Board of Management
Finance and General Purposes Committee

Date: 18 September 2018 **Time: 12midday** **Room: 2009**

A G E N D A

			Presented by
1	Welcome and Apologies for Absence		RF
2	Declaration of Interest		RF
3	Minute of Meeting of 22 May 2018	(attached)	RF
4	Matters Arising		
	4.1 Winding down of College ALF	(verbal)	CT/JH/KH
	4.2 2018/19 Budget, recommended to the Board	(verbal)	KH
	4.3 Evaluation of Income v Benefits for the Student Association	(verbal)	RF
5	Draft Annual F&GP Committee Report 2017/18	(report attached)	RF
6	Estates/Facilities Update	(report attached)	BC
7	National Bargaining – Update	(verbal)	CT
8	Cash flow Report	(report attached)	KH
9	Financial Forecast Return	(report attached)	KH
10	Draft Financial Statements 2017-18	(report attached)	KH
11	Aged Debt Report	(report attached)	KH
12	Strategic Risk Register	(report attached)	CT
13	Any Other Business		
14	Date and Time of Next Meeting - Tuesday 20 November 2018 at 12 midday		

Board of Management
Finance and General Purposes Committee

Minute of the Meeting of the Finance and General Purposes Committee of the Board of Management of Dumfries and Galloway College, held on Tuesday 18 September 2018 at 12 noon in Room 2009, Dumfries Campus.

Present:	Ros Francis (New Chair) Carol Turnbull	Sue Livermore
In attendance:	Karen Hunter, Head of Finance Andy Glen, Vice Principal Business Development & Corporate Services Brian Johnstone, Regional Chair Ann Walsh, Secretary to the Board	
Minute Taker:	Heather Tinning, Executive Team Assistant	

1 Welcome and Apologies for Absence

In her position as new Chair of the Finance & General Purposes Committee, Ros Francis welcomed all to the meeting, including new member Sue Livermore and Chair of the Board Brian Johnstone.

Apologies for absence were intimated on behalf of John Henderson (outgoing Chair) and Karen McGahan.

The Secretary to the Board confirmed the meeting was quorate.

2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

3 Minute of Meeting of 22 May 2018

The Minute of the Finance and General Purposes Committee meeting held on 22 May 2018 was approved.

4 Matters Arising

4.1 College Arms Length Foundation (ALF) – follow up with Trustees

The Principal confirmed that the process to wind down the College Arms Length Foundation has started. The ALF will be formally closed, following submission of the end of year accounts.

Actions:

- The Principal to update the Finance & General Purposes Committee once the ALF is formally closed.

4.2 2018/19 Budget (recommended to the Board)

The 2018/19 budget was approved by the Board in June 2018

4.3 Evaluation of Income v Benefits for the Student Association

Following discussion, it was agreed to report on the Student Association budget at the next Finance & General Purposes Committee meeting. In terms of the Student Association (SA) budget, the Regional Chair suggested to consider the wider purpose and benefits of the SA when considering costs. The Vice Principal Business Development & Corporate Services would report back on any review they conduct, suggesting that November might be a good time.

Actions:
- Student Association accounts for 2017-18 to be prepared
- The Vice Principal Business Development & Corporate Services will report back on the Student Association budget and the benefit gained from this spend, at the next Finance & General Purposes meeting
- The Student Association budget to be included within the next budget report

5 Draft Annual F&GP Committee Report 2017/18

The Head of Finance spoke to the suggested Annual F&GP Committee Report 2017/18, highlighting the key activities and decisions of the committee for the Financial Period of 2017-18. Members agreed the report subject to inclusion of the following amendments:

- Item 3.3: To update this section to include all attendees
- Item 6: Change to refer to the 2017 financial statements which were formally approved during the period covered by the report
- Item 7: To include:
  - reference to monitoring the impact of the South of Scotland Economic Partnership (SOSEP) STEM developments
  - continued uncertainty over SFC grant funding and budgets, cash and working capital
  - reference to the deficit out turn for 2017-18 and the planned review of this by the Finance & General Purposes Committee

During discussion, the Chair suggested that a paper come to the November meeting on planned Committee work for the year and asked committee members to engage

Action: The Draft Annual F&GP Committee Report 2017/18 to be amended for presentation to the Board at meeting on 9th October 2018

Members noted the draft Annual F&GP Committee Report for 2017/18.

6 Estates/Facilities Update

The Chair welcomed the Head of Corporate Services. He spoke to the report which had been issued, reporting on the key updates on Facilities developments.

He referred to a table that included spend from the Scottish Funding council Capital Grant 2018-19. He advised that slight savings are likely to be made by using local contractors, but any savings must be used for work identified within this list and all spend has to be identified on a financial return submitted to the Scottish Funding Council. Members noted and discussed one of the areas of concern with regard to the investment in ICT. The Principal reported on the Colleges Scotland Colleges Spending Review Submission for Scottish Government and advised that the Executive Leadership team are re-prioritising budgets moving forward.

In terms of the new Catering Contract with the firm Aramark, a 3-year appointment, the Head of Corporate Services reported that Aramark are looking to work with and involve the Hospitality students, which was well received by committee members.

The Chair thanked the Head of Corporate Services for the update.

Members noted the report.

7 National Bargaining - Update

The Principal provided an update on National Bargaining, including:

- Migration Award
- Cost of Living Award
- EIS Consultative Ballot

The Principal reported that she and the Head of HR are attending an Employers Association Residential this week, at which further discussions will take place on National Bargaining including ratification on the pay offer for Support Staff.

Members noted the update.

8 Cash Flow Report

The Head of Finance spoke to the report, highlighting key points to note:

- Projected cash flow for next year, will be updated to include the SoSEP funded projects, for which a separate cash flow spreadsheet will be established
- Balance of cash at March 2019 expected to be very low. Finance team are monitoring the situation closely
- The final payment for Lennartz is due next month

In answer to a question with regard to the SoSEP projects, the Principal confirmed that although there is clarity on the division of expenditure between the two colleges, there is no clarity on any advance payments. The cash flow prediction is based on what expenditure is incurred and drawn down from the Scottish Funding Council.

Action: The cash flow to be included in the Financial Update moving forward

The Head of Finance reported on recent discussions at a Funding meeting on the Scottish Funding Council and calculation of depreciation spend, and the change of methodology.

Members noted the Cash Flow report including the forecast movements and closing bank balances for period 2018-19.

9 5 year Financial Forecast Return

The Head of Finance spoke to the report, which had been issued highlighting key points to note:

- Main figures for return are based on Scottish Funding Council scenarios
- The out-turn for 2017-18 for forecast are based on June Management Accounts, rather than year end. Forecast to be amended to reflect the draft accounts
- The return has been prepared for the Scottish Funding Council to meet the submission date of 28th September 2018

The VP Business Development & Corporate Services reported on a recent meeting with Scottish Funding Council representatives, looking at the demographics model, advising that the model highlighted some anticipated growth – however nothing has been agreed at this stage.

Action: The Head of Finance to revise figures to include the impact of National Bargaining once final offers have been agreed

Decision: Members approved the Financial Forecast Return, based on the assumptions provided by the Scottish Funding Council, and noted the projected out-turn based on the alternative scenarios.

10 Draft Financial Statements 2017-18

The Head of Finance spoke to the report, which had been issued, as a first draft to be presented to the Auditors next week, reporting on key points to note:

- A change this year in terms of disclosure of underlying results
- Pension adjustments are significant
- In terms of underlying position, the Head of Finance reported on the operating deficit of £74,000.

The Chair requested that we look at the timing of circulating the draft Financial Statements to Finance & General Purposes Committee members, possibly in advance of the November agenda, allowing more time for members to view the draft statements.

Actions:

- The full draft Financial Statements for 2017-18 to be presented at the next Finance & General Purposes Committee meeting
- The Head of Finance to circulate the draft Financial Statements to the Finance & General Purposes Committee, following review by the Auditors, to include the narrative and draft figures
- In terms of the deficit,-the Principal and Head of Finance to review the reasons behind the deficit, the forecast breakeven positon and lessons learned. Paper to come to November meeting

11 Aged Debt Report

The Head of Finance spoke to the report which had been issued, as an update on debt figures at the end of July 2018. The Chair noted the much improved position on aged debt and asked whether the aged debt report could now come annually.

Members noted that the Bursary balance from AY 2016/17 is presenting a higher balance than normal.

Decision: The Aged Debt Report to be presented annually to the Finance & General Purposes Committee, following confirmation from the Head of Finance with reference to the wording in the Financial Procedures

Action: The Head of Finance to check the Financial Procedures regarding the suggested change to present the report annually

Members noted the aged debt balances at July 2018 and approved the proposed balances for write-off.

12 Strategic Risk Register

The Principal spoke to the Strategic Risk Register, advising that there were no significant changes to the risks. The Principal advised that she had undertaken a review of the Risk Register over the summer in terms of presenting the register in a new format. The revised Risk Register will be presented to the Audit Committee on 19 September 2018 for adoption, to be used going forward. The Principal advised that the revised Risk Register identifies who is responsible for managing the risk.

The Chair queried the purpose of the Strategic Risk register coming to every Committee meeting. She felt that strategic risks could not be mapped to Committees and that by the time the document was discussed at Board it had become tired. The Regional Chair agreed to raise at Audit Committee.

Action: The Principal to re-visit risk number 2 in terms of the narrative on the budget to reflect the draft budget presented today

Members approved the Strategic Risk Register presented to the committee, allowing for the amendment of risk number 2, and presentation of the revised Risk Register at the next Finance & General Purposes Committee meeting.

13 Any other business

None.

14 Date and time of Next Meeting

The date and time of the next Finance and General Purposes Committee is Tuesday 20th November, 12 noon.

Board of Management
Finance and General Purposes Committee

Minute of the Meeting of the Finance and General Purposes Committee of the Board of Management of Dumfries and Galloway College, held on Tuesday 22 May 2018 at 12 noon in Room 1074b, Dumfries Campus.

Present:	John Henderson (Chair) Carol Turnbull Karen McGahan	Ros Francis Kenny Henry
In attendance:	Karen Hunter, Finance Manager Andy Glen, Vice Principal Performance and Planning Brian Johnstone, Chair of Board of Management Ann Walsh, Secretary to the Board	
Minute Taker:	Heather Tinning, Executive Team Assistant	

1 Welcome and Apologies for Absence

The Chair welcomed members to the meeting, including Chair of the Board Brian Johnstone.

The Secretary to the Board confirmed the meeting was quorate.

2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

3 Minute of Meeting of 27 February 2018

The Minute of the Finance and General Purposes Committee meeting held on 27 February 2018 was approved.

4 Matters Arising

4.1 College Arms Length Foundation (ALF) – follow up with Trustees

The Principal confirmed that a letter had been sent to the Trustees asking if members wanted to remain Trustees of the college ALF, of which two Trustees confirmed that they were willing to continue, including the Principal.

The Principal suggested to re-visit the original decision to wind down the college ALF, but retain use of the Scottish Colleges Foundation ALF.

Actions:

- The Finance Manager to clarify if the Scottish Colleges Foundation ALF has a ring-fenced section for Dumfries & Galloway
- The Finance Manager to find out if other colleges are using the Scottish Colleges Foundation ALF

Decision & Action: The F&GP Committee recommend to the Board to wind down the college ALF if it is determined that the Scottish Colleges Foundation ALF has a ring-fenced section for Dumfries & Galloway

4.2 Scottish Government Climate Change Target

The Vice Principal Performance and Planning confirmed that no penalties would be applied should we not meet our target.

4.3 GDPR online Training

Some members reported that they had still to complete their GDPR (General Data Protection Regulation) online training, prior to the implementation date of 25th May 2018. The Principal advised that additional, more advanced GDPR training is taking place in college today for Front Line staff.

5 2018-19 Draft Budget

The Finance Manager spoke to the draft budget for 2018/19, highlighting key points to note:

- Since the report had been issued, the Scottish Funding Council (SFC) have confirmed the Grant Allocations with a slight increase from the original indication of an additional £159 Capital Maintenance
- The Target Activity includes ring-fenced credits for Childcare
- The Funding offer from the SFC includes cover for costs for pay harmonisation, however the Cost of Living increase will need to be funded from the college
- £200,000 Rural & Remoteness funding is included in the overall grant
- The payroll costs include costs of Job Evaluation on the Support Side of approximately 6%, it is expected this will be met by the SFC, however no income has been allocated at this stage as this has not yet been confirmed
- The bid on the SOSEA for Capital Expenses will have no impact on the core budget
- It was noted that there was no funds available for operational planning or Contingency at this moment, however this would be reviewed going forward

The Finance Manager tabled the Payroll Budget analysis for information. Members noted the £790,000 increase in the Payroll for 2018-19. The variation is a combination of pension increases and costs of national bargaining including anticipated costs of job evaluation and is not as a result of increases in staffing.

Decision & Action: The F&GP Committee recommend the draft budget to the Board. The Committee noted the uncertainty and considered the assumptions to be appropriate at this moment

6 External Development Income and Expenditure

The Principal spoke to the report. The Principal highlighted the contribution that the team make in supporting the college and helping to achieve the credit targets. The challenge going forward will include generating more income and surplus. Members noted that the income is all cash received. In terms of areas of growth, true commercial income is generally generated from bespoke courses.

Members noted the update on External Development Income and Expenditure for the period August 2017 to March 2018.

7 Funding Council Grant Allocation/Capital Grant Appendix

The Vice Principal Performance and Planning (VP P&P) spoke to the report, which had been issued. The VP P&P advised that the most costly actions identified were at the Stranraer Campus, owing to the age of the building.

Members noted the report.

8 Financial Update (including Management Accounts) 2017-18 Budget

The Finance Manager spoke to the report, highlighting key points to note:

- On track to achieve an underlying break even position. The Finance Manager will continue to monitor the budget up to the end of July
- Any surplus to be considered for the operational plan spend
- The SFC advised to draw down costs of what will be achieved this year, in terms of FWDF

The Finance Manager reported on recent discussions at a Funding meeting on the SFC and calculation of depreciation spend, and the change of methodology.

Members noted the Financial Update.

9 Aged Debt Report

The Finance Manager spoke to the report, which had been issued highlighting key points to note:

- No concern of client debt at this time
- No proposed write-offs at this time

Members noted the aged debt balances as at April 2018.

10 Cash Flow Forecasts

The Finance Manager spoke to the report, which had been issued, highlighting that:

- The cash balance is higher at the end of March than predicted due to the Arm's Length Foundation grant for Engineering Equipment monies not yet being spent
- The last payment of Lennartz is due in October

Members noted the forecast movements and closing bank balances in the period.

11 Strategic Risk Register

The Principal spoke to the report, which had been issued. The Risk Register will be presented at each Board Committee, and members are asked to discuss actions relevant to their individual Committee. An additional column has been added to the Register which identifies the relevant Committee. Members noted the amendments, highlighted in red.

The Principal advised that she would be reviewing the Strategic Risk Register to ensure that it reflects key descriptions and Government Policies and priorities

12 Any other business

12.1 Resignation of F&GP Committee Chair

The Chair informed of his resignation as Chair of the Finance and General Purposes Committee, this being his last meeting as Chair. He stated that he felt the timing was appropriate, being the last meeting of the session. He expressed his sincere thanks for continuous support from members of the committee, the Executive Management Team and in particular the Finance Manager who has always been meticulous in her reporting on Finance.

The Chair of the Board thanked the Chair for his excellent chairing of the Finance and General Purposes Committee over a number of years, advising that his balance of good governance and attention to detail have been very much appreciated

Action: The Chair of the Board will bring a proposal for a replacement Chair, for approval, to the Board of Management meeting on 5th June 2018

13 Date and time of Next Meeting

The date and time of the next Finance and General Purposes Committee is Tuesday 18th September, 12 noon.

Finance and General Purposes Committee

DRAFT - ANNUAL REPORT BY THE FINANCE AND GENERAL PURPOSES COMMITTEE TO THE BOARD OF MANAGEMENT

1 PURPOSE OF REPORT

1.1 To advise the Board of Management of the activities and decisions of the Finance and General Purposes Committee during Financial Period 2017-18.

2 BACKGROUND TO REPORT

2.1 The Finance and General Purposes Committee comprises a minimum of three members of the Board of Management, as well as the Principal and a staff representative. The Committee operates in accordance with written Terms of Reference approved by the Board of Management.

2.2 It is a requirement of the College's Financial Regulations that the Finance and General Purposes Committee provides the Board with an Annual Report so that all members can be fully informed of, amongst other things, the state of the College's finances.

3 ADMINISTRATIVE MATTERS

3.1 This report covers a twelve-month period from 1 August 2017 to 31 July 2018

3.2 The membership of the Committee during the period was:

John Henderson (Chair)
Ros Francis
Kenny Henry (Staff representative)
Karen McGahan
Carol Turnbull (Principal)

3.3 Other attendees at Finance and General Purposes Committee meetings included:

Helen Pedley, Director of Organisational Development and Facilities
Andy Glen, Vice Principal Planning & Performance
Anne Walsh, Secretary to the Board
Brian Johnstone, Chair of the Board
Delia Holland, Board member
Karen Hunter, Finance Manager
William Currie, Facilities Manager

3.4 During the relevant period, the Finance and General Purposes Committee's formal meetings were as follows:

Date of Meeting:	Committee members present:
20 September 2017	John Henderson Ros Francis Kenny Henry Karen McGahan Carol Turnbull
28 November 2017	John Henderson Karen McGahan Carol Turnbull
27 February 2018	John Henderson Ros Francis Kenny Henry Karen McGahan
22 May 2018	John Henderson Ros Francis Kenny Henry Karen McGahan Carol Turnbull

There was an average attendance of 4.25 committee members (85%).

4 FINANCIAL MANAGEMENT

4.1 The Committee is responsible under the terms of the College's Financial Regulations to ensure that the College has a sound system of internal financial management and control and a robust mechanism for considering financial issues.

4.2 The Committee scrutinises the College's annual revenue and capital budget, and recommends the Annual Budget for approval to the Board of Management. The Committee thereafter monitors performance throughout the year in relation to the approved budgets.

4.3 The Committee scrutinises the Annual Financial Statements of the College, including the Operating and Financial Review, and recommends them for approval by the Board.

4.4 The Committee also review and approve the College Financial Statements Return and Financial Forecast Return, which are based on the Financial Statements and Annual Budget respectively, prior to submission to the SFC.

4.5 In order to assess the ongoing financial position of the College during the year, and the changing environmental and other issues which affect the College, the Agenda for each Committee meeting during 2017-18 included the following Items:

- **Financial Update** – to monitor operating results against budgets, and assess the forecast out-turn for the financial period;

- **Aged Debt Report** – to monitor client and student debt balances, and approve any proposed write-offs of unrecovered debts;

- **Cash Flow Forecasts** – to monitor the College's actual bank balances and assess forecast balances for the financial year.

4.6 The Committee have monitored the ongoing developments in implementation of the National Pay Bargaining and pay harmonisation throughout the year. Reports on the negotiations with Trade Unions, the modelling of the costs and the subsequent impact on College budgets have all been discussed on a regular basis throughout the year.

4.7 The Committee has assessed the ongoing programme of developments for the College estate, including the impact of SFC's Estates Condition Survey, and also reporting under the College Carbon Management plan.

4.8 The impact of the ONS Re-classification on the College has continued to be considered by the Committee during the year. The disclosure and reporting of expenditure, including 'net depreciation cash budget' has been considered in detail by the Committee, as well as reporting the impact of the accounting adjustments in the annual financial statements. The Committee will continue to assess those issues in the coming year.

5 ANNUAL BUDGET

5.1 The Annual Budget for 2017-18 was approved in May 2017. The Management Accounts were monitored against the budget during the current year, including developments and changes impacting on the results and forecasts as well as the impact of expenditure from the College's 'depreciation cash' budget.

5.2 The 2017-18 Management Accounts considered by the Committee at its meeting in May 2018 forecast an underlying break-even out-turn for the year to July 2018. Timing issues at the end of the financial year have resulted in a draft underlying operating deficit at July 2018 of £74,000.

5.3 The budget for 2018-19 was approved by this Committee and recommended the draft budget to the Board of Management.

6 ANNUAL FINANCIAL STATEMENTS

6.1 The College Financial Statements for the twelve-month period August 2016 to July 2017 were approved by this Committee in November 2017 and recommended to the Board of Management.

6.2 The management accounts for 2016-17 forecast a break-even operating out-turn. The accounting adjustments for the pension valuation at 31 July 2017 has resulted in a net charge of £641,000 against operating results for the period, and costs for the Staff Voluntary Severance Scheme and the 2015-16 pay award were met from ‘depreciation cash grants’. This additional expenditure and the accounting adjustments for the Pension Valuation resulted in a financial accounts deficit for the period of £965,000. The notes to the accounts set out the underlying operating position, which shows an operating surplus of £35,000.

6.3 The College prepares financial statements in accordance with the Financial Reporting Standard (FRS) 102, and as capital grants require to be disclosed as creditors in the balance sheet, total creditors at 31 July 2017 amount to £25,426,000. The deferred grants now included in current liabilities amounts to £758,000 which has resulted in a net current liability position in the College balance sheet at 31 July 2017.

6.4 The College Financial Statements for the twelve-month period August 2017 to July 2018 are in draft form, and the external audit is scheduled to commence in September 2018. The auditors will issue their final report when the work has been completed.

7 OTHER MATTERS

7.1 There are no capital finance matters arising which require the Board to obtain prior written consent from SFC.

7.2 The Finance and General Purposes Committee will review any 2017-18 underlying operating deficit at its November 2018 meeting.

7.3 The Committee will monitor the financial impact of the South of Scotland Economic Partnership (SOSEP) STEM project over the next 12 months. In addition, the Committee will continue to consider the impact of National Bargaining on the College budgets and financial sustainability as well as the ongoing impact of the Public Sector budgeting and reporting requirements, including the budget treatment of non-cash accounting transactions.

7.4 The continued uncertainty over SFC grant funding levels, and reduction in budget funding will remain a challenge for the Committee.

7.5 The final payment of the Lennartz agreement with HMRC is due to be paid in September 2018, and as a result the College's working capital and cash balances are expected to be relatively small. The profile of grant income and related expenditure will require to be closely monitored to ensure sufficient funds are available to cover ongoing costs.

7.3 There are no other foreseeable events that will affect the work of the Finance Committee.

8 OPINION

8.1 The Finance and General Purposes Committee's view on the Board of Management's responsibilities, as described in the Financial Regulations, is that they have been satisfactorily discharged.

8.2 The Finance and General Purposes Committee's view is that

- ***The College's financial affairs are planned, conducted and controlled so that its total income is sufficient, taking one period with another, to meet its total expenditure, and its operational financial viability is maintained, subject to ongoing treatment of depreciation cash funds for HM Treasury reporting purposes and the College's inability to set aside funds for future capital replacement; and***

- ***The Board of Management has taken all reasonable steps to ensure that the College has sufficient financial resources to meet its need in the form of cash and other liquid assets or borrowing facilities or has plans to generate such resources, and this will continue to be monitored given the likelihood of ongoing funding reductions.***

Corporate Services Update

1 Purpose of the Report

The purpose of this report is to provide the Finance and General Purposes Committee with an update on Facilities developments following the previous meeting.

2 Climate Change Works

The College identified the need to upgrade the Building Management System (BMS) at Stranraer campus as "urgent" through discussion with the existing service provider. The existing system was old, obsolete and failing. This meant the Heating and Ventilation systems were not being controlled accurately therefor wasting energy. Following a tender exercise we chose MCE Scotland as the contractor. The total cost was £16540 which will be split over 2 phases. Phase 1 was completed in July 2018 with the 2nd Phase due to be carried out in October 2018.

The energy savings benefits for this will intervention be a reduction in run time for the fans in the Ventilation system and also more accurate control of the Heating System.

3 2017-2018 Estates Works

The following is a list of works carried out through 2017-18. These works were generally identified through operational planning.

Installation of Comfort Cooling in Academic staff workrooms 2017 & 1056.	£29,088
Purchase of a mobile dust extract system for construction areas.	6,538
Move mail room and reconfigure Janitors office	£4,000
Lease of 1 Minibus	£8,962.44
Lease of 2 VW Polo cars	£6,143
BMS Upgrade	£4,414.80
BMS Upgrade(Stranraer-Climate Change)	£16,450
Inspection of roof flashings (Dumfries)	£3,768
Works to upgrade Stranraer Refectory	£6,500
Room moves and upgrades including engineering	£11,500
Total Spend	£97,364.00

4 Scottish Funding Council Capital Grant 2018-19

For 2018-19 the works being carried out by the Estates department will be in line with the recommendations made by the Scottish Funding Councils condition survey carried out in 2017- see separate report at Appendix A.

The following table shows the works highlighted as high priority for this year and the allocation we have made against each.

	Dumfries Actions					
Action	Proposed time		Budget Allocated	Actual Costs	Remaining Budget	Order Number
Repair cracking on exit stair slabs	October		£8,000			
Fire Dampers- Access and full service	October		£12,000			
Address heating on ground floor	October		£30,000	13644	16356	
Address areas of floor finishing	Early August		£10,000	4320	5680	
Decoration	Ongoing		£8,000			
		Total	£68,000			
	Stranraer Actions					
Action	Proposed time		Budget Allocated	Actual Costs	Remaining Budget	Order Number
Roofing repairs	Early August		£10,000	1560	8440	
Treatment of exposed lintels	October		£10,000	2853	7147	
Emergency Lighting upgrade	Start in November		£20,000	3000	17000	
Works to ducting in kitchen	February		£10,000			
Replacement of windows	October		£20,000			
Upgrade of flooring	October		£10,000			
Decoration	Ongoing		£5,000			
		Total	£85,000			

The above table demonstrates that more money is allocated to Stranraer campus. This allows the College to complete high priority actions to modernise the campus. This, in turn, mean the team are unable to tend to all requests such as furniture and outdoor spaces due to the budget being allocated to the actions arising from the conditions survey.

The condition survey report indicated that the works highlighted will be spread over 5 years so it is envisaged that the capital allocation funding will reflect this going forward.

This in turn means that Estates will only have funding for works detailed on the conditions survey action list for the foreseeable future.

5 Catering Services

The College took the decision this year to go out to tender for our Catering services after 4 years with Baxter Storey.

Following a full process alongside APUC Aramark came out as the successful contractor and took over on the 1st August 2018.
Aramark have carried out extensive works over the summer including a refit to the Costa, installation of new Epos tills with card machines (an item which has featured heavily on students' feedback for some time now), new marketing and branding as well as development of the existing team. Through the contract Aramark invested £35,458 to complete the works.

Aramark are also working with the College in developing the service at Stranraer. The College are working to provide the facilities whilst Aramark are working with their staff to develop them in order to provide an increased service out in Stranraer.

6 Information and Communications Technology (ICT)

A new ICT manager has been appointed and will take up post on the 1st October 2018. Calum Rodgers has been working as an ICT support Manager with Natural Power, a multi-national wind farm operation based out of St Johns town of Dalry.

The Head of Corporate services has been working, in the meantime, to provide day to day operational support and guidance to the ICT team.

One area of support given has been in the form of Network Administration. Craig Murdoch is now working towards a Diploma in Network Administration which will help boost the support available to the College in this area.

Over the summer Bayley McKinnon, admin Modern Apprentice, has been creating an asset list of ICT equipment within the classrooms. This asset list is critical to allow the ICT team a monitoring tool of all equipment within the College estate and allows the management a tool to plan an update and replacement programme.

An ICT consultant has been providing support to the team in assisting with upgrades during the summer holidays as well as planning for the October holidays. Through this work a few areas have been prioritised such as an infrastructure audit at Stranraer and a Wireless network upgrade across both campuses.

Over the summer the ICT team carried out some urgent upgrades to computers within the Finance, HR, CTS and Point areas. The works including installing new Solid State Drives which have helped lift the speed performance of critical machines.
Vital security testing, knows as penetration testing, was carried out over the summer which proved successful. No major issues were reported following the testing.

7 Information Systems(IS)

The IS team have been busy on a few projects over the last year.

One such project was the development of the Learning Analytics tool which can be used to process live data with the aim of identify extra support needs for students in danger of dropping out or leaving the College. The tool is now ready to be available for use and work is underway with curriculum and support teams to roll this out.

Another project carried out was the migration from MyDay to Moodle. The purpose of this migration was to provide students easier access to information about courses and availability of teaching materials.

This was rolled out in time for the new academic year.

7 Recommendation

Members are asked to note the report.

William Currie
Head of Corporate Services
September 2018

Finance & General Purposes Committee

SCOTLAND'S COLLEGE ESTATE CONDITION REPORT

1 Purpose of the Report

The Purpose of the Report is to identify a 5-year maintenance plan for the College.

2 Report

BACKGROUND

In November 2016 the Scottish Funding Council instigated an investigation into the condition of the Scottish Colleges Estates. This purpose of the exercise was to build a case for critical capital investment with the Estates over a 5 year period.

The initial survey was a desktop exercise in the form a questionnaire. (See attached response) The request to Dumfries and Galloway College was for information regarding the Stranraer campus only in the first instance. This was completed in March 2017.

Following the desktop exercise we were contacted by Gardiner Theobald who advised us that our campuses would be visited by 2 lots of surveyors, 1 to concentrate on building fabric and the other to concentrate on Mechanical and Electrical.

The visits took place with College staff assisting the surveyors, giving them background information as they walked around the buildings. The information was around historical issues that were faced such as heating, ventilation etc.

In October 2017 the initial findings were delivered to individual institutions for scrutiny and acceptance. We issued a challenge for clarity based on the findings for Stranraer. Upon receipt of the clarification we accepted the findings.

The full report was published by the funding council on the 22nd December 2017.

THE REPORTS FINDINGS

Dumfries Campus:

The report estimates a budget requirement of £774,258 over a 5 year period for the upkeep and improvements at Dumfries campus. This was broken down as follows:

- Structural = £10k. This was around some cracking in concrete at fire exit stairs.
- Fabric and Redecoration = £572k. This is ongoing and includes painting works and replacement of floor coverings throughout the building.
- Ventilation repairs and upgrades = £133k. This was based around the fire dampers in the main. Access is required to test and inspect these dampers and carry out repairs as required.
- Alarms = £48k. This was to improve the alarm provision across the building

The report also prioritised the spend as follows:

- Very High-Year 1 = £30,000.
- High-Year 2 = £46800.
- Medium-Years 3-4 = £223400.
- Low-Years 5+ = £474058.

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Stranraer Campus:

The report estimates a budget of £669,366 over a 5 year period for the upkeep and improvements at Stranraer campus. This was broken down as follows:

- External Grounds = £10k. The report did not specify the improvements required.
- External Fabric = £212k. The report specified replacement of doors and windows across the campus. Also required the rust treatment of exposed lintels.
- Roofs = £65k. Repairs and upgrades of the roofs.
- Floor coverings and décor = £147k. Replacement of floor coverings and internal decoration
- Sanitary ware = £36k replacement or upgrade of toilets and sinks
- Mechanical and electrical = £84k This would be to upgrade electrical systems such as emergency lighting systems
- Heating and ventilation = £65k. This would be to upgrade our current systems to meet building and energy efficiency needs
- Lifts = £42k. This would be an upgrade of the existing lift controls as the current controls are nearing end of life.

The report prioritised the spend as follows:

- Very High-Year 1 = £46800
- High-Year 2 = £17094
- Medium-Years 3-4 = £169946
- Low-Years 5+ = £435526

CONCLUSION

Although the report outlines the estimated costs it may be that the College will not incur the full costs. Some of the works may be picked up through future projects should funding become available, others may come in at significantly reduced costs. Items such as the heating and ventilation at Stranraer have already been addressed thanks to significant funding.

It is clear, however, that if we are to address the issues raised then a significant budget increase will be required to cope with this.

The total budget required is £1,443,624 over 5 years which works out at £288,724.8 if divided evenly over 5 years. That in itself is already significantly more than the Colleges entire capital budget as it stands.

3 Recommendation

Members are asked to monitor the progress against the issues highlighted.

William Currie
Facilities Manager
February 2018

Finance and General Purposes Committee

Cash Flow Forecasts for 2018-19

1. Purpose of the Report

1.1 The purpose of this report is to present the Cash Flow forecasts for 2018-19 to the Committee and highlight the key aspects for review.

2. Report

2.1 The Scottish Funding Council (SFC) have established a process to manage the payment of grants to Colleges, in line with Government Financial Reporting and Budgeting requirements. The College is expected to maintain a minimum level of cash reserves required in order to operate effectively and meet costs as they fall due. The College submits a monthly claim to SFC which highlights actual and forecast bank balances, and expected expenditure each month as well as any variances from budget allocations set by SFC.

2.2 The format for the monthly cash flow return which is required by SFC has been updated for 2018-19. SFC have removed the requirement for Colleges to submit quarterly 'Resource Returns' to monitor expenditure against budget, and instead the cash flow return now includes additional information to split cash movements between revenue and capital items, EMA, and other items to allow SFC to monitor the College's performance against budget limits.

2.3 The cash flow forecasts will require to be updated to reflect the grant income and related expenditure for the SOSEP/ STEM project. We are awaiting advice from SFC on how the grant funding will be drawn-down, and the impact on cash flows will be assessed.

2.4 The cash flow report highlights core College cash movements. The Lennartz agreement has a balance of £73,627 to cover remaining instalment. A final calculation will be made in November, based on the income for the year-end 31 July 2018, and will be included in the VAT return for the quarter ended 31 October 2018.

2.5 The monthly grant claim from SFC is calculated in order to provide sufficient bank balances to meet operating expenditure.

2.6 The forecast balance at July 2018 was higher than expected due to the Arm's Length Foundation grant for Engineering Equipment monies not being paid out until September 2018.

2.7 The forecast balance at March 2019 is expected to be low due to the profile of expenditure on core college items as well as student support for that period, and the fixed element of SFC funding due.

2.8 The main area to highlight to the Committee is the movement at the SFC budget cut-off periods March and July 19, and the forecast reduction in the overall bank balances over the period to July 2019.

3. Recommendation

3.1 Members are asked to note the forecast movements and closing bank balances in the period.

Dumfries and Galloway College
Cash Flow Projections for 2018-19

	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Projected AY
Month Sept 18	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Mar-19**	**Apr-19**	**May-19**	**Jun-19**	**Jul-19**	**2018-19**
Forecast 18-19	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Income													
SFC Grants													
SFC Core Grant	800,000	800,000	750,000	820,000	1,000,000	750,000	400,000	414,463	600,000	850,000	910,000	979,054	**9,073,517**
SFC additional - Lecturers Pay	33,372	36,112	36,112	36,112	36,112	36,112	36,112	36,118	166,626	-	-	-	**452,788**
SFC additional - Support Staff Job Evaluation	-	-	-	-	-	-	-	-	-	-	-	207,687	**207,687**
SFC Other	-	8,182	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,093	**49,094**
Student Support													
Bursary	-	170,000	170,000	170,000	170,000	170,000	170,000	109,479	219,224	219,224	219,224	0	**1,787,151**
Capital Maintenance - revenue	-	-	-	-	-	356,214	-	-	-	-	-	-	**356,214**
Capital Maintenance - capital	-	-	-	-	-	25,000	-	-	-	-	-	-	**25,000**
EMA Admin	-	-	-	-	4,000	-	-	-	8,000	-	-	-	**12,000**
EMA Student Maintenance	15,270	22,819	22,819	22,819	22,819	22,818	22,818	22,818	25,000	25,000	25,000		**250,000**
													-
Other Income													**-**
Scottish Colleges Foundation	-	-	-	-	-	55,000	-	-	-	-	-	-	**55,000**
Other grant income	-	46,500	15,800	-	-	-	-	-	-	-	-	-	**62,300**
HE Hardship	-	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500		**75,000**
SAAS Fees	-	-	-	-	-	-	-	-	524,280	-	-	-	**524,280**
Re-charges - UWS/ Gl. Uni/ DGC	-	-	-	12,000	-	-	-	165,000	-	-	-	-	**177,000**
Other cash received in SDS 2017-18	83,030	77,695	77,695	77,695	77,695	77,695	77,695	77,695	77,695	77,695	77,695	77,711	**937,691**
Total cash in	**931,672**	**1,168,808**	**1,084,017**	**1,150,217**	**1,322,217**	**1,504,430**	**718,216**	**837,164**	**1,632,416**	**1,183,510**	**1,243,510**	**1,268,545**	**14,044,722**
Expenditure													
Payroll	729,654	720,346	740,000	720,000	730,000	740,000	750,000	740,000	920,000	789,000	790,000	760,000	**9,129,000**
SFC Additional Campus Manager		8,182	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,091	4,093	**49,094**
EMA payments	-	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	-	**250,000**
SFC Bursary and other student support payments (inc. student transport)	1,349	168,651	170,000	170,000	170,000	170,000	170,000	109,479	219,224	219,224	219,224	-	**1,787,151**
HE Hardship	-	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	-	**75,000**
PL payments (excl student transport)	98,642	235,679	220,679	180,000	155,000	160,000	160,000	120,000	208,000	230,000	206,000	160,083	**2,134,083**
Scottish Colleges Foundation - Capital costs	-	211,000	-	14,000	-	-	-	-	-	-	-	-	**225,000**
Scottish Colleges Foundation - Revenue costs	-	-	15,000	-	15,000	-	-	-	55,000	-	-	-	**85,000**
Maintenance costs - from SFC Capital Maintenace grant	23,098	-	-	-	-	333,116	-	-	-	-	-	-	**356,214**
Other payments	6,957	28,543	17,750	17,750	17,750	17,750	17,750	17,750	17,750	17,750	17,750	17,725	**212,975**
Lennartz	-	73,627	-	-	-	-	-	-	-	-	-	-	**73,627**
Capital Grant - payments	-	-	-	-	-	25,000	-	-	-	-	-	-	**25,000**
Total cash out	**859,700**	**1,478,528**	**1,200,020**	**1,138,341**	**1,124,341**	**1,482,457**	**1,134,341**	**1,023,820**	**1,456,565**	**1,292,565**	**1,269,565**	**941,901**	**14,402,144**
Net cash inflow/(outflow)	**71,972**	**(309,720)**	**(116,003)**	**11,876**	**197,876**	**21,973**	**(416,125)**	**(186,656)**	**175,851**	**(109,055)**	**(26,055)**	**326,644**	**(357,422)**
Balance b/f	736,140	808,112	**498,392**	382,389	394,265	592,141	614,114	197,989	11,333	187,184	78,129	52,074	736,140
Total closing bank balances	**£808,112**	**£498,392**	**£382,389**	**£394,265**	**£592,141**	**£614,114**	**£197,989**	**£11,333**	**£187,184**	**£78,129**	**£52,074**	**£378,718**	**£378,718**

Finance and General Purposes Committee

FINANCIAL FORECAST RETURNS – 2018-19 TO 2022-23

1 PURPOSE OF REPORT

The purpose of this report is to review and seek approval for the financial forecasts for the five years ending 2022-23 for Scottish Funding Council and also for internal financial planning purposes.

2 BACKGROUND

Scottish Funding Council (SFC) have requested the College to submit projections for five years as part of the Financial Forecast Return reporting requirement for 2018. The forecast period covers Academic Years 2018-19 to 2022-23, and SFC have advised that this is 'a key source of information in enabling SFC to monitor and assess the financial planning and health of colleges'.

SFC have prescribed a number of planning assumptions to be used in order to ensure consistency across the college sector and to enable them to make comparisons between colleges and regions.

In order for the Executive Management Team (EMT) to consider the longer-term financial impact of the STEM developments and to provide meaningful forecasts, some alternative scenarios have been developed which are based on an increase in student numbers and fees following completion of the STEM hubs from 2020-21.

As part of the ongoing Financial Monitoring procedures, EMT will review and update the projections on a regular basis to reflect changes in assumptions.

A Commentary has been prepared to accompany the projections, and sets out the key financial out-turn from the assumptions required for the SFC report as well as that modelling exercise.

3. REPORT

A copy of the Financial Forecast Return prepared using the key planning assumptions prescribed by SFC is attached to this report together with the related Commentary. The Commentary sets out the context in which the forecasts have been prepared and the key aspects for consideration, and 'Key Risks' are included within the FFR paper for reporting to SFC.

SFC have requested that the FFR is based on 'flat cash' grant in 2020-21 and 2021-22, with a 3% decrease in grant in 2022-23 to reflect the end of the European Social Funds (ESF) income. This, together with an increase in staff costs of 6% for that period, is projected to result in an underlying operating deficit of £696,000 by 2023.

The forecasts are already based on achieving real-cost savings of £85,000 each year in order to offset inflationary cost increases for non-staff costs, and savings of £300,000 have also been included to offset the reduction in SFC core grant, which is equivalent to the costs for five full time lecturers.

A 2% 'cost of living' pay award has been included in the forecasts which will cost approximately £175,000 in 2021-22 and 2022-23.

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The key differences between the scenarios used to prepare the forecasts are as follows:

Projections for SFC:

SFC Core grant – increase by 2% in 2019-20 to cover costs of transition to the new pay scales for lecturing staff, flat cash for 2020-21 and 2021-22, and a 3% decrease in 2022-23 to reflect decreased activity targets and a reduction in European Social Fund income;

Alternative scenario:

SFC Core grant – increase by 2% in 2019-20 as above, followed by a 2% increase in 2020-21, and a further 1% increase in 2021-22 and 2022-23;

Fee income and commercial income – increase of 5% in 2019-20 and 2020-21, and 2% in 2021-22 and 2022-23.

Staffing costs – the alternative scenario is based on no staffing reductions in 20122-23.

A copy of the detailed figures based on the alternative scenarios is also attached to this report.

Key Performance Indicators

The key performance indicators from the forecasts are as follows:

Based on SFC assumptions:

	2018-19 £000	**2019-20 £000**	**2020-21 £000**	**2021-22 £000**	**2022-23 £000**
Operating (deficit)	(415)	(435)	(732)	(947)	(1,086)
Underlying Operating (deficit)	(25)	(45)	(342)	(557)	(696)
Cash at bank	884	839	497	-	(657)
Net Current Assets/ (liabilities)	(838)	(821)	(1,109)	(1,607)	(2,262)
SFC Grant as % of total income	81%	79%	78%	78%	78%
Other income as % of total income	15%	16%	16%	16%	16%
Salaries as % of total expenditure	58%	66%	67%	68%	70%

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Other operating costs as % of total expenditure	33%	24%	22%	22%	20%
Depreciation as % of total expenditure	8%	9%	9%	9%	9%

Based on alternative assumptions:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Operating surplus/ (deficit)	(232)	(176)	(250)	(358)	(394)
Underlying Operating surplus/ (deficit)	124	176	89	3	(61)
Cash at bank	884	916	796	407	165
Net Current Assets/ (liabilities)	(838)	(744)	(809)	(1,198)	(1,440)
SFC Grant as % of total income	81%	78%	78%	78%	78%
Other income as % of total income	19%	22%	22%	22%	22%
Salaries as % of total expenditure	59%	67%	68%	69%	69%
Other operating costs as % of total expenditure	33%	24%	23%	22%	22%
Depreciation as % of total expenditure	8%	9%	9%	9%	9%

4 RECOMMENDATION

Members are requested to approve the Financial Forecast Return, based on the assumptions provided by SFC, and to note the projected out-turn based on the alternative scenarios.

DUMFRIES AND GALLOWAY COLLEGE

COMMENTARY FOR FINANCIAL PROJECTIONS

1. Introduction

Financial projections have been prepared which cover the year ended 31 July 2018, the budget for 2018-19, and the subsequent four years to 2022-23. The projections are required for the Financial Forecast Returns report for Scottish Funding Council (SFC) and form part of the ongoing financial management planning undertaken by the College.

The 2018-19 forecasts are based on the budget which has been approved by the Board of Management, and is based in achieving an underlying break-even out-turn for the period.

SFC have set out detailed assumptions in their 'Call for Information' in order that comparisons can be made between different colleges and regions. In order to provide meaningful information for the Executive Management Team (EMT) and Board of Management, additional scenarios have been considered and separate projections have been prepared using those assumptions in order to review the financial impact.

2. Strategic Planning and Developments

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

Dumfries and Galloway College, in partnership with Borders College, has been successful in bidding for grant funding from the South of Scotland Economic Partnership (SoSEP) to cover the costs of developing STEM hubs and spokes. The College aims to expand provision across both campuses as part of the STEM developments, in order to address the gaps in infrastructure and content for learning and skills development across the region.

Curriculum Planning - The College has a well established curriculum planning process and continually reviews its curriculum and courses to ensure decisions at strategic level are based on demand from learners, the needs of local employers, sector skills, internal performance measures, external environmental analysis, including the use of the Regional Skills Assessments as well as national initiatives such as *Opportunities for All* and *Developing The Young Workforce*. The College will continue to adopt flexible, engaging delivery methods that promote accessibility and flexibility. The College aims to offer progression and articulation opportunities in all its curriculum areas, and the STEM developments will increase the opportunities for the College to do that.

Estates Developments - the College is implementing a 5-year estates strategy, and the Conditions Surveys of both sites will inform the strategy. The College aims to address the High and Medium Priority works in the next two years.

Through our estates strategy the College aims to:

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

The forecasts have been prepared on the assumption that a portion of the cash budget for priorities (net depreciation) will be utilised to meet some of these costs each year.

The shared facilities at the Crichton building have increased the complexities of any development work there. The partners including University of the West of Scotland, Glasgow University and the Open University, all require to be consulted in advance of any work being carried out in the Crichton building, and any changes require minimal disruption for them.

Human Resource Management - the College has developed a 5-year Human Resource Strategy as a key driver to support the College to maximise the potential of employees. The purpose of the Strategy is to provide an effective framework for recruiting, developing and retaining staff in an effective, fair and supportive environment. To this end, the Strategy is structured around the four key themes:

1. An engaged, diverse and high quality workforce.
2. Adaptable, flexible and innovative staff, teams and organisation.
3. Excellent leadership and management.
4. A safe and healthy working environment.

The developments in staff recruitment and staff development are expected to be cost neutral, but changes resulting from national bargaining will have a major impact on the College budgets and potentially staffing levels.

Workforce plans have been established, with the aim of ensuring that sufficient teaching staff are available in order to deliver the planned curriculum each year. The costs modelled by Colleges Scotland for National Bargaining are reflected in the projections, and overall staffing costs are expected to increase significantly over the period in line with the modelled costs.

3. Review of Financial Performance 2017-18

The College achieved overall student numbers in line with plans for 2017-18. However, the number of credits achieved for HE childcare courses is expected to be lower than the SFC target.

The budget and forecast out-turn for the year has been monitored on an ongoing basis throughout the year, and any additional funding identified has been utilised to meet requests for curriculum developments and student facilities. The College forecasts an underlying break-even position for 2017-18.

The re-structure of academic management was embedded during 2017-18. Changes to the Executive Management Team have resulted in a review of support management during the current year, and changes implemented for the start of the 2018-19 academic year should help to ensure that an appropriate support and academic management structure is in place to support future developments.

The College received funding from the Scottish Colleges Foundation during 2017-18, which was invested in new equipment for the engineering department. Other developments during the year included ICT developments and a number of curricular developments as well as work on plans to develop engineering provision at Stranraer, and work on the SoSEP project.

The College was able to meet demand for student support from the grant available during 2017-18. Demand for Childcare support was in line with 2016-17 costs, and costs for bursary maintenance grants and discretionary funding increased during the year due to higher numbers of self-supporting students and care leavers.

4. Net forecast results for 2018-19 to 2022-23

The assumptions are based on SFC's guidance in the call for information SFC/CI/03/2018, and include a reduction in core grant of 3% in 2022-23.

Changes to staff costs for future years have been based on the costs which were modelled in the costing exercise by Colleges Scotland. The assumptions made for future years, potential costs of changes in terms and conditions, and the impact on the out-turn for future years, are set out in section 8. The forecast includes cost of living pay award, based on Public Sector Pay Policy, which equates to £883,000 for the four-year period 2019-20 to 2022-23.

The forecasts show increasing deficits for 2020-21 to 2022-23 as a result of the increasing staffing costs, and the SFC's assumption of 'flat cash' grant funding. A reduction in SFC core grant of £300,000 has been offset by a reduction on staffing costs of the same amount for these projections.

The forecast non-staff costs are based on achieving savings of £85,000 each year to offset inflationary increases in utilities, materials and other costs.

The current level of capital maintenance grant may not be sufficient to address all of the high and medium-priority maintenance as highlighted in the Estates Condition Survey. In addition, ongoing maintenance as well as a requirement to make changes to suit curriculum developments will require to be addressed. Total projected costs, highlighted in the Estates Condition Survey, amount to £1.4m and include a significant proportion of costs relating to the older campus building in Stranraer. The projections for this report are based on the capital maintenance grant of £303,000 continuing from 2020-21 to 2022-23, but this would not be sufficient to fund all of the costs in future.

Alternative scenarios have been used to prepare forecasts for consideration by the College's Finance and General Purposes Committee. The alternative scenarios are based on an ambitious growth target to increase fee and non-SFC income by 4% over the four-year period 2019-20 to 2022-2023, as well as aiming to increase SFC credit targets by 4%. The growth targets are based on an increased demand for short courses as well as growth in the engineering and care curriculum following completion of the STEM hub, and growth in spokes across the region. Forecasts based on those assumptions would increase total income by £816,000.

The forecast underlying results based on the alternative scenarios show a small surplus for 2019-20 to 2021-22 which would be available to re-invest in curriculum developments. However, as staffing costs are forecast to increase by more than this over the period, the projections indicate that further savings of £61,000 would be required in 2022-23 in order to achieve an underlying break-even out-turn.

5. Balance Sheet and Cash Position

The College retained cash reserves at 1 April 2014 following the ONS changes in order to meet future Lennartz liabilities, and as this has now been repaid, cash reserves at 31 July 2018 are low. The profile of costs and related grant income for the period up to March each year will require to be closely monitored, due to the higher portion of costs at the start of each academic year.

The College does not have a large balance of other current assets. Debtors and outstanding income, together with bank balances, represent the main current assets each year.

Current liabilities include a small amount of trade creditors, as well as accrued costs and deferred grant balances. The level of deferred grants are expected to increase due to the capital element of SoSEP grant funding in 2018-19 for the STEM project.

Net current liabilities are forecast to increase each year due to increasing operating deficits, with negative cash reserves by July 2022 and an increasing balance of net current liabilities each year.

Deferred capital grants represent a significant liability in the College's balance sheet, and the forecasts show total deferred grants of £20,460,000 by July 2023.

The balance sheet projections, based on the alternative scenarios, indicate that cash balances would be very low by July 2023 and total reserves would decrease over the period as the revaluation reserve decreases and an operating deficit being incurred each year.

6. SFC Recurrent Grant

SFC core grant represents a significant proportion of total income for the College, and Sensitivity Analysis highlights that a 3% change in SFC funding for 2022-23 is equivalent to £300,000.

The FFR has been based on levels of SFC core grant in accordance with the detailed tables set out in the 'call for information'.

The budget includes an assessment of the impact of the STEM developments, including an estimated split between capital and revenue spend, and the related grant funding.

The alternative scenarios considered by the College EMT are based on increasing credit targets by 2% in 2020-21, and a further 1% increase in 2021-22 and 2022-23, which has been based on an increased demand for Care and STEM activities following completion of the STEM Hub developments in 2019.

7. Fees and non-SFC income

The forecast for 2018-19 are based on the student numbers targets set out in the Regional Outcome Agreement and grant offer from SFC.

Income figures have assumed that the current joint working with the University of the West of Scotland and Glasgow University will continue, with a small increase in other income for subsequent years. No other major changes to income have been forecast for the FFR report.

The alternative scenarios have been based on an assumption that completion of the STEM Hub developments in 2019 will increase demand for short courses. An increase of 5% in 2019-20 and 2020-21, and 2% in 2021-22 and 2022-23 would provide an increase in income of £216,000 by 2023. An increase of this level would be required to meet a 2% cost of living pay award for staff.

8. Changes in staff and non-staff costs

Staffing costs

As noted above, changes to staff costs for future years have been based on the costs which were modelled by Colleges Scotland.

The staff costs budget for 2018-19 is based on the lecturing staff required in order to deliver the planned curriculum. The increase in lecturing staff costs for the year includes the costs of the transition to the new pay scales, which will be fully implemented by 2020-21.

The costs associated with changes to terms and conditions, annual leave and have all been included in the forecasts in line with the payroll modelling tables.

A cost of living pay award has been included in the projected staff costs for each year, which has been based on the most recent pay offers made by the Employers Association, and 2% for the remaining years in line with SFC's guidance.

The projections for 2022-23 have been prepared on the assumption that staffing savings of £300,000 will be achieved, in order to offset the reduction in credit targets and related core grant funding from SFC.

The budget for 2018-19 includes costs for the most recent Local Government Pension Scheme (LGPS) pension valuation exercise, with a small increase in employer contributions reflected in the payroll costs. The agreed contribution rate is effective from April 2018 up to March 2021, and the projections for 2021-22 and 2022-23 assume that the employer contribution rate will be consistent for that period.

No increase in employers' pension rates has been applied relating to the Scottish Teachers Superannuation Pension Scheme (STSS).

The College has recently completed a major review of the teaching and support management structure, in order to ensure that an appropriate support and academic management structure is in place to support future developments. Ongoing efficiency savings of 3% will be very difficult to identify – staff roles across the College will continue to be assessed on an ongoing basis, but any further large-scale reductions will have a significant impact on services and support for students.

Pensions - the forecasts do not include any adjustments for the pension valuation or any changes in pension contribution rates.

Non-staff costs

The forecasts assume that non-staff costs, excluding depreciation, will increase by 3% to reflect inflation but the additional costs, amounting to approximately £85,000 per anum, will be matched by efficiency savings.

Estates maintenance continues to be a significant non-staff cost for the College, and although the Dumfries campus is relatively new, as noted above, the curriculum development in both the Dumfries and Stranraer campuses requires an ongoing investment in estates developments and equipment in order to ensure students are provided with modern up to date facilities, and provide appropriate training for the workplace.

The current level of capital maintenance grant may not be sufficient to address all of the high and medium-priority maintenance as highlighted in the Estates Condition Survey. In addition, ongoing maintenance will require to be addressed as well as the need to make changes to accommodate developments in the curriculum.

IT and MIS developments - the College has invested heavily in technology to increase efficiencies and keep costs low, as well as provide excellent facilities for students.

The STEM project will provide an opportunity for the College to invest in new technology in order to create a sustainable digital infrastructure in the South of Scotland, and provide access to flexible learning. This facility will require an ongoing investment in ICT in order to ensure it is up to date and provides students with access to new technologies.

Funding these developments in future will require to be met from non-core funding or external sources.

9. Cash Budget for Priorities

The forecasts include expenditure of cash budget for priorities to meet ongoing costs of the 2015-16 consolidated pay award, with the balance set aside for planned developments to improve the curriculum and student experience. If any overspend in student support is forecast, the remaining budget would be utilised to meet those costs.

10. Risk Analysis

The College can no longer utilise retained reserves and cash balances to meet unexpected costs. The long-term future of the College requires continued investment in estates and IT facilities as well as staff development in order to ensure continued breadth of curriculum, allow the College to adapt to changing needs, and to ensure that learners continue to have access to modern facilities and equipment.

The initial 2018-19 allocation of Student Support funding has been reduced compared to actual costs in 2017-18, and costs are expected to increase due to the increased bursary for Care-Experienced students and an emphasis on student engagement rather than attendance.

Funding for future estates, IT and MIS developments will require to be met from non-core funding or external sources. There are expected to be minimal funds available from ALF after 2018-19 to help fund those developments, and the future maintenance requirements highlighted in Section 4 will require to be addressed.

The College will require to make significant staffing reductions in order to achieve an underlying break-even out-turn if the level of SFC grant decreases. Staffing costs are expected to continue to represent a high proportion of costs each year and there is still uncertainty over future costs for support staff, and how future pay awards will be funded. An increase in commercial income each year of 5% equates to £77,000 and represents an ambitious target, but is relatively small in comparison to SFC grant. By comparison, a 2% pay award for all staff is estimated to cost £175,000.

Financial Forecast Return 2018

College	Dumfries and Galloway College
Contact	Karen Hunter
Telephone	01387 734365
Email:	hunterk@dumgal.ac.uk

DECLARATION:	The attached worksheets represent the financial forecasts for the College. They reflect a financial statement of our academic and physical plans from 2017-18 to 2022-23. Adequate explanations have been provided where requested on the return. The worksheets and their underpinning assumptions have been reviewed and approved by the Board of Management in accordance with their agreed practices. In preparing this financial forecast the College has fully considered the financial implications of all aspects of its strategy and has properly reflected these in the forecast.

Signed:

Principal/Chief Executive Officer

Date:

Dumfries and Galloway College

KEY RISKS

Please use the boxes below to provide a commentary on material risks to income and expenditure as identified in the Risk Register. Where possible these risks should be quantified.	**Please use the boxes below to describe the actions planned by the College to address/mitigate the identified risks.**
National Bargaining - the impact of national bargaining on staffing costs is not yet fully known. The Job Evaluation exercise for support staff is about to commence, and although SFC have indicated that the costs for this will be funded, the long-term impact on pay costs, including cost of living pay awards, continues to be an unknown cost.	The College will continue to re-assess budgets, in particular projected pay costs, on an ongoing basis. Any future plans and developments will require to be fully costed and balanced against funds available.
Dumfries and Galloway College have been successful in obtaining grant finding for STEM developments, and this project will include development of infrastructure and materials. The College will require to continue to invest in ICT infrastructure and staff training in order to maintain the impact of the project, and also meet the ongoing running cots. In addition, the College aims to continue to develop partnership working, but this requires sufficient funding and staff resources in order to make this effective.	As the funding is for a short period, the Executive Management Team are working to ensure that the project provides long-term benefits for the college, including curriculum and staff development, and course design.
The College will require to continue to invest in ICT and the estate on an ongoing basis. The work highlighted in the Estates Condition Survey will require to be addressed, and the assumptions do not include an increase in capital maintenance funding from SFC.	
Efficiency savings of 3% in staffing costs each year in order to fund cost of living pay awards going forward will be very difficult to achieve. The college aims to deliver a broad curriculum to learners in the region, and as a result class sizes are very small compared to larger or multi-region colleges.	
The level of working capital and cash available for the College has decreased as a result of Lennartz repayments, in line with previous projections, and there are no reserves to use to offset decreasing income and increasing costs.	
The introduction of a new funding model will require to be assessed. The costs of delivering at two campuses, and providing a wide range of classes at both Dumfries and Stranraer will require to be considered as part of the new model.	The College will continue to highlight the complexities and remoteness of the Dumfries and Galloway region at a high level wherever possible, and highlight the specific needs of the students in this area.
The demographics for the Dumfries and Galloway are indicate that full-time student numbers are likely to decrease in future years. Increased part-time students would incur additional costs and the College would need to consider if the breadth of curriculum could be maintained on that basis.	

Dumfries and Galloway College

	Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	2016-17 - 2017-18	2017-18 - 2018-19	2018-19 - 2019-20	2019-20 - 2020-21	2020-21 - 2021-22	2021-22 - 2022-23	Explanation for variance
Statement of Comprehensive income and expenditure (Consolidated)														
	£000	£000	£000	£000	£000	£000	£000	%	%	%	%	%	%	
INCOME														
Tuition fees and education contracts	1,808	1,615	1,577	1,577	1,577	1,577	1,577	-10.7%	-2.4%	0.0%	0.0%	0.0%	0.0%	
Funding council grants	9,403	9,537	12,654	11,024	10,758	10,758	10,460	1.4%	32.7%	-12.9%	-2.4%	0.0%	-2.8%	As per SFC guidance
Research grants and contracts	0	0	0	0	0	0	0							
Revenue grants from Arms Length Foundation	24	44	55	0	0	0	0	83.3%	25.0%	-100.0%				No additional grants expected after 2018-19
Capital grants from Arms Length Foundation	0	211	0	0	0	0	0		-100.0%					No additional grants expected after 2018-19
Other non-government capital grants	0	0	0	0	0	0	0							
Deferred capital grant release (SFC and non-SFC Government)	758	760	772	870	870	840	830	0.3%	1.6%	12.7%	0.0%	-3.4%	-1.2%	Some capital grant forecast for STEM developments in 2018-19
Other income	453	424	545	544	544	544	544	-6.4%	28.5%	-0.2%	0.0%	0.0%	0.0%	
Investment income	4	0	0	0	0	0	0	-100.0%						
Total income before donations and endowments	**12,450**	**12,591**	**15,603**	**14,015**	**13,749**	**13,719**	**13,411**	1.1%	23.9%	-10.2%	-1.9%	-0.2%	-2.2%	
Donations and endowments	0	0	0	0	0	0	0							
Total income	**12,450**	**12,591**	**15,603**	**14,015**	**13,749**	**13,719**	**13,411**	1.1%	23.9%	-10.2%	-1.9%	-0.2%	-2.2%	
EXPENDITURE														
Staff costs	8,528	8,434	9,329	9,515	9,775	9,948	9,824	-1.1%	10.6%	2.0%	2.7%	1.8%	-1.2%	increasing per modelled costs, including cost of living pay award in line with public sector
Staff costs - exceptional restructuring costs	265	0	0	0	0	0	0	-100.0%						
Exceptional costs - non-staff	0	0	0	0	0	0	0							
Other operating expenses	3,241	3,148	5,481	3,635	3,419	3,440	3,430	-2.9%	74.1%	-33.7%	-5.9%	0.6%	-0.3%	lationary increases for non-staff costs have been assumed top be offset by efficiency savir
Donation to Arms Length Foundation	0	0	0	0	0	0	0							
Depreciation	1,195	1,203	1,208	1,301	1,289	1,283	1,243	0.7%	0.4%	7.7%	-0.9%	-0.5%	-3.1%	Increased depreciation on capitalised STEM developments
Interest and other finance costs	186	0	0	0	0	0	0	-100.0%						
Total expenditure	**13,415**	**12,785**	**16,018**	**14,451**	**14,483**	**14,671**	**14,497**	-4.7%	25.3%	-9.8%	0.2%	1.3%	-1.2%	
Surplus/(deficit) before other gains and losses and share of operating surplus/deficit of joint ventures and associates	**(965)**	**(194)**	**(415)**	**(436)**	**(734)**	**(952)**	**(1,086)**	-79.9%	113.9%	5.1%	68.3%	29.7%	14.1%	
Gain/(loss) on disposal of fixed assets	(15)	11	0	0	0	0	0	-173.3%	-100.0%					
Gain/(loss) on investments	0	0	0	0	0	0	0							
Share of operating surplus/(deficit) in joint venture(s)	0	0	0	0	0	0	0							
Share of operating surplus/(deficit) in associate(s)	0	0	0	0	0	0	0							
Surplus/(deficit) before tax	**(980)**	**(183)**	**(415)**	**(436)**	**(734)**	**(952)**	**(1,086)**	-81.3%	126.8%	5.1%	68.3%	29.7%	14.1%	Increasing deficit due to increased pay costs
Other taxation	0	0	0	0	0	0	0							
Surplus/(deficit) for the year	**(980)**	**(183)**	**(415)**	**(436)**	**(734)**	**(952)**	**(1,086)**	-81.3%	126.8%	5.1%	68.3%	29.7%	14.1%	
Unrealised surplus on revaluation of land and buildings	0	0	0	0	0	0	0							
Actuarial (loss)/gain in respect of pension schemes	(101)	0	0	0	0	0	0	-100.0%						No changes have been assumed for pension scheme valutions
Other comprehensive income	0	0	0	0	0	0	0							
Total comprehensive income for the year	**(1,081)**	**(183)**	**(415)**	**(436)**	**(734)**	**(952)**	**(1,086)**	-83.1%	126.8%	5.1%	68.3%	29.7%	14.1%	

Dumfries and Galloway College

UNDERLYING OPERATING RESULT	Actual 2016-17 £000	Forecast 2017-18 £000	Forecast 2018-19 £000	Forecast 2019-20 £000	Forecast 2020-21 £000	Forecast 2021-22 £000	Forecast 2022-23 £000	2016-17 - 2017-18 %	2017-18 - 2018-19 %	2018-19 - 2019-20 %	2019-20 - 2020-21 %	2020-21 - 2021-22 %	2021-22 - 2022-23 %	Explanation for variance
Surplus/(deficit) before other gains and losses and share of operating surplus/deficit of joint ventures and associates	**(965)**	**(194)**	**(415)**	**(436)**	**(734)**	**(952)**	**(1,086)**							
Add:														
Total depreciation (Government-funded, privately funded and NPD-funded assets) net of deferred capital grant release *(incorporated colleges only)*	357	363	356	352	339	361	333	1.7%	-1.9%	-1.1%	-3.7%	6.5%	-7.8%	Some assets fully depreciated by 2018-19, offset by additional items from STEM developments
Exceptional non-restructuring items (e.g. impairment costs)	0	0	0	0	0	0	0							
Non-cash pension adjustment - net service cost	455	0	0	0	0	0	0	-100.0%						
Non-cash pension adjustment - net interest cost	186	0	0	0	0	0	0	-100.0%						
Donation to Arms Length Foundation *(incorporated colleges only)*	0	0	0	0	0	0	0							
Deduct:														
Non-Government capital grants (e.g. ALF capital grant)	0	211	0	0	0	0	0		-100.0%					Grant for capital equipment in 2017-18
Exceptional income (if disclosed as exceptional in accounts)	0	0	0	0	0	0	0							
CBP allocated to loan repayments and other capital items *(incorporated colleges only)*	0													
NPD payments to reduce NPD balance sheet debt	0	0	0	0	0	0	0							
Underlying operating result	**33**	**(42)**	**(59)**	**(84)**	**(395)**	**(591)**	**(753)**	-227.3%	40.5%	42.4%	370.2%	49.6%	27.4%	

Cash budget for priorities *(incorporated colleges)* :

	Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23
Revenue priorities							
Student support funding	0	0	0	0	0	0	0
2015-16 pay award	77	77	77	77	77	77	77
Voluntary severance	265	0	0	0	0	0	0
Estates costs	0	286	279	275	262	284	256
Staff settlement payment	12	0	0	0	0	0	0
Total impact on operating position	**354**	**363**	**356**	**352**	**339**	**361**	**333**
Capital priorities							
Loan repayments	0	0	0	0	0	0	0
NPD / PFI repayments	0	0	0	0	0	0	0
Estates costs	0	0	0	0	0	0	0
Provisions pre 1 April 2014	0	0	0	0	0	0	0
Total capital	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total cash budget for priorities spend	**354**	**363**	**356**	**352**	**339**	**361**	**333**

Dumfries and Galloway College

Staff costs	Actual 2016-17 £000	Forecast 2017-18 £000	Forecast 2018-19 £000	Forecast 2019-20 £000	Forecast 2020-21 £000	Forecast 2021-22 £000	Forecast 2022-23 £000	2016-17 - 2017-18 %	2017-18 - 2018-19 %	2018-19 - 2019-20 %	2019-20 - 2020-21 %	2020-21 - 2021-22 %	2021-22 - 2022-23 %	Explanation
Salaries	6,372	6,635	7,382	7,518	7,722	7,858	7,760	4.1%	11.3%	1.8%	2.7%	1.8%	-1.2%	As per SFC guidance and modelled costs
Social Security costs	561	599	648	665	683	696	687	6.8%	8.2%	2.6%	2.7%	1.9%	-1.3%	
Other pension costs	455	1,200	1,299	1,332	1,370	1,394	1,377	5.3%	8.3%	2.5%	2.9%	1.8%	-1.2%	
FRS 102 pensions adjustments	1,140	0	0	0	0	0	0	#REF!						
Total	8,528	8,434	9,329	9,515	9,775	9,948	9,824	-1.1%	10.6%	2.0%	2.7%	1.8%	-1.2%	

Dumfries and Galloway College **Dumfries and Galloway College**

	Balance Sheet		Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	2016-17 - 2017-18	2017-18 - 2018-19	2018-19 - 2019-20	2019-20 - 2020-21	2020-21 - 2021-22	2021-22 - 2022-23	Explanation for variance
			£000	£000	£000	£000	£000	£000	£000	%	%	%	%	%	%	
1	Non-current assets	a) Intangible assets	0	0	0	0	0	0	0							
		b) Fixed assets	35,557	34,607	35,417	34,116	32,827	31,547	30,304	-2.7%	2.3%	-3.7%	-3.8%	-3.9%	-3.9%	
		c) Investments	0	0	0	0	0	0	0							
	Total non-current assets		**35,557**	**34,607**	**35,417**	**34,116**	**32,827**	**31,547**	**30,304**	-2.7%	2.3%	-3.7%	-3.8%	-3.9%	-3.9%	
2	Current assets	a) Stock	0	0	0	0	0	0	0							
		b) Debtors	422	407	407	407	407	407	407	-3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	
		c) Investments	0	0	0	0	0	0	0							
		d) Cash and cash equivalents	1,633	982	884	839	497	0	0	-39.9%	-10.0%	-5.1%	-40.8%	-100.0%		**Decreasing cash balances in line with operating results**
		e) Other (e.g. assets for resale)	0	0	0	0	0	0	0							
	Total current assets		**2,055**	**1,389**	**1,291**	**1,246**	**904**	**407**	**407**	-32.4%	-7.1%	-3.5%	-27.4%	-55.0%	0.0%	
3	Creditors: amounts falling due within one year	a) Bank loans and external borrowing	0	0	0	0	0	0	0							
		b) Bank overdrafts	0	0	0	0	0	0	651							
		c) Lennartz creditor	307	78	0	0	0	0	0	-74.6%	-100.0%					**Lennartz fully repaid after October 2018**
		d) Obligations under finance leases and service concessions	0	0	0	0	0	0	0							
		e) Payments received in advance	1,600	1,678	1,776	1,714	1,659	1,659	1,659	4.9%	5.8%	-3.5%	-3.2%	0.0%	0.0%	
		f) Amounts owed to Funding Council	0	0	0	0	0	0	0							
		g) Obligations under PFI/NPD	0	0	0	0	0	0	0							
		h) Other creditors and accruals	900	349	353	353	353	353	353	-61.2%	1.1%	0.0%	0.0%	0.0%	0.0%	**Deferred capital grants**
	Total creditors < 1year		**2,807**	**2,105**	**2,129**	**2,067**	**2,012**	**2,012**	**2,663**	-25.0%	1.1%	-2.9%	-2.7%	0.0%	32.4%	
	Share of net assets/(liabilities) in associate		0	0	0	0	0	0	0							
	NET CURRENT ASSETS/LIABILITIES		**(752)**	**(716)**	**(838)**	**(821)**	**(1,108)**	**(1,605)**	**(2,256)**	-4.8%	17.0%	-2.0%	35.0%	44.9%	40.6%	
	TOTAL ASSETS LESS CURRENT LIABILITIES		**34,805**	**33,891**	**34,579**	**33,295**	**31,719**	**29,942**	**28,048**	-2.6%	2.0%	-3.7%	-4.7%	-5.6%	-6.3%	
4	Creditors: amounts falling due after more than one year	a) Local authority loans	0	0	0	0	0	0	0							
		b) Bank loans and external borrowing	0	0	0	0	0	0	0							
		c) Lennartz creditor	0	0	0	0	0	0	0							
		d) Finance leases and service concessions	0	0	0	0	0	0	0							
		e) Obligations under PFI/NPD	0	0	0	0	0	0	0							
		f) Amounts repayable to Funding Council	0	0	0	0	0	0	0							
		g) Other creditors	22,619	21,874	22,980	22,123	21,287	20,461	19,635	-3.3%	5.1%	-3.7%	-3.8%	-3.9%	-4.0%	**Deferred capital grants**
	Total creditors >1 year		**22,619**	**21,874**	**22,980**	**22,123**	**21,287**	**20,461**	**19,635**	-3.3%	5.1%	-3.7%	-3.8%	-3.9%	-4.0%	
5	Provisions	a) Pension provisions	9,039	9,039	9,039	9,039	9,039	9,039	9,039	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
		b) Other	0	0	0	0	0	0	0							
	Total provisions		**9,039**	**9,039**	**9,039**	**9,039**	**9,039**	**9,039**	**9,039**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	TOTAL NET ASSETS		**3,147**	**2,978**	**2,560**	**2,133**	**1,393**	**442**	**(626)**	-5.4%	-14.0%	-16.7%	-34.7%	-68.3%	-241.6%	
9	Restricted Reserves	a) Endowment Reserve	0	0	0	0	0	0	0							
		b) Restricted Reserve	0	0	0	0	0	0	0							
10	Unrestricted reserves	a) Income and Expenditure Reserve	-997	-1,034	-1,311	-1,596	-2,195	-3,005	-3,931	3.7%	26.8%	21.7%	37.5%	36.9%	30.8%	
		b) Revaluation reserve	4,144	4,012	3,871	3,729	3,588	3,447	3,305	-3.2%	-3.5%	-3.7%	-3.8%	-3.9%	-4.1%	
11	Non-controlling interest		0	0	0	0	0	0	0							
	TOTAL RESERVES		**3,147**	**2,978**	**2,560**	**2,133**	**1,393**	**442**	**(626)**	-5.4%	-14.0%	-16.7%	-34.7%	-68.3%	-241.6%	

Dumfries and Galloway College

Capital Expenditure Projects and Forecast Methods of Financing	**Actual 2016-17**	**Forecast 2017-18**	**Forecast 2018-19**	**Forecast 2019-20**	**Forecast 2020-21**	**Forecast 2021-22**	**Forecast 2022-23**	**2016-17 - 2017-18**	**2017-18 - 2018-19**	**2018-19 - 2019-20**	**2019-20 - 2020-21**	**2020-21 - 2021-22**	**2021-22 - 2022-23**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**%**	**%**	**%**	**%**	**%**	**%**
Expenditure:													
Land & Buildings	0	0	1963	0	0	0	0			-100.0%			
Equipment & Others	130	256	50	0	0	0	0	96.9%	-80.5%	-100.0%			
	130	256	2,013	0	0	0	0	96.9%	686.3%	-100.0%			
Financed by:													
Cash reserves	0	0	0	0	0	0	0						
Arms Length Foundation	0	211	0	0	0	0	0		-100.0%				
Leasing	0	0	0	0	0	0	0						
SFC grant		38	0	0	0	0	0		-100.0%				
Re-investment of proceeds from disposal of assets *	130	7	2013	0	0	0	0	-94.6%	28657.1%	-100.0%			
Non-SFC grants	0	0	0	0	0	0	0						
PFI/NPD	0	0	0	0	0	0	0						
Other - please specify if material	0	0	0	0	0	0	0						
	130	256	2,013	0	0	0	0	96.9%	686.3%	-100.0%			

***** to be included only where this has been agreed by SFC

Capital disposals

Disposal proceeds:							
Asset description	130						
Asset description							
Asset description							
Asset description							
	130	0	0	0	0	0	0
Gain/(loss) on disposal:							
Asset description	-15	11					
Asset description							
Asset description							
Asset description							
	-15	11	0	0	0	0	0

Dumfries and Galloway College

ALF Funding

	Actual 2016-17 £000	Forecast 2017-18 £000	Forecast 2018-19 £000	Forecast 2019-20 £000	Forecast 2020-21 £000	Forecast 2021-22 £000	Forecast 2022-23 £000
Estimated balance of cash in ALF as at 1 August	334	310	55	0	0	0	0
Donation to Arms Length Foundation	0	0	0	0	0	0	0
Grant from Arms Length Foundation - capital	0	(211)	0	0	0	0	0
Grant from Arms Length Foundation - revenue	(24)	(44)	(55)	0	0	0	0
Estimated balance of cash in ALF as at 31 July	**310**	**55**	**0**	**0**	**0**	**0**	**0**

Note:
For most foundations, the most recent accounts available are for periods ending in 2017. Colleges' forecast movements will not include governance costs, donations from third parties, payments to third parties or investment income.

	Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23
Grant from Arms Length Foundation - capital:							
Engineering equipment	0	211	0	0	0	0	0
Stranraer heating developments	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Total	0	211	0	0	0	0	0
Grant from Arms Length Foundation - revenue							
Engineering equipment	0	44	55	0	0	0	0
Stranraer heating developments	24	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Description	0	0	0	0	0	0	0
Total	24	44	55	0	0	0	0

Dumfries and Galloway College

FINANCIAL SUMMARY

	Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23
	£000	£000	£000	£000	£000	£000	£000
Income ratios							
Total Income	12,450	12,591	15,603	14,015	13,749	13,719	13,411
Total Funding Council Grant as % of Total Income	76%	76%	81%	79%	78%	78%	78%
Total non-Funding Council Grant as % of Total Income	24%	24%	19%	21%	22%	22%	22%
Total Education Contracts and Tuition Fees as % of Total Income	15%	13%	10%	11%	11%	11%	12%
Total Research Grants and Contracts as % of Total Income	0%	0%	0%	0%	0%	0%	0%
Total Other Income as % of Total Income	4%	3%	3%	4%	4%	4%	4%
Expenditure ratios							
Total Expenditure	13,415	12,785	16,018	14,451	14,483	14,671	14,497
Salaries as % of Total Expenditure	64%	66%	58%	66%	67%	68%	68%
Other operating costs as % of Total Expenditure	24%	25%	34%	25%	24%	23%	24%
Depreciation/amortisation as % of Total Expenditure	9%	9%	8%	9%	9%	9%	9%
Operating position							
Operating Surplus/(deficit)	-965	-194	-415	-436	-734	-952	-1,086
Operating Surplus/(deficit) as % of Total Income	-8%	-2%	-3%	-3%	-5%	-7%	-8%
Underlying operating surplus/(deficit)	33	-42	-59	-84	-395	-591	-753
Underlying operating surplus/(deficit) as % of Total Income	0.3%	-0.3%	-0.4%	-0.6%	-2.9%	-4.3%	-5.6%
Cash Position							
Cash and Current Asset Investments	1,633	982	884	839	497	0	0
Overdrafts	0	0	0	0	0	0	651
Days Ratio of Cash to Total Expenditure	49	31	22	23	14	0	-18
Balance Sheet strength							
Unrestricted reserves	(997)	(1,034)	(1,311)	(1,596)	(2,195)	(3,005)	(3,931)
Current Ratio	0.73	0.66	0.61	0.60	0.45	0.20	0.15
Unrestricted reserves as % of Total Income	-8%	-8%	-8%	-11%	-16%	-22%	-29%
Total borrowing (Overdrafts, Loans, Finance Leases, PFI/NPD)	307	78	0	0	0	0	651
Interest cover	-4.19	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Finance and General Purposes Committee

DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

1. Purpose of the Report

1.1 The purpose of this report is to provide a summary of the results and balances reported in the Financial Statements for the year ended 31 July 2018.

1.2 The Strategic Report, which comprises a Performance Report and an Accountability Report covering Corporate Governance, Remuneration and Staffing, will be drafted for review by the Executive Management Team, and presented for discussion and approval at the November meeting of this Committee.

2. Format of the accounts

2.1 The format for the financial statements is unchanged from the previous year. The financial statements have been prepared in accordance with Financial Reporting Standard (FRS) 102 and the revised Statement of Recommended Practice: Accounting for Higher and Further Education 2015 (2015 SORP) which includes a Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flows.

2.2 Some of the detailed notes to the financial statements are currently being updated to comply with disclosure requirements, including the detailed pensions and leases notes and some staffing analysis. The detailed analysis will be completed when the financial statements are presented to the Committee in November.

3. Scottish Funding Council – Accounts Direction for Scotland's colleges 2017-18

3.1 SFC set out mandatory disclosures for the College financial statements each year, which are usually additional disclosures to the SORP in order to comply with the Government Financial Reporting Manual 2017-18 (FReM). The accounts direction for incorporated colleges includes mandatory disclosures for the Strategic Report and Corporate Governance as well as the notes to the accounts.

3.2 Audit Scotland have highlighted the inconsistency across the college sector in reporting the underlying financial position for 2016-17 in their report 'Scotland's Colleges 2018'. The accounts direction for 2017-18 includes an updated illustrative form of words and model notes for the 'Impact of Depreciation Cash' and 'Adjusted Operating Position' notes, which have been incorporated in Notes 10 and 11 to the financial statements.

3.3 The Accounts Direction includes a requirement to reproduce the wording from the Direction as an Appendix to the annual report and accounts.

3.4 Additional non-financial information to be included in the Performance Report is noted, to cover social and environmental matters, and as well as Key Performance Indicators, and a description of how the College checks its performance against those measures, and the related link to risk and uncertainty.

4. Statement of Comprehensive Income

4.1 The Statement of Comprehensive Income shows operating income and expenditure for the year and aims to provide a summary of all income and expenditure arising in the year, and how this impacts on the reserves at the end of the year.

4.2 The headings for income and expenditure items are categorised in line with the model accounts published by the British Universities Finance Directors Group, and further details for each heading are provided in the Notes to the Financial Statements.

4.3 The draft figures show an operating deficit of £1,086,000 before adjusting for the disposal of fixed assets during the year. The deficit includes the non-cash adjustment for the pension valuation at July 2018 of £762,000 as well as expenditure from the allocation of 'Fixed Cash Budget for Priorities' (depreciation cash budget).

4.4 Notes 10 and 11 to the financial statements set out the impact of the additional expenditure from the depreciation cash budget as well as the underlying position excluding the pension valuation adjustments. Note 11 shows an adjusted operating deficit of £74,000 for the year.

4.5 An underlying break-even out-turn was projected for the year. The actual results up to July 2018 include the following adjustments:

Reduction from forecast income:	
SFC grant funding - Flexible Workforce Development Fund	£41,000
Additional staffing costs:	
Implementation cost relating to migration to new pay scales	23,000
Accrued holiday pay	10,000
	£74,000

4.6 The 'Fixed Cash Budget for Priorities' provided by SFC for 2017-18 was utilised as follows:

	£
Costs for the 2015-16 pay award	80,000
Curriculum and estates developments	310,000
	£ 390,000

4.7 The valuation for the Local Government Pension Scheme (LGPS) has been updated at July 2018 for the financial statements. The costs charged to expenditure for the year include a net current service cost of £532,000 and an interest cost of £230,000. The total costs of £762,000 are included in the Statement of Comprehensive Income as staff costs and interest. Note 11 explains how the non-cash pension adjustments impact the underlying operational results for the year.

4.8 The Statement of Comprehensive Income includes the unrealised gain on revaluation of the College buildings at 31 July 2018 of £2,224,000 as explained in Section 6 below.

4.8 Student Support income and expenditure are summarised at notes 23 and 24 of the financial statements. Total student support of £2,343,000 was received during the year, including Further Education Bursaries, EMA's, Further and Higher Education Discretionary and Childcare funding. The balance of unspent Bursary and childcare funds at 31 July 2018 amounted to £70,000 (3% of the total spend for the year), and this will be repaid to Scottish Funding Council as part of the 2018-19 In-year redistribution process.

5. Statement of Changes in Reserves

5.1 The Statement of Changes in Reserves summarises the income and expenditure movements for the year together with revaluation changes and the actuarial adjustments for the pension scheme. The statement should provide a summary of the balance sheet movements for the current and previous year for the Income and Expenditure and Revaluation Reserves.

5.2 The net movement in reserves for the year to July 2018 shows an increase in the income and expenditure reserves due to the actuarial gain on the pension scheme valuation.

5.3 The Revaluation reserve balance shows a net increase for the year of £2,083,000 and includes the net increase in property valuations at July 2018.

6. Balance Sheet

6.1 The Balance Sheet at 31 July 2018 shows net current liabilities of £901,000, which includes deferred government capital grants of £757,000 and unspent bursary and student support funds of £183,000.

6.2 Cash and bank balances have decreased by £889,000 during the year, which includes Lennartz payments of £303,000, and student support funds of £338,000 unspent from 2016-17 which were returned to SFC.

6.3 The valuation for the College buildings was updated at July 2018 and the net value of both the Dumfries and Stranraer buildings showed an increase. The total increase of £2,224,000 is included at Note 14 to the financial statements, and effectively reverses out the aggregate depreciation previously charged on the buildings.

6.4 Long term creditor balances for deferred capital grants amounts to £21,901,000, which has decreased over the period by £718,000.

6.5 The LGPS pension scheme valuation at July 2018 shows a decrease in the pension scheme deficit from £8,250,000 to £2,093,000. The valuation report from the scheme actuary highlights that previous annual accounts valuations were based on a 'roll-forward approach' from the formal 2014 valuation. As the triennial valuation of the whole Dumfries and Galloway Council Pension Scheme was updated at March 2017, the asset and liability re-measurement is substantially different from last year.

6.6 Total net assets and reserves increased by £8,075,000 during the year and amounted to £11,223,000 at 31 July 2018. The movement for the year has been summarised as noted above in the Statement of Changes in Reserves.

7. Cash Flow Statement

7.1 The decrease in cash for the year to July 2018 of £889,000 is summarised in the Cash Flow Statement.

7.2 The non-cash adjustment of £1,203,000 for depreciation is highlighted, together with the decrease in creditors and debtors. The reduction in creditor balances includes the release of deferred capital grants and repayment of Lennartz balances, with a net outflow of £654,000 from operating activities.

7.3 The purchase and sale of fixed assets account for a decrease of £235,000 in bank balances during the year.

8. Recommendation

Members are asked to review the draft financial statements including the results and balances for the year ended 31 July 2018, the disclosure of the 'Adjusted Operating Position' at Note 11, and approve the Statement of Accounting Policies.

Statement of Comprehensive Income

	Note	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
INCOME			
SFC grants	2	**10,146**	10,074
Tuition fees and education contracts	3	**1,448**	1,808
Other grant income	4	**356**	142
Other operating income	5	**386**	422
Endowment and investment income	6	**0**	4
Total Income		**12,336**	12,450
EXPENDITURE			
Staff costs excluding exceptional costs	7	**9,067**	8,718
Fundamental restructuring costs		**0**	265
Other operating expenses	9	**2,922**	3,051
Depreciation	14	**1,203**	1,195
Interest and other finance costs	12	**230**	186
Total Expenditure		**13,422**	**13,415**
(Deficit)/ Surplus before other gains and losses		**(1,086)**	**(965)**
Gain/ (Loss) on disposal of fixed assets		**18**	(15)
(Deficit)/ Surplus for the year		**(1,068)**	(980)
Unrealised surplus on revaluation of land and buildings	14	**2,224**	0
Actuarial gain/ (loss) in respect of pension schemes	21	**6,919**	(101)
Total comprehensive income for the year		**8,075**	**(1,081)**
Represented by:			
Unrestricted comprehensive income for the year		**8,075**	**(1,081)**

All items of income and expenditure relate to continuing activities.

The Statement of Comprehensive Income is prepared under the FE/ HE SORP. The SORP does not permit colleges to reflect the non-cash budget for depreciation in the Statement of Comprehensive Income. Note 11 provides details of the adjusted operating position on a Central Government accounting basis.

Statement of Changes in Reserves for the year ended 31 July 2018

	Income and expenditure reserve	Revaluation reserve	Total
	£000	£000	£000
Balance at 1 August 2016	**(192)**	**4,421**	**4,229**
Surplus/ (Deficit) from the income and expenditure statement	(980)		**(980)**
Other comprehensive income	(101)	0	**(101)**
Transfers between revaluation and income and expenditure reserve	277	(277)	**0**
	(804)	(277)	(1,081)
Balance at 1 August 2017	**(996)**	**4,144**	**3,148**
Surplus/ (Deficit) from the income and expenditure statement	(1,068)	0	**(1,068)**
Other comprehensive income	6,919	2,224	**9,143**
Transfers between revaluation and income and expenditure reserve	141	(141)	**0**
Total comprehensive income for the year	5,992	2,083	8,075
Balance at 31 July 2018	**4,996**	**6,227**	**11,223**

Balance Sheet as at 31 July 2018

	Note	Year ended 31 July 2018	Year ended 31 July 2017
		£000	£000
Non-current assets			
Fixed assets	14	**36,831**	35,557
Current Assets			
Trade and other receivables	15	**327**	422
Cash and cash equivalents	16	**744**	1,633
Total current assets		**1,071**	2,055
Less: Creditors - amounts falling due within one year	17	**(1,972)**	(2,807)
Net Current Assets/ (Liabilities)		**(901)**	(752)
Total Assets less Current Liabilities		**35,930**	34,805
Less: Creditors - amounts falling due after more than one year	18	**(21,901)**	(22,619)
Provisions			
Pension provisions	21	**(2,806)**	(9,038)
Total net assets		**11,223**	3,148
Unrestricted Reserves			
Income and expenditure reserve - unrestricted		**4,996**	(996)
Revaluation reserve		**6,227**	4,144
Total reserves		**11,223**	3,148

The financial statements on pages XX to XX were approved by the Board of Management on XX December 2018 and were signed on its behalf by:

Brian Johnstone
Chairman

Carol Turnbull
Principal

Statement of Cash Flows for the year ended 31 July 2018

	Note	Year ended 31 July 2018	Year ended 31 July 2017
		£000	£000
Cash flow from operating activities			
(Deficit)/ Surplus for the period		**(1,068)**	(980)
Adjustment for non-cash items			
Depreciation		**1,203**	1,195
Decrease/ (increase) in debtors		**59**	115
(Decrease)/ increase in creditors		**(1,553)**	(1,264)
Increase/ (decrease) in pension provision		**687**	641
Increase/ (decrease) in other provisions		**0**	0
Adjustment for investing or financing activities			
Investment income		**0**	5
Gain/ (loss) on sale of fixed assets		**18**	(15)
Net cash (Outflow)/ Inflow from operating activities		**(654)**	(303)
Cash flows from investing activities			
Proceeds from sales of fixed assets		**19**	120
Investment income		**0**	0
Payments to acquire fixed assets		**(254)**	(131)
		(235)	(11)
Cash flows from financing activities			
Interest paid		**0**	0
Repayments of amounts borrowed		**0**	0
		0	0
(Decrease)/ increase in cash and cash equivalents in the period		**(889)**	**(314)**
Cash and cash equivalents at beginning of the period		**1,633**	1,947
Cash and cash equivalents at end of the period		**744**	1,633

Notes to the Financial Statements

1. Statement of Accounting Policies

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

1.1 Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2015: 'Accounting in Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2016-17 Government Financial Reporting Model (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

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

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

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

1.2 Recognition of income

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

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

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

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

Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, those funds are shown as College income and expenditure.

Grant funding

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

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

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

1.2 Recognition of income (continued)

Donations and endowments

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

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

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

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

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

Capital grants

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

1.3 Fixed assets

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

Land and buildings

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

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

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

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

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

1. Statement of Accounting Policies (continued)

1.3 Fixed assets (continued)

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2018. They are not depreciated until they are brought into use.

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

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

Equipment

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

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

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

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

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

Borrowing costs

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

1.4 Finance leases

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

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

1.5 Operating leases

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

1.6 Cash and cash equivalents

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

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

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

1.7 Taxation

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

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

1.8 Accounting for retirement benefits

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

Scottish Teachers' Superannuation Scheme

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

Dumfries and Galloway Council Pension Fund

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

Defined Contribution Plan

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

Defined Benefit Plan

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

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

1.9 Employment benefits

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

1.10 Financial Instruments

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

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

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

1.11 Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

(a) the College has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

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

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

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

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

1.12 Reserves

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

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

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
2 SFC Grants		
SFC FE recurrent grant (including fee waiver)	**8,794**	8,620
FE and HE childcare funds	**257**	259
Release of deferred capital grants	**673**	671
Infrastructure grant	**334**	459
Other SFC grants	**88**	65
Total	**10,146**	10,074

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
3 Tuition Fees and education contracts		
FE fees - UK	**417**	428
HE fees	**722**	742
SDS contracts	**208**	301
Other contracts	**101**	337
Total	**1,448**	1,808

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
4 Other grant income		
Release of deferred capital grants	**87**	87
Scottish Colleges Foundation - Revenue grant	**0**	24
Scottish Colleges Foundation - Capital grant (Note 11)	**211**	0
Other grants	**58**	31
Total	**356**	142

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
5 Other operating income		
Residences and catering	**355**	373
Other income-generating activities	**8**	16
Other income	**23**	33
Total	**386**	422

Notes to the Financial Statements (continued)

	Year ended 31 July	Year ended 31 July
	2018	2017
	£000	£000
6 Endowment and investment income		
Bank interest	**0**	4
7 Staff costs		
Wages and salaries	**6,621**	6,372
Social security costs	**591**	561
Other pension costs (including IAS 19 adjustments of £532k (2017 - £455k) note 21)	**1,739**	1,595
Total pay costs	**8,951**	8,528
Other employee related non-pay costs	**116**	190
Total staff costs excluding exceptional costs	**9,067**	8,718
Exceptional costs - severance costs	**0**	265
Staff costs including exceptional costs	**9,067**	8,983
Academic/ Teaching departments	**4,411**	4,338
Academic/ Teaching services	**1,078**	1,017
Administration and central services	**3,462**	2,874
Premises		420
Other expenditure		144
Catering and residences		0
Other employee related non-pay costs	**116**	190
Total	**9,067**	8,983

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

	No.	No.
Academic/ Teaching departments		88
Academic/ Teaching services		21
Administration and central services		89
Premises		14
Other expenditure		3
Catering and residences		0
Total	**0**	215

7 Staff costs (continued)

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

	Year ended 31 July 2018		Year ended 31 July 2017	
	Number senior post-holders	Number other staff	Number senior post-holders	Number other staff
£60,001 to £70,000 per annum			1	0
£70,001 to £80,000 per annum			0	0
£80,001 to £90,000 per annum			0	0
£90,001 to £100,000 per annum			1	0
	0	**0**	2	0

8 Senior post-holders' emoluments

	2018 No.	2017 No.
The number of senior post-holders, including the Principal was:		4

	Year ended 31 July	Year ended 31 July
Senior post-holders' emoluments are made up as follows:	**2018**	2017
	£	£
Salaries		278,494
Pension contributions		54,174
Total emoluments	**0**	332,668

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

	£	£
Salary (including holiday pay)		95,000
Pension contributions		19,285

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

The members of the Board of Management, other than the Principal, Regional Chairman, and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to six members of the Board of Management during the year amounted to £1,131.

9 Other operating expenses	**Year ended 31 July 2018**	Year ended 31 July 2017
	£000	£000
Teaching departments	**850**	872
Administration and central services	**958**	1,041
Premises costs (including additional Lennartz credit £22,000. 2017 - £72,000)	**559**	489
Planned maintenance	**165**	231
Agency Staff Costs	**24**	39
Residences and catering	**366**	379
Overspend on student support funds	**0**	0
	2,922	3,051
Transfer to Arms Length Foundation	**0**	0
Total	**2,922**	**3,051**

Other operating costs include:			
Auditors' remuneration	- external audit of these financial statements		16
	-internal audit services *		20
	- other services		0
Hire of plant and machinery - operating leases			76

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

10. Impact of Depreciation Budget on Statement of Comprehensive Income

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

Under the FE/ HE SORP, the College recorded an operating deficit of £1,089,000 for the year ended 31 July 2018. After taking account of the Government non-cash budget and non-cash pension adjustments, the College shows an 'adjusted' deficit of £113,000 on a Central Government accounting basis. The deficit is attributed to other factors reflected in the adjusted operating table and the College is therefore operating sustainably within its funding allocation.

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
(Deficit) before other gains and losses (FE/ HE SORP basis) for academic year	(1,086)	(965)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	390	354
Operating (deficit) on central Government accounting basis for academic year	**(696)**	(611)

11. Adjusted Operating Position

The Statement of Comprehensive Income presents the financial performance during the accounting period in accordance with the FE/ HE SORP. The adjusted operating position is intended to reflect the financial performance of the College after allowing for non-cash adjustments and other material on-off or distorting items required by the SORP. The adjusted operating position is therefore designed to smooth any volatility in reported results arising from FRS102 and also to recognise that some of the reported costs do not have an immediate cash impact on the College. This should give a better indication of the College's cash generative capacity.

11. Adjusted Operating Position (continued)

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
(Deficit) before other gains and losses (FE/ HE SORP basis)	**(1,086)**	(965)
Add Back:		
- Depreciation (net of deferred grant release) on both government funded and privately funded assets (1)	**443**	437
- Non-cash pension adjustments - Net service cost (2)	**532**	455
- Non-cash pension adjustments - Net interest cost (3)	**230**	186
- Gain/ (loss) on disposal of fixed assets (4)	**18**	-15
Deduct:		
- Non-government capital grant (ALF grant) (5)	**(211)**	0
Adjusted operating (deficit)/ surplus	**(74)**	98

(1) Depreciation is a non-cash item and is therefore excluded when calculating the adjusted operating position.

(2) The adjustments to the pensions charge represents the non-cash element of service cost (i.e. including the present value of projected benefits resulting from employee service in the current year) less cash contributions paid.

(3) The net interest cost is the interest accumulated on the pension liability and this is offset against the current year's interest earned on pension assets. These are non-cash adjustments.

(4) The gain on disposal of fixed assets represents cash received during the year from the sale of surplus equipment and vehicles. (2017 - the loss represets a net deficit on disposal of a surplus building).

(5) A grant was received from the Scottish Colleges Foundation during the year for engineering equipment. This income is not matched by expenditure as it has been used to fund capital assets which will be depreciated over the life of the asset.

12 Interest payable

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Net interest cost on pension liability (note 21)	**230**	186

13 Taxation

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

14 Tangible Fixed Assets

	Land and Buildings £000	Fittings and Equipment £000	Motor Vehicles £000	Assets in the Course of Construction £000	Total £000
Cost or valuation					
At 1 August 2017	38,069	337	253	131	38,790
Additions	0	254	0	0	254
Disposals	0	0	(98)	0	(98)
Transfers	0	131		(131)	
Surplus on revaluation	(1,090)	0	0	0	(1,090)
At 31 July 2018	**36,979**	**722**	**155**	**0**	**37,856**
Depreciation					
At 1 August 2017	2,714	314	205	0	3,233
Provided during period	1,161	25	17	0	1,203
On disposals	0	0	(97)	0	(97)
Written-back on revaluation	(3,314)	0	0	0	(3,314)
At 31 July 2018	**561**	**339**	**125**	**0**	**1,025**
NBV at 1 August 2017	35,355	23	48	131	35,557
NBV at 31 July 2018	**36,418**	**383**	**30**	**0**	**36,831**
Inherited	3,570	0	0	0	3,570
Financed by capital grant	32,848	383	30	0	33,261
Other	0	0	0	0	0
At 31 July 2018	**36,418**	**383**	**30**	**0**	**36,831**

Land and buildings were revalued at 31st July 2018 by DM Hall, Chartered Surveyors in the capacity of independent valuer. The basis of valuation adopted was depreciated replacement cost and the valuation was made in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

Inherited Land and Buildings with a net book value of £3,570,000 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.

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
	0

15 Debtors: Amounts falling due within one year

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Trade debtors - net of provision for doubtful debts	**85**	36
Prepayments and accrued income	**242**	386
	327	422

16 Cash and cash equivalents

	31 July 2018 £000	31 July 2017 £000
Cash and cash equivalents	**744**	1,633

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

Agency funds of £183,000 are included in the cash and cash equivalents at the year end.

17 Creditors: Amounts falling due within one year

	Year ended 31 July 2018 £000	Year ended 31 July 2017 £000
Trade creditors	**42**	75
VAT	**80**	79
HMRC Lennartz Scheme	**0**	307
Other taxation and social security	**155**	151
Pension	**144**	135
Accruals and deferred income	**611**	842
Deferred capital grants (note 18)	**757**	758
Bursaries and Access funds for future disbursement (note 16)	**183**	460
	1,972	2,807

18 Creditors: Amounts falling due after more than one year

	Year ended 31 July 2018	Period ended 31 March 2017
	£000	£000
Deferred capital grants	**21,901**	22,619

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

19 Provisions for liabilities and charges

	Early Retirement pension costs	Defined Pension obligations (Note 19)	2017-18 Total	2016-17 Total
At 1 August 2017	788	8,250	**9,038**	8,291
Expenditure in the period	(52)	(704)	**(756)**	(660)
Additional provision required in period	(23)	1,236	**1,213**	1,116
Revaluation adjustment	0	(6,919)	**(6,919)**	101
Interest charged	0	230	**230**	190
At 31 July 2018	713	2,093	**2,806**	9,038

The Early Retirement pension costs provision has been revalued using actuarial tables supplied by the Scottish Funding Council. The net interest rate applied was 0%.

20 Lease obligations

	Year ended 31 July 2018	2017
	£000	£000
Total rentals under operating leases for equipment and vehicles are as follows:		
Payable during the period	**78**	55
Future minimum lease payments due:		
- Not later than 1 year		4
- Later than 1 year and not later than 5 years		206
Total lease payments due	0	210

21 Pensions and similar obligations **TO BE UPDATED**

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

The total pension costs for the institution was :

	12 months to July 2018 £000	12 months to July 2017 £000
Contribution to STSS		523
Contribution to LGPS		613
Pension costs as a result of implementing FRS 102		641
Total pension cost	**0**	1,777

Employer contribution rates during the period were:

STSS - 17.2% from September 2015

LGPS - 20.3% plus a monetary payment as noted below

The Scottish Teachers Superannuation Scheme

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

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

Rate of return on investments in excess of rate of increase in salaries	2%	2.0%
Rate of return on investments in excess of rate of increase in pensions	3.50%	3.5%
Market value of the assets as at 31 March 2005	£18.474m	£18,474m

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

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

The Local Government Pension Scheme (LGPS)

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

The triennial valuation of the Dumfries and Galloway Council Pension Fund was carried out as at 31 March 2017 by Hymans Robertson LLP. The valuation for Dumfries and Galloway College's participation in the Dumfries and Galloway Council Pension Fund was updated by Hymans Robertson as at 31 July 2018.

Following the revaluation of the Dumfries and Galloway Council pension fund at 31 March 2017, the actuary determined that the funding level for Dumfries and Galloway College's element of the fund has decreased from 102% at 31 March 2011 to 98% at 31 March 2014, and the College element of the fund is in deficit. The future service rate for Dumfries and Galloway College has been calculated at 20.3% of pensionable pay, and the deficit to the fund is being met from a monetary payment rather than an adjustment to the contribution rate. The actuary has set employer contribution rates for three years at the future service rate plus a monetary payment, and total employer contributions to be applied for three years from 1 April 2015 are as follows:

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

21 Pensions and similar obligations (continued)

Assumptions

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

	As at 31/07/18	As at 31/07/17
	%	%
Discount rate	**2.80%**	2.70%
Expected rate of return on plan assets	**2.80%**	2.70%
Future salary increases	**3.20%**	4.50%
Inflation/ pension rate increase	**2.40%**	2.50%

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2016 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25% p.a. based on these assumptions, the average life expectancies at age 65 are summarised below.

- Current pensioner aged 65: 21.8 years (male), 24.3 years (female).
- Future retiree upon reaching 65: 23 years (male), 26.2 years (female).

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

Scheme assets and expected rate of return for LGPS

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

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

	Year ended 31 July 2018	Year ended 31 July 2017	Year ended 31 July 2016
	Fair value	Fair value	Fair value
	£000	£000	£000
Equities	**17,184**	**15,369**	13,016
Corporate bonds	**3,124**	**3,033**	3,031
Property	**2,009**	**1,820**	1,783
Other	**0**	**0**	0
	22,317	20,222	17,830
Actual return on plan assets	**1,127**	1,748	809

Notes to the Financial Statements (continued)

21 Pensions and similar obligations (continued)

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

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Scheme assets	**22,317**	20,222
Scheme liabilities	**(24,347)**	(28,448)
	(2,030)	(8,226)
Present value of unfunded defined benefit obligations	**(23)**	(24)
Deficit in the scheme - net pension liability	**(2,053)**	(8,250)
Current service cost	**(1,236)**	(1,067)
Total operating charge	**(1,236)**	**(1,067)**

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

Interest cost	**(781)**	(616)
Expected return on assets	**551**	430
Interest on net deficit	**0**	0
Net charge to other finance income	**(230)**	**(186)**
Total income and expenditure charge before deduction for tax	**(1,466)**	(1,253)

Analysis of other comprehensive income for LGPS pensions:

Gain on assets	**1,127**	1,748
Experience loss on liabilities	**5,792**	(1,849)
Total other comprehensive income before deduction for tax	**6,919**	**(101)**

Notes to the Financial Statements (continued)

21 Pensions and similar obligations (continued)

	Year ended 31 July 2018	Year ended 31 July 2017
Analysis of movement in surplus/ (deficit) for LGPS pensions		
Deficit at the beginning of the period	**(8,250)**	(7,508)
Contributions paid by the College	**704**	612
Current service cost	**(1,236)**	(1,067)
Other finance charge	**(230)**	(186)
Gain/ (Loss) recognised in other comprehensive income	**6,919**	(101)
Deficit at the end of the period	**(2,093)**	(8,250)

	Year ended 31 July 2018	Year ended 31 July 2017
Movement in the present value of the fair value of pension plan assets		
Present value of assets at the start of the period	**20,222**	17,830
Interest income	**551**	430
Participants contributions	**183**	172
College contributions	**704**	612
Benefits paid	**(470)**	(570)
Return on assets	**1,127**	1,748
Present value of assets at the end of the period	**22,317**	20,222

	Year ended 31 July 2018	Year ended 31 July 2017
Movement in the present value of pension liabilities		
Present value of obligations at the start of the period	**(28,472)**	(25,338)
Current service costs (net of member contributions)	**(1,236)**	(1,067)
Interest cost	**(781)**	(616)
Participants contributions	**(183)**	(172)
Benefits paid	**470**	570
Change in financial assumptions and other experience	**5,792**	(1,849)
Present value of obligations at the end of the period	**(24,410)**	(28,472)

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

22 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**
J. Henderson	Crichton Foundation	Appointed Trustee (Representative of Dumfries and Galloway College)
H. Carr	Dumfries and Galloway Housing Partnership	Director of Finance
K. McGahan	William Waugh & Sons (Builders) Ltd	Joint Managing Director

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

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

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

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

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

Notes to the Financial Statements (continued)

23 FE Bursaries and other Student Support Funds

	FE Bursary	EMA's	Other	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000	£000	**£000**	£000
Balance brought forward	430	0	0	**430**	349
Allocation received in year (including interest)	1,745	150	161	**2,056**	2,134
	2,175	150	161	**2,486**	2,483
Expenditure	(1,679)	(150)	(187)	**(2,016)**	(1,821)
Repayable to Funding Council as Clawback	(323)	0	0	**(323)**	(246)
College Contribution to funds	0	0	0	**0**	0
Virements between FE and HE Childcare and FE Discretionary funds	0	0	26	**26**	14
Balance Carried forward	**173**	**0**	**0**	**173**	430
Represented by:					
Repayable to Funding Council as Clawback	70	0	0	**70**	327
Retained by College for Students	103	0	0	**103**	103
	173	**0**	**0**	**173**	430

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.

24 FE and HE Childcare Funds

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Balance brought forward	**16**	3
Allocation received in year	**287**	287
	303	290
Expenditure	**(257)**	(260)
Repayable to Funding Council as Clawback	**(14)**	
Virements to FE Discretionary funds	**(26)**	(14)
Balance Carried forward	**6**	16
Represented by:		
Repayable to Funding Council as Clawback	**6**	16
Retained by College for Students	**0**	0
	6	16

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

25 Capital Commitments

Provision has not been made for the following capital commitments at 31 July 2018:

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Commitments contracted for	**0**	6

Notes to the Financial Statements (continued)

26 Post Balance Sheet Events

There are no post balance sheet events.

27 Contingent Liabilities

The College had no contingent liabilities at 31 July 2018 and 31 July 2017.

2017-18 Accounts direction for Scotland's colleges

1 It is the Scottish Funding Council's direction that colleges comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.

2 Colleges must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).

3 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2017-18 (FReM) where applicable.

4 Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2018.

5 The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.

6 Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
13/07/2018

Finance and General Purposes Committee

Aged Debt Report as at July 2018

1. Introduction

1.1 The purpose of this report is to provide an update to members on the College debtor balances and any bad debts arising in the period since 30 April 2018.

1.2 The value of sales invoices issued by the College on an annual basis is relatively small in comparison to total income. The majority of College income relates to grant funding from the Scottish Funding Council, and other grants, which are received at agreed stages during the year. Approximately 1,000 invoices are issued each year, which represents less than 10% of college income. The External Development team and other teams across the College actively encourage prospective students to book and pay for short courses in advance, which minimizes the number of invoices which require to be issued.

1.3 The number of reminder letters issued for late payments each year is relatively low in comparison to total College income. In addition, the debts which are eventually forwarded to debt collection agents to pursue is very small in comparison to the total invoices raised each year and generally relate to invoices for student support which have been unpaid.

2. Summary of Aged Balances at July 2018

	April 2018 Total	July 2018 Total	Current	1 Month	2 Months	3 Months	3 Plus	No of Debts
Client	12,505	58,163	44,851	12,896	415	-	-	17
Student	1,251	-8,593	-	-6,942	-1,776	-35	160	19
Bursary 2016/17	2,686	2,686	-	-	-	-	2,686	1
Bursary 2017/18	379	-	-	-	-	-	-	
Total	**16,821**	**52,256**	**44,851**	**5,954**	**-1,361**	**-35**	**2,846**	**37**

2.1. Overall debtor balances have increased by £35,435 since April 2018. The overall level of outstanding balances at this time is consistent with the same period last year, and includes a number of invoices for student fees as well as invoices to clients for work-based learning, and some students who have paid in advance for 2018/19 fees.

2.2 The College continues to ensure that debtor balances are current and recoverable by following the agreed procedure for reminder letters, with difficult cases being referred to the debt collection agents to pursue.

Finance and General Purposes Committee

3. Breakdown of debtor balances

3.1 Client debt has increased by £45,658 from balances at April 2018. Total client debt at 31 July 2018 was £58,163 and is made-up of one larger invoice for apprenticeship fees as well as several smaller balances, of which some have since been paid.

3.2 The total level of student debt has decreased by £7,312 since April 2018. The decrease reflects a number of students paying fees in advance. Reminder letters have been issued in accordance with College procedures for the remaining outstanding debt.

3.3 Bursary debt has decreased by £379 since April 2018. The balance of £2,686 consists of one invoice, which has been through the debt collection process and is now considered to be irrecoverable by them.

4. Bad debt provision

4.1 There is a reduction of the provision in the accounts at 31 July 2018, which reflects the low balance of debts over 3 months old.

5. Debt collection agents

5.1 The total balance currently at the final stage of debt collection amounts to £2,928 and is being handled by TNC. Of this balance, £241 relates to course fees, with the bursary debt making up the remaining amount of £2,686.

6. Balances to write-off

6.1 Two balances have been pursued through the debt collection agents and have now been classed as irrecoverable by them as noted below. The committee is asked to approve the following balances for write-off:

Reference	Amount £	Debt Type	Date
1601699	2,686.00	Bursary	09/06/2017
1603864	64.50	Fees	15/06/2017

6.2 A table is attached in the Appendix, which shows the debts written-off in each of the previous six years.

7. Recommendation

7.1 Members are requested to note the aged debt balances at July 2018 and approve the proposed balances for write-off.

Finance and General Purposes Committee

Appendix

Summary of amounts previously written-off:

Year debt was written-off	Year of original debt:						
	2016/17	**2015/16**	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**2010/11**
2017/18	1,555.55	283.56					
2016/17		3,534.67					
2015/16			1,636.62	691.00			
2014/15				7,025.33			
2013/14					8,107.20	634.42	
2012/13						200.00	
2011/12							2,033.17
2010/11							220.00
	1,555.55	**3,818.23**	**1,636.62**	**7,716.33**	**8,107.20**	**834.42**	**2,253.17**

Finance and General Purposes Committee

Strategic Risk Register

1 Introduction

1.1 The purpose of this paper is to provide the Finance & General Purposes Committee with the opportunity to review the College's Strategic Risk Register.

2 The Report

2.1 In accordance with the College's Risk Management Policy any risk with an inherent rating of 12 or above must have mitigating controls in place and where the residual rating remains above 12 should be reviewed at least quarterly in order to identify if any further actions could be taken to reduce the residual rating to below 12. For completeness all risks are included in the attached register.

2.2 The Principal and Executive Management Team routinely review the Strategic Risk Register to reflect the risks the College is facing and the mitigation that will be applied to each risk. There are currently 9 strategic risks, two of which are rated 12 or above.

2.3 Committee Reporting

- As the Strategic Risk Register is now presented at each committee and members asked to pay particular attention to risks pertaining to the work of that committee, the end column on the risk register has been amended to include the name of the Committee who would have 'oversight' of that risk so that members can focus on these in their discussions. There is still the opportunity to discuss other risks at full Board meetings.

3 Recommendation

3.1 It is recommended that members consider and, if so minded, approve the Strategic Risk Register.

Carol Turnbull
Principal
September 2018

Strategic Plan 2017-2018 Risk Register

Risk No.	Risk Description	Inherent Risk			Controls in Place	Assurances	Internal/ External	Residual risk			Further Action	Committee
		Likelihood	Impact	Total				Likelihood	Impact	Total		
1	National Pay Bargaining	**4**	**4**	**16**	1. Detailed financial planning undertaken and approved by Finance and General Purposes Committee to ensure "affordability" of any offer. 2. National negotiation processes in place with recognised unions. 3. Government public sector pay guidance for 2017-18 is for maximum 1%, College budget will reflect this.	1. Feedback to EMT and the Board 2. Included in budget which is monitored and reported through F&GP and Board 3. Sound internal planning and monitoring to ensure service continuity in event of industrial action 4. College adopts a pragmatic approach to budget and scenario planning.	Internal/ External	**2**	**4**	**8**	December 2017 - EIS have declared a formal dispute in respect of 2017/18 Cost-of-Living Pay Award. May 2018 Indicative offer of grant indicates that costs of harmonization for lecturers' salary have been included. September 2018 No further update. EIS are undertaking a consultative ballot with members in respect of dispute.	F&GP Board
2	Public sector funding cuts – forecast for session 2017-18	1	4	**4**	1. Scenario planning undertaken and measures to offset reduction identified which is then used to inform curriculum planning. 2. Annual review of provision undertaken through planning and budgetary process to ensure match of income and expenditure.	1. Curriculum plans approved by EMT and L&T 2. Budget approved by the Board	Internal	**1**	4	**4**	November 2017 - Current Budget for 2017-18 forecast break-even position. December 2017 - Recent budget announcement forecast flat cash settlement for colleges, however details unknown at this stage. February 2018 - Break-even position forecast for 2017-18.	**F&GP Board**
3	Flexibility of the college to manage financial and estates issues and meet targets in the Outcome Agreement	4	4	**16**	1. Executive Management Team and Finance Manager representation at relevant briefings and ongoing monitoring of changes 2. External audit advice	1. Appropriate and robust internal planning and monitoring arrangements 2. Regular liaison with Scottish Funding Council	Internal/ External	**3**	3	**9**	The Board of Management and EMT continue to monitor the situation. December 17 - Capital Funding remains a concern. May 2018 Indicative offer of grant indicates sufficient funding to deal with estates maintenance but does not allow for capital investment.	**Board**

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4	Unable to achieve credit (activity) target	2	4	**8**	1. Real time monitoring system. 2. Contingency plans in place to offer additional provision as required. 3. Annual review of staffing and provision to rebalance areas of growth with areas of decline. 4. Annual review carried out by internal	1. Reviewed by EMT on a weekly basis 2. Curriculum areas looking to run additional courses to address shortfall. 3. KPI reported and discussed at each board meeting 4. Provision made in accounts for clawback 5. Marketing strategies for 18/19 recruitment	Internal/ External	**2**	3	**6**	May 2018 – We were unable to achieve childcare credit target of 268 additional credits but are currently 500+ over our core target September 2018 – We are forecasting a shortfall of 90 credits on our childcare credit target which equates to approximately £20k of funding. This has been accounted for as a potential claw back in the 2018-19 budget.	**F&GP Board**
6	Failure to achieve attainment targets	4	4	**16**	1. Real time monitoring systems in place 2. Strategies in place to improve retention. 2. Strategies in place to improve student success 3. Poorly performing programmes removed from the curriculum.	1. Monitored at course level and review by Vice Principal (Learning and Skills) 2. Monitored through self-evaluation process and reported to ET and L&T committee	Internal/ External	**3**	4	**12**	Moving forward achieving attainment targets agreed with the SFC in the Regional Outcome may be a condition of grant. Low attainment can also be detrimental to college reputation. September 2018 – Final figures are not yet available but indications are that attainment has reduced by 2%. Further analysis is being undertaken by VP L&S and curriculum teams.	**L&T Board**
9	Prevent Duty – disruption due to threat of extremism / risk of external influences	**3**	**4**	**12**	1. Vice Principal attendance at local multi-agency CONTEST group 2. Regular reporting of Prevent issues at EMT. 3. Constant scanning to identify new potential threats.	1. College Prevent Action Plan 2. CONTEST meetings/minutes 3. EMT meetings/minutes 4. 80% staff trained by Sept '17	External/ Internal	**1**	**2**	**2**	Vice Principal leading on Prevent Action Plan, any issues would be identified through regular reporting at EMT. Immediate concerns to be raised with contact within Police Scotland. Review of evacuation procedures in relation to 'stay safe' has taken place. The College is kept updated through SOCCT Group and appropriate action taken	**Audit Board**
10	Imbalance between demand for student support funds/bursaries and funds available	**3**	**3**	**9**	1. Detailed analysis and monitoring of spend undertaken on an ongoing basis by Finance Manager, discussed regularly with Principal 2. Allocation and amounts reviewed on an annual basis to ensure funding constrained within amount available. 3. Annual review carried out by internal audit	1. EMT Meetings/Minutes 2. Internal Audit Report presented to Audit Committee	Internal/ External	**1**	**3**	**3**	February 2018 - College received additional student support grant that will meet demand. September 2018 – changes have been made to student support funding for 2018-19 and impact will be monitored through the year.	**F&GP Board**

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		Likelihood	Impact	Total				Likelihood	Impact	Total		
13	Cyber attack	**3**	**4**	**12**	1. Janet network (via JISC) provides secure connectivity. 2. Regular reporting at ET. 3. Constant scanning to identify potential attacks/network vulnerabilities. 4. VP CS&G and IT Manager meets regularly with JISC account Manager	1. Janet secure network provides a high speed, highly reliable and secure, world-class network, enabling national and international communication and collaboration to the UK research and education community. 2. Regular updates from JISC on potential attacks/network vulnerabilities 3. EMT meetings/minutes 4. Internal Audit 2016/17	External/ Internal	**1**	**4**	**4**	Jisc's Security Operations centre is responsible for monitoring and resolving any security incidents (detect, report, investigate) that occur on the network. They also provide an enhanced service for the detection and mitigation of Denial of Service (DoS) attacks that occur across the network. May 2018 College received Cyber Essentials Compliance certificate in April 2018.	**Audit Board**
14	Non-compliance with GDPR	**3**	**4**	**12**	1. Recruitment of specialist, 1 day per week in partnership with Ayrshire College and Conservatoire in Glasgow. 2. JISC undertaking audit of college current processes. 3. Internal check on systems and Processes. 4. Online training of staff.	1. Standing agenda item on Audit Committee agenda. 2. Senior College Manager leading on development.	External/ Internal	**3**	**4**	**12**	College is well placed in terms of data protection but work is ongoing to measure gap and take appropriate actions . May 2018 – All staff to undertake online training by end of May 2018. DPO Officer appointed.	**Audit Board**