

Board of Management Report and Financial Statements

For the year ended
31 July 2016

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PERFORMANCE REVIEW

The Board of Management of Ayrshire College presents their Performance Review together with the Audited Financial Statements for the year ended 31 July 2016.

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.

Ayrshire College

Colleges in Scotland 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, and the 2014-15 accounts were for the 16 month period to 31 July 2015. Colleges in Scotland, with the agreement of the Scottish Government, then reverted to their traditional 31 July year end. Annual accounts to 31 July are now being prepared.

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

Strategic Plan 2014-17

The Board of Management has 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 vision is "***Raising Aspirations / Inspiring Achievement / Increasing Opportunities***".

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"

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 year to July 2016 throughout the College and its services. These 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 statement of comprehensive income shows a deficit for the year to 31 July 2016 of (£2,842,000). This is compared to a deficit in 2014-15 of (£126,000) (sixteen months).

The deficit in 2015-16 has been impacted by a number of exceptional items. The presentation of the Statement of Comprehensive Income in these financial statements therefore analyses trading in the period between results before exceptional items (£677,000) and Exceptional Items (£2,165,000).

FRS102 Transition

The College now has to follow the accounting and reporting requirements of Financial Reporting Standard 102 (FRS102) as applied by the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education. The adoption of FRS102 has required restatements to previously reported disclosures in the College's balance sheet and Statement of Comprehensive Income (previously titled the 'Income and Expenditure Account'). The impact of these changes are set out in Note 31 to these financial statements with all figures in this Performance Review using the restated amounts.

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 as noted above, 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 the main Scottish Funding Council grant. For the financial year 2015-16 this meant that the College received cash of £779,000, which had been earmarked against net depreciation being:

Depreciation charge for the year	£2,488,000
Release of deferred capital grants	<u>(£1,709,000)</u>
	£779,000

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 (SFC) 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 key priorities including student support, loan repayments and to deliver improved services to learners.

The impact of the above has contributed to the reported deficit for 2015-16.

The SFC 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 SFC with Audit Scotland and the Scottish Government.

Operational Trading

The College recorded a deficit of (£677,000) before exceptional items in 2015-16, which represents approximately (1.6)% of overall trading income. The financial budget for 2015-16 was based on a trading deficit of £(767,000). The improvement of £90,000 against budget is primarily due to College wide control over costs, partially offset by FRS102 pension costs in the year.

The College has significant reliance on the SFC for its funding which is largely from recurrent grants. In 2015-16 the SFC provided 82.5% of the College's total revenue income (2014-15: 82.0%).

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

Exceptional Items

The year under consideration, and the preceding sixteen month period, has been a time of exceptional change within Ayrshire College and the College Sector overall. The deficit arising from Exceptional Items in the year was (£2,165,000), 2014-15: surplus £1,815,000.

The charge of (£2,165,000) in 2015-16 comprises the following elements:

- Building impairments and fixed asset write downs: £(1,963,000)
- Exceptional restructuring costs: £(677,000)
- Release of deferred capital grants on asset impairments: £460,000
- Exceptional depreciation charge: £(15,000)
- Disposal of land £30,000

Reserves

The deficit brought forward on the income and expenditure reserve at 1 August 2015 was £(3,600,000). After the deficit for the year of (£677,000) before exceptional items, the exceptional items noted above of (£2,165,000), the transfers in respect of the pension reserve, the disposal of property and the transfers from the revaluation reserve are taken into account, the deficit on the College's income and expenditure reserve at 31 July 2016 is £(6,920,000).

Capital Additions

Tangible Fixed Asset additions in 2015-16 amounted to £4,338,000. This expenditure relates to capital expenditure for the student services areas at the Ayr and Kilwinning campuses of £1,831,000 funded by the Ayrshire College Foundation and other capital investment of £2,056,000, with a further balance of £451,000 related to land and buildings, funded by SFC capital grant.

Core Financial Performance Indicators

The SFC has developed a series of core performance indicators which are designed to provide an overall summary view of an institution's performance.

The table below notes the College performance against these indicators which should be considered in conjunction with the narrative provided elsewhere in the Performance Review.

No	Performance Indicator	Year to 31.7.16	Sixteen months to 31.7.15
1	Recurring (Deficit)/Surplus as % of total trading income	(1.6%)	(2.1%)
2	Non SFC Income as % of Total Income	17.5%	18.0%
3	Credit activity target set by SFC for year to July 2016 (with annual figures to July 2015 being expressed as WSUMs)	125,507	183,269
4	Credit activity achieved in year to July 2016 (year to July 2015 being expressed as WSUMs)	127,619	181,035
5	Activity achieved against target	101.7%	98.8%
6	Current Assets: Current Liabilities	0.85: 1	1.11: 1
7	Gearing/debt	Nil	Nil
8	Days of recurring expenditure represented by period end cash	17	17

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 2015-16 of £110,000, 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 agreed an Outcome Agreement with the Scottish Funding Council for the period 2014-17.

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 2015-16 Outcome Agreement including KPI's in relation to student statistics such as numbers, retention and achievement.

Within the 2015-16 Outcome Agreement, the College activity target agreed with SFC was 125,507 Credits in the academic year to 31 July 2016. This attracted funding support of £31,975,598. The College exceeded the activity target set by SFC for 2015-16.

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 needs were removed from the Curriculum Delivery Plan (CDP). The College ensures that its portfolio of programmes offer skills development opportunities. Significant development activity has taken place in 2015-16 to finalise and implement the CDP for 2015-16 and to develop the CDP for 2016-17.

Resources

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

Property

Tangible resources include the three main campuses of Ayrshire College together with smaller satellite campuses. 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 Nethermains Campus in Kilwinning which focuses on the STEM curriculum.

Estates Development

Estates developments are evidence based and allow the College to align its estate to the emerging needs of students and curriculum delivery requirements.

Ayrshire College opened its new campus at Hill Street, Kilmarnock for students in October 2016.

Financial Performance

The College generated a deficit in the year of (£677,000) before exceptional items, which represents approximately (1.6%) of overall trading income. This compares to a deficit before exceptional items in 2014-15 of £(1,941,000).

After recording net exceptional costs amounting to £2,165,000, the final deficit was (£2,842,000) for 2015-16 (2014-15: deficit of £126,000).

The College, at July 2016, has £21,160,000 of net assets (after deducting £13,253,000 pension liability). At July 2015 the College had £18,782,000 of net assets (after deducting £10,272,000 pension liability).

The increase of £2,378,000 in net assets is primarily due to the revaluation of the Ayr and Kilwinning campuses, partially offset by the increase in the pension liability and the deficit incurred in the year.

Staff Report

In the 2015-16 staffing return to the SFC, it was reported that the College employed 755 full-time equivalent employees of whom 351 were curriculum staff and 404 were service staff. This equates to a headcount of 935, comprising 600 female and 335 male members of staff.

Full disclosure of staff costs of £30,411,000 is given in note 7 of the accounts, with this figure including £106,000 of agency staff costs.

The average sickness and absence rate in 2015-16 was 2.8%.

The College has developed a robust partnership approach with EIS-FELA and Unison through the creation of a Policy Development and Review Group that is tasked with the development and consultation of all employee related policies and procedures. This has resulted in the creation of key Ayrshire College policies that cover the broad range of employee matters, including Promoting Attendance, Family Friendly (e.g. maternity and paternity), Disciplinary, Grievance, Health and Safety and Staff Learning and Development.

A number of policies now fall within the scope of the National Recognition and Procedures Agreement (NRPA) within the National Bargaining processes and this may impact on a number of policy documents in the future.

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 2015-16 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 the management of risk at each Committee Meeting. The College Risk Register is updated quarterly 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, Moderate or Low based on scales for Likelihood and Impact.

The College Risk Register at the end of 2015-16 identified 24 strategic risks.

- 2 risks were viewed as High
- 5 risks were assessed as Medium
- 11 risks were classified as Moderate
- 6 risks were classified as Low.

The following risks have been assessed as High

- Risk that the College is unable to fully invest in its estate due to capital funding restrictions
- Risk that the College does not achieve the objectives of the new campus development

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
- Colleges Scotland
- Skills Development Scotland
- Trade Unions
- Universities
- The Voluntary Sector
- Scottish Futures Trust
- NUS

The College recognises the importance of these key 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 2015-16 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 College life and work. A range of activities have been carried out during 2015-16.

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 2015-16 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 and Vice President are members 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

The College took possession of its new campus at Hill Street, Kilmarnock on 30 September 2016. This campus, procured using the Scottish Government's Non Profit Distribution (NPD) model, provides a fit for purpose learning environment for the 21st century and has a number of sector leading elements.

Students were welcomed to the new campus in October 2016 and, from that point, the College is no longer using its three previous campuses in the Kilmarnock area. The College is now disposing of its interests in these three properties.

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

W Mackie

Chair

15 December 2016

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 year ended 31 July 2016.

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 and through its Committees are provided with regular information on the overall financial performance of the College together with other relevant information such as performance against targets, quality matters and other 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 to Members on an ad-hoc basis.

Members of the Board of Management

The Members who served on the Board of Management during the year to 31 July 2016 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	31.07.16
Holly Bates	<ul style="list-style-type: none"> Learning and Teaching Estates and New Campus Development 	Elected Student Member	22.09.15	
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	
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	
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	
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	01.02.16

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
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	18.11.15
Mr D McIvor	-	Non-Executive Board Member	24.03.16	
Prof A McGregor	<ul style="list-style-type: none"> Learning and Teaching Audit 	Non-Executive Board Member	01.08.14	
Juliana Pyper-McFarland	<ul style="list-style-type: none"> Learning and Teaching Estates and New Campus Development 	Elected Service/Support Staff	01.08.15	
Dr R Northcote	<ul style="list-style-type: none"> Estates and New Campus Development Finance 	Non-Executive Board Member	01.08.14	31.07.16
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	
Ms M Welsh	-	Non-Executive Board Member	24.03.16	

The following additional Board Members were appointed to the Board of Management after 31 July 2016:

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Ms M Bryan	-	Non-Executive Board Member	01.08.16	-
Ms L McKinlay	<ul style="list-style-type: none"> Estates and New Campus Development Learning & Teaching 	Elected Student Member	01.08.16	-

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

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

The Committees comprise 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

With effect from August 2014 and in line with the provisions of The Post-16 Education (Scotland) Act 2013, the Board of Management consists of 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 2015-16.

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. This Committee's 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. This Committee's 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. This Committee's 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. This Committee's 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. This Committee's responsibilities are to oversee the strategic and operational planning of the Estates function within the College, including the new 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 each of the Board's Committees. This Committee's responsibilities are to agree remuneration for the Principal and other members of the Executive Management Team, 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 each of the Board's Committees. This Committee's 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 twelve months to 31 July 2016.

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 and other key agencies 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 the delivery of the Credit target and the disbursement of 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 operations for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements.

Conclusion

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

Approved by order of the members of the Board on 15 December 2016 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 and 2005, the Statement of Recommended Practice on Accounting for Further and Higher Education, the 2015-16 Government Financial Reporting Manual (FReM) issued by the Scottish Government and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial 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, managers across the College;
- A comprehensive 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

15 December 2016

REMUNERATION REPORT

Remuneration Policy

The Principal's salary is a single point 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 the payment of 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 national negotiating arrangements with Unison, within the terms of the National Recognition and Procedures Agreement (NRPA). 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 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 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. 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 Executive Vice-Principals 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 a Remuneration Committee meeting for the purpose of presenting any paper relevant to the salary scale of members of the EMT.

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.

Name	12 months ended 31 July 2016			16 months ended 31 July 2015		
	Salary £'000	Bonuses/ other benefits £'000	Total £'000	Salary £'000	Bonuses/ other benefits £'000	Total £'000
H Dunk	130-135	-	130-135	175-180	-	175-180
M Breen	85-90	-	85-90	110-115	-	110-115
J Galbraith	85-90	-	85-90	110-115	-	110-115
B McGuire	85-90	-	85-90	110-115	-	110-115
J McKie	85-90	-	85-90	110-115	-	110-115
D Vallance	80-85	-	80-85	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.*

Name	12 months ended 31 July 2016			16 months ended 31 July 2015		
	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	85-90	-	85-90	80-85	-	80-85
J Galbraith	85-90	-	85-90	80-85	-	80-85
B McGuire	85-90	-	85-90	80-85	-	80-85
J McKie	85-90	-	85-90	80-85	-	80-85
D Vallance	80-85	-	80-85	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 2015-16 was £130,000 to £135,000 (2014-15 £130,000 to £135,000). This was 4.2 times (2014-15 4.2 times) the median remuneration of the workforce which was £30,000 to £35,000 (2014-15 £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 12 month period to 31 July 2016	Employer Contributions in the 16 month period to 31 July 2015
		£'000	£'000
H Dunk	STSS	25-30	25-30
M Breen	SPF	15-20	20-25
J Galbraith	SPF	15-20	20-25
B McGuire	STSS	15-20	15-20
J McKie	SPF	15-20	20-25
D Vallance (appointed 5 May 2015)	SPF	15-20	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 2016 and 31 July 2015

Compensation for loss of office

Compensation for loss of office has been paid in respect of one senior official comprising:

£88,000 - Non-contractual financial payment (Voluntary Resignation), per SFC Guidance: SFC/GD/01/2016
 £45,000 - Contractual pay in lieu of notice

Approved by the Board of Management and signed on its behalf on 15 December 2016 by:

W Mackie

H Dunk

Chair

Principal

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 year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (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 Board of Management's 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.

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 2016 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

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 2015-16 in the pension and, if applicable, the related lump sum at age 60;
- the value at 31 July 2016 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 August 2015 and 31 July 2016;
- the real increase in the CETV funded by the employer during 2015-16.

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. We qualified our audit opinion on the Remuneration Report for the period ended 31 July 2015 with regard to this same issue.

Opinion on other prescribed matters

In our opinion the information given in the Performance Review for the financial year 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 and the part of the Remuneration and Staff Report to be audited 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
319 St Vincent Street
Glasgow, G2 5AS

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

16 December 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR TO 31 JULY 2016

	Note	Before Exceptional	Exceptional	Year ended 31 July 2016 £000	Period ended 31 July 2015 (16 months) £000
INCOME					
SFC grants	2	35,098	238	35,336	47,855
Tuition fees and education contracts	3	4,596	-	4,596	5,501
Other grants and contracts	4	119	222	341	2,676
Other income	5	2,526	-	2,526	3,241
Investment income	6	26	-	26	41
Total Income		42,365	460	42,825	59,314
EXPENDITURE					
Staff costs	7	30,411	-	30,411	37,964
Exceptional restructuring costs	7	-	677	677	2,586
Impairment of Buildings/Asset write downs	12	-	1,963	1,963	-
Donation to Ayrshire College Foundation	27	-	-	-	-
Other operating expenses	9	9,213	-	9,213	14,437
Depreciation	11	2,473	15	2,488	3,396
Interest and other financial costs	10	945	-	945	1,258
Total Expenditure		43,042	2,655	45,697	59,641
(Deficit) before other gains and losses		(677)	(2,195)	(2,872)	(327)
Gain on disposal of assets		-	30	30	201
(Deficit) before tax		(677)	(2,165)	(2,842)	(126)
Taxation	13	-	-	-	-
(Deficit) for the year		(677)	(2,165)	(2,842)	(126)
Unrealised surplus on revaluation of assets				7,076	-
Release of Restricted Funds in year				-	(172)
Disposal of Properties in Revaluation Reserve				-	(178)
Actuarial loss in respect of pension schemes	21			(1,856)	(1,660)
Total Comprehensive Income for the year				2,378	(2,136)

All items of income and expenditure relate to continuing activities and are unrestricted.

Statement of Changes in Reserves

	Income and Expenditure Account £'000	Restricted Reserves £'000	Capital Reserve £'000	Revaluation Reserve £'000	Total £'000
Restated Balance at 31 March 2014 – See Note 31	(3,073)	470	6,057	17,464	20,918
Surplus/(deficit) from the income and expenditure statement	(126)	-		-	(126)
Other comprehensive income (Pension actuarial adjustments)	(1,660)	-		-	(1,660)
Payments made from Restricted Reserves		(4)		-	(4)
Transfers from revaluation reserve to income and expenditure reserve	1,259	-		(1,259)	-
Adjustments re Kilwinning value	-	-	(168)	-	(168)
Transfer from Capital Reserve			(5,889)	5,889	-
Sale of Properties				(178)	(178)
Total Comprehensive Income for the period (16 months)	(527)	(4)	(6,057)	4,452	(2,136)
Balance at 31 July 2015	(3,600)	466	-	21,916	18,782
Surplus/(deficit) from the income and expenditure statement	(2,842)	-		-	(2,842)
Other comprehensive income	(1,856)	-		-	(1,856)
Revaluation of land & buildings		-		7,076	7,076
Transfers from revaluation reserve to income and expenditure reserve	813	-		(813)	-
Disposal of Properties	375			(375)	-
Impairment of Properties	190			(190)	-
Total comprehensive income for the year	(3,320)	-	-	5,698	2,378
Balance at 31 July 2016	(6,920)	466	-	27,614	21,160

BALANCE SHEET AS AT 31 JULY 2016

	Note	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
Fixed Assets			
Tangible assets	11	57,031	49,280
Total fixed assets		57,031	49,280
Current Assets			
Stocks		34	21
Debtors	14	1,069	2,875
Cash and cash equivalents		2,879	2,989
Total current assets		3,982	5,885
Less: Creditors – amounts falling due within one year	15	4,711	5,300
Net current assets/(liabilities)		(729)	585
Total assets less current liabilities		56,302	49,865
Less: Creditors – amounts falling due after more than one year	16	8,330	9,182
Less: Deferred capital grants due to be released after one year	17	9,977	9,186
Provisions			
Early Retirement Provision	18	1,886	1,771
Other Provisions	18	1,696	672
Net Assets excluding pension liability		34,413	29,054
Net pension liability	21	(13,253)	(10,272)
Net Assets including pension liability		21,160	18,782
Income and expenditure account	19	(6,920)	(3,600)
Restricted reserves	19	466	466
Revaluation reserve	19	27,614	21,916
TOTAL RESERVES		21,160	18,782

The financial statements on pages 24 to 48 were approved by the Board of Management on 15 December 2016 and were signed on its behalf on that date by:

W Mackie

Chair

H Dunk

Principal

CASH FLOW STATEMENT FOR THE YEAR TO 31 JULY 2016

	Year ended 31 July 2016 £000	Period ended 31 July 2015 (16 months) £000
Cash inflow/(outflow) from operating activities		
Deficit for the year	(2,842)	(126)
Adjustment for non-cash items		-
Depreciation	11 2,488	3,396
Net (gain)/loss on disposal of fixed assets	(30)	(201)
Adjustment to fixed asset additions re 2013-14	-	16
Deferred capital grants released to income	17 (1,710)	(1,578)
(Increase) in stock	(13)	(8)
(Increase)/Decrease in debtors	14 1,806	2,944
Increase/(Decrease) in creditors	15 (665)	(3,702)
(Decrease)/Increase in provisions	18 1,139	71
(Decrease)/Increase in reserves	-	(5)
Movement in Reserves re accrued holiday pay	-	(1,215)
Impairments of Buildings	11 802	-
Net return on pension liability	21 1,125	1,314
Returns on investments and servicing of finance	(919)	(1,217)
Taxation	-	-
Cash flows from investing and financing activities		
Interest receivable – bank interest	6 (26)	(41)
Interest payable	10 945	1,258
PFI Capital Payments	28 (806)	(1,014)
Purchase of tangible fixed assets	11 (4,339)	(2,036)
Proceeds from sale of tangible fixed assets	405	201
Deferred Capital Grants Receipts	17 2,530	1,919
(Decrease) in cash and cash equivalents in the year	(110)	(24)
Reconciliation of net cash flow to movement in net funds		
(Decrease) in cash and cash equivalents in the year	(110)	(24)
Net funds at 1 August 2015	2,989	3,013
Net funds at 31 July 2016	2,879	2,989

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 deficit for the year of £(677,000) before exceptional items, with an accumulated deficit on the income and expenditure reserve of £(6,920,000). At 31 July 2016, current assets of £3,982,000 included cash and bank balances of £2,879,000. Creditors falling due within one year were £4,711,000, with net current liabilities of £729,000.

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 2017 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 FRS102 as it applies to Retirement Benefits in the financial statements. Details of the effect of adopting FRS102 are shown in Note 31.

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

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure account.

d) Grant Funding

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

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds, subject to any performance related conditions being met. The funds will be held in deferred income under creditors until conditions are met.

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

e) Maintenance of premises

The cost of maintenance is charged to the statement of comprehensive income in the period in which it is incurred.

f) 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 FRS102. FRS102 has been adopted by the College and details of the effect of adopting FRS102 are shown in Note 31.

g) 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 disclosed within Other Operating Expenses and Interest Payable notes 9 and 10 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 2016, 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

h) 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.

i) 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.

j) 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.

k) 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.

l) Transition to 2015 SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to 2015 SORP has affected the reported finance position, financial performance and cash flows of the results of the College is provided in note 31. Application of first time adoption grants certain exemption from the full requirements of 2015 SORP in the transition period. The College has not been required to adopt any of the exemptions available.

	Year ended 31 July 2016	Period ended 31 July 2015
Note	£000	£000
2 SFC grants		
FE recurrent grant (including fee waiver)	32,023	42,303
HE & FE childcare funds	847	1,234
Release of deferred capital grants	17 1,160	1,455
Release of deferred capital grants re impairment	17 238	-
College Transformation Fund Grants	-	1,486
Maintenance grant	654	914
New Build Campus grants	311	361
Other SFC grants	103	102
Total	35,336	47,855
3 Tuition fees and education contracts		
FE fees – UK	365	509
FE fees - EU	-	-
FE fees – non EU	-	-
HE fees	3,051	3,842
Education contracts	925	864
Other contracts	255	286
Total	4,596	5,501
4 Other grant income		
European funds	-	-
Grants from Ayrshire College Foundation	27 30	2,553
Release of deferred capital grants	17 89	123
Release of deferred capital grants re impairment	17 222	-
Total	341	2,676
5 Other operating income		
Catering	1,172	1,396
Other income-generating activities	485	940
Other income	869	905
Total	2,526	3,241
6 Investment Income		
Other interest receivable	26	41
Total	26	41

	Year ended 31 July 2016	Period ended 31 July 2015
Note	£000	£000
7 Staff costs		
Wages and salaries	23,916	29,921
Social security costs	1,990	2,586
Other pension costs	3,763	4,589
	29,669	37,096
FRS 102 pension adjustments	742	868
Total	30,411	37,964
Curriculum Departments	15,434	20,893
Curriculum Services	4,906	5,544
Administration and Central Services	8,256	10,538
Premises	1,234	1,509
Catering	581	695
Accrued Holiday Pay reversed	-	(1,215)
Sub-total	30,411	37,964
Exceptional restructuring costs	677	2,586
Total	31,088	40,550

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

	No.	No.
Academic/Teaching Departments	335	334
Academic/Teaching Services	124	121
Administration and Central Services	209	217
Premises staff	56	51
Catering staff	31	27
Total	755	750

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

	2016	2015
	No.	No.
£50,001 to £60,000 per annum	14	14
£60,001 to £70,000 per annum	12	14
£70,001 to £80,000 per annum	-	-
£80,001 to £90,000 per annum	5	5
£130,001 to £140,000 per annum	1	1

The above comparative figures for 2015 represent the annual equivalent of salaries paid in that sixteen month period

8 Senior post-holders' emoluments

	2016	2015
	No.	No.
The number of senior post-holders, including the Principal was:	6	6

	Year ended 31 July 2016	Period ended 31 July 2015
Senior post-holders' emoluments are made up as follows:		
Salaries	576	657
Benefits in kind	-	-
Employers pension contributions	106	114
Total emoluments	682	771

The above emoluments are for Key Management Personnel being those persons having the authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Executive Management Team. These emoluments include amounts payable to the Principal, who was also the highest paid senior post-holder, of:

	£000	£000
Salary	134	177
Bonus	-	-
Benefits in kind	-	-
	134	177
Employers Pension contributions	23	26

The Principal's emoluments are for the 12 months to 31 July 2016 and the 16 months to 31 July 2015. Annualised equivalents are set out in the Remuneration Report.

Compensation for loss of office to a senior post holder

Non-contractual financial payment (Voluntary Resignation), per SFC Guidance: SFC/GD/01/2016	88	-
Contractual pay in lieu of Notice	45	-

8 Senior post-holders' emoluments (continued)

In 2015-16 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 remuneration, set by Scottish Ministers, was as follows:-

2015-16: £27,560

2014-15: £36,747 (16 months)

This remuneration is not pensionable.

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
9 Other operating expenses		
Teaching departments	1,772	2,155
Administration and central services	2,834	4,504
Kilwinning Campus PFI service charge	762	1,026
Other premises costs	2,278	3,254
Refurbishment works funded by Ayrshire College Foundation	60	758
Childcare costs	847	1,233
New Build Campus Costs	63	157
Student Support Bursary Costs	-	454
College Transformation expenditure	-	95
Catering costs	597	801
Total	9,213	14,437

Other operating expenses include:

Auditors' remuneration

- external audit of these financial statements	38	31
- internal audit services	25	32
- other services	6	-
Operating lease payments	283	377

10 Interest payable

On overdrafts	-	-
Kilwinning Campus PFI interest charge	562	812
Pension finance costs (Note 21)	383	446
Total	945	1,258

11 Tangible Fixed Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	PFI Building £000	Equipment £000	Total £000
Cost or Valuation					
At 31 July 2015	30,640	2,494	18,223	8,800	60,157
Adjustment to opening balances	83				83
Additions	1,831	(6)	457	2,056	4,338
Revaluation	3,977	-	(816)	-	3,161
Impairments	(302)	(1,483)	-	-	(1,785)
Disposals	(375)	-	-	-	(375)
At 31 July 2016	35,854	1,005	17,864	10,856	65,579
Depreciation					
At 1 August 2015	2,490	948	1,169	6,270	10,877
Adjustment to opening balances	83				83
Provided during year	1,137	152	392	807	2,488
Write back re Revaluation	(2,355)	-	(1,561)	-	(3,916)
Write back re Impairment	(50)	(934)	-	-	(984)
On disposals	-	-	-	-	-
At 31 July 2016	1,305	166	0	7,077	8,548
Net Book Value at 31 July 2016	34,548	839	17,864	3,780	57,031
Net Book Value at 31 July 2015	28,150	1,546	17,054	2,530	49,280
Inherited	21,224	62	6,328	-	27,614
Financed by capital grant	7,102	777	80	3,297	11,256
Other	6,222	-	11,456	483	18,161
At 31 July 2016	34,548	839	17,864	3,780	57,031

The College's Ayr and Kilwinning Campus properties and the land value of its Hill Street, Kilmarnock site, were valued at 31 July 2016 by Gerald Eve in the capacity of external valuer. The basis of valuation adopted was that set out in FRS102 being fair value: 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.

12 Land and Buildings in Kilmarnock and related matters

Included within the net book value of land and buildings as at 31 July 2016 as shown in Note 11, an amount of £3.419m (2015: £3.843m) relates to the College's freehold interest in its Kilmarnock campuses at Holehouse Road and the Craig.

As disclosed in Note 29, Post Balance Sheet Events, the College is no longer using these two campuses as from October 2016 and they will be sold. As an integral part of the financial arrangements relating to the new Kilmarnock NPD campus, SFC will retain any proceeds from the sale of these two former campuses.

The impact of these transactions will be included in the accounting for the new Kilmarnock campus in 2016-17.

Impairment of buildings and asset write downs

As shown in Note 29, the College will move to its new Kilmarnock campus in October 2016 and as such has vacated a number of other sites in Kilmarnock, together with its former campus in Cumnock which closed to students in January 2016. In 2015-16 the College has recorded a charge of £1,963,000 in respect of the write off of assets on these sites and additional provisions for dilapidations and lease costs.

13 Taxation

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

	Year ended 31 July 2016	Period ended 31 July 2015
	£000	£000
14 Debtors: Amounts falling due within one year		
Trade debtors – net of provision for doubtful debts	113	40
European funding	137	336
Other Debtors	129	35
Prepayments and accrued income	690	2,464
Amounts owed by the Scottish Funding Council	-	-
	1,069	2,875
15 Creditors: Amounts falling due within one year	£000	£000
Bank loans and overdrafts	-	-
Trade creditors	326	608
Other taxation and social security	1	543
Other Creditors	231	788
Accruals and deferred income	645	514
Capital Grant Deferred Income	-	32
Capital element of Kilwinning PFI expenditure (Note 16)	852	806
Deferred Capital Grants to be released in <1 year (Note 17)	1,279	1,249
Amounts owed to Scottish Funding Council	187	597
Bursaries and Student Support Funds for future disbursement	1,190	163
	4,711	5,300
16 Creditors: Amounts falling due after one year		
Capital Element of Kilwinning PFI expenditure:		
At 1 August 2015	9,988	11,002
Capital payments in year	(806)	(1,014)
	9,182	9,988
Less amount due within one year (Note 15)	(852)	(806)
At 31 July 2016	8,330	9,182

17 Deferred Capital Grants

	SFC £000	Non SFC £000	Total £000
At 1 August 2015			
Land and Buildings	5,834	2,446	8,280
Equipment	2,155	-	2,155
	<u>7,989</u>	<u>2,446</u>	<u>10,435</u>
Grants received in the period			
Land and Buildings	632	-	632
Equipment	1,898	-	1,898
	<u>2,530</u>	<u>-</u>	<u>2,530</u>
Released to Income and Expenditure Account			
Land and Buildings	(411)	(89)	(500)
Equipment	(749)	-	(749)
	<u>(1,160)</u>	<u>(89)</u>	<u>(1,249)</u>
Release re Impairment			
Land and Buildings	(231)	(222)	(453)
Equipment	(7)	-	(7)
	<u>(238)</u>	<u>(222)</u>	<u>(460)</u>
At 31 July 2016			
Land and Buildings	5,824	2,135	7,959
Equipment	3,297	-	3,297
	<u>9,121</u>	<u>2,135</u>	<u>11,256</u>
Split as follows:			
Due to be released in <1 year	1,218	61	1,279
Due to be released in >1 year	7,903	2,074	9,977
	<u>9,121</u>	<u>2,135</u>	<u>11,256</u>

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
18 Provisions for liabilities and charges		
Early Retirement Provision		
At 1 August 2015	1,771	1,701
Expenditure in the period	(100)	(141)
Additional provision required in the period	215	211
At 31 July 2016	<u>1,886</u>	<u>1,771</u>

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 (2014-15: 31).The pension liability has been revalued using SFC actuarial tables.

Other Provisions		
At 1 August 2015	672	672
Provision released	(137)	-
Additional provision required in the period	1,161	-
At 31 July 2016	<u>1,696</u>	<u>672</u>

	Year ended 31 July 2016	Period ended 31 July 2015
19 Reserves	£000	£000
Income & Expenditure Account		
At 1 August 2015	(3,600)	(3,073)
Surplus/(Deficit) for the period	(2,842)	(126)
Transfer from revaluation reserve	813	1,259
Disposal of Properties in Revaluation Reserve	375	-
Impairment of Properties	190	-
Actuarial gains/(loss) in pension scheme	(1,856)	(1,660)
At 31 July 2016	(6,920)	(3,600)

Restricted Reserves

At 1 August 2015	466	470
Payments made	-	(4)
At 31 July 2016	466	466

The restricted reserves balance at 31 July 2016 comprises:

Irvine Property Endowment Fund: £434,000 (2015: £434,000). This fund represents ring fenced monies held for capital works

Walker Trust Fund: £32,000 (2015: £32,000). This fund is held for the benefit of students in Ayrshire.

Revaluation Reserve

At 1 August 2015	21,916	17,464
Revaluation	7,076	-
Transfer from Capital Reserve	-	5,889
Depreciation on revalued assets	(813)	(1,259)
Disposal of properties	(375)	(178)
Impairment of properties	(190)	-
At 31 July 2016	27,614	21,916

Capital Reserve

At 1 August 2015	-	6,057
Adjustment re Kilwinning value	-	(168)
Transfer to Revaluation Reserve	-	(5,889)
At 31 July 2016	-	-

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.

20 Analysis of changes in cash and cash equivalents

	At 1 August 2015 £000	Cash Flows £000	Other Changes £000	At 31 July 2016 £000
Cash	2,989	(110)	-	2,879
Finance lease/hire purchase contracts	-	-	-	-
Total	2,989	(110)	-	2,879

21 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:

		Year to 31 July 2016	16 months to 31 July 2015
STSS: contributions paid		1,943	2,512
SPF: Contributions paid		1,820	2,077
FRS 102 charge to the Income & Expenditure Account	7	742	868
Total pension cost (Note 7)		4,505	5,457

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 employee's 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 year ended 31 July 2016 was £1,820,000.

Under the requirements of Financial Reporting Standard 102 (FRS102), 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 2016, 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 2016	At 31 July 2015
Rate of increase in salaries	3.9%	4.5%
Rate of increase for pensions in payment/inflation	1.9%	2.6%
Discount rate for liabilities	2.4%	3.6%
Expected return on assets	0.0%	3.6%

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

		At 31 July 2016	At 31 July 2015
Current pensioners	Males	22.1	22.1
	Females	23.6	23.6
Future pensioners	Males	24.8	24.8
	Females	26.2	26.2

The approximate allocation of scheme assets is as follows:

	At 31 July 2016	At 31 July 2015
Equities	73%	75%
Bonds	16%	12%
Property	11%	12%
Cash	-	1%
	100%	100%

The assets and the liabilities of the scheme were:

	At 31 July 2016 £'000	At 31 July 2015 £'000
Total market value of assets	43,235	36,344
Present value of scheme liabilities:		
Funded	(55,880)	(46,015)
Unfunded	(608)	(601)
Surplus/(deficit) in the scheme	(13,253)	(10,272)

	At 31 July 2016 £'000	At 31 July 2015 £'000
Employer service cost (net of employee contributions)	2,512	2,944
Past service cost	-	-
	<hr/>	<hr/>
Total operating charge	2,512	2,944
	<hr/>	<hr/>
Analysis of pension finance income/(costs)		
Expected return on pension scheme assets	1,335	1,834
Interest on pension liabilities	(1,718)	(2,280)
	<hr/>	<hr/>
Pension finance income/(costs)	(383)	(446)
	<hr/>	<hr/>

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
Movements on Pension Scheme Deficit		
Deficit in scheme at 1 August 2015	(10,272)	(7,298)
Movement in year:		
Current service charge	(2,512)	(2,944)
Losses/(Gains) on curtailments	(50)	(1)
Contributions by members	1,790	2,047
Contributions in respect of unfunded benefits	30	30
Past service costs	-	-
Net return on pension assets	(383)	(446)
	<u>(1,125)</u>	<u>(1,314)</u>
Actuarial gain/(losses)	<u>(1,856)</u>	<u>(1,660)</u>
Deficit in scheme at 31 July 2016	<u>(13,253)</u>	<u>(10,272)</u>
Asset and Liability Reconciliation		
Reconciliation of Liabilities		
Liabilities at 1 August 2015	46,616	38,275
Service cost	2,512	2,944
Interest cost	1,718	2,280
Contributions by members	530	645
Actuarial (gain)/loss	5,931	3,589
Past service cost/(gain)	-	-
Losses/(Gains) on curtailments	50	1
Estimated Unfunded Benefits Paid	(30)	(30)
Estimated Benefits Paid	<u>(839)</u>	<u>(1,088)</u>
Liabilities at 31 July 2016	<u>56,488</u>	<u>46,616</u>
Reconciliation of Assets		
Assets at 31 July 2015	36,344	30,977
Expected return on assets	1,335	1,834
Contribution by members	530	645
Contribution by employer	1,790	2,047
Contribution in respect of unfunded benefits	30	30
Actuarial (gain)/loss	4,075	1,929
Estimated Unfunded Benefits Paid	(30)	(30)
Estimated Benefits paid	<u>(839)</u>	<u>(1,088)</u>
Liabilities at 31 July 2016	<u>43,235</u>	<u>36,344</u>
Amounts for the current and previous accounting periods		
Fair value of employer assets	43,235	36,344
Present value of defined benefit obligation	<u>(56,488)</u>	<u>(46,616)</u>
Surplus/(Deficit)	<u>(13,253)</u>	<u>(10,272)</u>

22 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 year to 31 July 2016 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 transactions with Skills Development Scotland, Colleges Scotland and a small number of material transactions with other Scottish 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

In addition to the above named bodies, the College had transactions during the year 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	Sales/ Purchases by the College in the year
Dr W-y Hatton	Court Governor	University of the West of Scotland	Sales: £78,573 Purchases: £5,280
Mr W Mackie Ms B Graham	Trustee Trustee	Ayrshire College Foundation	Sales: £5,400 Purchases: £nil
Mrs H Dunk	Trustee	Dumfries House	Sales: £13,750 Purchases: £2,055

There were no transactions exceeding £5,000 with any other organisations associated with Board Members in 2015-16.

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

Mrs H Dunk	Principal
Ms J Bradley	Teaching Staff Member
Ms J Pyper-McFarland	Service Staff Member

In addition, two members/former members of the Board of Management being Ms H. Bates and Ms A. Alexander were student members, elected by students and remunerated by the Student Association.

23 FE Bursary and Other Student Support Funds

	FE Bursary	FE Hardship	EMA's	Other	Year ended 31 July 2016	Period ended 31 July 2015
	£000	£000	£000	£000	£000	£000
Balance brought forward	-	-	(3)	166	163	29
Allocation received in year	9,037	462	703	261	10,463	12,514
Interest	-	-	-	-	-	-
	9,037	462	700	427	10,626	12,543
Expenditure	(8,601)	(289)	(676)	(104)	(9,670)	(12,959)
Repaid to SAAS re 2014-15				(166)	(166)	(120)
Repayable to SFC as clawback	-	-	-	-	-	-
College contribution to funds	-	-	-	-	-	454
Virements	-	-	-	-	-	245
Balance carried forward	436	173	24	157	790	163
Represented by:						
Repayable to SFC as clawback	436	173	-	-	609	-
Retained by College for students	-	-	24	157	181	163
	436	173	24	157	790	163

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.

24 FE & HE Childcare Funds

	Year ended 31 July 2016	Period ended 31 July 2015
	£000	£000
Balance brought forward: August 2015	-	100
Allocation received in period	1,248	1,379
Expenditure	(848)	(1,234)
Virements	-	(245)
Balance carried forward	400	-
Represented by:		
Repayable to SFC as clawback	400	-
	400	-

Childcare Fund transactions are included within the College Statement of Comprehensive Income in accordance with the Accounts Direction issued by the Scottish Funding Council.

25 Commitments under Operating Leases

As at 31 July 2016 the College had annual commitments under non-cancellable operating leases as set out below:

	Year ended 31 July 2016	Period ended 31 July 2015
	£000	£000
Operating Leases which expire: In more than five years	<u>143</u>	<u>143</u>
Total	<u><u>143</u></u>	<u><u>143</u></u>

26 Capital Commitments

Contracted for at 31 July 2016	<u><u>46</u></u>	<u><u>30</u></u>
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The amounts committed at 31 July 2016 and 31 July 2015 relate to contracts in connection with small capital projects.

27 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 applied to the Foundation for grant assistance, primarily to assist in the College's capital investment programmes at Ayr and Kilwinning as part of a planned programme of investment in its facilities.

In 2015-16 the Foundation agreed grant funding of £30,000 to the College in respect of educational projects.

In 2014-15 the Foundation agreed funding of £2,553,000 to the College in respect of the Ayr and Kilwinning investment noted above.

28 PFI Contract at Kilwinning Campus

Payments remaining to be made under the PFI contract at 31 July 2016 are as follows:

	Payment for services	Reimbursement of Capital Expenditure	Interest	Total
	£000's	£000's	£000's	£000's
Payable in 2016-17	773	852	517	2,142
Payable within 2-5 years	3,090	3,914	1,560	8,564
Payable within 6-10 years	2,816	4,416	602	7,834
Total	<u><u>6,679</u></u>	<u><u>9,182</u></u>	<u><u>2,679</u></u>	<u><u>18,540</u></u>

	Year ended 31 July 2016	Period ended 31 July 2015
	£000's	£000's
Balance at start of year	9,988	11,002
Payments made in the year	<u>(806)</u>	<u>(1,014)</u>
Balance outstanding at end of the year	<u>9,182</u>	<u>9,988</u>

29 Post Balance Sheet Events

Kilmarnock New Build

The College took possession of its new campus at Hill Street, Kilmarnock on 30 September 2016. This campus, procured using the Scottish Government's Non Profit Distribution (NPD) model, provides a fit for purpose learning environment for the 21st century and has a number of sector leading elements.

The new campus will be brought onto the College's balance sheet at valuation as from 30 September 2016, together with associated liabilities.

Students have attended the new campus as from October 2016 and, from that point, the College is no longer using its three previous campuses in the Kilmarnock area. The College is now disposing of its interests in these three properties.

30 Contingent Liabilities

There are no contingent liabilities at 31 July 2016 (31 July 2015: £ nil)

31 Transition to FRS 102

The College now has to follow the accounting and reporting requirements of Financial Reporting Standard 102 (FRS102). This has required restatements to previously reported disclosures in the College's balance sheet and Statement of Comprehensive Income. The impact of these changes on the Financial Statements is set out below:

<u>1 April 2014:</u>	I&E Reserve £000	Restricted Reserves	Capital Reserve	Revaluation Reserve	Total Reserves
Financial Position					
Total reserves under 2007 SORP	(1,858)	470	6,057	17,464	22,133
Employee Leave Accrual	(1,215)	-	-	-	(1,215)
Total Reserves under 2015 SORP: restated	<u>(3,073)</u>	470	6,057	17,464	20,918

	16 months ended 31 July 2015
Financial Performance	
Surplus/(Deficit) under 2007 SORP	(2,404)
Strathclyde Pension Fund Valuation (I&E)	(732)
Employee Leave Accrual	1,215
FRS 102 ACF Grant in 2014-15	<u>1,795</u>
Total Comprehensive Income for the 16 months under 2015 SORP: restated	<u>(126)</u>

31 July 2015:	I&E Reserve £000	Restricted Reserves	Capital Reserve	Revaluation Reserve	Total Reserves
Financial Position					
Total reserves under 2007 SORP at 1 April 2014	(1,858)	470	6,057	17,464	22,133
Employee Leave Accrual	(1,215)				(1,215)
Total Opening Reserves under 2015 SORP as at 1 April 2014: restated	(3,073)	470	6,057	17,464	20,918
Original Surplus/(Deficit) for 16 months ended 31 July 2015	(2,404)				(2,404)
Strathclyde Pension Fund Valuation Change	(732)				(732)
Employee Leave Accrual	1,215				1,215
FRS 102 ACF Grant in 2014-15	1,795				1,795
Payments made		(4)			(4)
Adjustment re Kilwinning Value			(168)		(168)
Transfer to/from Revaluation Reserve	1,259			(1,259)	-
Sale of Properties				(178)	(178)
Transfers			(5,889)	5,889	-
Actuarial Gains/Losses	(1,660)				(1,660)
Total Closing Reserves under 2015 SORP as at 31 July 2015: restated	(3,600)	466	-	21,916	18,782

2015-16 Accounts direction for Scotland's colleges and universities

- 1 It is the Scottish Funding Council's direction that colleges and universities comply with the 2015 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing their annual report and accounts.
- 2 Colleges and universities must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).
- 3 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2015-16 (FReM) where applicable.
- 4 Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2016.
- 5 The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.
- 6 Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
24 August 2016