

Dumfries and Galloway College

Contents

| | Page |
|---|-------------|
| Operating and Financial Review | 3 |
| Statement of Corporate Governance and Internal Control | 10 |
| Statement of the Board of Management's Responsibilities | 14 |
| Independent Auditor's Report to the Board of Management of Dumfries and Galloway College, the Auditor General for Scotland and the Scottish Parliament | 15 |
| Income and Expenditure Account | 17 |
| Statement of Historical Cost Surpluses and Deficits | 18 |
| Statement of the Total Recognised Gains and Losses | 18 |
| Balance Sheet | 19 |
| Cash Flow Statement | 20 |
| Notes to the Financial Statements | 21 |

Professional Advisers

External Auditors:

Grant Thornton UK LLP
Chartered Accountants
7 Exchange Crescent
Edinburgh

Internal Auditors:

Baker Tilley Risk Advisory Services Ltd
6th Floor
25 Farringdon Street
London

Bankers:

Bank of Scotland
Level 6
110 St Vincent Street
Glasgow

Barclays
90 St Vincent Street
Glasgow

Solicitors:

AB & A Matthews
The Old Bank
Buccleuch Street Bridge
Dumfries

MacRoberts Solicitors
152 Bath Street
Glasgow

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

The Board presents its report and the audited financial statements which cover the eight month period 1 August 2013 to 31 March 2014.

Legal Status

The Board of Management of Dumfries and Galloway College was established under The Further and Higher Education (Scotland) Act 1992 for the purpose of conducting Dumfries and Galloway College. The College is a registered charity (Scottish Charity Number SC021189) for the purposes of the Charities and Trustee Investment (Scotland) Act 2005.

Scope of the Financial Statements

The Financial Statements cover all activities of the College.

Context

Dumfries and Galloway College is a medium sized general Further Education college, delivering a broad curriculum to around 5,500 students annually (1,600 full time and 3,900 part time). The College serves one of the largest, most sparsely populated regions with a population of 148,000 people spread over 2,500 square miles. There are only two settlements, Dumfries and Stranraer, with a population over 10,000. A large proportion of the population of Dumfries and Galloway live in remote dispersed areas.

As the College is the only general purpose Further Education provider in a challenging catchment area, it offers a breadth of curriculum unusual for its size from two campuses. The College's larger campus is adjacent to the Crichton University Campus in Dumfries and the campus in Stranraer, 75 miles away, delivers approximately 17% of student activity. The College building adjacent to the Crichton campus has significantly enhanced the student experience and provides a flexible resource to support learning and teaching in the 21st century. The College has also invested in the campus at Stranraer to ensure that the facilities for students and staff are equivalent to the Crichton campus.

Mission Statement

The College's mission, as approved by the Board of Management, is:

"To support the individual, social and economic development of the people, communities and businesses of Dumfries and Galloway by providing inclusive, accessible and relevant vocational and other learning opportunities in a positive and supportive environment."

The vision is to be:

- A first choice provider of learning and training for all the communities of Dumfries and Galloway.
- A responsive organisation that continuously improves its services and develops these to reflect changing demand.
- A committed user and advocate for new technologies.
- An organisation for economic, social and cultural worth.

Implementation of Strategic Plan

The College Strategic Plan sets out its plans for 2010/11 to 2012/13.

In pursuit of the vision and mission the future Strategic Aims of the College are:

- ***To encourage participation in lifelong learning through widening access, and promoting and enabling inclusion and equality of opportunity.***
- ***To provide high quality, flexible learning opportunities to enable learners to achieve, progress and attain in terms of the personal, social, academic and vocational development.***
- ***To work in collaboration and partnership to meet the needs and aspirations of learners, business and the community and to support the economic and social development of the region.***
- ***To continuously enhance the quality of our service and provision in order to maximise the learner experience.***
- ***To develop and invest in the potential of our staff and resources so that through enterprise and innovation we provide the best possible environment for learning.***
- ***To continue to maintain and improve the College's financial health and security.***
- ***To continue to develop and ensure effective leadership, governance and management throughout the organisation.***

Operating and Financial Review (continued)

NATURE, OBJECTIVES AND STRATEGIES

Implementation of Strategic Plan (continued)

The main focus for the College during the 2012/13 academic year was continued monitoring the impact of funding cuts and the reduced price per WSUM in SFC core grant, as well as the ongoing developments for Scottish Colleges including a move towards a Regional Board structure in Dumfries and Galloway. The Dumfries and Galloway College Regional Outcome Agreement for Academic year 2013/14 was agreed with SFC, which set out in broad terms what the College aimed to deliver during the year, and how this was to be delivered, including targets and milestones. The Outcome Agreement sets out high level objectives, and planned activities and timescales in order to meet those objectives. In addition, a new Regional Chair was appointed with effect from 3 March 2014.

Achievements made during the 2012/13 academic year include:

- a. A new Principal was appointed following the retiral of the former Principal, and a new Senior Management structure was introduced;
- b. The Board of Management and Senior Management strategic dialogue focused on the move towards a Regional Board structure, with Dumfries and Galloway a single college region;
- c. Planning and ongoing development, with the objective of maintaining the breadth of curriculum, and maximising student spaces across the Crichton and Stranraer campuses;
- d. Monitoring of the progress of the aims and objectives embedded in the College Outcome Agreement with SFC;
- e. A successful Education Scotland Annual engagement visit in May 2013, which considered the progress made against the three main points for action from the full review in March 2012. Improvements have been achieved in Learner Progress and Outcomes, curriculum teams are working well to better contextualise essential skills, and a number of quality initiatives have been introduced to support teaching staff in planning high quality learning and teaching;
- f. The successful completion of the Knowledge Transfer Project, and working in partnership with the Crichton Institute, who are based in the Crichton Campus, taking forward economic development of the Dumfries and Galloway Region.

ONS Reclassification of Colleges

In October 2010, the UK's Office of National Statistics (ONS) has re-classified incorporated further education colleges throughout the UK as part of Central Government for the purposes of reporting government income, expenditure, finance and associated matters. The changes are effective for Dumfries and Galloway College from 1 April 2014, and include a change to a 31 March accounting year from 31 March 2014. From 1 April 2014 onwards, for budgeting purposes, all of the College income and expenditure will count as part of the Scottish Government's income and expenditure, and all expenditure net of income requires budget cover from the Scottish Government's own budget limits.

The ONS re-classification will have a significant impact on the College's financial objectives and finance strategy going forward. The College processes for budgeting and financial reporting will require to be revised in order to comply with the requirements of the HM Treasury's Consolidated Budgeting Guidance and the Government's Financial Reporting Manual.

In order to try to mitigate the impact of the re-classification, particularly in relation to cash reserves which have been built up by the College over a number of years, the College is participating in the Scottish Colleges Foundation, an independent trust which has been established with the purposes of supporting further and higher education colleges in Scotland. Dumfries and Galloway College will be able to apply to the Scottish Colleges Foundation for financial support for future projects, including the planned hospitality developments, which will not be able to be met from reserves after 1 April 2014.

Financial Objectives

The College has a Finance Strategy in place, which is concerned with financing and resourcing the College's strategic aims and maintaining institutional sustainability. These aims will be reviewed and updated as required following the changes arising from ONS re-classification.

The overriding financial objectives are to:

- a. Continuously improve long term financial sustainability.
- b. Facilitate the efficient procurement and effective deployment of resources to achieve strategic aims.

Operating and Financial Review (continued)

Financial Objectives (continued)

The long term financial sustainability of the College has been dependent upon several factors, including:

- Meeting budget targets in future years for revenue and capital budgets.
- Managing cash flow to meet revenue and capital investment needs.
- Successful financial management of the Crichton Campus.
- Maintaining appropriate internal controls to mitigate risks.
- Compliance with requirements of external regulation.

These aims will continue to be relevant following re-classification, but additionally the College will require to manage its income and expenditure against Scottish Government budget control limits, and maintain broadly the same level of working capital year on year.

Performance indicators

In accordance with SFC requirements, the College is required to publish and report progress against targets for national priorities. A 'Key Indicator Report' is reviewed at each meeting of the Board of Management as a measure of actual performance against target. The following areas are included within the report:

- Weighted SUMS/Headcount
- Enrolments
- Retention
- Finance
- Staffing

In addition, the Board receives regular reports to enable it to review the performance of Dumfries and Galloway College with its comparators.

The performance indicators for 2013/14 and 2012/13 are as follows:

| | 2013/14 | 2012/13 |
|---------------------|----------------|----------------|
| WSUMS achieved * | | 39,015 |
| WSUMS per staff FTE | | 195 |
| <i>Target WSUMS</i> | <i>42,529</i> | <i>38,720</i> |

* *The College is on schedule to achieve its WSUM target for the 2013/14 academic year.*

| | | |
|--|--------------|---------|
| Operating (deficit)/ surplus (inclusive of FRS 17 adjustments) | (£1,651,000) | £34,000 |
| Operating surplus - excluding transfer to Foundation | £469,000 | |
| Surplus excluding transfer to Foundation as a % of total income | 5.25% | 0.28% |
| Surplus excluding transfer to Foundation as a % of total expenditure | 4.43% | 0.28% |
| Staff costs as a % of total expenditure excluding transfer to Foundation | 59.1% | 56.5% |
| Ratio of current assets to current liabilities | 1.27 | 1.92 |
| Days cash to total expenditure excluding depreciation and transfer to Foundation | 67 | 155 |
| Non SFC income as a % of total expenditure excluding transfer to Foundation | 22.1% | 21.9% |

FINANCIAL POSITION

Financial Results

The College operating results are for an eight month accounting period, and include a substantial donation to the Scottish Colleges Foundation, as noted above, which amounted to £2,120,000. This donation from accumulated College cash reserves has resulted in an overall deficit for the period of £1,651,000.

The College balance sheet at 31 March 2014 shows a decrease in total reserves of £2,717,000 from 31 July 2013, which includes the transfer to the Foundation as well as the increased pension liability for the Local Government Pension Scheme, as detailed at Note 24.

The demand for bursaries and other student support was higher than expected during the period, and the College has been able to meet commitments for student support amounting to £95,000 from its own funds during the period.

Operating and Financial Review (continued)

Taxation Status

The College has been entered into the Scottish Charity Register (Reference SC021189) and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

Treasury Policies and Objectives

The College funds have been managed, on a day-to-day basis, by the Finance Manager. Accounts were automatically aggregated to maximise the interest earned and any additional funds available for deposit are identified from cash flow projections. In 2013/14, interest of £17,000 was earned on College funds. With the exception of cash and bank deposits, the College does not have any other investments. The College had no borrowing requirements during the period to March 2014.

Cash Flows/Liquidity

The College has built up cash reserves over a number of years, and has retained sufficient funds in order to repay a liability under HMRC's Lennartz scheme. Due to the changes to budgets taking place after 1st April 2014, the College bank balances have been carefully monitored during the period.

Creditor Payment Policy

The College has implemented the 'Better Payment Practice Code'. As such, we aim to pay suppliers within the agreed credit terms and deal with all disputes and complaints as quickly as possible. The proportion of year-end creditors to the aggregate invoiced amounts during the year was 4.0% (2012/13 3.2%). The College did not pay any interest on late payments as defined under the Late Payment of Commercial Debts (Interest) Act 1998.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE

Changes to budgeting and financial reporting

The ONS re-classification of incorporated further education colleges throughout the UK as part of central government for the purposes of reporting government income, expenditure, finance and associated matters will have a significant impact on the College's budgeting and financial reporting, which are effective from 1 April 2014. As noted above, from 1 April 2014 onwards all of the College income and expenditure will count as part of the Scottish Governments' income and expenditure, and all expenditure net of income requires budget cover from the Scottish Government's own budget limits. The reporting and budget timetable will require to be revised, in order to provide the information required to feed into the Scottish Government budget, and ongoing monitoring will be required in order to ensure the budget targets are achieved each year.

The College is participating in the Scottish Colleges Foundation, an independent trust which has been established with the purposes of supporting further and higher education colleges in Scotland. Dumfries and Galloway College will be able to apply to the Scottish Colleges Foundation for financial support for future projects, including hospitality developments, which will not be able to be met from reserves after 1 April 2014.

Student Numbers

During the 2012/13 academic year, the College achieved its WSUMS target of 38,720 (including an additional regional allocation of 2,200 WSUMS) for 2012/13 with a final out-turn of 39,015. Total numbers for student enrolments declined from 6,293 in 2011/12 to 5,541 in 2012/13, a decrease of 11.7%. The continued decrease in overall student numbers was a result of SFC guidance that the College should prioritise the provision of Full Time courses, particularly for those aged 16-24. Within these overall numbers there was an increase of 6.1% in full time students from 1,523 to 1,616, which mainly relates to additional numbers of HE students. However, part-time numbers decreased by 17.4% from 4,770 to 3,938.

The Regional Outcome Agreement has an increased WSUMS target of 42,529 - an increase of 9.8% on previous targets. The College is working towards this target, and is on schedule to achieve this by the end of the academic year.

Operating and Financial Review (continued)

Student Achievements

Annual Engagement Visit from Education Scotland - we received 'the best feedback ever' with learners fully engaged in their learning, extremely well supported by their tutors and numerous examples of active learning. In addition, the Re-ablement development (working in partnership with NHS and DGC) was identified as an example of excellent practice.

Two Aspect Visits from Education Scotland took place during the period – one focussing on Maximising Learner Success and one on Learner Support. Both visits were successful and good practice was identified in respect of the self evaluation process, the Learning and Teaching Mentor programme, partnership working with the schools in respect of the senior phase pilot to be rolled out next session, which will involve HNC's being delivered as a mix of online and tutor support in the schools, as well as the work we do with the Buttle Trust.

Students have continued to be involved in College life, and have engaged in activities in the local community. Activities for student life during the year has included HN Sports students organising an event at the Dumfries sports centre as part of their course, which was the biggest disability sport event ever to be hosted in the region. Princes Trust students have been volunteering at a local community centre and Dumfries YMCA on a range of duties including gardening, painting, litter collecting, washing down outdoor equipment, wood carving and turning an old tyre into a flowerbed. The Princes' Trust team now have the best performance PIs in Scotland and the previous team had the best PI in the UK.

Curriculum Developments

The College's curriculum continues to be shaped to support e-learning and blended learning approaches, as further developments for the Transform project are currently being made. The first year of the new degree in Applied Enterprise was successfully completed, and was delivered jointly by the College and University of the West of Scotland staff.

The Engineering curriculum area continues to develop. Recent areas include work with Scottish Power and Subcontractors to maximise qualifications and learning for the overhead linesperson programmes; introduction of Performance Engineering Qualifications to run along with other full time programmes to enable progression to Modern Apprenticeship Programmes at level 3; and development of renewable energies and micro renewable work is ongoing. Development of the CREST programme is creating an enhanced provision for our BPEC approved gas assessment centre. The college has also commissioned a STEM development project to support its continued development towards a centre of excellence status, and recent talks have also been held with SDS Innovation Manager to look at pathways to Advanced Modern Apprenticeships.

Post-Balance Sheet Events

There were no post balance sheet events.

Future Developments

Achieving the increased targets for student numbers set out in the Regional Outcome Agreement from 2013/14 will be the main focus for the Board and Senior Management team going forward.

The Crichton Campus will be a key factor for future developments for the College. Dumfries and Galloway College's Crichton Building, adjacent to the Crichton Campus in Dumfries, provides a hub for improved learner experiences for the College, University of Glasgow and University of the West of Scotland students, with a library service available to students of each institution, as well as Student Services and Student Association facilities based in the College building. The Joint Academic Planning Group will plan, design and deliver joint academic provision, and the new degree in Applied Enterprise will expand following the success of the first group of students during 2012/13.

The College will continue to develop a curriculum that provides breadth of choice, enhances learners' employability skills, and provides access to progression from FE to HE through HNC, HND and University articulation routes. The challenge for the College will be providing a broad curriculum across the Dumfries and Stranraer Campuses, and maintaining the quality of provision while ensuring efficiencies are made in reducing costs.

New programmes taking place during 2013/14 include new curriculum areas related to energy, which will meet local industry needs, and a new programme will be undertaken for Dumfries and Galloway Employability Partnership which will provide opportunities for development and certification of employability skills, and work placement, for some of the more disadvantaged learners in the region.

The College plans to re introduce Hospitality and Catering courses at the Dumfries campus, in direct response to demand from industry. A brand new state of the art training kitchen and restaurant and associated storage and service areas will provide skills training to support this key sector in our region.

Operating and Financial Review (continued)

RESOURCES

The College receives the majority of its income from the Scottish Funding Council in the form of grants. This income is supplemented by fees charged to private individuals and companies.

ENVIRONMENTAL CONSIDERATIONS

The College has signed up to the Universities and Colleges Climate Change Commitment. As such, we are committed to reducing our environmental impact and promoting sustainable development through education. The College recognises the scale and speed of climate change, and agrees that early action is needed to achieve the Scottish Government objective of reducing emissions by 80% by 2050.

The College is developing a 5 year Carbon Management Plan to achieve reduced emissions. This is designed to contribute to government targets and minimise the environmental impact of any changes and developments where possible. The plan is being developed with support from the Carbon Trust and includes baseline data from a Carbon Audit. In addition to consideration of ongoing improvements such as energy-efficient lighting, insulation, paper and other waste reduction initiatives, plans are underway to roll out a programme of awareness raising for staff and students. This was a main priority identified in our Carbon Audit. Awareness of sustainability and renewable issues have been further embedded into the curriculum during the year through the Sustainability Officer with workshops being delivered for staff and students and work books being developed across the curriculum. The full term of the College Green Travel Plan is now complete and an audit is being planned to confirm progress made. Initiatives continue regarding sustainable travel for staff and students together with promotions such as 'Walk to Work' week, and car sharing through collaboration with Dumfries and Galloway Council's 'DGTripshare' website. A pool cycle and bikebin is now available for staff at the Stranraer campus, which mirrors the facilities available at the Crichton campus.

PRINCIPAL RISKS AND UNCERTAINTIES

The Risk Register is reviewed by the Board of Management at every meeting. The principal risks that may affect the College's long-term financial position are:

- **External financial environment.** *The depressed state of the economy, unknown political environment and continued uncertainty of public sector financial allocations continue to be closely monitored by the Board.*
- **Diversify income streams.** *The impact of the economic downturn has increased the importance of finding other sources of income, and the College will continue to develop external funding bids and projects and collaborate with other organisations in order to increase non-SFC income. The challenge of attracting international students has increased due to changes in visa legislation.*
- **Capital funding.** *There is potential for significant changes in the SFC allocation process for capital funding. The College will continue to monitor this.*
- **Student achievement and attainment.** *The learners in the College generally achieve well, including wider achievement. However, some areas are not producing consistently high levels, and this will continue to be monitored.*
- **Staff communication, deployment and turnover.** *Effective staff communication and deployment is essential to ensure that the College is working efficiently towards its strategic aims and objectives. A balance in the level of staff turnover helps to ensure a good skills base, whilst maintaining a stable workforce. The senior managers and Board continue to monitor this.*
- **Maintain high quality facilities.** *The planned and reactive maintenance programmes should ensure that there is continued investment in the estate to address backlog maintenance and maintain high quality facilities for learners and staff, but this is dependent on available resources. Developments to the timetabling system and monitoring of room occupancy, and continued good practice in energy monitoring and environmental sustainability should increase efficiency and ensure value for money.*

Operating and Financial Review (continued)

STAKEHOLDER RELATIONSHIPS

In line with other colleges, Dumfries and Galloway College has many stakeholders. These include:

- **Students** - The College must maintain an excellent reputation for high quality, flexible learning opportunities in order to be a first choice provider of learning and training.
- **Scottish Funding Council** - the College aims to maintain its good relationship with the Scottish Funding Council in order to ensure continued strategic development;
- **Staff** - The College recognises the value of its staff and has a number of measures to enhance communication;
- **Local Employers, the Local Authority and community** - these groups provide a major input into the services required from the College in order to enhance the economic and social development of the region;
- **Government offices** - positive reports from Education Scotland and other external reviews on the work carried out in the College have a positive impact on the College's reputation in the local and wider community;
- **Other FE and HE institutions** - continued collaboration and benchmarking with other institutions is essential in order to maintain high quality learning;
- **Trade Unions** - the College aims to maintain a positive working relationship with all recognised representative bodies;
- **Professional Bodies** - continued close relationships with professional bodies will help to ensure programmes are relevant and of the highest quality.

Equal Opportunities and employment of disabled persons

The College is committed to a policy of equal opportunities for all staff and students. We aim to create an environment which enables everyone to participate fully in their chosen studies and college life. The College supports inclusiveness and widening access in all forms, particularly in relation to gender, ethnicity and disability. We aim to design our curriculum to be as accessible as possible for all students and provide extra support where this is reasonable. This includes the provision of alternative formats for curriculum material, physical access and financial assistance where students are eligible for third party support such as scribes and signers.

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

Disclosure of information to auditors

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

Approved by order of the members of the Board on 16 September 2014 and signed on its behalf by:

Brian Johnstone
Chairman

C Turnbull
Principal

Statement of Corporate Governance and Internal Control

Corporate Governance Statement

Dumfries and Galloway College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

Statement of full UK Corporate Governance Code compliance

In the opinion of the Board of Management, the College complies with all the provisions of the Code, in so far as they apply to the further education sector, and it complied throughout the period ended 31 March 2014.

Introduction

Board of Management

The members who served on the Board of Management during the year and up to the date of signature of this report are set out on the next page. It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against targets, capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues.

Dumfries and Galloway College Board of Management met four times during the 2013/14 financial period and conducts its business through a number of committees. All of these committees are formally constituted with terms of reference approved by the Board of Management. The committees comprise mainly lay members of the Board of Management and are all chaired by a Member of the Board. These committees include a Staffing Committee, a Finance and General Purposes Committee, a Nominations Committee, a Remuneration Committee, a Quality and Curriculum Committee and Audit Committee and a Project Board.

The Clerk to the Board maintains a register of financial and personal interests of the members of the Board of Management. The register is available for inspection at Bankend Road, Dumfries.

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

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

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

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

Statement of Corporate Governance and Internal Control (continued)**Members**

The Members who served on the Board of Management during the year, and up to the date of the accounts being signed, were as follows:

| Board Member | Committees Served | Status of Appointment | Date of Appointment | Date of Retiral |
|----------------------------------|---|--------------------------------|----------------------------|------------------------|
| Burgess, S | Audit | Full Member | 01.09.08 | 31.08.16 |
| Griggs, R (Chairman to 02.03.14) | Remuneration, Nominations | Full Member | 01.11.04 | 02.03.14 |
| Henderson, J | Finance, Remuneration | Full Member | 01.09.08 | 02.03.15 |
| Holland, D | Audit, Nominations, Quality & Curriculum, Remuneration | Full Member | 01.08.07 | 02.03.15 |
| Hydes, T | Staffing, Quality & Curriculum | Full Member | 01.05.09 | 31.07.14 |
| Turnbull, C | Ex officio member of all committees (excluding Audit, Nominations & Remuneration) | Principal (from 01.09.12) | 01.08.12 | N/A |
| S Lockhart | Quality & Curriculum | Student Representative | 01.08.12 | 31.07.13 |
| R. Malloney | Quality & Curriculum | Student Representative | 01.08.13 | 31.07.14 |
| Nyondo, A | Staffing | Lecturing Staff Representative | 01.11.06 | 31.11.14 |
| Sanderson, F | Audit, Quality & Curriculum | Full Member | 01.07.03 | 17.12.13 |
| Henry, K | Finance, Quality & Curriculum | Support Staff Representative | 30.06.10 | 29.06.14 |
| Carr, H | Audit, Nominations | Full Member | 01.01.10 | 01.07.14 |
| Johnstone, B | Finance (until 02.03.14) | Full Member Regional Chair | 19.04.10 03.03.14 | 02.03.14 02.03.18 |
| Gunnell, R | Finance, Quality & Curriculum | Full Member | 26.10.10 | 01.07.14 |
| MacGillivray Fallis, K | Audit, Staffing | Full Member | 26.10.10 | 01.07.14 |
| C Grant | | Full Member | 01.08.13 | 02.03.15 |
| J. Goldie | | Full Member | 01.09.13 | 02.03.15 |
| A. Hannah | | Full Member | 01.09.13 | 02.03.15 |
| S. Martin | Audit | Full Member | 01.09.13 | 02.03.15 |

J Brown acted as Clerk to the Board throughout the period.

Appointments to the Board of Management

Any new appointments to the Board of Management are a matter for consideration by the Board as a whole. The Board has a Nominations Committee, which is responsible for the selection and nomination of any new member for the Board's consideration. The Board of Management is responsible for ensuring that appropriate training is provided as required.

Staffing Committee

The primary purpose of the Staffing Committee is to advise the Board of Management on all staffing matters affecting the College.

Statement of Corporate Governance and Internal Control (continued)**Remuneration Committee**

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders. Details of the remuneration of senior post-holders for the period ended 31 March 2014 are set out in note 8 to the financial statements.

Audit Committee

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

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

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and internal auditors undertake periodic follow-up reviews to ensure such recommendations have been implemented.

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

Project Board

The role of the Project Board was to oversee the project to build the campus in Dumfries. The Project Board consists of five members of the Board of Management. The Project Board did not meet in 2013/14.

Finance and General Purposes

The Finance and General Purposes Committee inter alia recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

Quality and Curriculum

The primary purpose of the Quality and Curriculum Committee is to advise the Board of Management on all curriculum and quality matters affecting the College.

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

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

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

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Dumfries and Galloway College for the period ended 31 March 2014 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Board of Management has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board of Management is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 March 2014 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board of Management.

Statement of Corporate Governance and Internal Control (continued)***Risk and control framework***

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

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

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

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

Review of effectiveness

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

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

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from the internal auditor, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its August 2014 meeting, the Board of Management carried out the annual assessment for the period ended 31 March 2014 by considering documentation from the senior management team and internal audit, and taking account of events since 31 March 2014.

Going Concern

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

Conclusion

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

Approved by order of the members of the Board on 16 September 2014 and signed on its behalf by:

Brian Johnstone
Chairman

C Turnbull
Principal

Statement of the Board of Management's Responsibilities

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

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

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

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

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

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

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

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

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

Approved by order of the members of the Board on 16 September 2014 and signed on its behalf by:

Brian Johnstone
Chairman

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

We have audited the financial statements of Dumfries and Galloway College for the period ended 31 March 2014 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 Income and Expenditure Account, the Statement of Historical Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College, and the College's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Management and auditor

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

Generic scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 March 2014 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

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.

Opinion on other prescribed matters

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

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

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Gary Devlin, for and on behalf of Grant Thornton UK LLP
7 Exchange Crescent
Edinburgh
EH3 8AN

18 September 2014

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

Income and Expenditure Account for the period ended 31 March 2014

| | | Period ended 31 March | Year ended 31 July |
|--|------|--------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| INCOME | | | |
| SFC grants | 2 | 7,062 | 9,630 |
| Tuition fees and education contracts | 3 | 1,211 | 1,622 |
| Other grant income | 4 | 283 | 468 |
| Other operating income | 5 | 352 | 587 |
| Endowment and investment income | 6 | 24 | 31 |
| Total Income | | <u>8,932</u> | <u>12,338</u> |
| EXPENDITURE | | | |
| Staff costs excluding exceptional costs | | 5,004 | 6,957 |
| Exceptional costs - severance costs | | <u>0</u> | <u>0</u> |
| Staff costs including exceptional costs | 7 | 5,004 | 6,957 |
| Other operating expenses | 9 | 2,672 | 3,880 |
| Transfer to Arms Length Foundation | 9 | 2,120 | 0 |
| Depreciation | 12 | 787 | 1,405 |
| Interest payable | 10 | 0 | 62 |
| Total Expenditure | | <u>10,583</u> | <u>12,304</u> |
| (Deficit)/ Surplus on continuing operations after depreciation of assets at valuation and before tax | | (1,651) | 34 |
| Taxation | | <u>0</u> | <u>0</u> |
| (Deficit)/ Surplus on continuing operations after depreciation of assets at valuation and after tax | | <u>(1,651)</u> | <u>34</u> |
| (Deficit)/ Surplus for the period retained within general reserves | | <u>(1,651)</u> | <u>34</u> |

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

Statement of Historical Cost Surpluses and Deficits for the period ended 31 March 2014

| | | Period ended 31 March | Year ended 31 July |
|--|------|--------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| (Deficit)/ Surplus on continuing operations before taxation | | (1,651) | 34 |
| Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount | 18 | <u>132</u> | <u>411</u> |
| Historical cost (deficit)/ surplus for the period before and after taxation | | <u><u>(1,519)</u></u> | <u><u>445</u></u> |

Statement of the Total Recognised Gains and Losses for the period ended 31 March 2014

| | | Period ended 31 March | Year ended 31 July |
|--|-------|--------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| (Deficit)/ surplus on continuing operations for the year after depreciation of assets at valuation and tax | | (1,651) | 34 |
| Unrealised deficit on revaluation of fixed assets | 12 | 0 | (8,226) |
| Impairment of previously revalued fixed assets | 12 | 0 | 0 |
| Actuarial (loss)/ gain recognised since last annual report | 18,24 | <u>(1,066)</u> | <u>460</u> |
| Total recognised (loss) relating to the period | | <u>(2,717)</u> | <u>(7,732)</u> |
| Total (loss) recognised since last annual report | | <u><u>(2,717)</u></u> | <u><u>(7,732)</u></u> |
| Reconciliation | | | |
| Opening reserves | | 11,060 | 18,792 |
| Total recognised (losses) for the year | | <u>(2,717)</u> | <u>(7,732)</u> |
| | | <u><u>8,343</u></u> | <u><u>11,060</u></u> |

Balance Sheet as at 31 March 2014

| | | Period ended 31 March | Year ended 31 July |
|--|------|--------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| Fixed Assets | | | |
| Tangible assets | 12 | <u>40,521</u> | <u>41,308</u> |
| Current Assets | | | |
| Debtors | 13 | 1,001 | 552 |
| Cash at bank and in hand | | <u>2,127</u> | <u>4,622</u> |
| Total current assets | | 3,128 | 5,174 |
| Less: Creditors - amounts falling due within one year | 14 | <u>(2,464)</u> | <u>(2,691)</u> |
| Net Current Assets | | <u>664</u> | <u>2,483</u> |
| Total Assets less Current Liabilities | | 41,185 | 43,791 |
| Less: Creditors - amounts falling due after more than one year | 15 | (1,184) | (1,496) |
| Less: Provision for liabilities | 16 | <u>(750)</u> | <u>(959)</u> |
| Net Assets excluding pension liability | | 39,251 | 41,336 |
| Pension liability | 24 | <u>(3,928)</u> | <u>(2,774)</u> |
| NET ASSETS INCLUDING PENSION LIABILITY | | <u><u>35,323</u></u> | <u><u>38,562</u></u> |
| | | | |
| Deferred capital grants | 17 | <u>26,980</u> | <u>27,502</u> |
| Reserves | | | |
| Income and expenditure account excluding pension reserve | | 5,657 | 7,088 |
| Pension reserve | 18 | <u>(3,928)</u> | <u>(2,774)</u> |
| Income and expenditure account including pension reserve | 18 | 1,729 | 4,314 |
| Revaluation reserve | 18 | <u>6,614</u> | <u>6,746</u> |
| Total reserves | | <u>8,343</u> | <u>11,060</u> |
| | | | |
| Total Funds | | <u><u>35,323</u></u> | <u><u>38,562</u></u> |

The financial statements on pages 17 to 39 were approved by the Board of Management on 16 September 2014 and were signed on its behalf by:

Brian Johnstone
Chairman

C Turnbull
Principal

Cash Flow Statement for the period ended 31 March 2014

| | | Period ended 31 March | Year ended 31 July |
|--|-------------|----------------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| Net cash inflow from operating activities | 19 | (2,514) | 337 |
| Returns on investments and servicing of finance | 20 | 17 | 31 |
| Capital expenditure and financial investment | 21 | <u>2</u> | <u>(11)</u> |
| (Decrease)/ increase in cash in the period | | <u>(2,495)</u> | <u>357</u> |

Note to the Cash Flow Statement**Reconciliation of net cash flow to movement in net funds**

| | | | |
|--|----|-----------------------|--------------|
| (Decrease)/ increase in cash in the period | | <u>(2,495)</u> | <u>357</u> |
| Movement in net funds in period | | (2,495) | 357 |
| Net funds at 1 August 2013 | 22 | <u>4,622</u> | <u>4,265</u> |
| Net funds at 31 March 2014 | 22 | <u>2,127</u> | <u>4,622</u> |

Notes to the Financial Statements**1 Statement of Principal Accounting Policies****Basis of preparation**

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Further and Higher Education Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007).

Basis of accounting

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

Recognition of income

Income from SFC recurrent grant has been recognised on a time basis to match the College's performance for the period in towards the SFC Outcome Agreement targets for the 2013/14 academic year.

Income from other grants, contracts, tuition fees and other services rendered is included to the extent of completion of the contract or service concerned.

Income from donations is credited to the income and expenditure account in the year in which it is received, unless specific restrictions apply.

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

Fixed assets**Tangible assets*****Land and buildings***

The majority of the College's buildings being specialised buildings, open market value is not an appropriate basis of valuation. Land and buildings are therefore valued on the basis of depreciated replacement cost with the exception of the Catherinefield building which has been valued on an open market value. Land is not depreciated and buildings are depreciated over their estimated life as identified by the valuer.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to income and expenditure account over the estimated life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are capitalised as part of the cost of those assets.

A review for impairment of tangible fixed assets is carried out if events change or if changes in circumstances indicate that the carrying value of the tangible fixed assets may not be recoverable.

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

Subsequent expenditure on existing fixed assets

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

- 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 a 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.

Equipment

Equipment costing less than £10,000 per individual item and motor vehicles costing less than £5,000 are written off to income and expenditure account in the year of acquisition. All other equipment and vehicles are capitalised and depreciated in accordance with the depreciation policy.

Where items of equipment are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to income and expenditure account over the estimated life of the asset on a basis consistent with the depreciation policy.

Notes to the Financial Statements (continued)**1 Statement of Principal Accounting Policies (continued)****Depreciation**

Depreciation is provided to write off the cost or valuation of tangible fixed assets on a straight-line basis over the expected useful lives of the assets.

| | |
|--|-----------------|
| i) Buildings | 10 to 60 years |
| ii) Leasehold | length of lease |
| iii) Furniture, equipment and vehicles | 3 to 10 years |

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Rental costs in respect of operating leases are charged to income and expenditure account on a straight line basis.

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from revaluation reserve to income and expenditure account together with any surplus or deficit on disposal.

Maintenance of premises

The costs of maintenance are charged to the income and expenditure account in the period in which they are incurred.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Provisions

The College provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by the Scottish Funding Council.

Unfunded pensions are accounted for under FRS 12.

Agency arrangements

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

Notes to the Financial Statements (continued)**1 Statement of Principal Accounting Policies (continued)****Retirement Benefits**

All new members of staff have the option of joining a pension scheme. The schemes currently open to new members of staff are the Dumfries and Galloway Council Pension Fund and the Scottish Teachers' Superannuation Scheme. Existing employees are entitled to maintain their membership of the Scottish Teachers' Superannuation Scheme.

Dumfries and Galloway Council Pension Fund

The Dumfries and Galloway Council Pension Fund is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using bid values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the income and expenditure account represents the service cost expected to arise from employee service in the current year.

Scottish Teachers' Superannuation Scheme (STSS)

The College participates in the Scottish Teachers' Superannuation Scheme pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the College. 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 FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

Leased Assets

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at the present value of minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Rental costs in respect of operating leases are charged to income and expenditure account on a straight line basis.

Notes to the Financial Statements (continued)

| | | Period ended 31 March | Year ended 31 July |
|---|------|--------------------------|-----------------------|
| | Note | 2014 | 2013 |
| | | £000 | £000 |
| 2 SFC Grants | | | |
| FE recurrent grant (including fee waiver) | | 5,554 | 7,784 |
| FE and HE childcare funds | | 123 | 219 |
| Release of deferred capital grants | 17 | 445 | 687 |
| Infrastructure grant | | 791 | 447 |
| Other SFC grants | | 149 | 493 |
| Total | | <u>7,062</u> | <u>9,630</u> |
| 3 Tuition Fees and education contracts | | | |
| FE fees - UK | | 230 | 315 |
| HE fees | | 452 | 617 |
| SDS contracts | | 219 | 375 |
| Education contracts | | 4 | 19 |
| Other contracts | | 306 | 295 |
| Total | | <u>1,211</u> | <u>1,621</u> |
| 4 Other grant income | | | |
| European funds | | 150 | 277 |
| Release of deferred capital grants | 17 | 77 | 117 |
| Other grants | | 56 | 74 |
| Total | | <u>283</u> | <u>468</u> |
| 5 Other operating income | | | |
| Residences and catering | | 310 | 395 |
| Other income-generating activities | | 16 | 16 |
| Other income | | 26 | 176 |
| Total | | <u>352</u> | <u>587</u> |

Notes to the Financial Statements (continued)

| | Period ended 31 March | Year ended 31 July |
|--|--------------------------|-----------------------|
| | 2014 | 2013 |
| | £000 | £000 |
| 6 Endowment and investment income | | |
| Bank interest | 17 | 31 |
| Net return on pension asset/ liability | 7 | 0 |
| Total | 24 | 31 |
| 7 Staff costs | | |
| Wages and salaries | 4,062 | 5,696 |
| Social security costs | 265 | 397 |
| Past service credit (note 24) | 0 | 0 |
| Other pension costs (including FRS 17 adjustments of £95k (2013 - £53k)) | 677 | 864 |
| Staff costs excluding exceptional costs | 5,004 | 6,957 |
| Exceptional costs - severance costs | 0 | 0 |
| Staff costs including exceptional costs | 5,004 | 6,957 |
| | | |
| Academic/ Teaching departments | 2,546 | 3,479 |
| Academic/ Teaching services | 455 | 633 |
| Administration and central services | 1,735 | 2,439 |
| Premises | 212 | 320 |
| Other expenditure | 56 | 86 |
| Catering and residences | 0 | 0 |
| Total | 5,004 | 6,957 |

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

| | No. | No. |
|-------------------------------------|------------|------------|
| Academic/ Teaching departments | 84 | 83 |
| Academic/ Teaching services | 16 | 15 |
| Administration and central services | 86 | 86 |
| Premises | 13 | 13 |
| Other expenditure | 3 | 3 |
| Catering and residences | 0 | 0 |
| Total | 202 | 200 |

Notes to the Financial Statements (continued)

7 Staff costs (continued)

The number of staff, including senior post-holders and the Principal, who received emoluments in the following ranges were:

| | Period ended 31 March 2014 | | Year ended 31 July 2013 | |
|--------------------------------|-----------------------------------|-----------------------|-------------------------------|-----------------------|
| | Number senior post- holders | Number other staff | Number senior post-holders | Number other staff |
| £50,001 to £60,000 per annum | 0 | 0 | 0 | 1 |
| £60,001 to £70,000 per annum | 2 | 0 | 3 | 0 |
| £70,001 to £80,000 per annum | 2 | 0 | 1 | 0 |
| £80,001 to £90,000 per annum | 0 | 0 | 0 | 0 |
| £90,001 to £100,000 per annum | 0 | 0 | 0 | 0 |
| £100,001 to £110,000 per annum | 1 | 0 | 1 | 0 |
| | <u>5</u> | <u>0</u> | <u>5</u> | <u>1</u> |

8 Senior post-holders' emoluments

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

| 2014 No. | 2013 No. |
|-------------|-------------|
| <u>5</u> | <u>5</u> |

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

| | Period ended 31 March 2014 | Year ended 31 July 2013 |
|-----------------------|----------------------------------|-------------------------------|
| | £ | £ |
| Salaries | 216,691 | 327,007 |
| Benefits in kind | 0 | 0 |
| Pension contributions | 38,609 | 60,655 |
| Total emoluments | <u>255,300</u> | <u>387,662</u> |

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

| | £ | £ |
|--------------------------------|---------------|---------------|
| Salary (including holiday pay) | 60,000 | 85,087 |
| Benefits in kind | 0 | 0 |
| | <u>60,000</u> | <u>85,087</u> |
| Pension contributions | <u>11,647</u> | <u>17,000</u> |

Notes to the Financial Statements (continued)

8 Senior post-holders' emoluments (continued)

The Principal and two other senior post-holder were members of the Local Government pension Scheme and two senior post-holders were members of the Scottish Public Pensions Agency. All pension contributions were paid at the same rate as for other members of staff.

The members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to five members of the Board of Management during the year amounted to £3,056.

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|---|--|---------------------------------------|
| 9 Other operating expenses | | |
| Teaching departments | 797 | 970 |
| Administration and central services | 1,036 | 1,541 |
| Premises costs (including additional Lennartz credit of £111,000. 2013 - £68,000) | 184 | 439 |
| Planned maintenance | 144 | 434 |
| Other employee related costs | 67 | 85 |
| (Gain)/ Loss on disposal of fixed assets | (2) | (1) |
| Agency Staff Costs | 38 | 2 |
| Other income generating activities | 0 | 0 |
| Residences and catering | 313 | 410 |
| Overspend on student support funds | 95 | 0 |
| | <u>2,672</u> | <u>3,880</u> |
| Transfer to Arms Length Foundation | 2,120 | 0 |
| Total | <u><u>4,792</u></u> | <u><u>3,880</u></u> |
| Other operating costs include: | | |
| Auditors' remuneration | | |
| - external audit of these financial statements | 16 | 14 |
| - internal audit services | 13 | 16 |
| - other services | 7 | 0 |
| Hire of plant and machinery - operating leases | 57 | 82 |
| Hire of other assets - operating leases | 0 | 0 |
| | <u><u>0</u></u> | <u><u>62</u></u> |

The College is participating in the Scottish Colleges Foundation, an independent trust which has been established with the purposes of supporting further and higher education colleges in Scotland. Total donations from the College to the Foundation in the period to 31 March 2014 amounted to £2,120,000. The College will be able to apply to the Foundation for financial support for future projects, which will not be able to be met from reserves after 1 April 2014 due to the re-classification for budgeting and reporting purposes.

10 Interest payable

| | | |
|--|-----------------|------------------|
| Net interest cost on pension liability (note 24) | <u><u>0</u></u> | <u><u>62</u></u> |
|--|-----------------|------------------|

11 Taxation

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

Notes to the Financial Statements (continued)

12 Tangible Fixed Assets

| | Land and Buildings £000 | Equipment £000 | Motor Vehicles £000 | Total £000 |
|-----------------------------|-------------------------------|-------------------|---------------------------|---------------|
| Cost or valuation | | | | |
| At 1 August 2013 | 41,498 | 310 | 267 | 42,075 |
| Additions | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 |
| Revaluation adjustment | 0 | 0 | 0 | 0 |
| At 31 March 2014 | 41,498 | 310 | 267 | 42,075 |
| Depreciation | | | | |
| At 1 August 2013 | 264 | 268 | 235 | 767 |
| Provided during period | 767 | 9 | 11 | 787 |
| On disposals | 0 | 0 | 0 | 0 |
| Revaluation adjustment | 0 | 0 | 0 | 0 |
| At 31 March 2014 | 1,031 | 277 | 246 | 1,554 |
| | | | | |
| NBV at 1 August 2013 | 41,234 | 42 | 32 | 41,308 |
| | | | | |
| NBV at 31 March 2014 | 40,467 | 33 | 21 | 40,521 |
| | | | | |
| Inherited | 4,053 | 0 | 0 | 4,053 |
| Financed by capital grant | 36,414 | 33 | 12 | 36,459 |
| Other | 0 | 0 | 9 | 9 |
| At 31 March 2014 | 40,467 | 33 | 21 | 40,521 |

Land and buildings were revalued at 31st July 2013 by J&E Shepherd, Chartered Surveyors in the capacity of independent valuer. The basis of valuation adopted was depreciated replacement cost for all but the Catherinefield Nursery which was valued at Market Value, and the valuation was made in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

The Crichton campus, which was completed in January 2009, is a key part of the strategic plan that will provide long-term financial sustainability for the College.

Land and Buildings with a net book value of £40,467,000 have been partially financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council, to surrender the proceeds.

Notes to the Financial Statements (continued)

12 Tangible Fixed Assets (continued)

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

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

13 Debtors: Amounts falling due within one year

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|---|--|---|
| Trade debtors - net of provision for doubtful debts | 121 | 109 |
| European Funding | 0 | 0 |
| Prepayments and accrued income | 880 | 443 |
| | <u>1,001</u> | <u>552</u> |

14 Creditors: Amounts falling due within one year

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|--|--|---|
| Trade creditors | 134 | 146 |
| VAT | 61 | 96 |
| HMRC Lennartz Scheme | 355 | 374 |
| Other taxation and social security | 138 | 119 |
| Pension | 122 | 98 |
| Contract retentions | 120 | 120 |
| Accruals and deferred income | 1,513 | 1,678 |
| Bursaries and Access funds for future disbursement | 21 | 60 |
| | <u>2,464</u> | <u>2,691</u> |

Notes to the Financial Statements (continued)

| 15 Creditors: Amounts falling due after more than one year | Period ended 31 March 2014 | Year ended 31 July 2013 |
|--|----------------------------------|-------------------------------|
| | £000 | £000 |
| HMRC Lennartz Scheme | <u>1,184</u> | <u>1,496</u> |

| 16 Provisions for liabilities and charges | Early retirement pension costs | Other | 2013-14 Total | 2012-13 Total |
|---|-----------------------------------|----------|------------------|------------------|
| At 1 August 2013 | 771 | 188 | 959 | 985 |
| Expenditure in the period | (32) | 0 | (32) | (47) |
| Additional provision required in period | (13) | 0 | (13) | 9 |
| Revaluation adjustment | 0 | (179) | (179) | 0 |
| Interest charged | 15 | 0 | 15 | 12 |
| At 31 March 2014 | <u>741</u> | <u>9</u> | <u>750</u> | <u>959</u> |

The pension provision has been revalued using actuarial tables supplied by SFC. The net interest rate applied was 2%.

Other provisions relate to redundancy costs which were expected to arise on completion of an externally funded project, and costs to rectify heating system defects.

| 17 Deferred Capital Grants | SFC £000 | Other £000 | Total £000 |
|---|---------------|---------------|---------------|
| At 1 August 2013 | | | |
| Land and Buildings | 22,782 | 4,369 | 27,151 |
| Equipment | 312 | 39 | 351 |
| | <u>23,094</u> | <u>4,408</u> | <u>27,502</u> |
| Cash Receivable | | | |
| Land and Buildings | 0 | 0 | 0 |
| Equipment | 0 | 0 | 0 |
| | <u>0</u> | <u>0</u> | <u>0</u> |
| Released to Income and Expenditure Account | | | |
| Land and Buildings | (397) | (73) | (470) |
| Equipment | (48) | (4) | (52) |
| | <u>(445)</u> | <u>(77)</u> | <u>(522)</u> |
| At 31 March 2014 | | | |
| Land and Buildings | 22,385 | 4,296 | 26,681 |
| Equipment | 264 | 35 | 299 |
| | <u>22,649</u> | <u>4,331</u> | <u>26,980</u> |

Notes to the Financial Statements (continued)

| 18 Reserves | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|---|--|---|
| Revaluation Reserve | | |
| At 1 August 2013 | 6,746 | 15,383 |
| Revaluations in the period | 0 | (8,226) |
| Transfer to Income & expenditure account in respect of: | | |
| Depreciation on revalued assets | <u>(132)</u> | <u>(411)</u> |
| At 31 March 2014 | <u>6,614</u> | <u>6,746</u> |
| General Reserve | | |
| At 1 August 2013 | 4,314 | 3,409 |
| (Deficit)/ Surplus for the period | (1,651) | 34 |
| Transfer from revaluation reserve | 132 | 411 |
| Actuarial (losses)/ gains on pension scheme | <u>(1,066)</u> | <u>460</u> |
| At 31 March 2014 | <u>1,729</u> | <u>4,314</u> |
| Represented by: | | |
| Income & expenditure account | | |
| At 1 August 2013 | 7,088 | 6,528 |
| (Deficit)/ Surplus for the period | (1,651) | 34 |
| Transfer to pension reserve | 88 | 115 |
| Transfer from revaluation reserve | <u>132</u> | <u>411</u> |
| | <u>5,657</u> | <u>7,088</u> |
| Pension Reserve | | |
| At 1 August 2013 | <u>(2,774)</u> | <u>(3,119)</u> |
| Current service cost | (377) | (487) |
| Employer contributions | 282 | 434 |
| Past service costs | 0 | 0 |
| Gains/ (losses) on curtailments and settlements | 0 | 0 |
| Net return on assets | <u>7</u> | <u>(62)</u> |
| Transfer to income & expenditure | <u>(88)</u> | <u>(115)</u> |
| Actuarial (losses)/ gains | <u>(1,066)</u> | <u>460</u> |
| At 31 March 2014 | <u>(3,928)</u> | <u>(2,774)</u> |
| Summary | | |
| Income & expenditure account | 5,657 | 7,088 |
| Pensions reserve | <u>(3,928)</u> | <u>(2,774)</u> |
| At 31 March 2014 | <u>1,729</u> | <u>4,314</u> |

Notes to the Financial Statements (continued)

19 Reconciliation of operating surplus/(deficit) to net cash flow from operating activities

| | Note | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|--|-------|--|---------------------------------------|
| Operating (deficit)/ surplus after depreciation of assets at valuation and tax | | (1,651) | 34 |
| Pension costs | 24 | 95 | 53 |
| Depreciation | 12 | 787 | 1,405 |
| (Gain)/net loss on disposal of fixed assets | 9,12 | (2) | (1) |
| Deferred capital grants released to income | 17 | (522) | (804) |
| Increase in debtors | 13 | (449) | (72) |
| Decrease in creditors | 14,15 | (539) | (283) |
| Decrease in provisions | 16 | (209) | (26) |
| Interest receivable - bank interest | 6 | (17) | (31) |
| Net return on pension liability | 18 | (7) | 62 |
| Net cash (outflow)/ inflow from operating activities | | <u>(2,514)</u> | <u>337</u> |

20 Returns on investments and servicing of finance

| | | | |
|--|---|-----------|-----------|
| Interest received | 6 | 17 | 31 |
| Interest element of finance lease repayments | | <u>0</u> | <u>0</u> |
| Net cash inflow from returns on investments and servicing of finance | | <u>17</u> | <u>31</u> |

21 Capital expenditure

| | | | |
|--|----|----------|-------------|
| Purchase of tangible fixed assets | 12 | 0 | (12) |
| Sales of tangible fixed assets | | 2 | 1 |
| Deferred capital grants received | 17 | <u>0</u> | <u>0</u> |
| Net cash inflow/(outflow) from capital expenditure | | <u>2</u> | <u>(11)</u> |

Notes to the Financial Statements (continued)

22 Analysis of Net Funds

| | At 1 August 2013 | Cash Flows | Other Changes | At 31 March 2014 |
|---------------------------------------|---------------------|----------------|---------------|---------------------|
| | £000 | £000 | £000 | £000 |
| Cash | 4,622 | (2,495) | 0 | 2,127 |
| Finance lease/hire purchase contracts | 0 | 0 | 0 | 0 |
| TOTAL | 4,622 | (2,495) | 0 | 2,127 |

23 Lease commitments

| | Period ended 31 March 2014 | Year ended 31 July 2013 |
|--|----------------------------------|-------------------------------|
|--|----------------------------------|-------------------------------|

The annual commitments under operating leases for equipment are as follows:

| | | |
|----------------------------|-----------|----|
| Expiry - within one year | 3 | 2 |
| - within two to five years | 44 | 44 |
| - after five years | 0 | 0 |

Notes to the Financial Statements (continued)**24 Pensions and similar obligations**

The College's employees belong to two principal pension schemes, the Scottish Public Pensions Agency (SPPA) and the Local Government Pension Scheme (LGPS).

The total pension costs for the institution was :

| | | 8 months to March 2014 £000 | 12 months to July 2013 £000 |
|--|----|--|-----------------------------------|
| Contribution to SPPA | | 276 | 384 |
| Contribution to LGPS | | 293 | 415 |
| Pension costs as a result of implementing FRS 17 | 18 | 95 | 53 |
| Total pension cost | | 664 | 852 |

Contribution rates:

SPPA - 13.5% increased to 14.9% from 1 April 2009

LGPS - 20.5% decreased to 20% from 1 April 2012

The Scottish Public Pensions Agency

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

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

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

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

The College is unable to identify its share of the underlying assets and liabilities in the SPPA scheme. Consequently, in line with the requirements of FRS 17 - Retirement Benefits, the College accounts for contributions to this scheme as if it were a defined contribution scheme.

The Local Government Pension Scheme (LGPS)

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

The latest actuarial valuation of the scheme was at 31 March 2011. The assumptions that have the most significant effect on the valuation and other relevant data at 31 March 2014 are as follows :

| | 31 March 2014 | 31 July 2013 |
|---------------------------|----------------------|--------------|
| | % p.a. | % p.a. |
| Pension Increase Rate | 2.8% | 2.2% |
| Salary Increase Rate | 5.1% | 4.5% |
| Expected Return on Assets | 5.7% | 4.7% |
| Discount Rate | 4.6% | 4.1% |

Life expectancy is based on the S1NMA and S1NFA year of birth tables with medium cohort improvements and a 1% p.a. underpin, applied from 2008, and are the same as those used in the previous accounting period.

Notes to the Financial Statements (continued)

24 Pensions and similar obligations (continued)

Local Government Pension Scheme

| | Period ended 31 March 2014 | Year ended 31 July 2013 |
|---|----------------------------------|-------------------------------|
| | £000 | £000 |
| Fair value of plan assets | 13,366 | 12,666 |
| Present value of funded defined benefit obligations | <u>(17,269)</u> | <u>(15,415)</u> |
| | (3,903) | (2,749) |
| Present value of unfunded defined benefit obligations | <u>(25)</u> | <u>(25)</u> |
| Deficit | <u>(3,928)</u> | <u>(2,774)</u> |

Movements in present value of defined benefit obligation

| | | |
|---|----------------------|----------------------|
| At 1 August 2013 | 15,440 | 14,152 |
| Movement in year : | | |
| Current service cost | 377 | 487 |
| Past service costs relating to retrospective changes to members' benefits | 0 | 0 |
| Past service (gains) in respect of future pension increases | 0 | 0 |
| Interest cost | 473 | 587 |
| Curtailment | 0 | 0 |
| Actuarial gains/(losses) | 1,084 | 350 |
| Contributions by members | 85 | 124 |
| Benefits paid | (165) | (260) |
| At 31 March 2014 | <u>17,294</u> | <u>15,440</u> |

Movements in fair value of plan assets

| | | |
|--------------------------------|----------------------|----------------------|
| At 1 August 2013 | 12,666 | 11,033 |
| Expected return on plan assets | 480 | 525 |
| Actuarial gains/(losses) | 18 | 810 |
| Contributions by employer | 282 | 434 |
| Contributions by members | 85 | 124 |
| Benefits paid | (165) | (260) |
| At 31 March 2014 | <u>13,366</u> | <u>12,666</u> |

Expense recognised in the income and expenditure account

| | | |
|--|-------------------|-------------------|
| Current service cost | 377 | 487 |
| Losses on settlements and curtailments | 0 | 0 |
| Past service cost/(gain) | 0 | 0 |
| Interest on defined benefit pension plan obligation | 473 | 587 |
| Expected return on defined benefit pension plan assets | (480) | (525) |
| Total | <u>370</u> | <u>549</u> |

The expense is recognised in the following line items in the income and expenditure account:

| | | |
|-------------------|-------------------|-------------------|
| Staff costs | 377 | 487 |
| Investment income | (7) | 0 |
| Interest costs | 0 | 62 |
| | <u>370</u> | <u>549</u> |

Notes to the Financial Statements (continued)

24 Pensions and similar obligations (continued)

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|---|--|---------------------------------------|
| Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL): | | |
| Actual return less expected return on pension assets | 18 | 810 |
| Change in financial assumptions underlying the scheme liabilities | (1,084) | (350) |
| Actuarial (loss)/ gain recognised in the STRGL | <u>(1,066)</u> | <u>460</u> |

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

| | 2014 Fair value £000 | 2013 Fair value £000 |
|------------------------------|----------------------------|----------------------------|
| Equities | 10,025 | 8,360 |
| Corporate bonds | 2,005 | 3,040 |
| Property | 1,069 | 1,013 |
| Other | 267 | 253 |
| | <u>13,366</u> | <u>12,666</u> |
| Actual return on plan assets | <u>498</u> | <u>1,335</u> |

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

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

| | As at 31/03/14 % | As at 31/07/13 % |
|--|---------------------|------------------------|
| Discount rate | 4.30% | 4.60% |
| Expected rate of return on plan assets | 6.00% | 5.70% |
| Future salary increases | 5.10% | 5.10% |
| Inflation/ pension rate increase | 2.80% | 2.80% |

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old person to live for a number of years as follows:

- Current pensioner aged 65: 23 years (male), 25.6 years (female).
- Future retiree upon reaching 65: 24.9 years (male), 27.7 years (female).

Notes to the Financial Statements (continued)

24 Pensions and similar obligations (continued)

History of plans

The history of the plans for the current and prior periods is as follows:

| <i>Balance sheet</i> | Period ended 31/03/14 £000 | Year ended 31/07/13 £000 | Year ended 31/07/12 £000 | Year ended 31/07/11 £000 | Year ended 31/07/10 £000 |
|--|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Present value of scheme liabilities | (17,269) | (15,415) | (14,127) | (12,352) | (11,237) |
| Present value of unfunded liabilities | (25) | (25) | (25) | (22) | (22) |
| Fair value of scheme assets | 13,366 | 12,666 | 11,033 | 10,569 | 9,129 |
| Deficit/ surplus | <u>(3,928)</u> | <u>(2,774)</u> | <u>(3,119)</u> | <u>(1,805)</u> | <u>(2,130)</u> |
| <i>Experience adjustments</i> | | | | | |
| Experience adjustments on scheme liabilities | 5 | 0 | 675 | (1) | 1 |
| Experience adjustments on scheme assets | 18 | 810 | (607) | 453 | 661 |
| | <u>23</u> | <u>810</u> | <u>68</u> | <u>452</u> | <u>662</u> |

The College expects to contribute approximately £404,000 to the scheme in the next financial year.

25 Related Party Transactions

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

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

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

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

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

| Member | Organisation | Position |
|---------------|---|---------------------|
| F. Sanderson | Crichton Foundation | Trustee |
| T Hydes | Crichton Foundation | Appointed Trustee |
| D. Holland | Crichton Foundation | Appointed Trustee |
| B. Johnstone | Armstrong Watson | Partner |
| H. Carr | Dumfries and Galloway Housing Partnership | Director of Finance |

Notes to the Financial Statements (continued)

25 Related Party Transactions (continued)

The Crichton Foundation has previously provided grant funding towards the Henry Duncan building, which forms part of the Crichton Campus. During the period ended 31 March 2014 the Crichton Foundation provided grant funding of £10,000 for student support, and £5,044 was disbursed to students by the College during the period. In addition, £500 was invoiced to Crichton Foundation in respect of a contribution to the annual College Award Ceremony. No balances were due to the College by the Crichton Foundation at 31 March 2014, and a balance of £4,956 was held for future student payments.

The College use Armstrong Watson for payroll bureau services. Invoices from Armstrong Watson to the College during the period ended 31 March 2014 amounted to £4,435, and a balance of £554 was due to Armstrong Watson by the College at 31 March 2014.

The College provided training courses to Dumfries and Galloway Housing Partnership during the period to 31 March 2014. Invoices to Dumfries and Galloway Housing Partnership amounted to £42,072. No balances were due to the College from Dumfries and Galloway Housing Partnership at 31 March 2014.

The members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to five members of the Board of Management during the year amounted to £3,056.

26 FE Bursaries and other Student Support Funds

| | FE | | | Period ended | Year ended |
|---|---------|-------|-------|--------------|------------|
| | Bursary | EMA's | Other | 31 March | 31 July |
| | £000 | £000 | £000 | 2014 | 2013 |
| | | | | £000 | £000 |
| Balance brought forward | 57 | 0 | 56 | 113 | 108 |
| Allocation received in period (including interest) | 1,365 | 198 | 101 | 1,664 | 2,453 |
| | 1,422 | 198 | 157 | 1,777 | 2,561 |
| Expenditure | (1,425) | (215) | (110) | (1,750) | (2,421) |
| Repayable to Funding Council as Clawback | 0 | 0 | (3) | (3) | (20) |
| College Contribution to funds | 3 | 17 | 6 | 26 | 0 |
| Virements | 0 | 0 | 0 | 0 | (7) |
| Balance Carried forward | 0 | 0 | 44 | 50 | 113 |
| Represented by: | | | | | |
| Repayable to Funding Council as Clawback | 0 | 0 | 0 | 0 | 28 |
| Retained by College for Students | 0 | 0 | 50 | 50 | 85 |
| | 0 | 0 | 50 | 50 | 113 |

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

Notes to the Financial Statements (continued)

27 FE and HE Childcare Funds

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|--|--|---------------------------------------|
| Balance brought forward | 7 | 4 |
| Allocation received in period | <u>116</u> | <u>215</u> |
| | 123 | 219 |
| Expenditure | (214) | (219) |
| Repayable to Funding Council as Clawback | 0 | 0 |
| Virements | 0 | 7 |
| College contribution to funds | <u>91</u> | <u>0</u> |
| Balance Carried forward | <u><u>0</u></u> | <u><u>7</u></u> |
| Represented by: | | |
| Repayable to Funding Council as Clawback | 0 | 3 |
| Retained by College for Students | <u>0</u> | <u>4</u> |
| | <u><u>0</u></u> | <u><u>7</u></u> |

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

28 Capital Commitments

| | Period ended 31 March 2014 £000 | Year ended 31 July 2013 £000 |
|----------------------------|--|---------------------------------------|
| Contracted for at 31 March | <u><u>0</u></u> | <u><u>0</u></u> |

29 Post Balance Sheet Events

There are no post balance sheet events.

30 Contingent Liabilities

The College had no contingent liabilities at 31 March 2014 and 31 July 2013.

31 Comparatives

The comparative figures relate to the period 1 August 2012 to 31 July 2013.