

Board of Management Report and Financial Statements

For the sixteen month period ended
31 July 2015

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Professional Advisers

Financial Statement Auditors

KPMG
191 West George St
Glasgow
G2 2LJ

Internal Auditors

Scott Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Bankers

Bank of Scotland
30-34 King Street
Kilmarnock
KA1 1NP

Clydesdale Bank plc
43 Alloway Street
Ayr
KA7 1SP

Royal Bank of Scotland
30 Sandgate
Ayr
KA7 1BW

Solicitors

Brechin Tindal Oatts (BTO)
48 St Vincent Street
Glasgow
G2 5HS

McKinstry
Queen's Court
39 Sandgate
Ayr
KA7 1BE

OPERATING AND FINANCIAL REVIEW

The Board of Management of Ayrshire College presents their Operating and Financial Review together with the Audited Financial Statements for the Sixteen Months to 31 July 2015.

Ayrshire College

Ayr College, Kilmarnock College and the North Ayrshire Campuses of James Watt College merged on 1 August 2013 to form Ayrshire College. Ayr College was chosen as the host college for the new merged entity.

Scottish Colleges have been designated as central public sector bodies by the Office of National Statistics and, accordingly, the College year end was changed from 31 July to 31 March as at 31 March 2014. The reporting period for 2013-14 was therefore for the eight month period to 31 March 2014. Scottish Colleges, with the agreement of the Scottish Government, have now reverted to their traditional 31 July year end. These 2014-15 accounts are therefore for the 16 month period to 31 July 2015. Annual accounts to 31 July will be prepared in future years.

These financial statements have been approved by the Board of Management of Ayrshire College.

Legal Status

The Board of Management was established under the Further and Higher Education (Scotland) Act 1992 to manage and conduct Ayrshire College. It was designated a regional college on 3 March 2014 under the Further and Higher Education (Scotland) Act 2005.

The College is a registered Charity (Scottish Charity Number SC021177) for the purposes of the Law Reform (Miscellaneous Provision) (Scotland) Act 2005.

Board of Management Report

The Board of Management published the College's strategic plan, "Ambitious for Ayrshire". This describes how the College will deliver the highest quality learning for our students, be innovative in all aspects of our work and make a real difference to the regional economy and our communities.

The College's mission statement is to

"Inspire learners to achieve their full potential by playing a lead role in the development of skills, the economy and community life"

This mission is supported by the College's vision of ***"Raising Aspirations / Inspiring Achievement / Increasing Opportunities"***.

The Board of Management has endorsed an aspiration to be a 'seven star' college which reflects the Board's stretching ambitions for the College.

1. To deliver excellence in learning and teaching
2. To have an excellent reputation locally, regionally and nationally
3. To nurture new and further develop excellent partnership working with employers and Community Planning Partners
4. To recruit and retain highly skilled staff and enable students to flourish in excellent learning environments
5. To be the college of first choice for students
6. To be the training partner of choice for employers
7. To demonstrate excellence in financial sustainability

The Board of Management has aligned the mission and vision of Ayrshire College with the strategic priorities of our partners, in particular to support the overarching ambitions of the three Community Planning Partnerships in Ayrshire focused around:

- Economy and Skills
- Tackling Inequalities
- Building Community Capacity

To achieve our ambitions, significant progress has been made in the sixteen months to July 2015 throughout the College and its services. These milestone achievements have provided a solid foundation to move forward positively in a period of transformation and change to realise our ambitions.

Financial Objectives

The College's Financial Objectives are to be financially sustainable while continuing to invest in the development of student centred services, infrastructure and resources.

The College has continued to develop its budgeting, monitoring and financial reporting systems to support a complex organisation of the scale of Ayrshire College.

Improvements have been made to financial planning and this will continue to be a key priority going forward given the challenges for the College Sector around the levels of funding made available while continuing to demonstrate financial sustainability.

The Executive Management Team (EMT) continues to work with the Board of Management and its Committees to review financial information requirements and key performance data to ensure good Governance in relation to challenge and scrutiny.

Financial Review

Introduction

The income and expenditure account shows an operating deficit for the sixteen month period to 31 July 2015 of (£2,404,000). This is compared to a deficit in 2013-14 of (£11,500,000) (eight months).

The deficit in 2014-15 has been impacted by a number of exceptional items. The presentation of the Income and Expenditure Account in these financial statements therefore analyses trading in the period between Recurring and Exceptional Items.

Deficit resulting from use of depreciation cash

One consequence of college reclassification as central government bodies is that, from 1 April 2014, while colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, they are now also required to comply with Central Government budgeting rules.

This affects, amongst other things, the way in which non-cash depreciation charges are treated in terms of the cash received through main Scottish Funding Council grant. For the financial year 2014-15 this meant that the College received cash of £1,818,000, which had been earmarked against net depreciation being:

Depreciation charge for the period	£3,396,000
Release of deferred capital grants	<u>(£1,578,000)</u>
	£1,818,000

Without approval to spend this cash, the college sector would have significant cash resources effectively frozen due to Scottish Government budgeting requirements.

The Scottish Funding Council issued guidance to the College on this matter on 30 January 2015 (SFC/AN/03/2015) which provided approval for that cash to be applied to student support, loan repayments and to deliver improved services to learners.

The impact of the above has contributed to the reported deficit for 2014-15.

The Scottish Funding Council has however confirmed in its letter to the College on 30 March 2015 that a deficit resulting from the College following SFC's 30 January 2015 guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. This position has been agreed by the Scottish Funding Council with Audit Scotland and the Scottish Government.

Recurring Trading

The College recorded a recurring/operating deficit of (£1,209,000) in 2014-15 which represents approximately (2.1)% of overall recurring income. The financial budget for 2014-15 was based on an operating surplus of £43,000. The shortfall of £1,252,000 against budget is primarily due to:

- Student bursary support costs - £454,000 (Note 9)
- FRS17 Net costs - £582,000 (Notes 6 & 7) – non cash actuarial adjustment
- Increase in Early Retirees Provision - £211,000 (note 17) - non cash actuarial adjustment

The College has significant reliance on the SFC for its funding which is largely from recurrent grants. In 2014-15 the SFC provided 82.0% of the College's total recurring revenue income (2013-14: 80.8%).

Senior Management have continually reviewed and refined the College's operations during the period. Robust financial management, innovative delivery models and prioritisation of expenditure commitments is in place to ensure that the College continues to operate efficiently and effectively.

Exceptional Items

The sixteen month period under consideration, and the preceding eight month period, has been a time of exceptional change within Ayrshire College and the College Sector overall. The deficit arising from Exceptional Items in this period was (£1,195,000), 2013-14: (£12,178,000).

This comprises the following elements

- College Transformation: net charge of £1,195,000 (2013-14: net charge of £10,000)

The College received £1,486,000 from the SFC College Transformation Fund in the period with corresponding expenditure of £2,681,000 of which £2,586,000 was in respect of voluntary severance costs.

There were a number of other exceptional items in 2013-14 totalling a net charge of £12,168,000 which did not recur in 2014-15. These items were analysed within those financial statements but primarily related to donations to the Ayrshire College Foundation (£6.6 million) in March 2014 and the write off (£6.3 million) of the current premises in Holehouse Road, Kilmarnock, following the decision to move to the new campus in Kilmarnock in 2016.

Reserves

The surplus brought forward on the income and expenditure reserve at 1 April 2014 was £5,440,000. After the recurring deficit for the period of (£1,209,000), the exceptional item noted above, the transfers in respect of the pension reserve, and the transfers from the revaluation reserve are taken into account, the surplus on the College's income and expenditure reserve at 31 July 2015 is £4,877,000.

Capital Additions

Tangible Fixed Asset additions in 2014-15 amounted to £2,036,000. This expenditure related to capital purchases to support curriculum areas, ICT equipment and furniture/fittings and also included expenditure on the leasehold improvements to the College's new shared campus at Irvine Royal Academy.

Core Financial Performance Indicators

The Scottish Funding Council (SFC) has developed a series of core performance indicators which are designed to provide an overall summary view of an Institution's performance. This is one aspect of the SFC's Institutional Sustainability agenda.

The table below notes the College performance against these indicators which should be considered in conjunction with the narrative provided elsewhere in the operating and financial review.

No	Performance Indicator	Sixteen months to 31.7.15	Eight months to 31.3.14
1	Recurring Operating (Deficit)/Surplus as % of total recurring income	(2.1%)	2.4%
2	Non SFC Income as % of Total Income	18.0%	19.2%
3	WSUMS activity target set by SFC for year to July	183,269	183,269
4	WSUMs activity achieved in year to July 2015 (July 2014)	181,035	179,884
5	WSUMS activity achieved against target	98.8%	98.2%
6	Activity Target WSUMS per curriculum staff FTE	542	547
7	Current Assets: Current Liabilities	0.9: 1	1.1:1
8	Gearing/ debt	Nil	Nil
9	Days of recurring expenditure represented by period end cash	17	28

Treasury Management Policies and Objectives

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

The College has a policy of placing any surplus funds with the College's retail banker with a view to maintaining security of capital; maximising the yield from any short term deposits made whilst maintaining accessibility to funds.

Cash Flows

The College had a net reduction in cash in 2014-15 of £24,000, primarily represented by modest favourable working capital movements, offset by the ongoing capital payments in respect of the Kilwinning campus PFI agreement

Liquidity

The College continues to have sufficient liquidity in terms of cash resources.

Payment Performance

The College has a policy of paying its suppliers within agreed terms unless an invoice is disputed. All disputes are dealt with as quickly as possible. No interest was paid by the College under the Late Payment of Commercial Debts (Interest) Act 1998.

SFC Outcome Agreement

The College in 2014-15 has agreed an Outcome Agreement with the Scottish Funding Council (SFC). This is the third year of the operation of this model.

The Outcome Agreement has five strategic outcomes:

1. Efficient and Effective College Structures
2. Right Learning in the Right Place
3. High Quality and Efficient Learning
4. Developing the Workforce
5. Sustainable Institutions

The College will report separately on the 2014-15 Outcome Agreement including KPI's in relation to student statistics including numbers, retention and achievement.

Within the 2014-15 Outcome Agreement the College activity target was 183,269 WSUMS in the academic year to 31 July 2015 which attracted funding support of £31,975,352.

Curriculum Developments

The College reviews its portfolio of courses on an annual basis. Courses no longer in demand, not achieving success or not related to skills were removed from the Curriculum Delivery Plan (CDP). The College ensures that its portfolio of programmes offer skills development opportunities. During the 16 month period in 2014-15 significant development activity has taken place to finalise and implement the CDP for 2014-15 and to develop the CDP for 2015-16.

Resources

The College has various resources that it can deploy in pursuit of its strategic objectives.

Property

Tangible resources include the eight Campuses of Ayrshire College. Ayrshire College has main Campuses in all three Local Authority areas. The main Campuses are located in Ayr, Kilwinning and Kilmarnock. Other Campuses are used to support our communities due to their location or specialist curriculum provision such as our Nethermaines Campus in Kilwinning which focuses on the STEM curriculum or Townholm in Kilmarnock which focuses on Sports and Construction.

Estates Strategy

The College Estates Strategy is evidence based and allows the College to continue with its programme of aligning its estate to the emerging needs of students and curriculum delivery requirements going forward.

The strategy allows for a continuous review and upgrade of all campuses and plans for the opening of the new campus at Hill Street, Kilmarnock in 2016.

Financial Performance

The College generated a recurring deficit of (£1,209,000) in the period which represents approximately (2.1%) of overall recurring income. This compares to a recurring surplus in 2013-14 of £678,000.

After recording net exceptional costs amounting to £1,195,000, the Historical Cost final deficit was (£2,404,000) for 2014-15 (2013-14 – deficit of £11,500,000).

The College, at July 2015, has £27,422,000 of net assets (after deducting £10,272,000 pension liability). At March 2014 the College had £32,227,000 of net assets (after deducting £7,298,000 pension liability).

The decrease of £4,805,000 in net assets is primarily due to the £2,974,000 increase in the pension liability and the deficit incurred in the period.

People

In 2014-15 the College had 736 employees (expressed as full time equivalents) of whom 455 are Curriculum Staff and 281 are Service Staff. The 697 employees in 2013-14 comprised 440 Curriculum Staff and 257 Service Staff.

Principal Risks and Uncertainties

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

The Executive Management Team (EMT) monitor key performance and risk indicators and consider possible control issues brought to their attention through operational planning and monitoring. The EMT and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement. The Internal Audit service for 2014-15 was performed by Scott Moncrieff and concentrates on areas of key activities determined by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The Internal Auditors have direct access to the Chair of the Audit Committee and issue an annual report with an opinion on the adequacy, reliability and effectiveness of the College's internal control system.

The Audit Committee considers risk at each Committee Meeting. The College Risk Register is updated quarterly by the EMT and presented to the next Audit Committee.

The individual risks identified in the College Risk Register are clustered together based on the remit of the Board and each College Committee, with the risk groupings relating to:

- Board of Management
- Finance
- Human Resources and Organisational Wellbeing
- Learning and Teaching
- Estates and New Campus Development

There is no 'Risk Cluster' specifically identified for the Audit Committee as the overall management of Risks are within this Committee's Terms of Reference.

The Board of Management also review the College Risk Register at each of their meetings.

Individual risks are classified as either High, Medium or Low based on scales for Likelihood and Impact. The College Risk Register at the end of 2014-15 identified 24 strategic risks.

- 6 risks were viewed as High
- 9 risks were assessed as Medium
- 9 risks were classified as Low.

The following risks have been assessed as High

- Failure to address 'ONS' issues and meet timescales for College reclassification
- Failure to achieve financial sustainability and embed appropriate financial decision making
- Failure to manage and deliver changes based on SFC policies
- Failure of the allocated Student Support Funds budget to meet requirements
- Failure to meet the SFC Activity and Performance Targets
- Failure to develop an integrated and high quality Ayrshire Estate

Stakeholder Relationships

Ayrshire College has many stakeholders, including:

- Students
- Student Association
- Staff
- Scottish Funding Council
- Education Scotland
- Local Employers/Businesses
- Community Planning Partnerships
- Local Authorities
- Scotland's Colleges
- Skills Development Scotland
- Trade Unions
- Higher Education Institutions
- The Voluntary Sector
- Scottish Futures Trust

The College recognises the importance of these relationships and engages in regular communication with them through a variety of routes.

Staff Involvement and Participation

All staff are fully informed of College developments through a range of communication and consultation frameworks. Joint Consultation and Negotiation Committees take place with the Trade Unions recognised by the College and regular all staff meetings take place to provide updates and information.

In addition, there are also two elected staff members on the Board of Management.

Staff Development

The College has continued to invest in the development of all staff during 2014-15 and a broad range of staff learning and development activities have taken place.

Equality and Diversity

The College is committed to ensuring that we are an inclusive Regional college, accessible by all sections of the communities we serve. The College's main strategic aim is to exceed its statutory requirements in order to enable equality, diversity and inclusion to be integrated into all aspects of daily business. A range of activities have been carried out during 2014-15 in conjunction with the external Equality Challenge Unit (ECU).

The Executive Management Team and Board of Management lead the College's equality and diversity strategy and monitoring arrangements.

Health Safety and Wellbeing

It is the policy of the College to pursue progressive improvement in the Health, Safety and Wellbeing of staff, students and visitors and take all reasonable steps to provide safe and healthy conditions in which to study, learn and work.

A range of developments have been undertaken during 2014-15 to promote our culture of health, safety and wellbeing.

Student Involvement

The College recognises the importance of the Student Voice and the role of the Sabbatical President. The Sabbatical President is a member of the Board of Management. In addition, each year students are invited to give feedback to the College through a range of formal and informal routes.

Disclosure of Information to Auditors

The members of the Board of Management confirm that, so far as they are aware, there is no relevant audit information of which the College Auditor is unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's Auditors are aware of that information.

Post Balance Sheet Events

Construction activities for the New Campus Project at Hill Street, Kilmarnock started on 4 June 2014. This exciting £53 million Project will provide a fit for purpose learning environment for the 21st century and has a number of sector leading elements. This Project will also contribute to the regeneration of the Hill Street area of Kilmarnock as well as the Town Centre initiatives. The new Campus has a target service commencement date of 19 May 2016. It is envisaged that students will attend the new campus as from August 2016 and that, from that point, the College will no longer operate its three current campuses in the Kilmarnock area. The College is now reviewing its estates options in respect of these three properties.

Following agreement at a Board of Management meeting in September 2015, the College announced in October 2015 that it intends to close its Cumnock campus in January 2016.

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

W Mackie

Chair

17 December 2015

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

In the opinion of the Board of Management, the College complies with all provisions of the UK Corporate Governance Code in so far as they apply to the Further Education sector and it has complied throughout the sixteen month period ended 31 July 2015.

Board of Management

The remit of the Board of Management is to manage and conduct the affairs of the College including the equality and diversity of staff and students; corporate governance and risk management; finance, planning, monitoring and audit; maintaining quality and standards; and maintaining the College estate. The Board of Management must also ensure that there is an adequate system of accounting and internal control which meets accepted accounting, budgetary control and auditing standards.

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

The Board of Management meets on a quarterly basis and during this period of change a number of extra-ordinary meetings were also convened.

Full minutes of all Board of Management meetings, except those deemed to be confidential by the Board of Management, are available from the Secretary to the Board of Management at Ayrshire College, Dam Park, Ayr KA8 0EU.

The Secretary to the Board of Management maintains a register of financial and personal interests, in so far as it relates to the activities of Ayrshire College, of the members of the Board of Management. The register is available for inspection at Ayrshire College, Ayr Campus, Dam Park, Ayr KA8 0EU.

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

Chair of the Board of Management

The Chair of the Board of Management was Willie Mackie from 1 August 2013. From March 2014 the implementation of The Post-16 Education (Scotland) Act 2013 required that Chairs of Regional College Boards of Management be appointed by Scottish Ministers. Following a public appointments process, Willie Mackie was appointed by the Cabinet Secretary for Education and Lifelong Learning as Chair of the Ayrshire College Board of Management with effect from 3 March 2014.

Members of the Board of Management

The Members who served on the Board of Management during the sixteen months to 31 July 2015 were as follows:

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Mr W Mackie	<ul style="list-style-type: none"> Finance Estates and New Campus Development Performance, Review & Remuneration Search & Nomination 	Chair of Ayrshire College BOM Chair of Ayrshire Regional College BOM	01.08.13 03.03.14	
Mrs H Dunk	<ul style="list-style-type: none"> Human Resources & Organisational Wellbeing Learning and Teaching Estates and New Campus Development Finance 	Principal	01.08.13	
Ms A Alexander	<ul style="list-style-type: none"> Estates and New Campus Development Learning and Teaching 	Elected Student Member	01.08.14	
Ms N A M Beveridge	<ul style="list-style-type: none"> Human Resources & Organisational Wellbeing Audit Estates and New Campus Development Performance, Review & Remuneration Search & Nomination 	Non-Executive Board Member	01.08.13	
Ms J Bradley	<ul style="list-style-type: none"> Estates and New Campus Development Learning and Teaching 	Elected Curriculum/ Support Staff	01.08.14	
Mrs K Cole	<ul style="list-style-type: none"> Learning & Teaching Finance 	Elected Curriculum/ Support Staff	01.08.13	31.7.14 Retired
Mr B Costley	<ul style="list-style-type: none"> Learning & Teaching Audit 	Non-Executive Board Member	01.11.13	
Mr J English	<ul style="list-style-type: none"> Human Resources and Organisational Wellbeing Audit 	Non-Executive Board Member	01.08.14	
Ms F Fawdry	<ul style="list-style-type: none"> Human Resources and Organisational Wellbeing Finance 	Non-Executive Board Member	01.08.14	
Mr S Fegan	<ul style="list-style-type: none"> Learning & Teaching Estates and New Campus Development 	Student Member Co-opted Board Member until January 2014. Elected Student member from February 2014.	01.08.13 03.02.14	31.7.14 Period of Office as a Student Officer ended

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Ms B Graham	<ul style="list-style-type: none"> • Learning & Teaching • Human Resources & Organisational Wellbeing • Audit • Performance, Review & Remuneration • Search & Nomination 	Non-Executive Board Member	01.08.13	
Mr S Greenwood	<ul style="list-style-type: none"> • Human Resources & Organisational Wellbeing • Audit 	Elected Curriculum/ Support Staff	01.08.13	31.7.15 Elected Period of Office Ended
Ms E Hall	<ul style="list-style-type: none"> • Estates and New Campus Development • Learning and Teaching 	Elected Student Member	01.08.14	31.7.15 Period of Office as a Student Officer Ended.
Dr W-y Hatton	<ul style="list-style-type: none"> • Finance • Estates and New Campus Development • Performance, Review & Remuneration • Search & Nominations 	Non-Executive Board Member	01.08.13	
Mr G James	<ul style="list-style-type: none"> • Human Resources & Organisational Wellbeing • Audit 	Non-Executive Board Member	01.08.13	
Ms M Macklin	<ul style="list-style-type: none"> • Learning & Teaching • Finance 	Non-Executive Board Member	01.11.13	
Prof A McGregor	<ul style="list-style-type: none"> • Learning and Teaching • Audit 	Non-Executive Board Member	01.08.14	
Dr R Northcote	<ul style="list-style-type: none"> • Estates and New Campus Development • Finance 	Non-Executive Board Member	01.08.14	
Ms M Palmer	<ul style="list-style-type: none"> • Learning & Teaching • Estates and New Campus Development 	Co-opted Student Board member	03.02.14	31.7.14 Period of Office as a Student Officer Ended
Mr A Walker	<ul style="list-style-type: none"> • Finance • Audit • Estates and New Campus Development • Performance, Review & Remuneration • Search & Nomination 	Non-Executive Board Member	01.08.13	
Mr T Wallace	<ul style="list-style-type: none"> • Finance • Learning & Teaching • Estates and New Campus Development • Performance Review & Remuneration • Search & Nomination 	Non-Executive Board Member	01.08.13	

The following additional Board Members were appointed to the Board of Management after 31 July 2015:

Board Member	Status of Appointment	Date of Appointment
Juliana Pyper-McFarland	Elected Service/Support Staff	1 August 2015
Holly Bates	Elected Student Member	22 September 2015

The College has an Independent Board Secretary to support the Board of Management.

The Board of Management conducts its business through a number of Committees as highlighted below.

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

Appointments to the Board of Management

The Board of Management consisted of not less than ten, but not more than sixteen persons, of which not less than half were drawn from persons engaged in industrial, commercial or employment matters or from the professions. The other Board members included the Principal, a Teaching Staff member, a Service Staff member and two Student members. There was also provision for a co-opted student member.

With effect from August 2014 and the roll out of The Post-16 Education (Scotland) Act 2013, the structure of the Board changed to not less than fifteen, but not more than eighteen persons, of which not less than half shall be drawn from persons engaged in industrial, commercial or employment matters or from the professions or persons with an interest in and the ability to contribute to the management of the College. The other Board members shall include the Principal, a Curriculum/Teaching Staff member, a Support/Service Staff member and two Student members.

Any new appointments to the Board of Management are a matter for the consideration of the Board of Management as a whole. As such, there is a Search Committee which is responsible for the selection and nomination of any new member for the Board of Management's consideration. The Board of Management have an induction programme in place and Board development activities were held during 2014-15.

Audit Committee

The Audit Committee consists of Members from the Board of Management. The Chair of the Board of Management and Principal are not members of the Committee. Its responsibilities are to oversee the External and Internal Audit of the College and provide assurance to the Board that the requirements of the Code of Audit Practice published by Audit Scotland are observed.

Finance Committee

The Finance Committee consists of Members from the Board of Management including the Principal and the Chair of the Board. Its responsibilities are to oversee the strategic and operational financial planning of the College and provide assurance to the Board on the financial expenditure and financial management and performance of the College.

Human Resources and Organisational Wellbeing Committee

The Human Resources and Organisational Wellbeing Committee consists of Members from the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of Organisational Development within the College and provide assurance to the Board on Organisational/HR issues as well as the organisational performance of the College.

Learning and Teaching Committee

The Learning and Teaching Committee consists of Members from the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of Learning and Teaching within the College and provide assurance to the Board on student issues and the learning and teaching performance of the College.

Estates and New Campus Development Committee

The Estates and New Campus Development Committee consists of Members of the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of the Estates function within the College, including the new build Campus Project in Kilmarnock, and to provide assurance with regard to the New Build activity and College Estates matters to the Board.

Remuneration Committee

Membership of this Committee comprises the Chair of the Board of Management and the Chairs of the Board's Committees. Its responsibilities are to agree remuneration for the Principal and other Senior Managers, take account of performance in the reward system, take account of any advice given by the SFC in the remuneration of the Principal and Senior Managers, take account of any guidelines issued by the UK Treasury on public sector salaries, use benchmarking information across the sector as appropriate in determining remuneration strategies for the Principal and Senior Managers and report to the Board of Management on remuneration policies for Senior Staff.

Search and Nomination Committee

Membership of this Committee comprises the Chair of the Board of Management and the Chairs of the Board's Committees. Its responsibilities are to oversee the recruitment and recommendation of new Board Members and to consider the reappointment of current members to the Board of Management by ensuring that the search and nomination process is conducted in a fair and non-discriminatory manner with due regard to issues of equality, diversity and opportunity in any appointments recommended.

STATEMENT OF INTERNAL CONTROL

Scope of Responsibility

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

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on ongoing processes designed to identify and prioritise the risks to the achievement of College policies, aims and objectives,

to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them effectively and economically.

Capacity to Handle Risk

The Board of Management has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. These key risks are identified and addressed within the risk register maintained by the College during the sixteen months to 31 July 2015.

The Risk and Control Framework

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

- Comprehensive budgeting systems with an annual budget which is reviewed and approved by the Board of Management.
- Regular reviews by the Board of Management of periodic and annual financial reports which indicate financial performance against targets.
- Setting targets to measure financial and other performance.
- The operation of and reporting to the Board of Management from an Internal Audit service.

The College Internal Auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to Management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business and monitors adherence to the regulatory requirements.

Review of Effectiveness

The review of effectiveness of the system of internal control is informed by:

- The work of Internal Auditors, including their Annual Report on the College's control environment
- The work of College Managers, who have responsibility for the development and maintenance of internal control framework
- Comments made by the College's External Auditors
- Comments made by the Auditors appointed to audit specific areas such as WSUMs delivery and Student Funds.

The Executive Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning systems which are embedded within the operational units and reinforced by risk awareness training. The Executive

Management Team and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement.

Going Concern

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

Conclusion

The College has made significant progress over the last 16 months particularly in the areas of Corporate Governance, high quality Learning and Teaching, strategies to enhance efficiency and effectiveness, communication, strategic planning as well as maintaining the estate.

Approved by order of the members of the Board on 17 December 2015 and signed on its behalf by:

W Mackie

Chair

H Dunk

Principal

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

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

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The financial statements are prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation.

The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

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

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

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

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

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

W Mackie

Chair

17 December 2015

REMUNERATION REPORT

Remuneration Policy

The Principal's salary and the salaries of Vice Principals and Directors were set in 2013.

The Principal's salary is a spot salary. Vice Principals' and Directors' salaries are on three point incremental salary scales, with annual contractual increments on the anniversary of appointment.

There are no contractual arrangements for either Performance Related Pay or for bonuses.

The post of Principal and the posts which make up the College's Senior Management Team (Vice Principals and Directors) are not covered by local negotiating arrangements with Unison, within the terms of the Recognition and Procedures Agreement (RPA). All other service staff posts are covered by the RPA with regard to the negotiation of contractual issues in respect of terms and conditions of service and salaries.

The College remuneration policy for any uplifts to the salary scales of the Principal and Vice Principals (and Directors) is that these should be in line with those negotiated with Unison for all other service staff. However, this is not contractual and therefore is not an automatic uplift.

The remuneration of the Chair is set by Scottish Ministers as detailed in Note 8 to these financial statements.

Operation of the Remuneration Committee

The College's Performance Review and Remuneration Committee comprises the Chair of the Board of Management, sitting with Chairs of the Board's standing committees.

The Principal is not a member of the Performance Review and Remuneration Committee.

The Performance Review and Remuneration Committee would be asked to consider and approve any proposals for an uplift to the Principal's salary, and to the salary scales for Vice Principals and Directors. Any proposal would be following agreement with Unison for an uplift to the salaries for all other service staff and would be at the same level of increase. The same principle would be applied to remuneration of the Principal and the SMT with regard to any non-consolidated payment for all other service staff agreed with Unison.

The Chair of the Board would present any paper relevant to the salary of the Principal.

The Principal could be called to attend the Committee meeting for the purpose of presenting any paper relevant to the salary scale of members of the SMT.

However, since the Principal is not a member of the Remuneration Committee, the Principal would not be present during any decision making in this regard.

The Vice Principal HR and Organisational Wellbeing can be called to attend the meeting for the purposes of providing professional advice, as required by the Committee.

Senior Management Remuneration including salary and pension costs

Salary entitlements

The following table provides detail, in bands of £5,000, of the remuneration of senior management in the period.

	16 months ended 31 July 2015			8 months ended 31 March 2014		
Name	Salary £'000	Bonuses/ other benefits £'000	Total £'000	Salary £'000	Bonuses/ other benefits £'000	Total £'000
H Dunk	175-180	-	175-180	85-90	-	85-90
M Breen	110-115	-	110-115	50-55	-	50-55
J Galbraith	110-115	-	110-115	40-45	-	40-45
B McGuire	110-115	-	110-115	50-55	-	50-55
J McKie	110-115	-	110-115	50-55	-	50-55
D Vallance (appointed 5 May 2015)	25-30	-	25-30	-	-	-

The following table provides detail, in bands of £5,000, of the annual *salary equivalent for each person noted above, based on a pro rata figure for 12 months* remuneration in the period. *This is to enable comparability with other public sector bodies.*

	16 months ended 31 July 2015			8 months ended 31 March 2014		
Name	Salary £'000	Bonuses/ other benefits £'000	Total £'000	Salary £'000	Bonuses/ other benefits £'000	Total £'000
H Dunk	130-135	-	130-135	130-135	-	130-135
M Breen	80-85	-	80-85	80-85	-	80-85
J Galbraith	80-85	-	80-85	60-65	-	60-65
B McGuire	80-85	-	80-85	80-85	-	80-85
J McKie	80-85	-	80-85	80-85	-	80-85
D Vallance (appointed 5 May 2015)	20-25	-	20-25	-	-	-

The details in these tables are subject to audit.

Median Remuneration

Colleges are required by the FReM to disclose the relationship between the remuneration of the highest paid official and the median (middle of the range) remuneration of their workforce.

Based on the 12 month equivalent figures above, the banded remuneration of the highest paid official in the organisation in financial year 2014-15 was £130,000 to £135,000 (2013-14 £130,000 to £135,000). This was 4.2 times (2013-14 4.1 times) the median remuneration of the workforce which was £30,000 to £35,000 (2013-14 £30,000 to £35,000).

Accrued Pension Benefits

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

Both STSS and the SPF were final salary pension schemes up to 31 March 2015. This means that pension benefits for service prior to that date are based on the final year's pay and the number of years that the person has been a member of the scheme. Since 1 April 2015 both schemes have moved to being Career Average Schemes in respect of service since that date.

Contribution rates for these two schemes are set annually for all employees, with the employer contribution rate being the same % of gross salary for all members of the respective schemes. Employee contribution rates increase in line with gross salary as set out in the rules for each scheme.

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

Senior Officials Pension

Pension benefits are provided to senior officials on the same basis as all other staff. The senior officials are members of either the STSS or the SPF as noted below. The cost of the employer's pension contribution for each senior official is shown in the table below.

Name	Senior Official's Pension Scheme	Employer Contributions in the 16 month period to 31 July 2015
		£'000
H Dunk	STSS	25-30
M Breen	SPF	20-25
J Galbraith	SPF	20-25
B McGuire	STSS	15-20
J McKie	SPF	20-25
D Vallance (appointed 5 May 2015)	SPF	5-10

Senior officials do not believe it is appropriate for the College to disclose:

- Details of their accrued pensions/ accrued lump sums at pension age
- Details of the real increase in pension/ lump sum in the period
- Cash equivalent Transfer Values at 31 July 2015 and 31 March 2014

Compensation for loss of office

No senior officials received payment for compensation for loss of office, or voluntary severance, in the period.

H Dunk

Principal

17 December 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF AYRSHIRE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

We have audited the financial statements of Ayrshire College for the period ended 31 July 2015 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board of Management and auditor

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

Generic scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the College's affairs as at 31 July 2015 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF AYRSHIRE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (continued)

Opinion on regularity

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

Qualified opinion on the remuneration report

The accounts direction requires the preparation of a remuneration report in accordance with the Government Financial Reporting Manual (FReM). The FReM requires pension disclosures for each senior official who has served during the year including:

- the real increase during 2014-15 in the pension and, if applicable, the related lump sum at age 60;
- the value at 31 July 2015 of the accrued pension and, if applicable, the related lump sum at age 60;
- the value of the cash equivalent transfer value (CETV) at 1 April 2014 and 31 July 2015;
- the real increase in the CETV funded by the employer during 2014-15.

The College has not included these disclosures in the remuneration report. Except for this matter, in our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made there under by the Scottish Ministers; and

Opinion on other prescribed matters

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Philip Charles

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

18 December 2015

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

INCOME AND EXPENDITURE ACCOUNT FOR THE SIXTEEN MONTHS TO 31 JULY 2015

	Note	Recurring	Exceptional	Period ended 31 July 2015 £000	Period ended 31 March 2014 (8 months) £000
INCOME					
SFC grants	2	46,369	1,486	47,855	27,418
Tuition fees and education contracts	3	5,501	-	5,501	3,158
Other grant income	4	123	-	123	134
Other operating income	5	4,200	-	4,200	2,738
Investment income	6	327	-	327	153
Total Income		56,520	1,486	58,006	33,601
EXPENDITURE					
Staff costs	7	39,179	-	39,179	17,827
Restructuring costs	7	-	2,586	2,586	1,867
PFI Deferred Expenditure release to I&E		-	-	-	429
Impairment of Building/Asset write down		-	-	-	8,764
Donation to Ayrshire College Foundation	31	-	-	-	6,611
Other operating expenses	9	15,154	95	15,249	8,034
Depreciation	12	3,396	-	3,396	1,569
Interest payable	10	-	-	-	-
Total Expenditure		57,729	2,681	60,410	45,101
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and before tax		(1,209)	(1,195)	(2,404)	(11,500)
Taxation	11	-	-	-	-
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and tax		(1,209)	(1,195)	(2,404)	(11,500)
Transfer from accumulated income within specific endowments		-	-	-	-
(Deficit)/Surplus for the Period retained within reserves		(1,209)	(1,195)	(2,404)	(11,500)

The (deficit)/surplus for the period shown above can be analysed between recurring and exceptional activities as follows:

Recurring	(1,209)	678
Exceptional	(1,195)	(12,178)
	(2,404)	(11,500)

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

STATEMENT OF HISTORICAL COSTS SURPLUSES AND DEFICITS

		Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
	Note		
(Deficit)/Surplus on continuing operations before taxation		(2,404)	(11,500)
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	19	1,259	545
Release of Revaluation Reserve re Fixed Asset Impairment		-	7,058
Realisation of property revaluation gains of previous years		-	-
Historical cost (deficit) for the period before and after taxation		(1,145)	(3,897)

STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIXTEEN MONTHS TO 31 JULY 2015

		Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
	Note		
(Deficit)/Surplus on continuing operations for the period after depreciation of assets and valuation and tax		(2,404)	(11,500)
Adjustment re Kilwinning Valuation		(168)	-
Disposal of Properties in Revaluation Reserve		(178)	-
Actuarial (loss)/gain in respect of pension scheme	25	(2,392)	(2,805)
Restricted reserves	19	(4)	1
Total (loss)/gain recognised since last annual report		(5,146)	(14,304)
Reconciliation			
Opening reserves and endowments		22,133	36,437
Total recognised (losses)/gains for the period		(5,146)	(14,304)
Closing reserves and endowments		16,987	22,133

BALANCE SHEET AS AT 31 JULY 2015

	Note	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Fixed Assets			
Tangible assets	12	<u>49,280</u>	<u>51,002</u>
Total fixed assets		<u>49,280</u>	<u>51,002</u>
Current Assets			
Stocks		21	13
Debtors	13	1,080	4,024
Cash at bank and in hand		<u>2,989</u>	<u>3,013</u>
Total current assets		<u>4,090</u>	<u>7,050</u>
Less: Creditors – amounts falling due within one year	15	<u>4,723</u>	<u>6,573</u>
Net current assets		<u>(633)</u>	<u>477</u>
Total assets less current liabilities		48,647	51,479
Less: Creditors – amounts falling due after more than one year	16	9,182	10,253
Less: Provision for liabilities	17	<u>1,771</u>	<u>1,701</u>
Net Assets excluding pension liability		37,694	39,525
Net pension liability	25	<u>(10,272)</u>	<u>(7,298)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>27,422</u>	<u>32,227</u>
Deferred capital grants	18	<u>10,435</u>	<u>10,094</u>
Income and expenditure account excluding pension reserve	19	4,877	5,440
Pension reserve	19	<u>(10,272)</u>	<u>(7,298)</u>
Income and expenditure account including pension reserve	19	(5,395)	(1,858)
Restricted reserves	19	466	470
Capital Reserve	19	-	6,057
Revaluation reserve	19	<u>21,916</u>	<u>17,464</u>
Total reserves		<u>16,987</u>	<u>22,133</u>
TOTAL		<u>27,422</u>	<u>32,227</u>

The financial statements on pages 25 to 49 were approved by the Board of Management of Ayrshire College on 17 December 2015 and were signed on its behalf by:

W Mackie

Chair

H Dunk

Principal

CASH FLOW STATEMENT FOR THE SIXTEEN MONTHS TO 31 JULY 2015

		Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
	Note		
Cash inflow/(outflow) from operating activities	20	579	(4,780)
Returns on investments and servicing of finance	21	327	153
Taxation		-	-
PFI Capital Payment	16	(1,014)	(481)
Capital expenditure and financial investment	22	84	700
Increase/(decrease) in cash in the period		(24)	(4,408)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period		(24)	(4,408)
Movement in net funds in the period		(24)	(4,408)
 Net funds at 1 April 2014	24	3,013	7,421
Net funds at 31 July 2015	24	2,989	3,013

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Principal Accounting Policies

a) Basis of Preparation

The financial statements are prepared on a going concern basis and show a recurring operating deficit for the period of (£1,209,000) with an accumulated surplus on the income and expenditure reserve of £4,877,000. At 31 July 2015, current assets of £4,090,000 included cash and bank balances of £2,989,000. Creditors falling due within one year were £4,723,000, with net current liabilities of £633,000.

In light of the above, the financial statements are prepared on a going concern basis. The approved cash flow projections for Ayrshire College for the year to 31 July 2016 indicate no requirement for an overdraft facility.

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP); *Accounting for Further and Higher Education* and in accordance with applicable Accounting Standards. They conform to guidance published by the Scottish Funding Council.

The College has adopted FRS 17 Retirement Benefits in the financial statements. Details of the effect of adopting FRS 17 are shown in Note 25.

b) Basis of Accounting

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

c) Recognition of income

Income from grants, contracts and other services rendered is recognised in the income and expenditure account in proportion to the extent of completion of the contract or service concerned. All income from short-term bank deposits is credited to the income and expenditure account in the period in which it is earned. The main annual recurrent grant allocation from SFC, which is intended to meet recurrent costs, is credited directly to the income and expenditure account. The College has recognised income from European Funds on a work completed basis for the accounting period.

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

d) Maintenance of premises

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

e) Pension schemes

Retirement benefits to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). The STSS is a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the STSS are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method. The SPF is a defined benefit scheme under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits. FRS 17 has been adopted by the College and details of the effect of adopting FRS 17 are shown in Note 25.

f) Tangible fixed assets

Private Finance Initiative ('PFI') Assets

PFI contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the service passes to a PFI contractor.

Where the College is subject to the majority of the potential variations in property related profits or losses and has access to the risks and rewards of ownership (which is assessed having regard, in particular, to the quantum of finance provided by the private sector that is, in fact, at risk to the performance of the project) it recognises an asset and a corresponding liability for amounts due to the scheme operator to pay for the asset.

Assets recognised on balance sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the College.

The amounts payable to the PFI operators each year are analysed into three elements:

- Fair value of the services received during the year
- Finance cost and interest charge on the outstanding Balance sheet liability
- Payment towards liability – applied to write down the Balance sheet liability towards the PFI operator.

The annual cost of the service charge and finance cost are separately disclosed within the Other Operating Expenses note to these financial statements.

Land and buildings

Land and buildings inherited from the former Strathclyde Regional Council in 1993 are stated in the balance sheet at a valuation on the basis of depreciated replacement cost for specialised properties and open market value for non-specialised properties, as at 31 July 2013, less amounts written off by way of depreciation.

Land and buildings acquired since incorporation are included in the balance sheet at revaluation plus cost where this is over £5,000. Project expenditure is counted as a single asset. Freehold land associated with the buildings and undeveloped freehold land is not depreciated. Freehold building costs are depreciated on a straight line basis over their useful economic life, as assessed by external valuers, as follows:-

Main buildings and infrastructure	(up to) 50 years
Temporary buildings	(up to) 10 years

Leased assets are depreciated over the life of the lease.

Equipment

The College has attributed no value to equipment inherited from the former Strathclyde Regional Council in 1993. Other equipment is capitalised as follows:-

IT assets	- Over £1,000 for single items or over £5,000 for groups of related assets
Other assets	- Over £5,000 for single items or over £10,000 for groups of related assets

Equipment is depreciated on a straight line basis over its useful economic life as follows:-

Computer and media equipment	4 years
Other motor vehicles and equipment	4-5 years
Furniture and fittings	8-10 years

g) Leased Assets

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

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

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

h) Stocks

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

i) Taxation

As a Scottish charity, the College benefits by being exempt from corporation tax on income and surpluses which have been derived in pursuing activities designed to carry out the main objects of its charitable status.

The College is exempted from levying VAT on most of the services it provides to students. For this reason, the College is generally unable to recover input VAT it suffers on goods and services purchased for Curriculum Areas. The College is able to recover VAT on certain trading activities and can partially recover some input tax on other non-Curriculum Area expenditure.

j) Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

		Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
	Note		
2 SFC grants			
FE recurrent grant (including fee waiver)		42,303	20,640
HE & FE childcare funds		1,234	736
Release of deferred capital grants	18	1,455	716
Release of deferred capital grants re impairment of Holehouse Road Campus	(1)	-	1,653
Release of deferred capital grants unspent	(1)	-	1,188
College Transformation Fund Grants	(1)	1,486	2,193
Maintenance grant		914	-
Kilmarnock New Build Campus grants		361	272
Other SFC grants		102	20
Total		47,855	27,418
1): The above three items totalling £5,034,000 are shown as exceptional within the 2013-14 income & expenditure account.			
3 Tuition fees and education contracts			
FE fees – UK		509	349
FE fees - EU		-	-
FE fees – non EU		-	-
HE fees		3,842	2,014
Education contracts		864	631
Other contracts		286	164
Total		5,501	3,158
4 Other grant income			
European funds		-	23
Release of deferred capital grants	18	123	111
		123	134
5 Other operating income			
Catering		1,396	694
Other income-generating activities		940	469
Other income		1,106	775
Other income being grants from Ayrshire College Foundation (Note 14)		758	-
Other income being Gift of Land – Hill Street, Kilmarnock (Note 12)		-	800
Total		4,200	2,738

	Note	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
6 Investment income			
Other interest receivable		41	56
Net return on pension asset/liability	25	286	97
Total		327	153
7 Staff costs			
Wages and salaries		31,136	14,710
Social security costs		2,586	1,081
Other pension costs		4,589	1,901
		38,311	17,692
FRS 17 adjustments	25	868	135
Total		39,179	17,827
Academic/Teaching Departments		20,893	10,495
Academic/Teaching Services		5,544	1,956
Administration and Central Services		10,538	4,455
Premises staff		1,509	661
Catering staff		695	260
Sub-total		39,179	17,827
Exceptional restructuring costs		2,586	1,867
Total		41,765	19,694

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

	No.	No.
Academic/Teaching Departments	338	335
Academic/Teaching Services	117	105
Administration and Central Services	202	191
Premises staff	53	45
Catering staff	26	21
Total	736	697

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

	2015 No.	2014 No.
£50,001 to £60,000 per annum	14	4
£60,001 to £70,000 per annum	14	11
£70,001 to £80,000 per annum	-	-
£80,001 to £90,000 per annum	5	4
£90,001 to £100,000 per annum	-	-
£120,001 to £130,000 per annum	-	1
£130,001 to £140,000 per annum	1	-

The above figures for 2015 represent the annual equivalent of salaries paid in the sixteen month period with the 2014 comparisons being the annual equivalent of salaries paid in that eight month period

8 Senior post-holders' emoluments

	2015 No.	2014 No.
The number of senior post-holders, including the Principal was:	6	5
	Period ended 31 July 2015	Period ended 31 March 2014
Senior post-holders' emoluments are made up as follows:		
Salaries	657	290
Benefits in kind	-	-
Pension contributions	114	50
Total emoluments	771	340

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

	£000	£000
Salary	177	87
Bonus	-	-
Benefits in kind	-	-
	177	87
Employers Pension contributions	26	13

The Principal's emoluments are for the 16 months to 31 July 2015 and the 8 months to 31 March 2014. Annualised equivalents are set out in the Remuneration Report.

In 2014-15 the Principal and one other senior post-holder were members of the Scottish Teachers Superannuation Scheme and the other four senior post-holders were members of the Strathclyde Pension Fund. All pension contributions were paid at the same rate as for other members.

The members of the Board of Management, other than the Chair (see below) , the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties

Chair's Remuneration

The Chair's post was unremunerated up to 3 March 2014. As from that date the College has paid the Chair remuneration, set by Scottish Ministers, as follows:

12 months 4 March 2014 to 3 March 2015: annual remuneration of £27,560

4 March 2015 onwards: annual remuneration of £20,670

This remuneration is not pensionable.

	Period Ended 31 July 2015	Period Ended 31 March 2014
	£000	£000
9 Other operating expenses		
Teaching departments	2,155	1,310
Administration and central services	4,504	2,154
Kilwinning Campus PFI Charge – Service Element	1,026	515
Kilwinning Campus PFI Charge – Financing Element	812	431
Other premises costs	3,254	1,928
Refurbishment works funded by Ayrshire College Foundation (Note 14)	758	-
Childcare costs	1,233	736
New Build Campus Costs	157	199
Student Bursary Support costs	454	-
College Transformation expenditure	95	336
Catering	801	425
Total	15,249	8,034

Other operating costs include:

Auditors' remuneration		
- external audit of these financial statements	31	50
- internal audit services	32	21
- other services	-	-
Operating lease payments	377	173

10 Interest payable

On overdrafts	-	-
On finance leases	-	-
Pension finance costs	-	-
Total	-	-

11 Taxation

The Board does not consider that the College was liable for any corporation tax arising from its activities during the period.

12 Tangible Fixed Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	PFI Building £000	Equipment £000	Total £000
Cost or Valuation					
At 1 April 2014	31,818	1,483	18,223	7,603	59,127
Adjustment to previous year	-	-	-	(16)	(16)
Additions	93	701	-	1,242	2,036
Adjustment re Kilwinning value	(696)	-	-	-	(696)
Disposals	(265)	-	-	(29)	(294)
Transfers	(310)	310	-	-	-
At 31 July 2015	30,640	2,494	18,223	8,800	60,157
Depreciation					
At 1 April 2014	1,407	760	650	5,308	8,125
Adjustment re Kilwinning value	(528)	-	-	-	(528)
Provided during year	1,759	127	519	991	3,396
Transfers	(61)	61	-	-	-
On disposals	(87)	-	-	(29)	(116)
At 31 July 2015	2,490	948	1,169	6,270	10,877
Net Book Value at 31 July 2015	28,150	1,546	17,054	2,530	49,280
Net Book Value at 31 March 2014	30,411	723	17,573	2,295	51,002
Inherited	16,130	71	-	-	16,201
Financed by capital grant	6,805	1,369	106	2,155	10,435
Other	5,215	106	16,948	375	22,644
At 31 July 2015	28,150	1,546	17,054	2,530	49,280

The College's Kilwinning Campus building was valued at 31 July 2013 by Ryden in the capacity of external valuer. The basis of valuation adopted was fair value, being market value for existing use or depreciated replacement costs (as defined by the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors), depending on the type of asset being valued. The land valuation for Kilwinning has not been included in these financial statements as its value has been adversely impacted by a 100 year ground lease granted in favour of the PFI operator of that building.

The College's other land and buildings were revalued by District Valuer Services at 31 July 2013 on the same basis as noted immediately above.

The College completed, in February 2014, the transfer of title to the 10 acres of land at Hill Street, Kilmarnock, gifted by Diageo to the College. This land has been valued as at that date by District Valuer Services at £800,000.

12 Tangible Fixed Assets (continued)

Land and Buildings with a net book value of £16,130,000 have been financed by local authorities in Ayrshire. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council, to surrender the proceeds.

Included in Land & Buildings is land at a value of £8,999,000 which is not depreciated.

	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000
13 Debtors: Amounts falling due within one year		
Trade debtors – net of provision for doubtful debts	40	363
European funding	336	334
Other Debtors	35	90
Prepayments and accrued income	669	474
Amounts owed by the Scottish Funding Council	-	2,763
	1,080	4,024

14 Campus Refurbishments

The College is refurbishing its campuses at Ayr and Kilwinning as part of a planned programme of investment in its facilities.

The original budgeted expenditure on refurbishments at these two campuses was £3.042 million. The Ayrshire College Foundation ('the Foundation') has agreed to make grants not exceeding this sum to the College in respect of these refurbishments.

The first phase expenditure on these refurbishments in the period to 31 July 2015 was £758,000 and matching grants for this have been received from the Foundation. The grants have been shown within Other Income and the 2014-15 expenditure shown within Other Operating Expenses.

15 Creditors: Amounts falling due within one year	£000	£000
Bank loans and overdrafts	-	-
Trade creditors	608	388
Other taxation and social security	543	4
Other Creditors	788	1,168
Accruals and deferred income	1,186	3,691
Capital Grant Deferred Income	32	-
Capital element of Kilwinning PFI expenditure (Note 16)	806	749
Amounts owed to Scottish Funding Council	597	444
Bursaries and Student Support Funds for future disbursement	163	129
	4,723	6,573

Period ended	Period ended
31 July	31 March
2015	2014
£000	£000

16 Creditors: Amounts falling due after more than one year

Capital Element of Kilwinning PFI expenditure:

At 1 April 2014	11,002	11,482
Capital payments in the period	(1,014)	(480)
	9,988	11,002
Less portion due within one year (Note 15)	(806)	(749)
At 31 July 2015	9,182	10,253

17 Provisions for liabilities and charges

At 1 April 2014	1,701	1,750
Expenditure in the period	(141)	(67)
Additional provision required in the period	211	18
Interest charged	-	-
At 31 July 2015	1,771	1,701

The above liability is in respect of future pension liabilities arising from early retirements prior to 2006 and now relating to 31 individuals receiving benefits (2013-14: 32) . The College's liabilities relating to the unfunded early retirement pension provision have been revalued by an independent firm of actuaries.

18 Deferred Capital Grants

	SFC	Other	Total
	£000	£000	£000
At 1 April 2014			
Land and Buildings	5,594	2,569	8,163
Equipment	1,931	-	1,931
	7,525	2,569	10,094
Grants received in the period			
Land and Buildings	794	-	794
Equipment	1,125	-	1,125
	1,919	-	1,919
Released to Income and Expenditure Account			
Land and Buildings	554	123	677
Equipment	901	-	901
	1,455	123	1,578
At 31 July 2015			
Land and Buildings	5,834	2,446	8,280
Equipment	2,155	-	2,155
	7,989	2,446	10,435

	Period ended 31 July 2015	Period ended 31 March 2014
19 Reserves	£000	£000
General Reserve		
At 1 April 2014	(1,858)	4,844
Surplus/(deficit) for the period	(2,404)	(11,500)
Impairment of Holehouse Road Campus	-	7,058
Transfer from revaluation reserve	1,259	545
Actuarial gain/(loss) in pension scheme	(2,392)	(2,805)
At 31 July 2015	(5,395)	(1,858)
Represented by:		
Income & Expenditure Account		
At 1 April 2014	5,440	9,299
Surplus/(Deficit) for the period	(2,404)	(11,500)
Transfer to/(from) pension reserve	582	38
Transfer from revaluation reserve	1,259	545
Impairment of Holehouse Road Campus	-	7,058
At 31 July 2015	4,877	5,440
Pension Reserve		
At 1 April 2014	(7,298)	(4,455)
Current service cost	(2,944)	(875)
Impact of curtailments	(1)	-
Employer contributions	2,047	765
Contributions re unfunded benefits	30	19
Past service costs	-	(44)
Net return on pension scheme	286	97
Actuarial gains/(losses) in pension scheme	(2,392)	(2,805)
At 31 July 2015	(10,272)	(7,298)
Summary		
Income and expenditure account	4,877	5,440
Pension reserve	(10,272)	(7,298)
At 31 July 2015	(5,395)	(1,858)
Revaluation Reserve		
At 1 April 2014	17,464	25,066
Revaluation	-	-
Transfer from Capital Reserve	5,889	-
Transfer to Income & Expenditure account in respect of:		
Depreciation on revalued assets	(1,259)	(545)
Disposal of properties	(178)	-
Impairment of Holehouse Road Campus	-	(7,057)
At 31 July 2015	21,916	17,464

	Period ended 31 July 2015	Period ended 31 March 2014
Note	£000	£000
Capital Reserve		
At 1 April 2014	6,057	6,057
Adjustment re Kilwinning value	(168)	-
Transfer to Revaluation Reserve	(5,889)	-
At 31 July 2015	-	6,057

The capital reserve related to the difference between the Kilwinning PFI building valuation as at 1 August 2012 and the related capital liabilities at that date.

Restricted Reserves

At 1 April 2014	470	470
Transferred to General Reserves	-	-
Payments made	(4)	-
At 31 July 2015	466	470

The restricted reserves balance at 31 July 2015 comprises:

Irvine Property Endowment Fund: £434,000 (2014: £434,000)
This fund represents ring fenced monies held for capital projects

Walker Trust Fund: £32,000 (2014: £36,000)
This fund is held for the benefit of students in Ayrshire.

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

Operating surplus/(deficit) after depreciation of assets at valuation and tax		(2,404)	(11,500)
Depreciation	12	3,396	1,569
Net (gain)/loss on disposal of fixed assets	22	(201)	-
Adjustment to additions re 2013-14		16	-
Deferred capital grants released to income	18	(1,578)	(3,075)
(Increase) in stock		(8)	(5)
(Increase)/Decrease in debtors	13	2,944	(1,603)
Increase/(Decrease) in creditors	15	(1,907)	2,033
(Decrease)/Increase in provisions	17	70	(49)
(Decrease)/Increase in reserves	19	(4)	-
Interest receivable	6	(327)	(153)
Interest payable		-	-
Impairment of Holehouse Road Campus		-	8,765
Gift of Land – Hill Street, Kilmarnock	12	-	(800)
Net movement in pension liability	25	582	38
Net cash (inflow)/outflow from operating activities		579	(4,780)

	Note	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
21 Returns on investments and servicing of finance			
Interest received	6	327	153
Interest paid		-	-
Interest element of finance lease repayments		-	-
Net cash inflow/outflow from returns on investments and servicing of finance		<u>327</u>	<u>153</u>

22 Capital expenditure and financial investment			
Purchase of tangible fixed assets	12	(2,036)	(1,487)
Sales of tangible fixed assets		201	-
Deferred capital grants received	18	<u>1,919</u>	<u>2,187</u>
Net cash inflow/(outflow) from capital expenditure		<u>84</u>	<u>700</u>

23 Financing			
Capital element of finance lease rental payments		-	-
New loans		-	-
Repayment of amounts borrowed		-	-
Net cash inflow/(outflow) from financing		<u>-</u>	<u>-</u>

24 Analysis of changes in net funds	At 1 April 2014 £000	Cash Flows £000	Other Changes £000	At 31 July 2015 £000
Cash	3,013	(24)	-	2,989
Finance lease/hire purchase contracts	-	-	-	-
Total	<u>3,013</u>	<u>(24)</u>	<u>-</u>	<u>2,989</u>

25 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund Scheme (SPF),

The total pension costs for the period were:

		Period ended 31 July 2015	Period ended 31 March 2014
STSS: contributions paid		2,512	1,117
SPF: Contributions paid		2,077	784
FRS 17 charge to the Income & Expenditure Account	7	<u>868</u>	<u>135</u>
Total pension cost for the period		<u>5,457</u>	<u>2,036</u>

Scottish Teachers' Superannuation Scheme (STSS)

The last audited full actuarial and funding valuation was carried out at 31 March 2009. The results of this valuation were rolled forward to give an overall scheme liability of £24.0 billion at 31 March 2013.

Ayrshire College is unable to identify separately its share of the scheme's underlying assets and liabilities. However, as the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the scheme's actuary at a level to meet the cost of pensions as they accrue.

Ayrshire College has no liability for other employers' obligations to the multi-employer scheme.

Financial assumptions at 31 March 2013

Rate of return (discount rate)	4.1%
Rate of return in excess of:	
Earnings increases	0.15%
Price increases	2.35%

Employer contributions were payable to the STSS at a rate of 14.9%. Employer rates are reviewed every five years following a scheme valuation from the Government Actuary. The rate of employees contributions vary dependant on the employee's salary.

Strathclyde Pension Fund (SPF)

The SPF is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution by the employer made for the period ended 31 July 2015 was £2,077,000.

Under the requirements of Accounting for Retirement Benefits under Financial Reporting Standard 17 (FRS 17), the College is required to disclose information on its share of assets and liabilities of the Strathclyde Pension Fund on a market value basis at the end of the accounting period. The figures quoted form the basis of the balance sheet and funding status of Ayrshire College as at 31 July 2015, in respect of its pension obligations under this Local Government Pension Scheme (LGPS). This information is set out below:-

Principal Actuarial Assumptions

	At 31 July 2015	At 31 March 2014
Rate of increase in salaries	4.5%	5.1%
Rate of increase for pensions in payment/inflation	2.6%	2.8%
Discount rate for liabilities	3.6%	4.3%
Expected return on assets	3.6%	6.0%

The current mortality assumptions include allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

		At 31 July 2015	At 31 March 2014
Current pensioners	Males	22.1	21.0
	Females	23.6	23.4
Future pensioners	Males	24.8	23.3
	Females	26.2	25.3

The assets and liabilities in the scheme and the expected rates of return were:

	Long-term rate of return at 31 July 2015	Value at 31 July 2015	Long-term rate of return at 31 March 2014	Value at 31 March 2014
		£'000		£'000
Equities	3.6%	27,259	6.6%	23,543
Bonds	3.6%	4,361	3.7%	3,717
Property	3.6%	4,361	4.8%	2,168
Cash	3.6%	363	3.7%	1,549
Total market value of assets		36,344		30,977
Present value of scheme liabilities				
Funded		(46,015)		(37,702)
Unfunded		(601)		(573)
Surplus/(deficit) in the scheme		(10,272)		(7,298)

	At 31 July 2015	At 31 March 2014
	£'000	£'000
Employer service cost (net of employee contributions)	2,944	875
Past service cost	-	44
Total operating charge	2,944	919
Analysis of pension finance income/(costs)		
Expected return on pension scheme assets	2,566	1,143
Interest on pension liabilities	(2,280)	(1,046)
Pension finance income/(costs)	286	97

	Period ended 31 July 2015	Period ended 31 March 2014
Movements on Pension Scheme Deficit	£000	£000
(Deficit) in scheme at 1 April 2014	(7,298)	(4,455)
Movement in period:		
Current service charge	(2,944)	(875)
Losses/(Gains) on curtailments	(1)	-
Contributions by members	2,047	765
Contributions in respect of unfunded benefits	30	19
Past service costs	-	(44)
Net return on pension assets	286	97
Actuarial gain/(losses)	(2,392)	(2,805)
(Deficit) in scheme at 31 July 2015	19 (10,272)	(7,298)
Asset and Liability Reconciliation		
Reconciliation of Liabilities		
Liabilities at 1 April 2014	38,275	34,093
Service cost	2,944	875
Interest cost	2,280	1,046
Contributions by members	645	225
Actuarial (gain)/loss	3,589	2,465
Past service cost/(gain)	-	44
Losses/(Gains) on curtailments	1	-
Estimated Unfunded Benefits Paid	(30)	(19)
Estimated Benefits Paid	(1,088)	(454)
Liabilities at 31 July 2015	46,616	38,275
Reconciliation of Assets		
Assets at 1 April 2014	30,977	29,638
Expected return on assets	2,566	1,143
Contribution by members	645	225
Contribution by employer	2,047	765
Contribution in respect of unfunded benefits	30	19
Actuarial (gain)/loss	1,197	(340)
Estimated Unfunded Benefits Paid	(30)	(19)
Estimated Benefits paid	(1,088)	(454)
Liabilities at 31 July 2015	36,344	30,977
Amounts for the current and previous accounting periods		
Fair value of employer assets	36,344	30,977
Present value of defined benefit obligation	(46,616)	(38,275)
Surplus/(Deficit)	(10,272)	(7,298)
Experience Gains/(Losses) on Assets	1,197	(340)
Experience Gains/(Losses) on Liabilities	1,149	(47)

26 Related Party Transactions

The Board of Management of Ayrshire College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 and is funded by the Scottish Funding Council (SFC), which is sponsored by the Scottish Government's Enterprise and Lifelong Learning department.

SFC is regarded as a related party. During the sixteen months to 31 July 2015 Ayrshire College had various material transactions with SFC and Scottish Government Departments, as well as with other entities for which the Scottish Government is regarded as the sponsor via the Student Awards Agency for Scotland and a number of other Colleges and higher education institutions. In addition Ayrshire College has had a small number of material transactions with other Government Departments and other central government bodies.

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

The College had transactions during the period or worked in partnership with publicly funded or representative bodies in which members of the Board of Management hold or held official positions as noted below:

Board Member	Position	Organisation
Dr W-y Hatton	Founder/Director	Wai Beyond Consultancy
Mr B Costley	Managing Director	Costley & Costley Hoteliers Ltd
Mr J English	Chief Executive	Hyspec Engineering Ltd

There were no transactions exceeding £5,000 with any of the above organisations in 2014-15.

Three members/former members of the Board of Management were employed by the College in the period as follows:

Mrs H Dunk	Principal
Mrs K Cole	Teaching Staff Member
Mr S Greenwood	Service Staff Member

In addition, three members/former members of the Board of Management being Ms M Palmer, Mr S Fegan and Ms A Alexander were student members, elected by students and remunerated by the Student Association.

27 FE Bursary and Other Student Support Funds

	FE Bursary	FE Hardship	EMA's	Other	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000	£000	£000	£000	£000
Balance brought forward	(397)	264	(11)	173	29	356
Allocation received in period	10,726	561	990	237	12,514	7,773
Interest	-	-	-	-	-	-
	10,329	825	979	410	12,543	8,129
Expenditure in period	(11,642)	(211)	(982)	(124)	(12,959)	(7,693)
Repaid to SAAS re 2014-15	-	-	-	(120)	(120)	-
Repayable to SFC as clawback	-	-	-	-	-	(407)
College contribution to funds	454	-	-	-	454	-
Virements	859	(614)	-	-	245	-
Balance carried forward	-	-	(3)	166	163	29
Represented by:						
Repayable to SFC/SAAS as clawback	-	-	-	166	166	-
Retained by College for students	-	-	(3)	-	(3)	29
	-	-	(3)	166	163	29

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

28 HE & FE Childcare Funds

	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000
Brought forward: April 2014	100	99
Allocation received in period	1,379	836
	1,479	935
Expenditure in period	(1,234)	(736)
Repayable to SFC as clawback	-	(99)
Virements	(245)	-
Balance carried forward: July 2015	-	100
Represented by:		
Repayable to SFC as clawback	-	-
Retained by College for students	-	100
	-	100

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

29 Commitments under Operating Leases

As at 31 July 2015 the College had annual commitments under non-cancellable operating leases as set out below:

	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000
Operating Leases which expire: In more than five years	<u>143</u>	<u>129</u>
Total	<u>143</u>	<u>129</u>

30 Capital Commitments

Contracted for at 31 July 2015	<u>30</u>	<u>80</u>
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31 Ayrshire College Foundation

The Ayrshire College Foundation was formed on 20 December 2013. The Foundation, an independent Scottish Charity, has as its charitable objectives, the furtherance of the charitable objectives of the College which, broadly, are the advancement of education in Ayrshire. The College has been reclassified as a central public sector organisation as from 1 April 2014 and, in common with most other Colleges in Scotland, had revenue reserves that would otherwise have been restricted in their use as from 1 April 2014. The College made a donation to the Foundation of £6,611,000 on 28 March 2014.

As disclosed in Note 14, the College has applied to the Foundation for grant assistance, primarily to assist in the College's capital investment programmes.

32 PFI Contract at Kilwinning Campus

During 1999-2000 James Watt College entered into a 25 year partnership with KE Projects Ltd for the provision of a College campus in Kilwinning, North Ayrshire, and the associated facility management. Following the merger, the PFI contract transferred to Ayrshire College in August 2013.

The College makes an agreed payment each year which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year – but otherwise it is fixed. The PFI contract runs until 2025 at which time the facilities and all operational services revert to full College management. Ownership of the asset will pass to the College at the end of the contract for no additional charge.

As such, it is considered that there is insufficient finance at risk to the performance of the contract and the College is deemed to control the services provided by KE Projects under its PFI scheme. As a result assets used to provide services have been recognised on the College's Balance Sheet. This is in line with the College's Accounting Policy which shows the depreciated replacement cost valuation of that campus in the balance sheet, partially offset by the liability of the capital element of the remaining PFI payments up to June 2025.

Payments remaining to be made under the PFI contract at 31 July 2015 are as follows:

	Payment for services	Reimbursement of Capital Expenditure	Interest	Total
	£000's	£000's	£000's	£000's
Payable in 2015-16	768	806	562	2,136
Payable within 2-5 years	3,074	3,705	1,769	8,548
Payable within 6-10 years	3,572	5,477	910	9,959
Total	7,414	9,988	3,241	20,643

Payments made to the contractor have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The outstanding liability to the contractor for capital expenditure is as follows:

	31 July 2015	31 March 2014
	£000's	£000's
Balance at start of year	11,002	11,482
Payments made in the year	(1,014)	(480)
Balance outstanding at end of the year	9,988	11,002

33 Post Balance Sheet Events

Kilmarnock New Build

Construction activities for the New Campus Project at Hill Street, Kilmarnock started on 4 June 2014. This exciting £53 million Project will provide a fit for purpose learning environment for the 21st century and has a number of sector leading elements. This Project will also contribute to the regeneration of the Hill Street area of Kilmarnock as well as the Town Centre initiatives. The new Campus has a target service commencement date of 19 May 2016. It is envisaged that students will attend the new campus as from August 2016 and that, from that point, the College will no longer operate its three campuses in the Kilmarnock area. The College is now reviewing its estates options in respect of these three properties.

Cumnock Campus

Following agreement at a Board of Management meeting in September 2015, the College announced in October 2015 that it intends to close its Cumnock campus in January 2016.

34 Contingent Liabilities

There are no contingent liabilities at 31 July 2015 (31 March 2014: £ nil)

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

- 1 It is the Scottish Funding Council's direction that colleges and universities comply with the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing their annual report and accounts¹.
- 2 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2014-15 (FReM) where applicable.
- 3 Incorporated colleges are also reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2015.
- 4 The financial statements should be signed by the chief executive officer and by the chair, or one other member of the governing body.
- 5 Incorporated colleges should reproduce this Direction as an appendix to the financial statements.

Scottish Funding Council
10 August 2015

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