

**NORTH EAST
SCOTLAND**
COLLEGE



FINANCIAL STATEMENTS
for the year to 31 July 2019

Charity Number: SC021174

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1. PERFORMANCE REPORT

Overview

This overview provides the reader with highlights of the College's performance for the year to 31 July 2019. It contains a statement from the Principal, background to our purpose, operating environment, business model and objectives, and discusses the principle risks that the College faces.

Introductory Statement by the Principal and Chief Executive

The Academic Year 2018-19 has seen many positive outcomes for the College, but has also seen us face a number of challenges.

This was the first year of operation under our new Strategic Plan for the period 2018-2021. The Plan sets a clear direction for the College in responding to the needs of the Region and in delivering on national policy.

The following five themes are core to achieving our ambitions: -

- **Being Responsive:** Deliver high quality, accessible and inclusive learning and training opportunities, which transforms lives and which support the economic and social development of our region.
- **Developing People:** Develop the skills, talents and potential of all the people who come to college either to learn or to work.
- **Working in Partnership:** Work with our partners to deliver positive and sustainable change for individuals, communities and businesses in our region.
- **Delivering Quality:** Deliver an excellent learning environment and experience leading to successful outcomes for all learners.
- **Building Sustainability:** Optimise the use of our available resources to deliver financial and environmental sustainability.

In 2018-19, the College set a number of Annual Priorities to ensure a focus on meeting our ambitions. Significant progress was made in all areas.

We have largely fulfilled our strategic aims and objectives and achieved the outcomes that we set with the Scottish Funding Council in our Outcome Agreement for 2018-19. The College has successfully engaged in the Scottish Government's Flexible Workforce Development Fund programme, delivering training valued at over £1.1M to businesses across the Region; however, following lower than expected full-time enrolments, the College negotiated a reduction in its annual Credit target of 3,000 Credits to 132,529 Credits. The College delivered 132,224 Credits against this new target. Learner success for further education students has remained relatively static.

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

Financially, the College has posted a surplus of £542k (before tax and the movement on the pension fund), demonstrating that the measures taken in 2017-18 to ensure financial sustainability are having the desired results.

In June 2019, the Board approved a new Estates Strategy for the College, focusing on meeting the challenge of the College's maintenance backlog, while also addressing the changing needs of our learners, staff and business stakeholders. At a local level, this has translated into our "Futures" themes, with one each for Aberdeen Altens, Aberdeen City, and Fraserburgh campuses.

At this time, the College is well placed to achieve its ambitions, ensuring it remains a responsive and sustainable College delivering an excellent learning experience and successful outcomes for all learners.

Our Purpose and Activities

Legal Status

North East Scotland College (NESCol) was formed on 1st November 2013, as a result of merger between Aberdeen College and Banff and Buchan College.

The College is incorporated under the Further and Higher Education (Scotland) Act 1992 and is funded directly by the Scottish Further and Higher Education Funding Council (SFC). The College is a charity (Scottish Charity Number SC021174) registered with the Office of the Scottish Charity Regulator and is recognised by HM Revenue and Customs as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988. As such, the College is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

Business Model and Operating Environment

Through its Regional Outcome Agreement with the Scottish Funding Council, the College responds to the Scottish Government's national policy drivers, while also working with regional partners and local businesses in improving opportunities for the people of Aberdeen and Aberdeenshire, in helping the region's young people progress to work or higher education, and in supporting businesses through professional updating and workforce development.

Each year, the College enrolls around 6,500 full-time students and 15,000 part-time students. It employs 600 staff across the range of its business activities.

NESCol is the only further education college located within the North East of Scotland, and provides a wide range of education and training opportunities across the region to meet the needs of individuals, communities and employers. The College's main (College-owned) centres are in Aberdeen (three sites), Fraserburgh and Peterhead with two leased community based training centres across region. The College's Estates Strategy recognises the need to maintain a regional presence, but also to differentiate provision at each campus to meet the differing needs of learners. The Estates Strategy prioritises the improvement of the current College-owned sites, to meet the changing needs of learners, staff and other stakeholders.

The College operates a wholly-owned subsidiary company, Aberdeen Skills and Enterprise Training Ltd (ASET), delivering specialist support to the Oil and Gas industry.

The College's other wholly-owned subsidiary, Clinterty Estates Ltd, is dormant and has not traded since 30 April 1998.

Vision and Values

This was the first year of operation under the College's new Strategic Plan 2018-21. The Strategic Plan clearly defines the College's vision and values.

Vision

North East Scotland College will, through the delivery of high quality education and training:

- drive and support innovation and economic prosperity,
- raise aspiration,
- create success, and
- promote diversity, fairness and opportunity for all

providing individuals, businesses and communities in the North East of Scotland with 21st century skills.

Values

The College's values shape our work, influence our behaviours and apply to everyone who comes to the College to learn or work.

Commitment and Excellence

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

Empowerment and Engagement

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

Respect and Diversity

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

Strategic Themes

Our Strategic Plan for 2018-2021 is focused on five Strategic Themes and their accompanying Strategic Goals.

Being Responsive

Deliver high quality, accessible and inclusive learning and training opportunities, which transform lives and which support the economic and social development of our region.

Developing People

Develop the skills, talents and potential of all the people who come to college either to learn or to work.

Working in Partnership

Work with our partners to deliver positive and sustainable change for individuals, communities and businesses in our region.

Delivering Quality

Deliver an excellent learning environment and experience leading to successful outcomes for all learners.

Building Sustainability

Optimise the use of our available resources to deliver financial and environmental sustainability.

Key Issues and Risks

The Regional Board has established a Strategic Risk Register, which considers matters which may impact on the College's ability to deliver on its strategic objectives. Risks and mitigating factors are kept under review by the Senior Executive Team and reported to the Board via the Audit and Risk Committee. The Risks are categorised alongside the Strategic Theme they most impact on. The Board identifies the principle risks to the College, currently rated as "medium" or "high", as being: -

Strategic Theme 1: Being Responsive

- IF students are not enrolled on the most appropriate programme, THEN they may be less likely to succeed. This is mitigated by robust admissions and enrolments procedures, and ongoing student support

Strategic Theme 2: Developing People

- IF the Students' Association (SA) does not continue to be pro-active in engaging with the College, THEN the learner experience will likely be diminished. This is mitigated by financial and management support to SA, Partnership Agreement, Clear SA Constitution and Strategic Plan, Student feedback, SA contributions at Board and Committee meetings and Board Strategy Events.

Strategic Theme 3: Working in Partnership

- IF employers do not successfully engage with NESCol, THEN the College will not be able to identify and meet their needs. This is mitigated by Business Development Strategy, Engagement with industry groups and employers, employer engagement events, stakeholder consultations.
- IF local schools do not work closely with NESCol, THEN effective learner pathways will not be delivered throughout the region. This is mitigated by Schools Liaison Team, Partnership Agreements, Regional Learning & Skills Partnership, Mapping of learner pathways.

Strategic Theme 4: Delivering Quality

- IF the College does not have sufficient capacity to address the wide-ranging needs of the student body, THEN the learner experience and learner outcomes will be diminished. This is mitigated by Access & Inclusion Strategy, Whole-College Student Support Model, Student feedback, Staff training, Regular review of policies and procedures.
- IF student outcomes do not improve as planned THEN the College's ability to achieve its SFC activity target will be reduced. This is mitigated by Effective student information, advice, guidance and support, Course design, Engaged and motivated staff, appropriate staffing levels, Reporting and monitoring of KPIs.
- IF the SFC does not provide sufficient capital maintenance funding to maintain modern fit-for-purpose buildings, THEN the quality of the student experience will be reduced. This is mitigated by Outcome Agreement process and engagement with SFC, business cases for capital projects, resource planning, regular condition and structural surveys.
- IF an emergency/disaster/significant systems failure occurs THEN the learner experience will be negatively impacted upon should an emergency or disaster occur. This is mitigated by regular

review of Business Continuity Plan, scenario and desktop exercises, desktop training exercises, insurance on buildings and equipment, IT disaster recovery arrangements

- IF an individual is harmed or property is damaged THEN the College may face litigation or criminal prosecution and reputational damage. This is mitigated by robust health and safety management system, regular review of arrangements, strict adherence to processes, policies and procedures, effective monitoring systems, staff training, Health & Safety Committee, compliance with BSI Standards, staff training.

Strategic Theme 5: Building Sustainability

- IF sufficient income levels are not achieved THEN the College will not be able to financially invest in innovation, staff and facilities. This is mitigated by Business Development Strategy, employer/client engagement, Save Well-Spend Well initiative.
- IF regional demand reduces, THEN the credit target may not be achieved resulting in clawback and reduced funding in future years. This is mitigated by Marketing & Communications Strategy, engagement with CPPs, schools and employers, data analysis, effective marketing.
- IF candidate numbers are insufficient to meet SDS targets in relation to Foundation Apprenticeships (FAs), THEN the allocation of future places may be reduced. This is mitigated by effective marketing, good relationships with key stakeholders e.g. local authorities, schools, universities and employers, effective forward planning.

The College has also considered specific risks in connection with cyber security. Mitigation measures include IT Strategy, internal audits, robust systems testing, appropriate physical security and use of preventative technologies, resilient architecture of links between sites, monitoring of threat levels through partners, use of cloud-based repository, and staff training.

Withdrawal of the United Kingdom from the European Union (BREXIT)

The College has considered the implications of BREXIT for its business activities and has taken a number of measures to mitigate these. These include: -

- The College has created a checklist, based on guidance from SFC, to identify potential areas of impact. This has been considered by the Regional Board and Senior Executive Team and further actions have been assigned to managers.
- The College's financial plans have included the loss of European-funded activity, as advised by SFC, and actions to mitigate the impact of this.
- The College liaises closely with SFC and considers emerging issues or actions.
- The College has published information for both staff and students who may be affected by BREXIT because of their nationality.
- The College has considered its supply chain, and has taken cognisance of best practice identified by Advanced Procurement for Universities and Colleges (APUC) with regard to framework agreements. The College has also sought direct assurance of actions taken by direct suppliers such as catering and waste disposal contractors.

Going Concern

The Group Balance Sheet at 31 July 2019 shows Net Current Assets of £3.6m and Total Net Assets of £29.9m. The SFC has advised the College of expected funding levels for the period to 2023-24 and the Regional Board has approved a 5-year financial plan on that basis. The financial plan sees the College operate to a surplus position over that period.

Accordingly, the Board considers that it is appropriate to consider that the College is a "going concern" and these financial statements have been prepared on that basis.

Performance Summary

Overall, the College performed well against its targets and performance indicators. While the College fell short of its original activity target, student success was again strong. There is further analysis of the College's performance during the year in the next section.

Excluding pension fund changes, the College met its budgeted position for the year.

Performance Analysis

This section of the report provides a more detailed analysis of the College's performance against financial and non-financial indicators, and gives a commentary on the key financial outcomes for the year, with figures extracted from the Balance Sheet as well as the Statement of Comprehensive Income and Expenditure for the year.

It defines the relationships between the College's national and regional drivers, its Strategic Plan, performance measurement framework and risk register. It also discusses the College's wider performance in relation to environmental and social matters.

Regional Priorities and Skills Needs

The College aims to respond to the regional priorities and skills needs as identified through the Regional Economic Strategy, Regional Skills Strategy, and in response to the priorities for the development of the Region as identified by Community Planning Aberdeen, and the Aberdeenshire Community Planning Partnership, as follows: -

| Regional Economic Strategy | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Priorities: <ul style="list-style-type: none"> Inclusive economic growth ('A skilled workforce for the future') Repositioning the skills system | College Contribution: NESCol's wide portfolio of courses, vocational training opportunities and apprenticeships aligned to the region's key sectors and areas of skills shortages is central to encouraging economic growth across the region. | Strategic Objective(s): 1.1, 1.3, 2.7, 3.2, 3.3, 4.7. |
| Regional Skills Strategy | | |
| Priorities: <ul style="list-style-type: none"> Realigning the skills system Expansion of workbased learning Enhancing links to employer-education | College Contribution: The College is well placed to respond to the Strategy through the delivery and expansion of its Apprenticeship Family offer, through partnership working for workforce development planning, and its commitment to enhanced levels of employer engagement. | Strategic Objective(s): 1.3, 3.3, 3.8, 4.7 |
| Community Planning Aberdeen | | |
| Priorities: <ul style="list-style-type: none"> Aberdeen Prospers: Inclusive Economic Growth Prosperous People: Children are respected, included and achieving Digital City: Digital Skills and Education | College Contribution: As a lead partner with the two local CPPs the College is working with others to target, through various Local Outcome Improvement Plans and Locality Plans the best way to reach those who are more socially and economically marginalized. It is hoped that this work will improve access to educational opportunity to many who traditionally have found themselves to be educationally excluded. | Strategic Objective(s): 1.1, 2.6, 3.1, 3.4, 3.5 |

| Aberdeenshire Community Planning Partnership | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Priorities: <ul style="list-style-type: none"> • Changing Aberdeenshire's Relationship with Alcohol • Reducing Child Poverty • Connected and cohesive Communities | College Contribution: As a lead partner with the two local CPP's the College is working with others to target, through various Local Outcome Improvement Plans and Locality Plans the best way to reach those who improve access to educational opportunity to many who traditionally have found themselves to be educationally excluded. | Strategic Objective(s): 1.1, 3.1 |

The College also uses the Regional Skills Assessments for Aberdeen City and Aberdeenshire, to ensure it aligns provision with anticipated demand

There are a number of key Scottish Government priorities which have particular relevance to the college sector. The College, through the Strategic Plan, will respond as follows:-

| Scottish Government Priority | College Contribution | Strategic Objective(s) |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Widening Access | The College will provide access to further and higher education for people of all ages from the widest range of backgrounds. | 1.1, 1.2, 1.3, 3.6, 3.7, 4.4 |
| Gender Balance | The College will address gender inequality at all levels from course choices to boards and senior staff. | 1.1, 4.10 |
| Attainment | The College will raise attainment levels and increase the numbers of students who successfully complete courses and achieve the qualifications they are studying. | 1.1, 4.1, 4.2, 4.4, 4.5, 4.10 |
| Employability | The College will improve employment outcomes for young people and provide for support aimed at addressing youth unemployment, in particular, those with barriers to work. | 1.2, 2.7, 4.5 |
| Enterprise | The College will contribute to driving up levels of business innovation in Scotland by ensuring that its learners are exposed to entrepreneurial thinking. | 2.7, 3.7, 3.8 |
| Developing the Young Workforce | The College will play a key role in ensuring that a regional approach is undertaken to growing senior phase vocational pathways by working closely with partners on planning and delivery. | 3.4, 3.5 |
| Apprenticeships | The College will build and strengthen pathways into and across Apprenticeship programmes, particularly in key sectors such as STEM, digital skills and early year's workforce expansion. | 1.1, 3.5 |
| Flexible Workforce Development Fund | The College will help employers to increase productivity and address skills gaps by supporting in-work training of their workforce. | 1.1, 1.3, 3.8, 4.7 |
| STEM | The College will contribute to the development of Scotland's STEM talent and capability to generate inclusive and sustainable economic growth by equipping young people with skills for the future. | 1.3 |
| Digital | The College will help to address the widening digital skills gap in Scotland through improved digital skills development across all subject areas for both learners and staff. | 1.1, 2.6, 4.9, 5.4 |

The College's Regional Outcome Agreement with SFC, clearly defines how the College contributes to the regional and national outcomes. The Outcome Agreement contains indicators which are used to measure progress against those outcomes and the College's Strategic Plan identifies which of those measures will be used as Key Strategic Indicators (KSIs) in measuring performance against Strategic Themes. Those are: -

STRATEGIC PLAN 2018-2021

KEY STRATEGIC INDICATOR TABLE

| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------|---------|---------|---------|----------|---------|---------|---------|
| No. | Key Strategic Indicator | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| Activity Levels | | | | | | | | | |
| 1 | The total number of credits delivered | 139,549 | 141,795 | 137,153 | 138,195 | 138,161 | 136,266 | 132,530 | 132,224 |
| 2 | The volume of core credits delivered | | 137,897 | 134,118 | 134,991 | 135,126* | 135,126 | 130,070 | |
| 3 | The volume of ESF credits delivered | | 3,898 | 3,035 | 3,204 | 3,035 | 1,140 | 2,460 | 2,154 |
| Learner Success | | | | | | | | | |
| Overall learner success rate (Incorporate level, mode, withdrawal and partial success measures) | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| 4 | FE Full Time | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| | Learner Success | 66% | 67% | 69% | 66% | 70% | 67% | 68% | 65% |
| | Partial Success | 10% | 10% | 10% | 10% | 9% | 10% | - | 11% |
| | Early Withdrawal | 8% | 7% | 8% | 8% | 7% | 8% | 5% | 9% |
| | Further Withdrawal | 16% | 16% | 13% | 15% | 14% | 14% | - | 16% |
| 5 | FE Part Time | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| | Learner Success | 77% | 71% | 84% | 71% | 74% | 69% | 74% | 57% |
| | Partial Success | 18% | 24% | 11% | 22% | 15% | 22% | - | 28% |
| | Early Withdrawal | 2% | 2% | 2% | 2% | 5% | 3% | - | 8% |
| | Further Withdrawal | 3% | 3% | 3% | 4% | 6% | 4% | - | 7% |
| 6 | HE Full Time | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| | Learner Success | 77% | 76% | 77% | 75% | 77% | 74% | 77% | 72% |
| | Partial Success | 9% | 11% | 8% | 10% | 8% | 10% | - | 10% |
| | Early Withdrawal | 3% | 3% | 4% | 3% | 4% | 4% | 5% | 5% |
| | Further Withdrawal | 11% | 11% | 11% | 12% | 12% | 11% | - | 13% |
| 7 | HE Part Time | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| | Learner Success | 80% | 80% | 80% | 80% | 83% | 79% | 83% | 81% |
| | Partial Success | 16% | 16% | 18% | 18% | 15% | 16% | - | 12% |
| | Early Withdrawal | 1% | 1% | 1% | 1% | 1% | 1% | - | 2% |
| | Further Withdrawal | 2% | 2% | 1% | 1% | 1% | 4% | - | 5% |
| Equality | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| 8 | Overall learner success for learners studying for more than 160 hours | | 72% | | 71% | | 70% | | 67% |
| 9 | Learner success rate for young students studying for more than 160 hours | | | | | | | | |
| | Students between the ages of 16 and 19 | | 58% | | 65% | | 69% | | 65% |
| | Students between the ages of 20 and 24 | | 21% | | 71% | | 71% | | 69% |
| 10 | Learners success rates for students studying for more than 160 hours from areas of deprivation | | | | | | | | |
| | SIMD10 | | - | | 61% | | 61% | | 56% |

| | | | | | | | | | |
|----------------------------|------------------------------------------------------------------------------------------------------------|---------|--------|---------|--------|---------|--------|---------|--------|
| | SIMD20 | | - | | 65% | | 65% | | 60% |
| 11 | Learners success rates for males and females studying on programmes for more than 160 hours | | | | | | | | |
| | FE Female | | 69% | | 68% | | 68% | | 62% |
| | FE Male | | 66% | | 68% | | 67% | | 64% |
| | HE Female | | 82% | | 80% | | 77% | | 77% |
| | HE Male | | 72% | | 72% | | 73% | | 71% |
| 12 | Percentage of Care Experienced Full Time Students achieving a successfully recognised qualification | | | | | | | | |
| | HE | | - | | 75% | | 54% | | - |
| | FE | | - | | 72% | | 47% | | 69% |
| 13 | Percentage of Full Time Students with a known disability achieving a successfully recognised qualification | | | | | | | | |
| | HE | | - | | - | | 71% | | 70% |
| | FE | | - | | - | | 65% | | 61% |
| STEM Credits | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| 14 | The volume of credits delivered to learners enrolled on STEM courses | | 45,294 | | 41,653 | | 43,637 | 48,590 | 38,651 |
| 15 | The proportion of credits delivered to learners enrolled on STEM courses | | 32% | 35% | 30% | 35% | 32% | 36% | 29% |
| Other Courses | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| 16 | The proportion of credits delivered to learners between the ages of 16 and 19 | | 52% | 54% | 51% | 52% | 49% | 52% | |
| 17 | The proportion of credits delivered to learners between the ages of 20 and 24 | | 21% | 22% | 21% | 22% | 20% | 23% | |
| 18 | The proportion of credits delivered to learners in the most deprived 10% postcode areas | | 5% | 5% | 5% | 6% | 2% | 7% | |
| 19 | The proportion of credits delivered to male learners | | 48% | - | 49% | - | 49% | 49% | 49% |
| 20 | The proportion of credits delivered to female learners | | 52% | - | 51% | - | 51% | 51% | 51% |
| 21 | The proportion of credits delivered to students with a known disability | | 15% | - | 17% | - | 20% | 18% | 21% |
| 22 | The proportion of credits delivered to students with Care Experience | | 1% | - | 1% | - | 1% | 1% | 1% |
| Learner Progression | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| 23 | The percentage of successful learners achieving and sustaining positive destinations. | | 92% | | 89% | | 95% | | TBC |
| 24 | The number of successful learners achieving entry to university with advanced standing. | 474 | 390 | 484 | 482 | 484 | 508 | 500 | TBC |
| 25 | The learner success rate for full time students in their first year of study | | - | | - | | - | | - |
| Sustainability | | | | | | | | | |
| | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |

| | | | | | | | | | |
|----|--------------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| 26 | Non-SFC income as a percentage of turnover | 34% | 35% | 34% | 33% | 32% | 27% | 27% | 25% |
| 27 | Staff costs as a percentage of turnover | 58% | 61% | 61% | 60% | 61% | 57% | 63% | 51% |

Please note that in some instances targets were not set

* Indicates 1,008 additional childcare credits

Each year, the College agrees a number of Annual Priorities designed to ensure progress against outcomes and strategic indicators. The Strategic Risk Register is structured around the Strategic Themes, with mitigating actions identified to reduce the likelihood and impact of the risks on outcomes and KSIs.

Key curriculum developments of 2018-19

Throughout 2018-2019 NESCol's academic teams planned and delivered a range of activities and step-change initiatives aimed at creating positive improvement in the range of courses offered by each team and the performance of students enrolled on these programmes. This approach enabled effective development in the following areas:

Campus Futures

Each Director of Learning has responsibility for developing a "Campus Futures" agenda relevant to their campus: Altens, Fraserburgh and City.

Common aims include to increase applications, increase student satisfaction responses and satisfaction levels, enhance opportunities for employer and student engagement and identify opportunities to augment or re-configure physical spaces that provide students and staff with a sense of belonging, pride and respect in their campus.

Some feedback from each Campus Futures Group has informed the development of a new Estates Strategy for the College.

New Approach to Student Support

Following several years of flatlining FE KPIs, poor student engagement with support services, and limited impact of post-merger systems and structures, NESCol initiated an institution-wide project that fundamentally changed the way in which student support was provided across the College.

By consolidating the number of support roles, establishing one-stop-shop student advice centres at each campus, creating more efficient student support and safeguarding referral systems, providing a focus on mental wellbeing, and giving all teaching teams greater ownership of the delivery of academic tutoring, a true "whole college" support system was created.

Development and use of Data Analytics

The College has developed a range of accessible data reports made available to managers and other staff through Power BI, a Microsoft application that connects unrelated sources of data and presents them as coherent, visually immersive, and interactive insights.

Providing staff with "live" and meaningful insights regarding students has enhanced target monitoring and activity predictions so that the College can plan budgets in accordance with expected income.

Commercialisation

A number of academic teams were able to generate income for the college via the commercialisation of their services of learning spaces.

The Basement Theatre has generated additional income following a successful series of performances and hiring out of the facility, and the Hair and Beauty Team continue to operate a highly successful range of salon services to paying customers. This enterprise does require regular review to assess income against actual and likely expenditure for example, replacement of treatment beds and spa resources.

Curriculum Support Frameworks

To support effective curriculum management, several new frameworks were developed which provided Curriculum Managers and Lecturers with clear instructions and resources to help support a range of key processes:

- Framework & Toolkit for Managing Faculties;
- Framework for Supporting Successful Learners
- Academic Tutoring Framework

Launch of the Fujitsu Innovation Hub

The college worked with Fujitsu to develop a high-tech learning space at our Campus in Fraserburgh which will be used by a wide range of staff and students to deliver exciting and innovative learning and teaching, projects, seminars and events.

The Hub will also be used to further engage with primary and secondary schools, local community groups and industry.

The following activities are planned for delivery during Academic Year 2019-20:

Further Development of Curriculum Support Frameworks

In 2019/20 two further Frameworks have been introduced:

- Framework for Working with Schools;
- Framework & Toolkit to Advance Student Engagement.

New SAAS Blackboard

Launching new "Ultra" interface, "ALLY" accessibility functionality and "Collaborate" Webinar tool

Refinement of Whole-College Support Model

A follow up review of the new support model will enable iterative development and refinement of the new approach.

Development of New Teaching Spaces at City Campus

The 3-D Animation Team and Graphic Design Team will move into a renovated area of the City Campus. This now creates a design hub which allows students to not only learn in more open plan spaces but display work which helps to create a sense of belonging and creative identity.

Photography studios will be relocated into refurbished areas during 2019/20 to create another learning and showcase hub. This will provide opportunities for the Hair, Beauty and Sport Faculty to develop space appropriate for commercial activity.

A review is in place to consider the re-location of the gym at the City campus. This will require a strong budgetary appraisal and business case.

The Computing and Hospitality teams have added extra programmes on cyber security and bakery respectively into their portfolio to update the curriculum offer and attract new enrolments.

STEM Assured Status

The College has been awarded STEM Assured Status and so is now developing a programme of activity in relation to the promotion of STEM, inspiring young people and influencing equality in STEM Education.

Staff and Student Involvement

The College recognises the benefits of keeping employees informed on performance and encourages suggestions for the improvement of the College's position. In Particular, Joint Consultative Committees (JCC), comprising management, members of the recognised trade unions for both teaching and support staff, have been established for this purpose. In addition, periodic core communication sessions are held on all main sites to brief staff on current developments and receive information. The College publishes news via its intranet, available to all staff. Staff consultation is also a key part of the College's strategic planning process with workshops taking place for all academic faculties and support departments to contribute to the process.

The College has a wide range of approaches to gaining feedback from student representatives on the governing body. The College supports an active Students' Association and has entered into a partnership agreement with the Association.

Employer Engagement

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

Environmental and Social Sustainability

North East Scotland College fully recognises its responsibilities with regard to Environmental and Social Sustainability as an education and training provider, but also as a business, an employer and role model for other public and private organisations.

The College is a signatory to the Environmental Association of Universities and Colleges' (EAUC) Sustainable Development Goal (SDG) Accord, committing to measure and report on its activities in line with the seventeen Sustainable Development Goals, as set by the United Nations General Assembly in September 2015.

The College is accredited to the International Organization for Standardization (ISO) Environmental Management System ISO14001:2015 and the Energy Management System ISO50001:2011 standards. Both are audited twice a year by an external auditor from the British Standards Institution (BSI). At each audit, the College is required to demonstrate continual improvement and maintenance of previous actions.

The College has considered and evaluated the risks and issues that need to be addressed in meeting ISO14001, and has carried out an impact assessment to identify and prioritise those risks as well as the subsequent actions that can be taken to mitigate them. A Stakeholders Register also forms part of this.

Overall, the environmental impact of the Colleges business is fully managed through both standards, and associated policies and procedures, and therefore minimised due to the practices we have in place

The College has a Carbon Management Plan, covering the period 2010 to 2018. Since the Plan's inception, the College has reduced its carbon footprint by 17%

Specific action in 2018-19, has included the embedding of sustainability within the Evaluative Review and Enhancement Planning process for each faculty and support department. In 2019-20, the College intends to link this more clearly to the SDGs.

Further developments intended for 2019-20 include the creation of a new Carbon Management Plan, decarbonisation of the College vehicle fleet, increased recycling and the connection of the Aberdeen City Campus to a low carbon heat network.

Compliance with the Climate Change (Scotland) Act 2009

North East Scotland College fully complies with all aspects of the Climate Change (Scotland) Act 2009 and the reporting requirements of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015.

Modern Slavery and Human Trafficking

The Regional Board has considered its responsibilities with regard to the Modern Slavery Act 2015 and has published its annual Modern Slavery and Human Trafficking Statement here: -

<https://nescol.ac.uk/about/policies/planning-and-governance>

Anti-Bribery and Corruption

The Regional Board has considered its obligations under the Bribery Act 2010 and has published its Anti-Bribery and Corruption Policy here: -

<https://d1ssu070pg2v9i.cloudfront.net/pex/nescol/2019/11/27160135/modern-slavery-and-human-trafficking-statement.pdf>

The following statement is extracted from the Policy:-

“The Board of Management of North East Scotland College prohibits: the offering, the giving, the solicitation or the acceptance of any bribe, whether cash or other inducement to or from any person or company, wherever they are situated and whether they are a public official or body or private person or company by any individual employee, agent or other person or body acting on North East Scotland College’s behalf in order to gain any commercial, contractual or regulatory advantage for North East Scotland College in a way which is unethical or in order to gain any personal advantage, financial or otherwise, for the individual or anyone connected with the individual.”

Financial Planning and Performance

Financial Objectives

The College is currently redrafting its Financial Strategy to dovetail with the New Strategic Plan and its other supporting strategies, particularly to ensure that it aligns with and delivers on the ambitions within those. The financial planning takes cognisance of the learning and teaching planning cycle to ensure that resources are targeted to the Colleges priority development areas.

Financial Results

The Consolidated Statement of Comprehensive Income and Expenditure (SOI) for the year showed a surplus on the continuing operations after disposals of assets and taxation of £544,000 (FY2017-18: £3,984,000 deficit). After adjusting for the effect of the loss on the revaluation of the Asset Held for Resale,

the gain on the revaluation of Land and Buildings, and the pension deficit on the revaluation of the funds, the deficit for the year was £13,048,000 (FY2017-18: £14,897,000 surplus). Of the total income of the Group, 25% (FY2017-28: 27%) was received from non-SFC sources.

Adjusted Operating Position (AOP) note

The SOCI presents the financial performance during the accounting period in accordance with the SORP. The AOP is intended to reflect the underlying operating performance after allowing for material one-off or distorting items required by the SORP or other items outwith the control of the College. The AOP is therefore designed to smooth any volatility in reported results arising from FRS102 and also to recognise that some of the reported costs do not have an immediate cash impact on the College. The College's Underlying Operating Position can be illustrated as:-

| | | 2018-19 £'000 | 2017-18 £,000 |
|--------------------------------------------------------|---------------------|------------------|------------------|
| Surplus/(Deficit) before other gains and losses | Note | 434 | (4,094) |
| Add back: | | | |
| - Depreciation (net of deferred capital grant release) | 12 & p36 | 894 | 1,011 |
| - Pension adjustment – Net Service Cost | 32 | 786 | 1,171 |
| - Pension adjustment – Net Interest Cost | 32 | 216 | 631 |
| - Pension adjustment – Early Retirement Provision | 21 | 0 | 0 |
| Adjusted operating Surplus/(Deficit) | | 2,330 | (1,281) |

The amount for Early Retirement Provision added back in the 2017/18 accounts was £191,000. This should have been nil (as amended in these accounts).

The underlying position for 2018/19 has been approved by SFC.

The accumulated (deficit) on the Income and Expenditure reserve at 31 July 2019 was £5,648,000 (31 July 2018 surplus £9,800,000). The provision for future pension costs arising from early retirement of former staff and the equalization of pension contributions under the Local Government Pension Scheme and the Scottish Teachers Superannuation Scheme at 31 July 2019 was £6,817,000 (31 July 2018: £7,160,000) whilst the FRS102 provision for the College's share of the North East Scotland Pension Fund (NESPF) deficit was £24,190,000 (31 July 2018: £8,175,000).

The College has net assets of £29,936,000 (31 July 2018: £42,983,000). The current asset to current liabilities ratio is 1.6:1 (31 July 2018: 1.4:1), with the gearing on long term liabilities being 2.4:1 (31 July 2018: 1.3:1).

During 2018-19, the College retained two subsidiary companies, Aberdeen Skills and Enterprise Training Ltd (ASET), and Clinterty Estates Ltd. The principle activity of ASET is the delivery of commercial training to the Oil and Gas and Engineering sectors. Clinterty Estates Ltd is dormant.

Taxation Status

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

Treasury Policies and Objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College's treasury management arrangements are

governed by the College's financial regulations, which are compliant with the Financial Memorandum with the SFC, as are the College's borrowing arrangements.

Cash Flows

The Group cash flow balance increased by £170,000 in the year (2017-18 – decrease of £1,341,000)

Liquidity

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

The College's cash and liquid resources position at the end of the year was £2,651,000 (31 July 2018: £2,481,000), this equates to the College having 18 days of cash on hand (FY2017-18: 16 days).

Cash Budget for Priorities

Following their reclassification as central government bodies from 1 April 2014, colleges are now also required to comply with Central Government budgeting rules. In addressing the impact of these budgeting rules, Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities.

Colleges have now each been given a fixed cash budget for priorities which must be spent on agreed government priorities as outlined in the table below. Spend of the College's cash budget for priorities, and impact on the operating position for the academic year, is detailed below.

| Table of cash budget for priorities spend | | |
|----------------------------------------------------|--------------------------|--------------------------|
| Revenue Priorities | 2018-19 £'000 | 2017-18 £'000 |
| Student Support | 0 | 0 |
| 2015-16 Pay Award | 328 | 328 |
| Restructuring costs – Voluntary Severance Costs | 0 | 833 |
| Estates Costs | 550 | 0 |
| Other – Equipment Replacement | 283 | 0 |
| Total Impact on operating position | 1,161 | 1,161 |
| Capital Priorities | | |
| Loan repayments | 0 | 0 |
| Estates Costs | 0 | 0 |
| Provisions pre 1 April 2014 | 0 | 0 |
| Total Capital | 0 | 0 |
| Total cash budget for priorities spend. | 1,161 | 1,161 |

Future Developments

In negotiating the College's Regional Outcome Agreement for 2019-20 with SFC, the College has agreed to teaching funding totaling £32.9M (2018-19 £32.6M). The College has set its budget for 2019-20 based on this level of funding and the College is confident it can achieve its budgeted position for the year.

In line with advice on overall budget for the college sector, the College is planning for the level of SFC teaching grant for activity levels to remain relatively static in future years. While recognising the SFC intention to provide medium-term support for the impact of national pay harmonisation, the College also recognizes that significant future efficiencies will be required. In negotiating future Outcome Agreements, we will continue to review

activity levels to ensure we meet demand. The College also plans to reduce dependency on the Scottish Funding Council grant and is seeking opportunities in the areas where it currently performs well, while also targeting increased contributions to training costs from employers. The College continues to seek best value in its activities through the use of collaborative procurement and framework agreements.

The condition survey of Scotland's colleges undertaken by the Scottish Funding Council in summer 2017 has shown that the College, in particular the Aberdeen City Campus, has a pressing need for investment to maintain its operations. In order to address this and also meet the needs and aspirations of all the College's learners and other stakeholders, the College had developed a masterplan for consideration by the Scottish Funding Council; however, during the year, the Scottish Funding Council advised the College that it was unable provide the grant funding necessary to support this masterplan. In response, the College has recently begun to consider alternative strategies for estates development which it intends will be in place for 2019-2020 and beyond.

The above notwithstanding, the College has continued to address immediate backlog maintenance needs, and work has continued during the year to improve the physical learning environment of the College estate to provide a better service to support learning and teaching. This work will continue in the next financial year in line with funding levels and agreed priorities.

Supplier Payment Policy

The College complies with the CBI prompt payment code and has a policy of paying its suppliers within 30 days of invoice unless the invoice is contested. At the time of writing, no interest has been paid under the late Payments of Commercial Debts (Interest) Act. All disputes are handled as quickly as possible. Suppliers' invoices were paid in 16 days in the year to 31 July 2019 (13 days in the year to 31 July 2018).

Interest paid under the Late Payments of Commercial Debts (Interest) Act amounts to £0 during this period (£0 during period to 31 July 2018).

PROFESSIONAL ADVISERS

External auditor:

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

Bankers:

The Royal Bank of Scotland
1 Albyn Place
Aberdeen
AB10 1BR

Solicitors:

Burness Paull
Union Plaza
1 Union Wynd
Aberdeen
AB10 1DQ

Approved by the Principal and Chief Executive on 11th December, 2019.

Liz McIntyre
Principal and Chief Executive

2. ACCOUNTABILITY REPORT

2.1 Corporate Governance Report

Directors' Report

The undernoted individuals were Members of the Regional Board during the period of these financial statements, and up to the date of signing the accounts:

Mr. D. Anderson
Ms. A. Bell
Ms. A. Calderon (student member - appointed 1 August 2019)
Mr. M. Dear (staff member)
Mr. D. Duthie (Vice Chair & Senior Independent Person) - (term of office ended 31 October 2018)
Mr. A. Elghedafi (appointed 01 August 2018)
Ms. S. Elston - (appointed 01 August 2018)
Mr. K. Godsmann (student member - resigned 10 May 2019)
Mr. I. Gossip - (term of office ended 28 February 2019)
Prof J. Harper - (resigned 28 August 2018)
Mr. J. Henderson
Ms. A. Maheshwari - (appointed 01 November 2018)
Mr. R. McGregor (staff member - resigned 8 February 2019)
Ms. E. McIntyre (Principal and Chief Executive)
Mr. N. McLennan - (appointed 1 August 2018)
Ms. A. Miah (student member)
Mr. K. Milroy (Regional Chair)
Mr. A. Russell
Ms. A. Simpson
Mr. A. Smith
Ms. G Watt (staff member - appointed 28 March 2019)
Ms. S Ross (appointed 01 September 2019)

Secretary to the Board: P. May

In addition to the Principal and Chief Executive, other members of the Senior Executive Team who are in a position to influence the decisions made by the college as a whole are:

Mr. N. Cowie – Vice Principal Access, Outcomes and Partnership
Mr. J. Davidson – Vice Principal Curriculum and Quality (until 29 March 2019)
Mr. R. Scott - Vice Principal Finance (until 07 September 2018)
Mr. P. Smith – Vice Principal Finance and Resources (from 17 September 2018)

Details of transactions with members of the Board are given in Notes 29 and 30 to the financial statements.

Statement of Regional Board's Responsibilities

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

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

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

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

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

The Regional Board has taken reasonable steps to:

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

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

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

Governance Statement

Introduction

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

Governing Body

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

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

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

- Audit and Risk Committee
The Committee has overall responsibility for monitoring the College's internal control, internal and external audit, value for money, and risk management processes.
- Curriculum and Quality Committee
The Committee has overall responsibility for maintaining a strategic overview of the College's curriculum offer and its development and monitoring the quality of the student experience.
- Finance and Resources Committee
The Committee has overall responsibility (within the Financial Memorandum between the College and the Scottish Funding Council (SFC)) for the direction and oversight of the College's financial affairs.
- Human Resources Committee
The Committee has overall responsibility for the direction and oversight of all human resource matters relating to the function of the Regional Board as employer of the College's staff.

The above Committees usually each meet four times during the academic year, with the exception of the Human Resources Committee which meets twice during each academic year.

The following additional Committees are held as required:

- Remuneration Committee - the remit of this committee is to:
 - advise the Board and make recommendations on matters relating to the pay, conditions of service and structure of the College's Senior Executive Team and such other staff as the Regional Board may from time to time determine;
 - seek comparative information on salaries and other emoluments and conditions of service in the FE sector;
 - ensure that the performance of the Principal as head of the College is assessed on an annual basis;
 - oversee severance arrangements for senior staff and ensure that account is taken of the SFC guidance on Severance Arrangements in respect of senior staff. Where consideration of severance arrangements is delegated, to ensure that boundaries of delegated authority are clear, and to receive formal reports of any severance arrangements.
- Selection and Appointments Committee – the remit of this committee is to:
 - support the process by which Regional Board Members are recruited, selected, and recommended for appointment;
 - Advise the Regional Board on matters relating to the appointment of the Chairs, Vice Chairs and membership of the Board's Committees;
 - where the Regional Board so determines, provide assistance in identifying, selecting and recommending candidates for appointment to senior staff positions in the College, and to senior positions in College subsidiaries or any other body to which the College is entitled to make appointments.

Committee Memberships

The regional Board has formally constituted several committees with terms of reference. These committees act with delegated authority. Membership of key committees during the period to 31 July 2019 is as follows:

Key Committees:

- **Audit and Risk Committee**

Members – Mr. D. Anderson, Ms. A. Bell, Mr. D. Duthie, Mr. A. Elghedafi, Mr. I. Gossip, Mr. A. Russell, Ms. A. Simpson, Mr. A Smith.

- **Curriculum and Quality Committee**

Members – Mr. M. Dear, Mr. D. Duthie, Ms. S. Elston, Ms. K. Godsman, Prof. J. Harper, Ms. A. Maheshwari, Mr. R. McGregor, Mr. N. McLennan, Ms. E McIntyre, Ms. A. Miah, Mr. A. Russell, Ms. A. Simpson, Ms. G. Watt.

- **Finance and Resources Committee**

Members – Mr. D. Anderson, Mr. M. Dear, Mr. A. Elghedafi, Prof. J. Harper, Mr. J. Henderson, Ms. E. McIntyre, Mr. N. McLennan, Ms. A. Miah, Mr. K. Milroy, Mr. A. Smith.

- **Human Resources Committee**

Members – Ms. A. Bell, Ms. K. Godsman, Ms. S. Elston, Mr. I. Gossip, Mr. J. Henderson, Ms. A. Maheshwari, Mr. R. McGregor, Ms. E McIntyre, Mr. K. Milroy, Ms. G. Watt.

- **Remuneration Committee**

Members – Ms. A. Bell, Mr. M. Dear, Mr. D. Duthie, Prof. J. Harper, Mr. J. Henderson, Ms. A. Miah, Mr. R. McGregor, Mr. K. Milroy, Ms. A. Simpson.

- **Selection and Appointments Committee**

Members – Ms. A. Bell, Mr. D. Duthie, Prof. J. Harper, Ms. C. Inglis, Mr. K. Milroy, Ms. A. Simpson.

Member attendance at Board and Committee meetings for the year to 31st July, 2019 is as follows:

| Members | Regional Board | Audit & Risk | Curriculum & Quality | Human Resources | Finance & Resources |
|--------------|----------------|--------------|----------------------|-----------------|---------------------|
| D. Anderson | 5/6 | 4/4 | | | 4/4 |
| A. Bell | 6/6 | 1/4 | | 2/2 | |
| M. Dear | 5/6 | | 4/4 | | 4/4 |
| D. Duthie | 1/1 | 1/1 | 1/1 | | |
| A. Elghedafi | 5/6 | 3/4 | | | 4/4 |
| S. Elston | 5/6 | | 3/4 | 1/2 | |
| K. Godsman | 2/5 | | 1/3 | | |
| I. Gossip | 3/4 | 2/2 | | 1/1 | |
| J. Harper* | 0/0 | | 0/0 | | 0/0 |
| J. Henderson | 6/6 | | | 2/2 | 4/4 |
| A Maheshwari | 3/5 | | 2/3 | 1/1 | |
| R. McGregor | 4/4 | | 4/4 | 1/1 | 4/4 |
| E. McIntyre | 6/6 | | 3/3 | 2/2 | |
| N McLennan | 4/6 | | 2/4 | | 4/4 |
| A. Miah | 5/6 | | 2/4 | | 3/4 |
| K. Milroy | 6/6 | | | 2/2 | 4/4 |
| A. Russell | 4/6 | 3/4 | 4/4 | | |
| A. Simpson | 4/6 | 1/4 | 4/4 | | |
| A. Smith | 3/6 | 2/4 | | | 3/4 |
| G Watt | 1/1 | | 1/1 | 1/1 | |

*Member resigned before any meetings were held.

To demonstrate its commitment to maintaining the highest standards of governance, the Board has also established a Governance Steering Group. The Group is comprised of the Regional Chair, and the Regional Board's two Vice Chairs, and is supported by the Secretary to the Board. The Group undertakes a key role

in monitoring compliance with the Code of Good Governance for Scotland's Colleges and considering implications of any legislative changes. The Group also helps to ensure that the Board remains fully effective by considering and recommending the implementation of any guidance or best practice that is issued to the sector. In addition, the Group considers succession planning arrangements for its membership and ensure that the Board's Governance Manual is reviewed regularly.

The Board has established an annual evaluation process for reviewing its effectiveness. This includes a suite of evaluations – Board, Committees, Regional Chair, Committee Chairs, individual Board Members and Secretary to the Board. The annual process reflects sector guidance issued in "Guidance Notes for Boards in the College Sector: A Board Development Framework" and was reviewed by the Board's Governance Steering Group during AY2018-19 to introduce additional elements and to strengthen the overall process.

The Regional Board seeks to comply fully with the Code without exception.

In February 2019 the College's Internal Auditors undertook an audit of Corporate Governance. The purpose of the audit was to ensure that the College's governance arrangements were adequate. The audit also sought to provide assurance to the Board, via the Audit & Risk Committee, that the arrangements in place are fit for purpose and in line with the Code of Good Governance for Scottish Colleges. The overall conclusion of the audit was a grading of 'strong', confirming that "controls satisfactory, no major weaknesses found". No recommendations were identified. Seventeen areas where the College is operating effectively and following good practice were highlighted.

At its meeting in July 2019 the Board's Audit and Risk Committee considered a paper providing information on Board activities and behaviours against each of the Code's individual criteria to provide assurance that the College's governance arrangements are fit for purpose and in line with the requirements of the Code. Following this review confirmation can be provided that the College complies with all the principles of the 2016 Code of Good Governance for Scottish Colleges, and it has complied throughout the year ended 31 July 2019.

Risk Management and Internal Control

In June 2019 the College's Internal Auditors undertook an audit of Risk Management. The purpose of the audit was to ensure that the College has appropriate risk management arrangements in place and that these have been embedded throughout the whole College. The overall conclusion of the audit was a grading of 'strong', confirming that "controls satisfactory, no major weaknesses found". Three recommendations graded as 'low priority' were identified, with eight areas where the College is operating effectively and following good practice highlighted.

NESCol's Risk Management Policy is owned by the Regional Board and sets out the College's underlying approach to risk management, including the College's overall Risk Appetite Statement, to ensure that appropriate risk management arrangements are in place and that these have been embedded throughout the whole College. The Policy also documents the roles and responsibilities of the Board, the Senior Executive Team, and other key parties, and outlines key aspects of the risk management process, identifying the main reporting procedures.

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

Internal Control

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

Risk Management

- Reviewing the Risk Management Policy, ahead of its consideration by the Regional Board;
- The Committee will be responsible for satisfying itself that risks are being managed and will seek assurance on the adequacy of their management, including from Internal and External Auditors and the Senior Executive Team.

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

The Regional Board, in conjunction with the Senior Executive Team, maintains a Strategic Risk Register. The Register identifies, against each Strategic Theme, actual critical risks that the College is facing. An overall strategic risk appetite is detailed along with a risk appetite for each Strategic Theme. Details of current controls and further actions to be taken to mitigate each risk along with the current level of risk control are also provided alongside risk scorings. The Strategic Risk Register is reviewed regularly by the Senior Executive Team, with the Audit & Risk Committee informed of any significant changes to either. The Regional Board or relevant Committee are also advised of new risks or changes to risks assigned to them in the Strategic Risk Register. The Strategic Risk Register is reflected upon during the setting of the College's Annual Internal Audit Programme. The College addresses operational risks through its Team and Faculty Enhancement Plans, which cross reference relevant risks included in the Strategic Risk Register. The Plans are 'live' documents which are key to the College's quality enhancement and improvement planning processes and are referred to and reported on throughout the academic year. Individual risk registers and risk assessments are also completed for significant College projects.

The College's system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the College to respond to a variety of operational, financial, and commercial risks. These elements include: policies and procedures; monthly reporting; business planning and budgeting; strategic themes, goals and objectives; risk registers; internal audit programme; and external audit.

The Regional Board is responsible for reviewing the effectiveness of internal control of the College, based on information provided by the Senior Executive Team. For each significant risk identified, the Board, as part of the strategic planning and review process:

- i) Reviews the previous year and examines the College's track record on risk management and internal control; and
- ii) Considers, on a continuous basis, the internal and external risk profile of the coming year and in terms of medium and longer term planning, and considers if current internal control arrangements are likely to be effective.

In making its decision, the Board considers the control environment; on-going identification and evaluation of significant risks; Information and communication; and monitoring and corrective action.

In addition, the remit of the Board's Audit and Risk Committee includes the review of the comprehensiveness, reliability and integrity of assurances, including the College's governance, risk management and internal control frameworks, and making recommendations to the Regional Board as appropriate.

The College has identified the following risks to its Strategic Goals as currently requiring close monitoring: -

Strategic Goal 1: Deliver high quality, accessible and inclusive learning and training opportunities, which transform lives and which support the economic and social development of our region.

- IF students are not enrolled on the most appropriate programme, THEN they may be less likely to succeed.

Strategic Goal 2: Develop the skills, talents and potential of all of the people who come to college either to learn or to work.

- IF the Students' Association (SA) does not continue to be pro-active in engaging with the College, THEN the learner experience will likely be diminished.

Strategic Goal 3: Work with our partners to deliver positive and sustainable change for the individuals, communities and businesses in our region.

- IF employers do not successfully engage with NESCol, THEN the College will not be able to identify and meet their needs.
- IF local schools do not work closely with NESCol, THEN effective learner pathways will not be delivered throughout the region.

Strategic Goal 4: Deliver an excellent learning environment and experience leading to successful outcome for all learners.

- IF the College does not have sufficient capacity to address the wide-ranging needs of the student body, THEN the learner experience and learner outcomes will be diminished.
- IF student outcomes do not improve as planned THEN the College's ability to achieve its SFC activity target will be reduced.

- IF the SFC does not provide sufficient capital maintenance funding to maintain modern fit-for-purpose buildings, THEN the quality of the student experience will be reduced.
- IF an emergency/disaster/significant systems failure occurs THEN the learner experience will be negatively impacted upon should an emergency or disaster occur.
- IF an individual is harmed or property is damaged THEN the College may face litigation or criminal prosecution and reputational damage.

Strategic Goal 5: Optimise the use of our available resources to deliver financial and environmental sustainability.

- IF sufficient income levels are not achieved THEN the College will not be able to financially invest in innovation, staff and facilities.
- IF regional demand reduces, THEN the credit target may not be achieved resulting in clawback and reduced funding in future years.
- IF candidate numbers are insufficient to meet SDS targets in relation to Foundation Apprenticeships (FAs), THEN the allocation of future places may be reduced.

Other

- IF IT security arrangements are inadequate, THEN the College may experience data security breaches, cyber attacks and/or major IT outages.

Board's Statement on Internal Control

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

The Board's Committees and Senior Executive Team receive reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the College's academic sectors and teams and reinforced by risk awareness training. The Senior Executive Team and the Audit and Risk Committee also receive regular reports from internal audit that include recommendations for improvement and identify areas of good practice.

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

The Regional Board's agenda includes items relating to the consideration of risk and control at key points of the College's planning and reporting cycle and receives reports thereon from the Senior Executive Team and the Audit and Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The Regional Board is of a view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place throughout the period ended 31 July 2019 and up to the date of approval of the annual report and accounts. The Regional Board regularly review this process, which accords with the Turnbull guidance on internal control, as applicable to the further education sector.

A programme of internal audit work has been undertaken and the results have provided evidence to the Board that there are strong controls in most areas under review. Areas in which controls were reported as strong were: IT systems; Purchasing and procurement; Aberdeen Skills and Enterprise Training Ltd (the Board's wholly owned subsidiary company); Corporate governance; Enrolment, attendance and applications; Estates management; NESCol@Fraserburgh; Marketing; Payroll; Risk management; Staff and room utilisation; Strategic and business planning, and Student records. Substantial controls were identified in the area of: NESCol@Altens. The review of Fixed Assets identified controls as being weak. Additional work was undertaken to provide assurance to the Board, specifically its Audit and Risk Committee, on the College's approach to the management of fixed assets and has confirmed that actions have been taken to strengthen controls.

In its report to the Board, the internal auditor highlighted two of its recommendations graded as 'high priority', eight as 'medium' and 11 as 'low'. Actions have been, or a planned to be, taken to address these matters and strengthen controls in these areas.

To ensure that internal audit recommendations are implemented as agreed, each year a follow up review is included as part of the Annual Internal Audit Plan. This provides the Regional Board, via the Audit & Risk Committee, with independent assurance that recommendations have been fully implemented by the College and can therefore be removed from the audit action plan. If any issues remain outstanding beyond the agreed implementation deadline this also highlighted if a recommendation requires to be reviewed due to changed circumstances.

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

Significant Lapses of Data Security

There were no significant lapses in data security, i.e. reportable to the Information Commissioner's Office, during AY2018-19 or up to the date of signing of this report.

Conclusion

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

The Audit and Risk Committee agendas during AY2018-19 included consideration of risk and control and reports thereon from the Senior Executive Team and the Internal Auditors. The emphasis was on obtaining the relevant degree of assurance and not merely reporting by exception.

The Regional Board is of the view that there was an on-going process for identifying, evaluating and managing the College's significant risks, that it had been in place for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts, that it was regularly reviewed by the Regional Board and that it accords with the 2016 Code of Good Governance for Scotland's Colleges.

Going Concern

The Regional Board considered that the College had adequate resources to continue in operational existence for the foreseeable future. The resources of the College are explained in more detail on page 14 under the section on Financial Planning and Performance.

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

Ken Milroy
Regional Chair
11th December 2019

2.2 Remuneration and Staff Report

All information disclosed in the tables in this report will be audited by the College's external auditor and all other sections of the Remuneration Report will be reviewed to ensure they are consistent with the financial statements.

Remuneration Policy

The remuneration of the Chair of the Regional Board is set by the Scottish Government.

The College has a Remuneration Committee, which meets as required, with the remit outlined on page 19.

The remuneration policy for the Principal and Senior Management Team is considered in two ways:

- The roles and responsibilities of each job description; significant changes in responsibilities during the previous period; equal pay; benchmarking data, and the analysis of similar public sector roles within the Scottish public sector
- Cost of living uplifts bearing in mind public sector pay policy guidance, settlements agreed under national collective bargaining arrangements for Scottish colleges, and any formal performance management procedures to which the individual is subject to at the point of the review.

Remuneration (including salary) and Pension entitlements

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

| Actuals | 12 months ended 31 July 2019 | | | 12 months ended 31 July 2018 | | |
|------------------------------------------------------------------|------------------------------|---------------------------------------------|----------------|------------------------------|------------------------------------------------|----------------|
| | Salary £'000 | Pension Benefit (to nearest £'000) | Total £'000 | Salary £'000 | Pension Benefit (to nearest £'000) | Total £'000 |
| K Milroy, Regional Chair | 25-30 | 0 | 25-30 | 20-25 | 0 | 20-25 |
| L McIntyre, Principal & Chief Executive | 140-145 | 36 | 175-180 | 135-140 | 47 | 180-185 |
| N Cowie, Vice Principal Access and Partnerships | 95-100 | 73 | 165-170 | 90-95 | 15 | 105-110 |
| J Davidson, Vice Principal Curriculum & Quality (FYE £91k) | 60-65 | 0 | 60-65 | 90-95 | 28 | 120-125 |
| R Scott, Vice Principal Finance (FYE £96k) | 10-15 | 45 | 55-60 | 95-100 | 0 | 95-85 |
| P Smith, Vice Principal Finance (FYE £95k) | 80-85 | 875 | 955-960 | - | - | - |

Notes:

1. R. Scott retired from the College on 14th September 2018.
2. J. Davidson left the College on 29th March 2019.
3. P. Smith joined the College on 17th September 2018, and so pension benefit reflects a transfer from a different scheme.
4. There were no payments made for performance, bonuses, in lieu of pension or non cash payments.

Median Remuneration

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

The banded remuneration of the highest paid official in the organisation in the financial year 2018/19 was £140,000-£145,000 (2017/18 £135,000-£140,000). This was 4.2 (2017/19 3.9) times the median total remuneration for the College which was £34,266 (2017/18 £35,679).

Accrued Pension Benefits

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

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

The scheme's normal retirement age is 65.

Contribution rates for all employees are determined annually by the respective pension schemes and can be found in note 33.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on a career average earnings basis.

Senior Officials' Pension

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

Accrued Pension Benefits for senior staff:

| Name | Accrued Pension at Pension age at 31 July 2019 £'000 | Accrued Lump Sum at Pension age at 31 July 2019 £'000 | Real Increase in Pension 1 Aug 2018 to 31 July 2019 £'000 | Real Increase in Lump Sum 1 Aug 2018 to 31 July 2019 £'000 | CETV at 31 July 2019 £'000 | CETV at 31 July 2018 £'000 | Real Increase/ (Decrease) in CETV £'000 |
|-----------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|-------------------------------|-------------------------------|--------------------------------------------|
| K Milroy, Regional Chair | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| L McIntyre, Principal & Chief Executive | 45-50 | 135-140 | 0-2.5 | 5-7.5 | 1,092 | 1,013 | 62 |
| R Scott, Vice Principal – Finance (up to Sept 2018) | 35-40 | 245-250 | (5-7.5) | 170-172.5 | 0 | 944 | (967) |
| P Smith, Vice Principal – Finance (from Sept 2018) | 40-45 | 80-85 | 42.5-45 | 0 | 783 | 0 | 783 |
| J Davidson, Vice Principal – Curriculum & Quality | 10-15 | 95-100 | (17.5-20) | 97.5-100 | 0 | 487 | (498) |

| | | | | | | | |
|-------------------------------------------------|-------|-------|-------|---------|-----|-----|----|
| N Cowie, Vice Principal – Access & Partnerships | 25-30 | 75-80 | 2.5-5 | 10-12.5 | 527 | 440 | 76 |
|-------------------------------------------------|-------|-------|-------|---------|-----|-----|----|

Cash Equivalent Transfer Value (CETV)

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

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first be 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 pensionable service and not just their current appointment.

In considering the accrued pension 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 an individual may receive upon retirement.
- The accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

Real Increase in CETV

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

Compensation for loss of office

No staff left under voluntary exit terms in 2018/19 (2017/18 23). However, due to the late agreement of the pay award covering 2017/18, there were additional payments made to 6 staff who left the college during 2017/18 and received Voluntary Severance payments in 2017/18. These individuals received a combined compensation payment of £5,000 during 2018/19.

Total number of exit packages by cost band

| Exit package cost band | 2018/19 | 2017/18 |
|--------------------------------------|----------|----------------|
| <£10,000 | 0 | 1 |
| £10,000 - £25,000 | 0 | 7 |
| £25,000 - £50,000 | 0 | 12 |
| £50,000 - £100,000 | 0 | 3 |
| Total Number of exit packages | 0 | 23 |
| Total cost (£) | 0 | 764,000 |

Staff Numbers

| Staff Data as at 31 July 2019 | Total | Male | Female |
|----------------------------------------------|-------|------|--------|
| Number of Staff (Headcount) | 587 | 254 | 333 |
| Number of Staff (FTE) | 509 | 235 | 274 |
| Number of Staff (FTE) on permanent contracts | 498 | 232 | 266 |
| Number of Staff (FTE) on temporary contracts | 11 | 3 | 8 |

Note: FTE figures are rounded to the nearest whole number.

There were an average of 3.3 FTE agency staff employed each month by the College.

Other information on Staffing Costs is given in Note 7 to these financial statements.

Salaries and Related Costs

During the year, the College incurred staffing costs of £25,386,000 (2017/18 £26,336,000) and costs of £2,532,000 (2017/18 £2,352,000) on agency staff. The number of days lost to sickness during the year was approximately 4,906 (2017/18 6,145). This represented 5.3% (2017/18 4.6%) as a percentage of days available to work.

The College spent £98,000 on Consultancy during the year (2017/18 £92,000), but there were no off-payment engagements, nor were there any consultancy payments to staff who had left the College's employment.

Equalities, Diversity and Inclusion

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

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

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

Facility Time for Trade Union Activities

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

| Number of employees who were relevant union officials during the year: | Full-time equivalent employee number: |
|------------------------------------------------------------------------|---------------------------------------|
| 8 | 7.1 |

Percentage of time spent on facility time

| Percentage: | Number of employees |
|-------------|---------------------|
| 0% | - |
| 1% - 50% | 8 |
| 51% - 99% | - |
| 100% | - |

Percentage of pay bill spent on facility time

| | |
|---------------------------------------------------------|-------------|
| Total cost of facility time | £12,694 |
| Total Pay Bill | £25,386,000 |
| Percentage of the total Pay Bill spent on facility time | 0.05% |

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

The College does not monitor the time spent on trade union activities as a percentage of total paid facility time hours.

2.3 Parliamentary Accountability Report

As Scottish government bodies, Colleges are required to disclose under each of the following three headings additional information if that information is deemed to be material. For North East Scotland College, these items are not deemed to be material. This was the same position in 2017/18.

Fees and charges

There are no items to be disclosed under this heading.

Disclosure of contingent liabilities

There are no items to be disclosed under this heading.

Disclosure of total losses and total special payments

There are no items to be disclosed under this heading.

Auditor Scrutiny

In reviewing the Accountability Report for consistency with other information in the financial statements, the auditors will provide an opinion on the following disclosures:

- Regularity of expenditure
- Disclosures on parliamentary accountability
- Single total figure of remuneration for each member of senior management
- CETV disclosures for each member of the senior management
- Payments to past members of senior management
- Payments for loss of office, if relevant
- Fair pay disclosures
- Exit packages (if relevant), and
- Analysis of staff numbers and costs

Signed:

Ken Milroy
Regional Chair
Date: 11th December, 2019

Liz McIntyre
Principal and Chief Executive

2.4 Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

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

In our opinion the accompanying financial statements:

- Give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2019 and of the deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

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

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

Conclusions relating to going concern basis of accounting

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 Board has not disclosed in the financial statements any identified material uncertainties that may

cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Regional Board for the financial statements

As explained more fully in the Statement of the Regional Board's Responsibilities, the Regional Board 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 Regional Board 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 Regional Board is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual report and accounts

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

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have 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 Regional Board is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

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

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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

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

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

3. FINANCIAL STATEMENTS

The financial statements and notes to those statements appear in the following pages.

CONSOLIDATED AND COLLEGE STATEMENT OF COMPREHENSIVE INCOME & EXPENDITURE
For the year end 31 July 2019

| | Notes | Year ended 31 July 2019 | | Year ended 31 July 2018 | |
|--------------------------------------------------------------------------------------------------------------------------------|-------|----------------------------|-----------------|----------------------------|----------------|
| | | £'000 | | £'000 | |
| | | Group | College | Group | College |
| INCOME | | | | | |
| Tuition fees and education contracts | 3 | 8,483 | 6,134 | 9,051 | 6,640 |
| Funding body grants | 4 | 37,102 | 37,102 | 33,683 | 33,683 |
| Other income | 5 | 3,920 | 5,051 | 3,722 | 4,624 |
| Investment income | 6 | 9 | 8 | 3 | 3 |
| Total Income | | 49,514 | 48,295 | 46,459 | 44,950 |
| EXPENDITURE | | | | | |
| Staff costs | 7 | 25,386 | 25,070 | 26,336 | 25,645 |
| Restructuring costs | 7 | 374 | 374 | 1,135 | 1,135 |
| Other operating expenses | 10 | 21,064 | 20,193 | 20,292 | 19,513 |
| Depreciation | 12 | 2,038 | 1,993 | 2,155 | 2,110 |
| Interest and other finance costs | 10 | 218 | 218 | 634 | 634 |
| | | 49,080 | 47,848 | 50,552 | 49,037 |
| Surplus/(Deficit) before other gains, losses and shares of operating surplus/(deficit) of joint ventures and associate. | | 434 | 447 | (4,093) | (4,087) |
| Release of negative goodwill | 13 | 108 | 108 | 108 | 108 |
| Surplus/(Deficit) before tax | | 542 | 555 | (3,985) | (3,979) |
| Taxation | 11 | 2 | - | 1 | - |
| Surplus/(Deficit) for the year | | 544 | 555 | (3,984) | (3,979) |
| Unrealised (deficit)/surplus on revaluation of Land and Buildings and Asset Held for Resale | | 2,080 | 2,080 | 956 | 956 |
| Actuarial (loss)/gain in respect of pension schemes | | (15,672) | (15,672) | 17,925 | 17,925 |
| Total comprehensive (deficit)/income for the year | | (13,048) | (13,037) | 14,897 | 14,902 |
| Represented by: | | | | | |
| Unrestricted comprehensive (deficit)/income for the year | | (15,128) | (15,117) | 13,941 | 13,946 |
| Revaluation reserve comprehensive (deficit)/income for the year | | 2,080 | 2,080 | 956 | 956 |
| | | (13,048) | (13,037) | 14,897 | 14,902 |
| (Deficit)/Surplus for the year attributable to: | | | | | |
| Non-controlling interest | | - | - | - | - |
| College | | (13,048) | (13,037) | 14,897 | 14,902 |
| Total Comprehensive Income for the year attributable to: | | | | | |
| Non-controlling interest | | - | - | - | - |
| College | | 49,514 | 48,295 | 46,459 | 44,950 |

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP. The SORP does not permit colleges to reflect the non-cash budget for depreciation in the Statement of Comprehensive Income. Note 2 provides details of the adjusted operating position on a Central Government accounting basis.

CONSOLIDATED AND COLLEGE STATEMENT OF CHANGES IN RESERVES

For the year ended 31 July 2019

| Group | Income and expenditure account | | Revaluation £'000 | Total excluding Non-controlling | Non-controlling | Total £'000 |
|----------------------------------------------------------------------------|--------------------------------|-----------------------|----------------------|------------------------------------|-------------------|-----------------|
| | Restricted £'000 | Unrestricted £'000 | | Interest £'000 | Interest £'000 | |
| Balance at 1 August 2017 | 5 | (2,980) | 31,817 | 28,842 | - | 28,842 |
| Surplus from the Comprehensive Statement of Income & Expenditure | - | 13,941 | 956 | 14,897 | - | 14,897 |
| Transfers between revaluation and income & expenditure reserve | - | (405) | 405 | - | - | - |
| Consolidation adjustment | - | (756) | - | (756) | - | (756) |
| Total movement for the year | - | 12,780 | 1,361 | 14,141 | - | 14,141 |
| Balance at 1 August 2018 | 5 | 9,800 | 33,178 | 42,983 | - | 42,983 |
| (Deficit)/Surplus from the Comprehensive Statement of Income & Expenditure | - | (15,128) | 2,080 | (13,048) | - | (13,048) |
| Transfers between revaluation and income & expenditure reserve | - | (320) | 320 | - | - | - |
| Addition for year | 1 | - | - | 1 | - | 1 |
| Total movement for the year | 1 | (15,448) | 2,400 | (13,047) | - | (13,047) |
| Balance at 31 July 2019 | 6 | (5,648) | 35,578 | 29,936 | - | 29,936 |

| College | Income and expenditure account | | Revaluation £'000 | Total excluding Non-controlling Interest | Non-controlling Interest | Total £'000 |
|-------------------------------------------------------------------------------|--------------------------------|-----------------------|----------------------|------------------------------------------------|-----------------------------|-----------------|
| | Restricted £'000 | Unrestricted £'000 | | £'000 | £'000 | |
| Balance at 1 August 2017 | 5 | (3,875) | 31,817 | 27,947 | - | 27,947 |
| Surplus from the Comprehensive Statement of Income & Expenditure | - | 13,946 | 956 | 14,902 | - | 14,902 |
| Transfers between revaluation and income & expenditure reserve | - | (405) | 405 | - | - | - |
| Total movement for the year | - | 13,541 | 1,361 | 14,902 | - | 14,902 |
| Balance at 1 August 2018 | 5 | 9,666 | 33,178 | 42,849 | - | 42,849 |
| (Deficit)/Surplus from the Comprehensive Statement of Income & Expenditure | - | (15,117) | 2,080 | (13,037) | - | (13,037) |
| Transfers between revaluation and income & expenditure reserve | - | (320) | 320 | - | - | - |
| Addition for year | 1 | - | - | 1 | - | 1 |
| Total movement for the year | 1 | (15,437) | 2,400 | (13,036) | - | (13,036) |
| Balance at 31 July 2019 | 6 | (5,771) | 35,578 | 29,813 | - | 29,813 |

Balance Sheet as at 31 July 2019

| | Notes | Group 31 July 2019 £'000 | Group 31 July 2018 £'000 | College 31 July 2019 £'000 | College 31 July 2018 £'000 |
|---------------------------------------------------------|-------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Non-current assets | | | | | |
| Negative goodwill | 13 | (109) | (217) | (109) | (217) |
| Fixed assets | 12 | 97,619 | 97,127 | 97,269 | 96,731 |
| Investments | 14 | - | - | 30 | 30 |
| | | 97,510 | 96,910 | 97,190 | 96,544 |
| Current assets | | | | | |
| Stock | 15 | 11 | 307 | 11 | 307 |
| Trade and other receivables | 16 | 2,137 | 1,376 | 2,184 | 1,948 |
| Asset Held for Resale | 18 | 4,900 | 5,350 | 4,900 | 5,350 |
| Cash and cash equivalents | 23 | 2,651 | 2,481 | 2,257 | 1,567 |
| | | 9,699 | 9,514 | 9,352 | 9,172 |
| Less: Creditors: amounts falling due within one year | 17 | (6,133) | (6,745) | (5,898) | (6,521) |
| Net current assets | | 3,566 | 2,769 | 3,454 | 2,651 |
| Total assets less current liabilities | | 101,076 | 99,679 | 100,644 | 99,195 |
| Creditors: amounts falling due after more than one year | 20 | (40,111) | (41,337) | (39,824) | (41,011) |
| Deferred tax asset/(liability) | 19 | (22) | (24) | - | - |
| Provisions | | | | | |
| Pension provisions | 21 | (31,007) | (15,335) | (31,007) | (15,335) |
| TOTAL NET ASSETS | | 29,936 | 42,983 | 29,813 | 42,849 |
| Restricted Reserves | | | | | |
| Income & Expenditure reserve – restricted reserve | 22 | 6 | 5 | 6 | 5 |
| Unrestricted Reserves | | | | | |
| Income and Expenditure reserve – unrestricted | | (5,648) | 9,800 | (5,771) | 9,666 |
| Revaluation reserve | | 35,578 | 33,178 | 35,578 | 33,178 |
| | | 29,936 | 42,983 | 29,813 | 42,849 |
| Non-controlling interest | | - | - | - | - |
| Total reserves | | 29,936 | 42,983 | 29,813 | 42,849 |

The financial statements on pages 34 to 57 were approved and authorised for issue by the Regional Board on 11th December 2019 and signed on its behalf by:

Ken Milroy
Regional Chair

Liz McIntyre
Principal and Chief Executive

Charity Number: SC021174

Consolidated Cash Flow Statement
For the period ended 31 July 2019

| | Notes | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|---------------------------------------------------------------------|-------|-------------------------------------|-------------------------------------|
| Cash flow from operating activities | | | |
| (Deficit)/Surplus for the year (before tax) | | 542 | (3,985) |
| Adjustment for non-cash items | | | |
| Depreciation | 12 | 2,038 | 2,155 |
| Income | 4 | (1,144) | (1,184) |
| Amortisation of goodwill | 13 | (108) | (109) |
| Decrease/(increase) in stock | 15 | 296 | (287) |
| (Increase)/decrease in debtors | 16 | (761) | 1,219 |
| (Decrease)/Increase in creditors | 17 | (612) | 1,748 |
| Increase/(Decrease) in other provisions | | 88 | (161) |
| Adjustment for investing or financing activities | | | |
| Investment income | 6 | (9) | (3) |
| Interest payable | 10 | 2 | 3 |
| Net cash inflow from operating activities | | 332 | (604) |
| Payments made to acquire fixed assets | | - | (574) |
| | | - | (574) |
| Cash flows from financial activities | | | |
| Interest Paid | 10 | (2) | (3) |
| Interest element of finance lease and service concession payments | | 4 | 4 |
| Repayments of amounts borrowed | 17&20 | (164) | (164) |
| | | (162) | (163) |
| Increase/(Decrease) in cash and cash equivalents in the year | | 170 | (1,341) |
| Cash and cash equivalents at beginning of year | 23 | 2,481 | 3,822 |
| Cash and cash equivalents at end of the year | 23 | 2,651 | 2,481 |

Notes to the accounts

For the year ended 31 July 2019

1. STATEMENT OF ACCOUNTING POLICIES

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 2018/19 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.

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

Basis of consolidation

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

Income recognition

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

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

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

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

Grant funding

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

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

Capital grants

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

Government social fund grants

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

Maintenance of Premises

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

Foreign Currency Translation

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

Research and Development

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

Accounting for retirement benefits

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

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

➤ North East Scotland Pension Fund (NESPF)

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

➤ Scottish Public Pensions Agency (SPPA)

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

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

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) and investment risk (that returns on assets set aside

to fund the benefits will differ from expectations) are borne, in substance, by the College. The Group should recognise a liability for its obligations under defined benefit plans net of plan assets. The net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Employment benefits

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

Finance leases

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

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

Operating leases

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

Fixed assets

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

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

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

Land and buildings

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

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

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

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

Equipment

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

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

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

Intangible assets and Goodwill

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

Goodwill is subject to periodic impairment review as appropriate.

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

Investments

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

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

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

Stock

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

Cash and cash equivalents

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

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

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

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

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

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

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

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

Taxation

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

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

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

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

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

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

Agency Arrangements

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

Subsequent Expenditure on Fixed Assets

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

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

Accounting for Business Combinations

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

2. IMPACT OF DEPRECIATION BUDGET ON STATEMENT OF COMPREHENSIVE INCOME

| | 2018-19 £'000 | 2017-18 £'000 |
|---------------------------------------------------------------------------------------------------------|------------------|------------------|
| Surplus/(Deficit) before other gains and losses (FE/HE SORP basis) | 544 | (3,984) |
| Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year | 1,161 | 1,161 |
| Operating surplus/(deficit) on Central Government accounting basis. | 1,705 | (2,823) |

Following reclassification, colleges received a non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules and the requirement to spend the entire cash allocation.

Under the FE/HE SORP, the college recorded an operating surplus of £544,000 for the year ended 31 July 2019. After adjusting for the non-cash allocation provided under government rules, the college shows an "adjusted" surplus of £1,705,000 on a Central Government accounting basis.

This demonstrates that the college is operating sustainably within its funding allocation.

3. TUITION FEES AND EDUCATION CONTRACTS

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|---------------------------------------------------------------|-------------------------------------|--------------|-------------------------------------|---------|
| | Group | College | Group | College |
| Full time home and EU students | 5,050 | 5,050 | 5,608 | 5,608 |
| Full time International students | 53 | 53 | 64 | 64 |
| Total fees paid by or on behalf of individual students | 5,103 | 5,103 | 5,672 | 5,672 |
| <i>Education contracts:</i> | | | | |
| Skills Development Scotland | 1,031 | 1,031 | 968 | 968 |
| Other tuition | 2,349 | - | 2,411 | - |
| | 3,380 | 1,031 | 3,379 | 968 |
| Total | 8,483 | 6,134 | 9,051 | 6,640 |

4. FUNDING BODY GRANTS

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|--------------------------------|-------------------------------------|---------------|-------------------------------------|---------|
| | Group | College | Group | College |
| | Recurrent grant | | | |
| Scottish Funding Council (SFC) | 31,417 | 31,417 | 30,168 | 30,168 |
| Specific grants | | | | |
| Childcare funds | 586 | 586 | 750 | 750 |
| Release of capital grants | 1,144 | 1,144 | 1,144 | 1,144 |
| Other SFC grants | 3,955 | 3,955 | 1,621 | 1,621 |
| Total | 37,102 | 37,102 | 33,683 | 33,683 |

5. OTHER INCOME

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|-----------------------------------------|--------------------------------------|--------------|-------------------------------------|---------|
| | Group | College | Group | College |
| | Residences, catering and conferences | 1,407 | 1,407 | 1,450 |
| EU revenue grants | 25 | 25 | 2 | 2 |
| Farming activities | 33 | 33 | 21 | 21 |
| Other income | 1,397 | 2,528 | 1,271 | 2,173 |
| Accommodation recharge | 939 | 939 | 770 | 770 |
| Release of deferred income (Foundation) | 119 | 119 | 208 | 208 |
| Total | 3,920 | 5,051 | 3,722 | 4,624 |

6. INVESTMENT INCOME

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|--|-------------------------------------|----------|-------------------------------------|---------|
| | Group | College | Group | College |
| | Other investment income | 9 | 8 | 3 |
| | 9 | 8 | 3 | 3 |

7. STAFF COSTS

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|-------------------------------------|-------------------------------------|---------------|-------------------------------------|---------|
| | Group | College | Group | College |
| Salaries | 20,146 | 20,089 | 21,412 | 20,991 |
| Social security costs | 2,122 | 1,967 | 2,186 | 2,020 |
| Other pension costs | 3,118 | 3,014 | 2,738 | 2,634 |
| Restructuring costs | 374 | 374 | 1,135 | 1,135 |
| | 25,760 | 25,444 | 27,471 | 26,780 |
| Teaching departments | 15,146 | 15,202 | 17,592 | 17,309 |
| Teaching support services | 825 | 825 | 722 | 722 |
| Administration and central services | 9,344 | 8,972 | 7,945 | 7,537 |
| Premises | 71 | 71 | 77 | 77 |
| | 25,386 | 25,070 | 26,336 | 25,645 |
| <i>Analysed as:</i> | | | | |
| Staff on permanent contracts | 25,386 | 25,070 | 26,336 | 25,645 |
| Restructuring costs | 374 | 374 | 1,135 | 1,135 |
| | 25,760 | 25,444 | 27,471 | 26,780 |
| Restructuring costs | | | | |
| Restructuring costs | 374 | 374 | 1,135 | 1,135 |
| | 374 | 374 | 1,135 | 1,135 |

Senior post-holders employed by the College:

| | Year ended 31 July 2019 | | Year ended 31 July 2018 | |
|----------------------|----------------------------|--------------------|----------------------------|--------------------|
| | Number Senior post-holders | Number other staff | Number Senior post-holders | Number other staff |
| £60,001 to £70,000 | 1 | 9 | - | 11 |
| £70,001 to £80,000 | - | 3 | - | 3 |
| £80,001 to £90,000 | 1 | - | - | - |
| £90,001 to £100,000 | 1 | - | 3 | - |
| £100,001 to £110,000 | - | - | 1 | - |
| £110,001 to £120,000 | - | - | - | - |
| £120,001 to £130,000 | - | - | - | - |
| £130,001 to £140,000 | - | - | 1 | - |
| £140,001 to £150,000 | 1 | - | - | - |

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

| | Year ended 31 July 2019 | Year ended 31 July 2018 |
|------------------------------------------|----------------------------|----------------------------|
| Average staff numbers by major category: | | |
| Teaching departments | 290 | 295 |
| Teaching support services | 77 | 62 |
| Administration and central services | 138 | 142 |
| Premises | 4 | 4 |
| | 509 | 503 |
| <i>Analysed as:</i> | | |
| Staff on permanent contracts | 498 | 493 |
| Staff on temporary contracts | 11 | 10 |
| | 509 | 503 |

8. BOARD MEMBERS AND SENIOR POST-HOLDER EMOLUMENTS

| | Year ended 31 July 2019 No. | Year ended 31 July 2018 No. |
|----------------------------------------------------------------|-----------------------------------|-----------------------------------|
| The number of senior post-holders including the Principal was: | 3 | 4 |

The emoluments paid to Liz McIntyre, Principal and Chief Executive, (who is also the highest paid senior post-holder) were £143,000 (2017-18: £138,000) in salary, and £25,000 (2017-18: £24,000) in employer pension contributions to the Local Government Pension Scheme.

The senior post-holders are members of Scottish Teachers Superannuation Scheme or the North East Scotland Pensions Fund Scheme. The College's contributions to the Scheme in respect of senior post-holders' are paid at the same rate as for other members of staff.

Regional Board

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

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| Fees for services as non-executive directors of subsidiary companies | - | - |
| Expenses paid to board members | 10 | 5 |
| | <u>10</u> | <u>5</u> |

9. INTEREST AND OTHER FINANCE COSTS

| | Year ended 31 July 2019 £'000 | | Year ended 31 July 2018 £'000 | |
|-----------------------|-------------------------------------|------------|-------------------------------------|------------|
| | Group | College | Group | College |
| Interest payable | 2 | 2 | 3 | 3 |
| Social security costs | 216 | 216 | 631 | 631 |
| | <u>218</u> | <u>218</u> | <u>634</u> | <u>634</u> |

10. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

| Group | Staff costs £'000 | Other operating expenses £'000 | Depreciation £'000 | Interest Payable £'000 | Year Ended 31 July 2019 £'000 | Year Ended 31 July 2018 £'000 |
|-------------------------|----------------------|-----------------------------------|-----------------------|---------------------------|-------------------------------------|-------------------------------------|
| Teaching activities | 18,871 | 5,058 | 56 | 0 | 23,985 | 26,239 |
| Residences and catering | 0 | 1,321 | 0 | 0 | 1,321 | 1,331 |
| Farm | 0 | 28 | 0 | 0 | 28 | 10 |
| Premises | 122 | 8,608 | 1,937 | 0 | 10,667 | 9,657 |
| Administration | 6,396 | 3,194 | 0 | 218 | 9,808 | 10,190 |
| Other expenses | 371 | 323 | 45 | 0 | 739 | 772 |
| Agency costs | 0 | 2,532 | 0 | 0 | 2,532 | 2,353 |
| | 25,760 | 21,064 | 2,038 | 218 | 49,080 | 50,552 |
| College | | | | | | |
| Teaching activities | 18,926 | 4,986 | 56 | 0 | 23,968 | 25,968 |
| Residences and catering | 0 | 1,321 | 0 | 0 | 1,321 | 1,331 |
| Farm | 0 | 28 | 0 | 0 | 28 | 10 |
| Premises | 122 | 8,608 | 1,937 | 0 | 10,667 | 9,657 |
| Administration | 6,396 | 2,767 | 0 | 218 | 9,381 | 9,808 |
| Other expenses | 0 | 322 | 0 | 0 | 322 | 318 |
| Agency costs | 0 | 2,161 | 0 | 0 | 2,161 | 1,945 |
| | 25,444 | 20,193 | 1,993 | 218 | 47,848 | 49,037 |

Other operating expenses include:

Auditors' remuneration (including irrecoverable VAT)
 - external audit services
 - internal audit services

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|--|-------------------------------------|-------------------------------------|
| | 36 | 35 |
| | 31 | 31 |
| | 67 | 66 |

11. TAXATION

Deferred tax

Increase/(Decrease) in deferred tax liability

Total tax expense

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|--|-------------------------------------|-------------------------------------|
| | (2) | (1) |
| | (2) | (1) |

12. TANGIBLE FIXED ASSETS

| | Freehold Land and Buildings £'000 | Fixtures, Fittings and Equipment £'000 | Total £'000 |
|---------------------------|--------------------------------------------|-------------------------------------------------|----------------|
| Group | | | |
| Cost or Valuation | | | |
| At 1 August 2018 | 95,130 | 5,519 | 100,649 |
| Additions | - | - | - |
| Disposals | - | (79) | (79) |
| Revaluation | 755 | - | 755 |
| At 31 July 2019 | 95,885 | 5,440 | 101,325 |
| Depreciation | | | |
| At 1 August 2018 | 0 | 3,522 | 3,522 |
| Charge for the year | 1,775 | 263 | 2,038 |
| Disposals | - | (79) | (79) |
| Revaluation | (1,775) | - | (1,775) |
| At 31 July 2019 | 0 | 3,706 | 3,706 |
| Net Book Value | | | |
| At 31 July 2019 | 95,885 | 1,734 | 97,619 |
| At 31 July 2018 | 95,130 | 1,997 | 97,127 |
| Inherited | | | |
| Financed by capital grant | 39,251 | 573 | 39,824 |
| Other | 56,634 | 1,161 | 57,795 |
| At 31 July 2019 | 95,885 | 1,734 | 97,619 |
| College | | | |
| Cost or Valuation | | | |
| At 1 August 2018 | 95,130 | 3,520 | 98,650 |
| Additions | - | - | - |
| Disposals | - | (79) | (79) |
| Revaluation | 755 | - | 755 |
| At 31 July 2019 | 95,885 | 3,441 | 99,326 |
| Depreciation | | | |
| At 1 August 2018 | 0 | 1,918 | 1,918 |
| Charge for the year | 1,775 | 218 | 1,993 |
| Disposals | - | (79) | (79) |
| Revaluation | (1,775) | - | (1,775) |
| At 31 July 2019 | 0 | 2,057 | 2,057 |
| Net Book Value | | | |
| At 31 July 2019 | 95,885 | 1,384 | 97,269 |
| At 31 July 2018 | 95,130 | 1,601 | 96,731 |

At 31 July 2019, freehold land and buildings included £6.41m (2018: £6.397m) in respect of freehold land and is not depreciated. Freehold was last disclosed as £5.998m in 2017/18 accounts which should have been £6.397m (as amended in these accounts).

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

| | Group and College 31 July 2019 £'000 |
|--------------------------------------------|---------------------------------------------------------|
| At 1 August 2018 | 217 |
| Released to income and expenditure account | 108 |
| At 31 July 2019 | 109 |
| Net Book Value | |
| At 31 July 2018 | 217 |
| At 31 July 2019 | 109 |

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

14. NON-CURRENT INVESTMENTS

| | Subsidiary Companies £'000 |
|------------------------------------------|-------------------------------------------|
| At 1 August 2018 and 31 July 2019 | 30 |

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

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

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

15. STOCK

| | Group and College 31 July 2019 £'000 | Group and College 31 July 2018 £'000 |
|-----------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Catering Stock | 11 | 19 |
| Bring Your Own Device Stock | - | 288 |
| At 31 July 2019 | 11 | 307 |

16. TRADE AND OTHER RECEIVABLES

| | 31 July 2019 | | 31 July 2018 | |
|-----------------------------------------|----------------|------------------|----------------|------------------|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Amounts falling due within one year | | | | |
| Other trade receivables | 593 | 335 | 502 | 299 |
| Other receivables | 5 | 5 | 5 | 5 |
| Amounts owed by subsidiary undertakings | - | 147 | - | 147 |
| Prepayments and accrued income | 1,539 | 1,697 | 869 | 1,497 |
| | 2,137 | 2,184 | 1,376 | 1,948 |

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31 July 2019 | | 31 July 2018 | |
|--------------------------------------------|----------------|------------------|----------------|------------------|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Secured loans | 42 | 42 | 164 | 164 |
| Trade payables | 979 | 726 | 1,134 | 1,099 |
| Social security and other taxation payable | - | - | 76 | - |
| Accruals and deferred income | 5,112 | 5,130 | 5,371 | 5,258 |
| | 6,133 | 5,898 | 6,745 | 6,521 |

18. CURRENT ASSET – HELD FOR RESALE

| | 31 July 2019 | 31 July 2018 |
|-----------------------------------------|----------------------------|----------------------------|
| | Group and College £'000 | Group and College £'000 |
| Assets held for sale – Balgownie Centre | 4,900 | 5,350 |
| | 4,900 | 5,350 |

19. DEFERRED TAX

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

| | 31 July 2019 | | 31 July 2018 | |
|-------------------------------------------|----------------|------------------|----------------|------------------|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Asset/ (Liability) brought forward | (24) | - | (25) | - |
| Other movement in balance | | - | 0 | - |
| Income and Expenditure movement in period | 2 | - | 1 | - |
| Asset/ (Liability) carried forward | (22) | - | (24) | - |

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

| | 31 July 2019 | | 31 July 2018 | |
|------------------------------------------|----------------|------------------|----------------|------------------|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Deferred income | 40,111 | 39,824 | 41,294 | 40,968 |
| Secured loans | 0 | 0 | 43 | 43 |
| | 40,111 | 39,824 | 41,337 | 41,011 |
| Analysis of secured and unsecured loans: | | | | |
| Due within one year or on demand | 42 | 42 | 164 | 164 |
| Due between one and two years | 0 | 0 | 43 | 43 |
| Due between two and five years | 0 | 0 | 0 | 0 |
| Due after more than one year | 0 | 0 | 43 | 43 |
| Total secured and unsecured loans | 42 | 42 | 207 | 207 |
| Secured loans repayable by 2020 | 42 | 42 | 207 | 207 |
| | 42 | 42 | 207 | 207 |

Included in loans are the following:

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

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

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

21. PROVISIONS

Group and College

| | 2019 | | | 2018 | | |
|-------------------------------------------|---------------------------------------------------|----------------------------------------|------------------|---------------------------------------------------|----------------------------------------|------------------|
| | Pension costs arising from early retirement £'000 | North East Scotland Pension Fund £'000 | 2019 Total £'000 | Pension costs arising from early retirement £'000 | North East Scotland Pension Fund £'000 | 2018 Total £'000 |
| At 1 August 2018 | 7,160 | 8,175 | 15,335 | 7,374 | 25,842 | 33,216 |
| Additional/ (reduced) provision in period | (343) | 16,015 | 15,672 | (214) | (17,667) | (17,881) |
| At 31 July 2019 | 6,817 | 24,190 | 31,007 | 7,160 | 8,175 | 15,335 |

An amount of £6,817,000 (2017-18: £7,160,000) represents future pension costs arising from early retirements for those enrolled in the STTS (page 56).

The North East Scotland Pension Fund deficit has increased following a revaluation by actuaries of the net liability attributable to North East Scotland College.

22. RESTRICTED RESERVES

Reserves with restrictions are as follows:

| | 2019 Total £'000 | 2018 Total £'000 |
|--------------------------|------------------------|------------------------|
| Balance at 1 August 2018 | 5 | 5 |
| New Grants | | - |
| New Donations | 1 | - |
| Expenditure | | - |
| At 31 July 2019 | 6 | 5 |

| | 2019 Total £'000 | 2018 Total £'000 |
|-------------------------------------------------------------------------|------------------------|------------------------|
| Analysis of other restricted funds/donations by type of purpose: | | |
| Prize funds | 6 | 5 |
| General | - | - |
| | 6 | 5 |

23. CASH AND CASH EQUIVALENTS

| Group | At 1 August 2018 £'000 | Cash Flows £'000 | At 31 July 2019 £'000 |
|---------------------------|------------------------------|------------------------|-----------------------------|
| Cash and Cash Equivalents | 2,481 | 170 | 2,651 |
| | 2,481 | 170 | 2,651 |

| College | At 1 August 2018 £'000 | Cash Flows £'000 | At 31 July 2019 £'000 |
|---------------------------|------------------------------|------------------------|-----------------------------|
| Cash and Cash Equivalents | 1,567 | 690 | 2,257 |
| | 1,567 | 690 | 2,257 |

24. CAPITAL AND OTHER COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2019

| | Year ended 31 July 2019 | | Year ended 31 July 2018 | |
|-----------------------------------------------|-------------------------|------------------|-------------------------|------------------|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Commitments authorised and not contracted for | - | - | - | - |
| Commitments contracted for | 389 | 389 | - | - |
| | 389 | 389 | - | - |

25. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 July 2019

26. LEASE OBLIGATIONS

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

| Group | Year ended 31 July 2019 | | | 31 July 2018 £'000 |
|-------------------------------------------|-------------------------|-------------------------------|----------------|-----------------------|
| | Vehicles £'000 | Plant & Machinery £'000 | Total £'000 | |
| Payable during the year | 44 | 49 | 93 | 95 |
| Future minimum lease payments due: | | | | |
| Not later than 1 year | 11 | 44 | 55 | 76 |
| Later than 1 year and not later than 5 | 5 | 11 | 16 | 64 |
| Total lease payments due | 16 | 55 | 71 | 140 |

| College | Year ended 31 July 2019 | | | 31 July 2018 £'000 |
|-------------------------------------------|-------------------------|-------------------------------|----------------|-----------------------|
| | Vehicles £'000 | Plant & Machinery £'000 | Total £'000 | |
| Payable during the year | 41 | 49 | 90 | 95 |
| Future minimum lease payments due: | | | | |
| Not later than 1 year | 8 | 44 | 52 | 76 |
| Later than 1 year and not later than 5 | 1 | 11 | 12 | 64 |
| Total lease payments due | 9 | 55 | 64 | 140 |

27. EVENTS AFTER THE REPORTING PERIOD

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

28. SUBSIDIARY UNDERTAKINGS

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

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

29. RELATED PARTY TRANSACTIONS

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

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

Prof. J Harper is Depute Principal and Ms. S Cormack was Vice Principal of The Robert Gordon University. The College made payments of £912 (2017-18 £889), and received income of £212,529 (2017-18 - £42,023) during the year.

Mrs. E. McIntyre is a Board member of Colleges Scotland during the year. The College made payments of £55,000 (2017-18 £55,100) during the year. Mrs. E. McIntyre is also a Board member of ONE Oil and Gas, and the College made payments of £0 (2017-18 £300) during the year.

Mr. N. McLennan is Senior Lecturer and Director of Leadership Programmes at University of Aberdeen. The College made payments of £598,365 (2017-18 - £450,604) and received income of £38,413 (2017-18 £47,835) during the year.

Mr. K Milroy, Regional Chair, was Chief Executive of Aberdeen Foyer (until 31 August 2018). The College made payments of £351,974 (2017-18: £406,868) and received income of £3,319 (2017-18: £4,222) during the year. Mr. K Milroy is Chair of the Colleges Scotland Board during the year. The College made payments of £55,000 (2017-18 £55,100) during the year.

Ms. S Elston was chair of Aberdeen Foyer. The figures for Aberdeen Foyer are as under Mr. K Milroy.

30. TRANSACTIONS WITH MEMBERS OF THE REGIONAL BOARD

| Member | Organisation | Position |
|------------------|------------------------------|-------------------------------------------------------|
| Mr. D. Anderson | Score Diagnostics Ltd | Sales & Marketing Director |
| Prof J. Harper | The Robert Gordon University | Depute Principal and Vice Chancellor |
| Mrs. E. McIntyre | Colleges Scotland | Board Member |
| | ONE Oil and Gas | Board Member |
| Mr. N. McLennan | University of Aberdeen | Senior Lecturer and Director of Leadership Programmes |
| Mr. K. Milroy | Aberdeen Foyer | Chief Executive |
| | The Robert Gordon University | Member of the Board of Governors |
| | Colleges Scotland | Board Chair |
| Ms. S Elston | Aberdeen Foyer | Chair |

31. STUDENT SUPPORT FUNDS

Bursaries and other student support funds

| | Bursary £'000 | Hardship £'000 | EMA £'000 | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|------------------------------------------------------------|------------------|-------------------|--------------|----------------------------------------|----------------------------------------|
| At 1 August 2018 | - | - | - | - | - |
| Allocation received in period | 7,770 | 526 | 259 | 8,555 | 7,840 |
| Expenditure in period | 7,761 | 343 | 256 | 8,360 | 7,840 |
| At 31 July 2019 | 9 | 183 | 3 | 195 | 0 |
| Represented by: | | | | | |
| Pre received income (incl in accruals and deferred income) | 9 | 183 | 3 | 195 | 0 |
| Charged to College Reserves | - | - | - | - | - |
| | 9 | 183 | 3 | 195 | 0 |

Scottish Funding Council grants are available solely for students, the College acts as paying agent. The Scottish Funding Council has this year accounted for these funds strictly within the allocations per academic and fiscal years and there is no balance to be carried forward to 2019/20 for repayment to SFC.

FE and HE Childcare Funds

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|-------------------------------|-------------------------------------|-------------------------------------|
| At 1 August 2018 | - | - |
| Allocation received in period | 860 | 750 |
| Expenditure in period | 586 | 750 |
| At 31 July 2019 | 274 | - |
| Represented by: | | |
| Pre received income | 274 | - |
| | 274 | - |

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

32. PENSION CONTRIBUTIONS

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

Pension Estimates

As a result of a High Court decision on 26 October 2018, pension schemes which have members with Guaranteed Minimum Pensions (GMPs) must take action to address inequalities in those GMPs if they were contracted-out of the State scheme between 1978 and 1997. The High Court ruling on 26 October 2018 creates an obligation on that date for the Trustees to amend the scheme rules to reflect the consequences of the ruling. This ruling has been included in the financial statements for the year ended 31 July 2019.

In December 2018 the Court of Appeal in England and Wales upheld claims that the transitional protections afforded to older members of public service pension schemes were unlawfully age discriminatory. Transitional protection is the policy which allowed some older workers to stay in the old, unreformed pension schemes, instead of being moved to new career-average schemes with higher pension ages in 2015. In most schemes transitional protection meant that those within 10 years of their schemes' normal pension age as at 1 April 2012 retained membership of their pre-2015 scheme, the majority of which were final-salary schemes. The Employment Tribunal has now to determine how this discrimination should be rectified in those schemes. In an announcement made on 15 July 2019, the Government accepted that the McCloud judgement means discrimination must also be rectified in the wider public service. Our actuaries have included an allowance for this judgement within the figures disclosed in this note.

North East Scotland Pensions Fund Scheme (NESPF)

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

A formal triennial valuation of the North East Scotland Pension Fund was last carried out at 31 March 2017 by Mercers.

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

| | 31 July 2019 | 31 July 2018 |
|-----------------------|--------------|--------------|
| | % pa | % pa |
| Pension increase rate | 2.3% | 2.2% |
| Salary increase rate | 3.7% | 3.6% |
| Discount rate | 2.2% | 2.9% |

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

| | | |
|-------------------------------------|-------------|-------------|
| Current pensioners male/(female) | 22.9 (25.0) | 22.7 (24.9) |
| Future pensioners in 20 years' time | 25.8 (28.1) | 25.6 (27.9) |

The employer contributions for year to 31 July 2020 will be approximately £1,742,000

The assets in the scheme are:

| | Asset allocation value at 31 July 2019 £'000 | Asset allocation value at 31 July 2018 £'000 |
|------------------|-------------------------------------------------------|-------------------------------------------------------|
| Equities | 52,987 | 53,880 |
| Government Bonds | 5,202 | 6,438 |
| Bonds | 1,058 | 1,101 |
| Property | 6,700 | 9,065 |
| Cash | 4,937 | 2,372 |
| Other | 17,280 | 11,860 |
| | 88,164 | 84,716 |

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

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

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Fair value of employer assets | 88,164 | 84,716 |
| Present value of funded obligations | (112,354) | (92,891) |
| Net Liability | (24,190) | (8,175) |
| Amount in the balance sheet: | | |
| Liabilities | (24,190) | (8,175) |
| Assets | - | - |
| Net liability | (24,190) | (8,175) |

The total pension cost to the College in the period was £2,995,000 (2017-18: £3,094,000). The contribution rate payable was 18.3% for the year (2017-18: 15.7%).

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

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Current service cost | 2,220 | 2,417 |
| Interest on obligation | 2,665 | 2,491 |
| Expected return on employer assets | (2,449) | (1,860) |
| Losses on curtailments | - | - |
| | 2,436 | 3,048 |
| Actual return on scheme assets | 4,020 | 10,502 |

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------------------------------------------|-------------------------------------|-------------------------------------|
| Opening fair value of scheme assets | 84,716 | 74,537 |
| Expected return on assets | 2,449 | 1,860 |
| Contribution by members | 473 | 459 |
| Contribution by the employer | 1,434 | 1,246 |
| Contribution in respect of unfunded benefits | 46 | 45 |
| Re-measurement of assets | 1,571 | 8,642 |
| Unfunded benefits paid | (46) | (45) |
| Benefits paid | (2,450) | (2,000) |
| Administration expenses | (29) | (28) |
| Closing fair value of scheme assets | 88,164 | 84,716 |

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

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|-------------------------------------------|-------------------------------------|-------------------------------------|
| Opening defined benefit obligation | 92,891 | 100,379 |
| Current service cost | 2,220 | 2,417 |
| Interest cost | 2,665 | 2,491 |
| Contribution by members | 473 | 459 |
| Past Service Cost | 511 | - |
| Re-measurement of liabilities | 15,998 | (10,900) |
| Benefits paid | (2,404) | (1,955) |
| Closing defined benefit obligation | 112,354 | 92,891 |

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|---------------------------------------------|-------------------------------------|-------------------------------------|
| History of experience gains/(losses) | | |
| Scheme assets | 88,164 | 84,716 |
| Defined benefit obligation | (112,354) | (92,891) |
| Deficit | (24,190) | (8,175) |

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

Analysis of the amount charged to staff costs (Note 7)

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|-------------------------------|-------------------------------------|-------------------------------------|
| Current service cost | 2,220 | 2,417 |
| Past service costs | 511 | - |
| Total operating charge | 2,731 | 2,417 |

Analysis of the amount credited to investment income

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------------------------------------------------------|-------------------------------------|-------------------------------------|
| Expected return on pension scheme assets | 2,449 | 1,860 |
| Interest on pension scheme liabilities | (2,665) | (2,491) |
| Net return | (216) | (631) |
| Total defined benefit cost recognised in the CIES | (2,436) | (3,048) |
| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
| Movement in deficit during the year: | | |
| Deficit in scheme at beginning of the year | (8,841) | (26,581) |
| Movement in year: | | |
| Total Pension Cost recognized in the CIES | (2,995) | (3,094) |
| Contributions | 1,434 | 1,246 |
| Curtailments | - | - |
| Re-measurements | (14,488) | 19,588 |
| Deficit in scheme at end of the year | (24,890) | (8,841) |

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

| | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|-----------------------------------------------------------------|-------------------------------------|-------------------------------------|
| (Loss)/Gain on actuarial assumptions | (15,998) | 10,900 |
| Re-measurements of scheme assets | 1,571 | 8,642 |
| Unfunded re-measurement | | |
| Total actuarial (Loss)/Gain in respect of pension scheme | (14,427) | 19,542 |

Scottish Teachers Superannuation Scheme (STSS)

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

The total STSS pension cost for the College was £1,783,000 (2017-18: £2,039,000). This includes £0 (2017-18: £0) outstanding contributions at the balance sheet date. The contributions rate payable by the college was 17.2% for the year (2017-18: 17.2%).

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

Group Personal Pension Plan

In addition, the subsidiary company operates a group personal pension plan for employees providing benefits based on defined levels of contribution. These are accounted through the SOCI as payments to the plan.

Appendix 1

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

1. It is the Scottish Funding Council's direction that institutions¹ comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts².
2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.
3. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).
4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018-19 (FReM) where applicable.
5. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2019.
6. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
7. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council 5
July 2019

1 The term "institutions" includes colleges and Glasgow Colleges' Regional Board.

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