to identify and manage risks. A detailed risk register is maintained and updated on a regular basis. The risk register is discussed at each meeting of the Audit Committee.

Dumfries and Galloway College has an internal audit service, the work of which is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Board of Management on the recommendation of the Audit Committee. On an annual basis, a report is provided to the Board of Management detailing internal audit activity in the College. The report includes the internal auditors' independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

**Risk Management and Internal Control*****Review of effectiveness***

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors;
- the work of the senior managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements auditors and the regularity auditors in their management letters and other reports.

**Accountability Report (continued)****Corporate Governance Report (continued)**

The Principal has been advised on the implications of the results of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Executive Management Team receives 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 departments and reinforced by risk awareness training. The Executive Management Team and the Audit Committee also receive regular reports from the internal auditor, which 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 Executive Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2017 meeting, the Board of Management carried out the annual assessment for the period ended 31 July 2017 by considering documentation from the Executive Management Team and internal audit, and taking account of events since 31 July 2017.

**Estates Strategy**

The College has established an Estates Strategy for the period 2015-2020. The strategy provides a basis for developing and managing the estate to its maximum potential, to provide the College with a framework within which it can consider estates priorities in light of the College Strategic Plan and Regional Outcome Agreement.

Through the Estates Strategy the College aims to:

- provide flexible, fit for purpose accommodation to reflect modern curriculum delivery;
- continue to ensure efficient space utilisation;
- identify the need for rationalisation and disposal of assets which are surplus to requirements;
- maximise the value of the estate, looking at existing and alternative uses;
- establish and maintain clear routine, statutory and long term preventative maintenance plans;
- consider opportunities for effectiveness through shared services with our Crichton partners;
- ensure the space is fully accessible, meeting all ability needs;
- continue to reduce carbon emissions in line with the College's Climate Change Action Plan.

This strategy will be updated annually to reflect the development of the estate and to meet the changes in the wider environment.

**Human Resources Strategy**

The College has developed a five year human resources strategy to support the College's strategic plan Vision 2020. The strategy aims to achieve:

- an engaged, diverse, and high quality workforce;
- adaptable, flexible and innovative staff, teams and organisation;
- excellent leadership and management;
- a safe and healthy working environment.

**Accountability Report (continued)****Corporate Governance Report (continued)****Corporate Governance Statement**

Dumfries and Galloway College is committed to exhibiting best practice in all aspects of corporate governance.

The Scottish Government have published a 'Code of Good Governance for Scotland's Colleges' which codifies the principles of good governance that already exist in colleges, and promotes accountability and continuous improvement in how colleges are governed. The Code establishes standards of good governance practice for all college boards and provides the essential foundations for compliance with the legislative framework set out by the further and higher education acts. The Board complies with the sector Board Development and Evaluation Framework.

The Board of Management of Dumfries and Galloway College adopted the 'Code of Conduct for Members' in June 2014. The Board also adopted the code of Good Governance for Scotland's Colleges in January 2015. The Regional Board complied with the 'College Sector Board Appointments: 2014 Ministerial Guidance' when appointing all non-executive board members.

The Board of Management supports the work being done by the College Sector Good Governance Steering Group.

**Statement of full compliance with the Code of Good Governance for Scotland's Colleges**

In the opinion of the Board of Management, the College complies with all the provisions of the Code of Good Governance for Scotland's Colleges, and it complied throughout the period ended 31 July 2017.

Following its self evaluation the Board has identified a number of areas for development. Key areas include:

- To ensure the Board has overarching leadership of performance monitoring
- To build on existing partnerships and collaboration by identifying and focusing new efforts on 'hard to reach' strategic stakeholders
- To ensure to make use of student members
- To harness skills of Board members and own contacts more
- To make staff more aware of Board e.g. presentation to staff
- To recruit members from vocational backgrounds
- To review the Board Member induction process

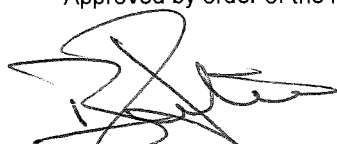
**Going Concern**

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

**Conclusion**

The Audit Committee's opinion is that the College has an appropriate framework of internal control, and provides reasonable assurance regarding the effective and efficient deployment of resources to achieve the College aims.

Approved by order of the members of the Board on 12 December 2017 and signed on its behalf by:



**Brian Johnstone**  
Chairman

**Carol Turnbull**  
Principal



## Statement of the Board of Management's Responsibilities

The Board of Management is required to present audited financial statements for each year.

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

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice Accounting for further and higher education, the 2015-16 Government Financial Reporting Manual (FReM) issued by the Scottish Government, and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the 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 are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- 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.

**Statement of the Board of Management's Responsibilities (continued)**

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


- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance and General Purposes Committee;
- Professional internal audit team whose annual programme is approved 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.

**Data Security**

There were no data security related incidents during 2016-17.

Approved by order of the members of the Board on 12 December 2017 and signed on its behalf by:



**Brian Johnstone**  
Chairman

## Remuneration and Staff Report

### Introduction

The College is required to prepare and publish within its financial statements an annual Remuneration Report under the 2016-17 Government Financial Reporting Manual (FReM) issued by the Scottish Government, which is relevant for the financial period ending 31 July 2017.

The report sets out the remuneration and accrued pension benefits of the Senior College Executives, which comprises the Chairman of the Regional Board, College Principal and Executive Management Team. The Chairman of the Regional Board and College Principal are the only two members of the Regional Board who receive remuneration in respect of their post, and as Board members have responsibility for directing the major activities of the College during the period in accordance with the FReM.

The report also provides information on the number of College employees, including Executive Management Team members, whose total actual remuneration was £60,000 or more, this information being disclosed in salary bandings of £5,000 above £60,000. The following report has been prepared in accordance with the aforementioned Regulations.

The College's External Auditor is required to audit certain parts of the remuneration report and give a separate opinion in his report on the Statement of Accounts as to whether the Remuneration Report has been properly prepared in accordance with the Regulations. All the tables in this report are subject to audit except those relating to Staff Members Allowances and Expenses.

### Remuneration Policy

The remuneration of the Regional College Chair is set by the Scottish Government, and is a non-pensionable post.

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration, terms and conditions (and, where appropriate severance payments) of the Principal, members of the Executive Management Team and the Secretary to the Board. The Committee meets at least once per year. Details of the remuneration of senior post-holders for the period ended 31 July 2017 are set out in note 8 to the financial statements.

### Remuneration including salary entitlements

Remuneration of the Executive Management Team is set out in note 8 of the financial statements.

The College's employees receiving more than £60,000 remuneration during the period covered by the financial statements are shown below. This information is disclosed in salary bandings of £5,000 above £60,000 or more.

	12 Month period ended 31 July 2017		12 Month period ended 31 July 2016	
	Number senior post- holders	Number other staff	Number senior post-holders	Number other staff
£60,001 to £65,000	0	0	3	0
£65,001 to £70,000	1	0	0	0
£70,001 to £75,000	0	0	0	0
£75,001 to £80,000	0	0	0	0
£80,001 to £85,000	0	0	0	0
£85,001 to £90,000	0	0	0	0
£90,001 to £95,000	0	0	1	0
£95,001 to £100,000	1	0	0	0
£100,001 to £105,000	0	0	0	0
£105,001 to £110,000	0	0	0	0
£110,001 to £115,000	0	0	0	0
£115,001 to £120,000	0	0	0	0
£120,001 to £125,000	0	0	0	0
	<u>2</u>	<u>0</u>	<u>4</u>	<u>0</u>



**Remuneration and Staff Report (continued)**

During the period, the College made no non-cash benefits available to staff (2015-16 - none).

**Median Remuneration**

Based on the 12 month figures above, the banded remuneration of the highest paid official in the organisation during the financial year 2016-17 was £95,000. (2015-16 - £95,000). This was 3.8 times (2015-16 - 4 times) the median remuneration of the workforce which was £25,000 (2015-16 £24,000).

**Salary entitlements**

The following table provides detail of the remuneration and pension interests of Senior Executives.

Name	12 months ended 31 July 2017			12 months ended 31 July 2016		
	Actual			Actual		
	Salary £'000	Pension benefit * £'000	Total £'000	Salary £'000	Pension benefit £'000	Total £'000
B. Johnstone	20-25	0	20-25	15-20	0	15-20
C. Turnbull	90-95	45-50	140-145	90-95	45-50	140-145
J. Brown (1)	45-50	50-55	100-105	60-65	25-30	85-90
A. Glen (2)	10-15	0-5	10-15	0	0	0
H. Pedley	65-70	60-65	125-130	60-65	25-30	85-90
S.A. Wright	55-60	10-15	70-75	60-65	50-55	115-120

\* Pension Benefits are calculated as real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual.

(1) J Brown left the Executive Management Team on 12.04.17. Her full time equivalent salary was in the £60k-£65k band.

(2) A Glen joined the Executive Management team on 29.05.17. His full-time equivalent salary was in the £60k-£65k band.

The salary and pension benefits above are shown in bands of £5,000 in accordance with the 2016-17 Government Financial Reporting Manual.

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

The Pension Benefits noted above include benefits from the Local Government Pension Scheme for four Senior Executives, and the Scottish Teachers Superannuation Scheme for one Senior Executive.

Contribution rates for both pension schemes are set annually for all employees, as set out at note 19.

**Remuneration and Staff Report (continued)****Changes to the Local Government Pension Scheme**

Changes were made to the LGPS scheme from 1 April 2015. The pension after that date for members will be calculated on a career average basis, and the pension age will align with the state retirement age.

Scheme members will be able to choose to leave the scheme and draw their pension from state retirement age, or choose to work longer. Pension benefits would be reduced if the member retires before the state retirement age, and increased if they choose to work longer.

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

Pension benefits built up by members in the scheme up to 31 March 2015 are protected, and will still be based on their final salary on leaving and the state retirement age in the current scheme. Member benefits build up in the new way from April 2015.

**Senior Executives Pension**

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

Name	Accrued pension at pension age at 31 July 2017 £'000	Accrued lump sum at pension age at 31 July 2017 £'000	Real increase in pension 1 August 2016 to 31 July 2017 £'000	Real increase in lump sum 1 August 2016 to 31 July 2017 £'000	CETV at 31 July 2017 £'000	CETV at 31 July 2016 £'000	Real increase in CETV £'000
B. Johnstone	0	0	0	0	0	0	0
C. Turnbull	35-40	70-75	2.5-5	0-2.5	829	742	87
J. Brown (1) - see above	25-30	60-65	2.5-5	2.5-5	649	570	79
A. Glen (2) - see above	0-5	0	0-2.5	0	2	0	2
H. Pedley	25-30	55-60	2.5-5	2.5-5	461	390	71
S.A. Wright	20-25	70-75	0-2.5	0-2.5	486	449	37

**Cash Equivalent Transfer Value**

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 service and not just their current appointment.

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

- 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:
- The accrued benefits figures are reflective of the pension contributions that both the employer and 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.

**Remuneration and Staff Report (continued)****Compensation for loss of office**

14 employees left under voluntary exit/ early retirement terms during the year. The table below summarises the exit packages for those staff. It includes payments made to staff and the accrued pension cost of added years.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	0	4	4
£10,000-£25,000	0	7	7
£25,000-£50,000	0	3	3
Total number of exit packages	0	14	14
Total cost (£)	0	£264,741	£264,741

**Exit packages**

No Board member or senior manager left under voluntary or compulsory exit schemes in 2016-17 (2015-16 - none)

**Staff Report**

The Staff Report contains information relating to staff costs and staff numbers.

**Staff Costs**

Staff costs for the year were as follows:

	Directly employed staff £'000	Seconded and agency staff £'000	2016-17 Total £'000	Directly employed staff £'000	Seconded and agency staff £'000	2015-16 Total £'000
Wages and salaries	6,372	40	6,412	6,140	46	6,186
Social security costs	561	0	561	457	0	457
Other pension costs	1,595	0	1,595	1,372	0	1,372
<b>Total</b>	<b>8,528</b>	<b>40</b>	<b>8,568</b>	<b>7,969</b>	<b>46</b>	<b>8,015</b>
Average number of FTE	215	1.5	216.5	213	1.5	214.5

The College employed 198 females and 120 males as at 31 July 2017. Of the four College Senior Executives at July 2017, two are male and two are female.

**Sickness Absence**

The total number of days lost per full-time equivalent (FTE) to sickness absence during 2016-17 was 8 days, which has increased from 6.4 days in 2015-16.

**Equality, Diversity and Inclusion**

Dumfries and Galloway College is committed to the provision of equal opportunities in all aspects of College life. We welcome students and staff from all backgrounds and aim to provide equal services to all our students and staff, and believe in human rights for all connected with the organisation and all members of the community. We are committed to the fulfilment of all agreements and acts, which may have implications for our role in training and education.

All individuals within Dumfries and Galloway College have a responsibility for compliance with legislation and for a positive attitude towards equal opportunities. All external persons connected to Dumfries and Galloway College will be encouraged to hold the same responsibilities and commitment.

The College actively seek to advance equality of opportunity, foster good relations and eliminate discrimination, harassment and victimisation because of the protected characteristics of: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation and marriage & civil partnership.

## Remuneration and Staff Report (continued)

### Equality, Diversity and Inclusion (continued)

Under the Equality Act (2010) and the Public Sector Equality Duty, the College, in the exercise of its functions, has a general duty to have regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010;
- Advance equality of opportunity between people of different groups; and
- Foster good relations between people from different groups, tackling prejudice and promoting understanding between people from different groups.

In addition to the general duty, the College has a specific duty to:

- Report progress on mainstreaming the public sector duty;
- Publish equality outcomes and report progress;
- Assess and review policies and practices (impact assessment);
- Gather and use employee information;
- Publish statements on equal pay;
- Consider award criteria and conditions in relation to public procurement; and
- Publish in a manner which is accessible.

The above reports are available on the College website.

The College has reviewed the initial equality outcomes, which centred on culture and embedding equality and diversity across the College, including the Board of Management and the College Leadership Team and throughout the College. An Access and Inclusion Strategy has been produced, which supports Vision 2020 and the Regional Outcome Agreement. Training for staff will continue with the introduction of a revised e-learning module, and all Board members have Equality and Diversity training as part of their induction.

A number of other measures taken include equality data monitoring, devising a suite of equality reports for learners and monitoring through learner voices', and gender imbalance events across courses in the College.

New outcomes have been devised for 2017-21. The outcomes are aligned to key strategic documents and national priorities including the Outcome Agreement with SFC, the College Strategic Plan, Education Scotland and the Public Sector Equality Duty:

#### Equality Outcome 1

The College's gender pay gap will be reduced by addressing the causes of gender inequality to create a more equal and balanced workforce with both men and women being more equally represented at all levels of the organisation.

#### Equality Outcome 2

Opportunities will be created in targeted curriculum areas to address gender imbalance and stereotyping. The College will aim to eliminate barriers to subject choice and therefore enable learners to maximise their education and employment opportunities.

#### Equality Outcome 3

Learners' successful completion regardless of protected characteristics is increased.

**Remuneration and Staff Report (continued)**

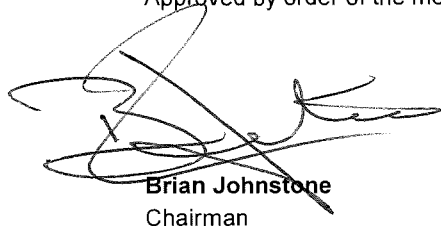
**Equality, Diversity and Inclusion (continued)**

**Equality Outcome 4**

The College designs and delivers programmes and services to meet the needs of learners from all backgrounds and circumstances.

The College is establishing an Equality and Diversity Committee, which will lead on taking forward the Outcomes and devising action plans to support them. A report detailing progress in achieving the outcomes will be published in 2019 and 2021.

Approved by order of the members of the Board on 12 December 2017 and signed on its behalf by:



**Brian Johnstone**  
Chairman

**Carol Turnbull**  
Principal



## **Independent auditor's report to the members of the Board of Management of Dumfries and Galloway College the Auditor General for Scotland and the Scottish Parliament**

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

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

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

In our opinion the accompanying financial statements:

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

#### **Basis of opinion**

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

#### **Conclusions relating to going concern**

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

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

#### **Responsibilities of the Board of Management for the financial statements**

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Other information in the annual report and accounts**

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

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

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

### **Opinion on regularity**

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

### **Responsibilities for regularity**

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

## **Report on other requirements**

### **Opinion on other prescribed matters**

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

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

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

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

**Matters on which we are required to report by exception**

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

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

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

We have nothing to report in respect of these matters.



David Eardley, (for and on behalf of Scott Moncrieff)

Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

15 December 2017

David Eardley is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000



## Statement of Comprehensive Income

	Note	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
<b>INCOME</b>			
SFC grants	2	10,074	9,909
Tuition fees and education contracts	3	1,808	1,719
Other grant income	4	142	395
Other operating income	5	422	422
Endowment and investment income	6	4	11
<b>Total Income</b>		<b>12,450</b>	<b>12,456</b>
<b>EXPENDITURE</b>			
Staff costs excluding exceptional costs	7	8,718	7,969
Fundamental restructuring costs		265	0
Other operating expenses	9	3,051	3,930
Depreciation	12	1,195	1,197
Interest and other finance costs	10	186	193
<b>Total Expenditure</b>		<b>13,415</b>	<b>13,289</b>
<b>(Deficit)/ Surplus before other gains and losses</b>		<b>(965)</b>	<b>(833)</b>
(Loss) on disposal of fixed assets		(15)	0
<b>(Deficit)/ Surplus for the year</b>		<b>(980)</b>	<b>(833)</b>
Actuarial (loss) in respect of pension schemes	19	(101)	(1,825)
<b>Total comprehensive income for the year</b>		<b>(1,081)</b>	<b>(2,658)</b>
<b>Represented by:</b>			
Unrestricted comprehensive income for the year		(1,081)	(2,658)

All items of income and expenditure relate to continuing activities.

The Statement of Comprehensive Income is prepared under the FE/ HE SORP. Colleges are also subject to Central Government accounting rules but the FE/ HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 9 provides details of the adjusted operating position on a Central Government accounting basis.

The adjusted operating position on a Central Government accounting basis, after taking account of the non-cash pension adjustments, is a small surplus.


## Statement of Changes in Reserves for the year ended 31 July 2017

	Income and expenditure reserve	Revaluation reserve	Total
	£000	£000	£000
<b>Balance at 1 August 2015</b>	<b>2,322</b>	<b>4,565</b>	<b>6,887</b>
Surplus/ (Deficit) from the income and expenditure statement	(833)	0	(833)
Other comprehensive income	(1,825)	0	(1,825)
Transfers between revaluation and income and expenditure reserve	144	(144)	0
Release of restricted capital funds spent in period	0	0	0
	<u>(2,514)</u>	<u>(144)</u>	<u>(2,658)</u>
<b>Balance at 1 August 2016</b>	<b>(192)</b>	<b>4,421</b>	<b>4,229</b>
Surplus/ (Deficit) from the income and expenditure statement	(980)	0	(980)
Other comprehensive income	(101)	0	(101)
Transfers between revaluation and income and expenditure reserve	277	(277)	0
	<u>(804)</u>	<u>(277)</u>	<u>(1,081)</u>
<b>Total comprehensive income for the year</b>	<b>(804)</b>	<b>(277)</b>	<b>(1,081)</b>
<b>Balance at 31 July 2017</b>	<b><u>(996)</u></b>	<b><u>4,144</u></b>	<b><u>3,148</u></b>

## Balance Sheet as at 31 July 2017

	Note	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
<b>Non-current assets</b>			
Fixed assets	12	<u>35,557</u>	<u>36,756</u>
<b>Current Assets</b>			
Trade and other receivables	13	422	511
Cash and cash equivalents	14	<u>1,633</u>	<u>1,947</u>
Total current assets		2,055	2,458
<b>Less: Creditors - amounts falling due within one year</b>	15	<u>(2,807)</u>	<u>(2,984)</u>
<b>Net Current Assets/ (Liabilities)</b>		<u>(752)</u>	<u>(526)</u>
<b>Total Assets less Current Liabilities</b>		34,805	36,230
<b>Less: Creditors - amounts falling due after more than one year</b>	16	<u>(22,619)</u>	<u>(23,710)</u>
<b>Provisions</b>			
Pension provisions	17	<u>(9,038)</u>	<u>(8,291)</u>
<b>Total net assets</b>		<u><u>3,148</u></u>	<u><u>4,229</u></u>
<b>Unrestricted Reserves</b>			
Income and expenditure reserve - unrestricted		(996)	(192)
Revaluation reserve		4,144	4,421
<b>Total reserves</b>		<u><u>3,148</u></u>	<u><u>4,229</u></u>

The financial statements on pages 32 to 55 were approved by the Board of Management on 12 December 2017 and were signed on its behalf by:



**Brian Johnstone**  
Chairman

**Carol Turnbull**  
Principal



## Statement of Cash Flows for the year ended 31 July 2017

	Year ended 31 July 2017	Year ended 31 July 2016
Note	£000	£000
<b>Cash flow from operating activities</b>		
(Deficit)/ Surplus for the period	(980)	(833)
<b>Adjustment for non-cash items</b>		
Depreciation	1,195	1,197
Decrease/ (increase) in debtors	115	(214)
(Decrease)/ increase in creditors	(1,264)	(817)
Increase/ (decrease) in pension provision	641	460
Increase/ (decrease) in other provisions	0	(9)
<b>Adjustment for investing or financing activities</b>		
Investment income	5	0
(Loss)/ Profit on sale of fixed assets	(15)	0
<b>Net cash (Outflow)/ Inflow from operating activities</b>	<u>(303)</u>	<u>(216)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of fixed assets	120	0
Investment income	0	0
Payments to acquire fixed assets	(131)	0
	<u>(11)</u>	<u>0</u>
<b>Cash flows from financing activities</b>		
Interest paid	0	0
Repayments of amounts borrowed	0	0
	<u>0</u>	<u>0</u>
<b>(Decrease)/ increase in cash and cash equivalents in the period</b>	<u>(314)</u>	<u>(216)</u>
Cash and cash equivalents at beginning of the period	1,947	2,163
Cash and cash equivalents at end of the period	1,633	1,947

**Notes to the Financial Statements****1. Statement of Accounting Policies**

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

**1.1 Basis of preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2015: 'Accounting in Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2016-17 Government Financial Reporting Model (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.

The College is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

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

The accounting policies contained in the FReM apply International Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the College for the purposes of giving a true and fair view has been selected. The particular policies adopted by the College in dealing with items that are considered material to the financial statements are set out below.

**1.2 Recognition of income**

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

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

All income from short-term deposits and investment income is credited to the statement of income and expenditure on a receivable basis.

The College acts as paying agent on behalf of two funding bodies - the Scottish Funding Council and the Student Awards Agency for Scotland - in the collection and payment of certain Student Support Funds. Where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, those funds are excluded from the income and expenditure of the College.

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, those funds are shown as College income and expenditure.

***Grant funding***

Government revenue grants including the recurrent grants from the Scottish Funding Council (SFC) are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

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

**Notes to the Financial Statements (continued)****1. Statement of Accounting Policies (continued)****1.2 Recognition of income (continued)*****Donations and endowments***

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the College is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the College is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

Four main types of donations and endowments are identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the College.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the College has the power to use the capital.
4. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

***Capital grants***

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

**1.3 Fixed assets**

In line with FReM all tangible assets must be carried at fair value. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

***Land and buildings***

Land and buildings are measured using the revaluation model. Under the revaluation model, assets are revalued to fair value. Where appropriate Depreciated Replacement cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The College has a policy of ensuring a full revaluation takes place at least every 5 years such that the fair value is not materially different to the current value. Depreciation and impairment losses are subsequently charged on the revalued amount.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

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

If a building is brought into use mid-way through a year the depreciation charge in the first year will be pro-rated to reflect the number of months that the asset was in use.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

**Notes to the Financial Statements (continued)****1. Statement of Accounting Policies (continued)****1.3 Fixed assets (continued)**

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2017. They are not depreciated until they are brought into use.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives.

The expected useful life of buildings can vary from 10 to 50 years as determined by professional opinion and valuation.

**Equipment**

Equipment, including computers and software, costing less than £10,000 per individual item and motor vehicles costing less than £5,000 are recognised as expenditure. All other equipment is capitalised and depreciated in accordance with the depreciation policy.

Capitalised equipment is depreciated over its useful economic life as follows:

Buildings	10 to 50 years
Fixtures and fittings	10 years
Computer equipment	3 years
Other equipment	5 years
Motor vehicles	5 years

Where equipment is brought into use mid-way through a year the depreciation charge in the first year will be prorated to reflect the number of months that the asset was in use.

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

**Borrowing costs**

Borrowing costs are recognised as expenditure in the period in which they are incurred.

**1.4 Finance leases**

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

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

**1.5 Operating leases**

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

**1.6 Cash and cash equivalents**

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

**Notes to the Financial Statements (continued)****1. Statement of Accounting Policies (continued)****1.7 Taxation**

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

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

**1.8 Accounting for retirement benefits**

All new College employees have the option of joining a pension scheme. The schemes currently open to new members are the Scottish Teachers' Superannuation Scheme and the Dumfries and Galloway Council Pension Fund. Both of the schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension (S2P).

***Scottish Teachers' Superannuation Scheme***

The Scottish Teachers' Superannuation Scheme (STSS) pension scheme provides benefits based on career average salaries. The assets of the scheme are held separately from those of the College. The STSS is a multi-employer scheme for which it is not possible to identify the assets and liabilities to College members due to the mutual nature of the scheme and therefore this scheme is accounted for as a defined contribution retirement benefit scheme.

***Dumfries and Galloway Council Pension Fund***

The Dumfries and Galloway Council Pension Fund is a pension scheme providing benefits based on career average salaries. The assets and liabilities of the scheme are held separately from those of the College.

***Defined Contribution Plan***

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

***Defined Benefit Plan***

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



**Notes to the Financial Statements (continued)****1. Statement of Accounting Policies (continued)****1.9 Employment benefits**

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

**1.10 Financial Instruments**

The College does not hold any complex financial instruments. The only financial instruments included in the financial statements are financial assets in the form of cash and cash equivalents as well as trade receivables and other current assets and financial liabilities in the form of trade receivables and other current liabilities.

All material amounts of trade receivables and other current assets due at 31 July 2017 have been brought into the Statement of Comprehensive Income irrespective of when actual payments were received.

All material amounts of trade payables and other current liabilities outstanding at 31 July 2017 have been brought into the Statement of Comprehensive Income irrespective of when actual payments were made.

**1.11 Provisions, contingent liabilities and contingent assets**

Provisions are recognised in the financial statements when:

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

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

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

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

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

**1.12 Reserves**

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the College, are held as a permanently restricted fund which the college must hold in perpetuity.

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

## Notes to the Financial Statements (continued)

	Year ended 31 July	Year ended 31 July
	2017	2016
	£000	£000
<b>2 SFC Grants</b>		
FE recurrent grant (including fee waiver)	8,620	8,327
FE and HE childcare funds	259	279
Release of deferred capital grants	671	672
Infrastructure grant	459	379
Other SFC grants	65	252
<b>Total</b>	<u>10,074</u>	<u>9,909</u>
<b>3 Tuition Fees and education contracts</b>		
FE fees - UK	428	411
HE fees	742	749
SDS contracts	301	333
Education contracts	0	0
Other contracts	337	226
<b>Total</b>	<u>1,808</u>	<u>1,719</u>
<b>4 Other grant income</b>		
European funds	0	0
Release of deferred capital grants	87	87
Scottish Colleges Foundation grant (Note 9)	24	286
Other grants	31	22
<b>Total</b>	<u>142</u>	<u>395</u>
<b>5 Other operating income</b>		
Residences and catering	373	375
Other income-generating activities	16	19
Other income	33	28
<b>Total</b>	<u>422</u>	<u>422</u>

## Notes to the Financial Statements (continued)

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
<b>6 Endowment and investment income</b>		
Bank interest	<u>4</u>	<u>11</u>
<b>7 Staff costs</b>		
Wages and salaries	6,372	6,140
Social security costs	561	457
Other pension costs (including IAS 19 adjustments of £455k (2016 - £271k) note 19)	<u>1,595</u>	<u>1,372</u>
Total pay costs	8,528	7,969
Other employee related non-pay costs	<u>190</u>	<u>130</u>
Total staff costs excluding exceptional costs	8,718	8,099
Exceptional costs - severance costs	<u>265</u>	<u>0</u>
<b>Staff costs including exceptional costs</b>	<u><u>8,983</u></u>	<u><u>8,099</u></u>
Academic/ Teaching departments	4,338	4,055
Academic/ Teaching services	1,017	929
Administration and central services	2,874	2,510
Premises	420	363
Other expenditure	144	112
Catering and residences	0	0
Other employee related non-pay costs	<u>190</u>	<u>130</u>
<b>Total</b>	<u><u>8,983</u></u>	<u><u>8,099</u></u>

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

	No.	No.
Academic/ Teaching departments	88	86
Academic/ Teaching services	21	21
Administration and central services	89	89
Premises	14	14
Other expenditure	3	3
Catering and residences	<u>0</u>	<u>0</u>
<b>Total</b>	<u><u>215</u></u>	<u><u>213</u></u>

## Notes to the Financial Statements (continued)

## 7 Staff costs (continued)

The number of staff, including senior post-holders and the Principal, who received total annual emoluments (excluding pension contributions and compensation for loss of office) in the following ranges were:

	Year ended 31 July 2017		Year ended 31 July 2016	
	Number senior post-holders	Number other staff	Number senior post-holders	Number other staff
£60,001 to £70,000 per annum	1	0	3	0
£70,001 to £80,000 per annum	0	0	0	0
£80,001 to £90,000 per annum	0	0	0	0
£90,001 to £100,000 per annum	1	0	1	0
	<u>2</u>	<u>0</u>	<u>4</u>	<u>0</u>

## 8 Senior post-holders' emoluments

The number of senior post-holders, including the Principal was:

	2017 No.	2016 No.
	<u>4</u>	<u>4</u>

Senior post-holders' emoluments are made up as follows:

	Year ended 31 July	Year ended 31 July
	2017 £	2016 £
Salaries	278,494	278,845
Pension contributions	54,174	54,622
Total emoluments	<u>332,668</u>	<u>333,467</u>

The above emoluments include amounts payable to the Principal, who is also the highest paid senior post-holder, of:

	£	£
Salary (including holiday pay)	<u>95,000</u>	<u>93,785</u>
Pension contributions	<u>19,285</u>	<u>19,038</u>

The Principal and two other senior post-holder were members of the Local Government Pension Scheme and one senior post-holder was a member of the Scottish Teachers' Superannuation Scheme. All pension contributions were paid at the same rate as for other members of staff.

The members of the Board of Management, other than the Principal, Regional Chairman, and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to six members of the Board of Management during the year amounted to £1,184.

## Notes to the Financial Statements (continued)

	Year ended 31 July 2017	Year ended 31 July 2016
	£000	£000
<b>9 Other operating expenses</b>		
Teaching departments	872	1,003
Administration and central services	1,041	1,087
Premises costs (including additional Lennartz credit £72,000. 2016 - £170,000, note 16)	489	572
Planned maintenance	231	713
Agency Staff Costs	39	46
Residences and catering	379	379
Overspend on student support funds	0	0
	<u>3,051</u>	<u>3,800</u>
Transfer to Arms Length Foundation	0	0
<b>Total</b>	<u><u>3,051</u></u>	<u><u>3,800</u></u>
Other operating costs include:		
Auditors' remuneration		
- external audit of these financial statements	16	15
-internal audit services *	20	14
- other services	0	5
Hire of plant and machinery - operating leases	<u>76</u>	<u>84</u>

\* Two different professional firms provide External Audit and Internal Audit services.

**Non-cash allocation**

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

Under the FE/ HE SORP, the College recorded an operating deficit of £980,000 for the year ended 31 July 2017. After taking account of the Government non-cash budget and non-cash pension adjustments, the College shows an 'adjusted' surplus of £35,000 on a Central Government accounting basis. This demonstrates that the College is operating sustainably within its funding allocation.

The adjusted operating position on a Central Government accounting basis is as follows:

	Year ended 31 July 2017	Year ended 31 July 2016
	£000	£000
(Deficit) before other gains and losses (FE/ HE SORP basis)	(965)	(833)
Add Back:		
- non-cash allocation for depreciation (net of deferred capital grant)	354	390
- Non-cash pension adjustments	646	464
Operating surplus on Central Government accounting basis	<u><u>35</u></u>	<u><u>21</u></u>

## Notes to the Financial Statements (continued)

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
<b>10 Interest payable</b>		
Net interest cost on pension liability (note 19)	<u>186</u>	<u>193</u>

**11 Taxation**

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

**12 Tangible Fixed Assets**

	Land and Buildings £000	Fittings and Equipment £000	Motor Vehicles £000	Assets in the Course of Construction £000	Total £000
<b>Cost or valuation</b>					
At 1 August 2016	38,209	337	253	0	38,799
Additions	0	0	0	131	131
Disposals	(140)	0	0	0	(140)
<b>At 31 July 2017</b>	<u>38,069</u>	<u>337</u>	<u>253</u>	<u>131</u>	<u>38,790</u>
<b>Depreciation</b>					
At 1 August 2016	1,557	300	186	0	2,043
Provided during period	1,162	14	19	0	1,195
On disposals	(5)	0	0	0	(5)
<b>At 31 July 2017</b>	<u>2,714</u>	<u>314</u>	<u>205</u>	<u>0</u>	<u>3,233</u>
<b>NBV at 1 August 2016</b>	<u>36,652</u>	<u>37</u>	<u>67</u>	<u>0</u>	<u>36,756</u>
<b>NBV at 31 July 2017</b>	<u>35,355</u>	<u>23</u>	<u>48</u>	<u>131</u>	<u>35,557</u>
Inherited	3,685	0	0	0	3,685
Financed by capital grant	31,670	23	48	0	31,741
Other	0	0	0	131	131
<b>At 31 July 2017</b>	<u>35,355</u>	<u>23</u>	<u>48</u>	<u>131</u>	<u>35,557</u>

Land and buildings were revalued at 31st July 2015 by DM Hall, Chartered Surveyors in the capacity of independent valuer. The basis of valuation adopted was depreciated replacement cost for all but the Catherinefield Nursery which was valued at Market Value, and the valuation was made in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

Inherited Land and Buildings with a net book value of £35,355,000 have been partially financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council, to surrender the proceeds.

## Notes to the Financial Statements (continued)

**12 Tangible Fixed Assets (continued)**

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

	£000
Cost	0
Aggregate depreciation based on cost	0
	<u>0</u>

**13 Debtors: Amounts falling due within one year**

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Trade debtors - net of provision for doubtful debts	36	50
Prepayments and accrued income	<u>386</u>	<u>461</u>
	<u>422</u>	<u>511</u>

**14 Cash and cash equivalents**

	31 July 2017 £000	31 July 2016 £000
Cash and cash equivalents	<u>1,633</u>	<u>1,947</u>

The College receives certain Scottish Funding Council grants on an agency basis. The funds are available solely for students and the College acts only as paying agent. The funds held in trust are reflected on the balance sheet as both cash and a current liability.

Agency funds of £363,000 are included in the cash and cash equivalents at the year end.

**15 Creditors: Amounts falling due within one year**

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Trade creditors	75	73
VAT	79	86
HMRC Lennartz Scheme	307	333
Other taxation and social security	151	141
Pension	135	130
Contract retentions	-	131
Accruals and deferred income	842	969
Deferred capital grants	758	758
Bursaries and Access funds for future disbursement (note 14)	<u>460</u>	<u>363</u>
	<u>2,807</u>	<u>2,984</u>

Deferred capital grants to be released within one year are included within current creditors, and the balance of deferred capital grants within long term creditors at note 16 in accordance with the requirements of FRS 102 and the 2015 SORP.

## Notes to the Financial Statements (continued)

<b>16 Creditors: Amounts falling due after more than one year</b>	<b>Year ended 31 July 2017</b>	<b>Period ended 31 March 2016</b>
	<b>£000</b>	<b>£000</b>
HMRC Lennartz Scheme	0	333
Deferred capital grants	<u>22,619</u>	<u>23,377</u>
	<u><b>22,619</b></u>	<u><b>23,710</b></u>

The estimated future liability under the Lennartz agreement was recalculated during the period, and showed a net decrease of £75,000 which has been credited to premises costs (note 9).

Deferred capital grants to be released within one year are included within current creditors, and the balance of deferred capital grants within long term creditors at note 16 in accordance with the requirements of FRS 102 and the 2015 SORP.

**17 Provisions for liabilities and charges**

	Early Retirement pension costs	Defined Pension obligations (Note 19)	<b>2016-17 Total</b>	<b>2016-16 Total</b>
At 1 August 2016	783	7,508	<b>8,291</b>	6,015
Expenditure in the period	(48)	(612)	<b>(660)</b>	(639)
Additional provision required in period	49	1,067	<b>1,116</b>	889
Revaluation adjustment	0	101	<b>101</b>	1,825
Interest charged	4	186	<b>190</b>	201
<b>At 31 July 2017</b>	<u><b>788</b></u>	<u><b>8,250</b></u>	<u><b>9,038</b></u>	<u><b>8,291</b></u>

The Early Retirement pension costs provision has been revalued using actuarial tables supplied by the Scottish Funding Council. The net interest rate applied was 0.0%.

<b>18 Lease obligations</b>	<b>Year ended 31 July 2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Total rentals under operating leases for equipment are as follows:		
Payable during the period	<u><b>55</b></u>	<u><b>53</b></u>
Future minimum lease payments due:		
- Not later than 1 year	4	4
- Later than 1 year and not later than 5 years	<u>206</u>	<u>248</u>
Total lease payments due	<u><b>210</b></u>	<u><b>252</b></u>



## Notes to the Financial Statements (continued)

## 19 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) which is administered by the Scottish Public Pensions Agency and the Local Government Pension Scheme (LGPS) - The Dumfries and Galloway Council Pension Fund.

The total pension costs for the institution was :

	12 months to July 2017 £000	12 months to July 2016 £000
Contribution to STSS	523	513
Contribution to LGPS	613	557
Pension costs as a result of implementing FRS 102	641	464
Total pension cost	<u>1,777</u>	<u>1,534</u>

Employer contribution rates during the period were:

STSS - 17.2% from September 2015

LGPS - 20.3% plus a monetary payment as noted below

**The Scottish Teachers Superannuation Scheme**

College lecturing staff are entitled to become members of the Scottish Teachers' Superannuation Scheme. The latest actuarial valuation of this scheme was carried out as at 31 March 2005.

The assumptions which have the most significant effect on the valuation and other relevant data are as follows:

Rate of return on investments in excess of rate of increase in salaries	2%	2.0%
Rate of return on investments in excess of rate of increase in pensions	3.50%	3.5%
Market value of the assets as at 31 March 2005	£18,474m	£18,474m

The actuarial value of the STSS scheme at 31 March 2005 showed a deficiency of £836m, which requires a supplementary provision by all members of 3.15% per annum for a period of 15 years.

The College is unable to identify its share of the underlying assets and liabilities in the STSS scheme on a consistent and reasonable basis and therefore, as required by FRS 102 (28), the College accounts for contributions to this scheme as if it were a defined contribution scheme.

**The Local Government Pension Scheme (LGPS)**

The LGPS is a defined benefit scheme, with the assets held in separate trustee administered funds.

The triennial valuation of the Dumfries and Galloway Council Pension Fund was carried out as at 31 March 2014 by Hymans Robertson LLP. The valuation for Dumfries and Galloway College's participation in the Dumfries and Galloway Council Pension Fund was updated by Hymans Robertson as at 31 July 2016.

Following the revaluation of the Dumfries and Galloway Council pension fund at 31 March 2014, the actuary determined that the funding level for Dumfries and Galloway College's element of the fund has decreased from 102% at 31 March 2011 to 98% at 31 March 2014, and the College element of the fund is in deficit. The future service rate for Dumfries and Galloway College has been calculated at 20.3% of pensionable pay, and the deficit to the fund is being met from a monetary payment rather than an adjustment to the contribution rate. The actuary has set employer contribution rates for three years at the future service rate plus a monetary payment, and total employer contributions to be applied for three years from 1 April 2015 are as follows:

2015/16 - 20.3% of pensionable pay plus £23,000  
 2016/17 - 20.3% of pensionable pay plus £24,000  
 2017/18 - 20.3% of pensionable pay plus £25,000

## Notes to the Financial Statements (continued)

## 19 Pensions and similar obligations (continued)

## Assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	As at 31/07/17	As at 31/07/16
	%	%
Discount rate	2.70%	2.40%
Expected rate of return on plan assets	2.70%	2.40%
Future salary increases	4.50%	3.90%
Inflation/ pension rate increase	2.50%	1.90%

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2012 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25% p.a. based on these assumptions, the average life expectancies at age 65 are summarised below.

- Current pensioner aged 65: 22.7 years (male), 24 years (female).
- Future retiree upon reaching 65: 24.5 years (male), 26.7 years (female).

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

## Scheme assets and expected rate of return for LGPS

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The fair value of the plan assets and return on those assets were as follows:

	Year ended 31 July 2017	Year ended 31 July 2016	Period ended 31 July 2015
	Fair value £000	Fair value £000	Fair value £000
Equities	15,369	13,016	12,143
Corporate bonds	3,033	3,031	2,429
Property	1,820	1,783	1,619
Other	0	0	0
	<u>20,222</u>	<u>17,830</u>	<u>16,191</u>
Actual return on plan assets	<u>1,748</u>	<u>809</u>	<u>1524</u>

## Notes to the Financial Statements (continued)

## 19 Pensions and similar obligations (continued)

## Analysis of amount shown in the Balance Sheet for LGPS pensions:

	Year ended 31 July 2017	Year ended 31 July 2016
	£000	£000
Scheme assets	20,222	17,830
Scheme liabilities	<u>(28,448)</u>	<u>(25,314)</u>
Present value of unfunded defined benefit obligations	<u>(8,226)</u>	<u>(7,484)</u>
<b>Deficit in the scheme - net pension liability</b>	<b><u>(24)</u></b>	<b><u>(24)</u></b>
	<b><u>(8,250)</u></b>	<b><u>(7,508)</u></b>
Current service cost	<u>(1,067)</u>	<u>(853)</u>
<b>Total operating charge</b>	<b><u>(1,067)</u></b>	<b><u>(853)</u></b>

## Analysis of the amount charged to interest payable/ credited to other finance income for LGPS pensions:

Interest cost	(616)	(780)
Expected return on assets	430	587
Interest on net deficit	<u>0</u>	<u>0</u>
<b>Net charge to other finance income</b>	<b><u>(186)</u></b>	<b><u>(193)</u></b>
<b>Total income and expenditure charge before deduction for tax</b>	<b>(1,253)</b>	<b>(1,046)</b>

## Analysis of other comprehensive income for LGPS pensions:

Gain on assets	1,748	809
Experience loss on liabilities	<u>(1,849)</u>	<u>(2,634)</u>
<b>Total other comprehensive income before deduction for tax</b>	<b><u>(101)</u></b>	<b><u>(1,825)</u></b>

## Notes to the Financial Statements (continued)

## 19 Pensions and similar obligations (continued)

	Year ended 31 July 2017	Year ended 31 July 2016
<b>Analysis of movement in surplus/ (deficit) for LGPS pensions</b>		
<b>Deficit at the beginning of the period</b>	<b>(7,508)</b>	<b>(5,219)</b>
Contributions paid by the College	612	582
Current service cost	(1,067)	(853)
Other finance charge	(186)	(193)
(Loss) recognised in other comprehensive income	(101)	(1,825)
<b>Deficit at the end of the period</b>	<b><u>(8,250)</u></b>	<b><u>(7,508)</u></b>
<b>Movement in the present value of the fair value of pension plan assets</b>		
<b>Present value of assets at the start of the period</b>	<b>17,830</b>	<b>16,191</b>
Interest income	430	587
Participants contributions	172	163
College contributions	612	582
Benefits paid	(570)	(502)
Return on assets	1,748	809
<b>Present value of assets at the end of the period</b>	<b><u>20,222</u></b>	<b><u>17,830</u></b>
<b>Movement in the present value of pension liabilities</b>		
<b>Present value of obligations at the start of the period</b>	<b>(25,338)</b>	<b>(21,410)</b>
Current service costs (net of member contributions)	(1,067)	(853)
Interest cost	(616)	(780)
Participants contributions	(172)	(163)
Benefits paid	570	502
Change in financial assumptions and other experience	(1,849)	(2,634)
<b>Present value of obligations at the end of the period</b>	<b><u>(28,472)</u></b>	<b><u>(25,338)</u></b>

The Actuarial report has highlighted that the 2017-18 charge is higher than 2016-17 due to a lower net discount rate leading to a higher service cost.

## Notes to the Financial Statements (continued)

**20 Related Party Transactions**

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

SFC and the Scottish Executive Enterprise and Lifelong Learning Department (SEELLD) are regarded as related parties. During the year Dumfries and Galloway College had various material transactions with these bodies and with other entities for which they are either the Funding Council or are regarded as the sponsor Department, e.g. Student Awards Agency for Scotland, and a number of other colleges and higher education institutions.

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 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.

During the year under review, the College had no transactions with non-public bodies in which a member of the Board of Management has an interest and which, in aggregate, exceeded £5,000 except as disclosed below.

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

<b>Member</b>	<b>Organisation</b>	<b>Position</b>
J. Henderson	Crichton Foundation	Appointed Trustee (Representative of Dumfries and Galloway College)
H. Carr	Dumfries and Galloway Housing Partnership	Director of Finance
K. McGahan	William Waugh & Sons (Builders) Ltd	Joint Managing Director

The Crichton Foundation has previously provided grant funding towards the Henry Duncan building, which forms part of the Crichton Campus. The Crichton Foundation provided grant funding of £10,000 for student support in July 2016 which was fully disbursed to students by the College during 2016-17. In addition, £1,000 was invoiced to Crichton Foundation in respect of prizes for the annual College Award Ceremony. £1,000 was outstanding at 31 July 2017.

The College provided training courses to Dumfries and Galloway Housing Partnership during the year ended 31 July 2017. Invoices to Dumfries and Galloway Housing Partnership amounted to £85,165. No balances were due to the College from Dumfries and Galloway Housing Partnership at 31 July 2017.

The College has engaged William Waugh & Sons (Builders) Ltd for various maintenance works during the period, following tender exercises in line with standard College procurement procedures. Invoices from William Waugh & Sons during the period amounted to £13,436. No balances were due to William Waugh by the College at 31 July 2017.

The members of the Board of Management, other than the Principal, Regional College Chair, and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to six members of the Board of Management during the year amounted to £1,184.

Remuneration of the Executive Management Team is set out in note 8.

## Notes to the Financial Statements (continued)

## 21 FE Bursaries and other Student Support Funds

	FE Bursary £000	EMA's £000	Other £000	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Balance brought forward	349	0	0	349	239
Allocation received in year (including interest)	1,728	247	159	2,134	2,218
	2,077	247	159	2,483	2,457
Expenditure	(1,401)	(247)	(173)	(1,821)	(1,997)
Repayable to Funding Council as Clawback	(246)	0		(246)	(133)
College Contribution to funds	0	0	0	0	1
Virements between FE and HE Childcare and FE Discretionary funds	0	0	14	14	21
Balance Carried forward	430	0	0	430	349
Represented by:					
Repayable to Funding Council as Clawback	327	0	0	327	243
Retained by College for Students	103	0	0	103	106
	430	0	0	430	349

The student support grants detailed above 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.

## 22 FE and HE Childcare Funds

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Balance brought forward	3	0
Allocation received in year	287	303
	290	303
Expenditure	(260)	(279)
Virements to FE Discretionary funds	(14)	(21)
Balance Carried forward	16	3
Represented by:		
Repayable to Funding Council as Clawback	16	3
Retained by College for Students	0	0
	16	3

Childcare Fund transactions are included within the College Income & Expenditure account in accordance with accounts direction from SFC, as the College has more discretion in the manner in which these funds are disbursed.

## 23 Capital Commitments

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

	Year ended 31 July 2017 £000	Year ended 31 July 2016 £000
Commitments contracted for	6	24

Notes to the Financial Statements (continued)

**24 Post Balance Sheet Events**

There are no post balance sheet events.

**25 Contingent Liabilities**

The College had no contingent liabilities at 31 July 2017 and 31 July 2016.

**2016-17 Accounts direction for Scotland's colleges and universities**

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

Scottish Funding Council  
30 June 2017