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# Report and Financial Statements

for year ended

**31 July 2018**

**Charity Reg No. SC021180**

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Head Office:  
Scottish Borders Campus  
Nether Road  
Netherdale  
GALASHIELS  
TD1 3HE

## **Professional Advisors**

The College's professional advisors during the period to 31 July 2018 were as shown below.

### **External Auditors**

Scott-Moncrieff,  
Exchange Place 3,  
Semple Street,  
Edinburgh  
EH3 8BL

### **Internal Auditors**

Wylie & Bisset,  
168 Bath Street,  
Glasgow  
G2 4TP

### **Bankers**

Royal Bank of Scotland,  
35 Bank Street,  
Galashiels  
TD1 3AY

### **Solicitors**

Morisons,  
1 Exchange Crescent,  
Conference Square,  
Edinburgh  
EH3 4AN

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## Strategic Report

### 1. Overview

This overview provides a summary of the purpose, structure, and content of the College Report and Financial Statements 2017/18, and a balanced view of the activities and performance of the College during the year. The aim of the Strategic Report is to provide stakeholders with the ability to assess how well Borders College has taken forward priority work within the context of our Strategic Plan, and Financial Plan. The report takes an integrated approach to assessment of our achievements in 2017/18.

Performance is reviewed by reference to our approach to identifying and mitigating risks to delivery of our strategic goals, achievement against our strategic performance indicators, narrative on progress against our annual priorities for 2017/18, and a review of financial performance. This report celebrates the successes of 2017/18 in the context of our Strategic Plan.

We are very aware of our wider duties as a public body and the report provides information on our approach to equalities, diversity and inclusion and a summary of progress on climate change duties.

### Principal's Statement

This report relates to the second year of "*Towards 2020*" the College's Strategic Plan 2016-2020, which sets out five strategic goals:

- Respond to the needs of our region
- Deliver successful outcomes for all learners
- Provide a high quality College experience
- Grow our business
- Build sustainability.

2017/18 student success was better than predicted with an increase of 3.3% for full time Further Education students (68.9%), placing us 3.6% above the national average for 2016/17, and an increase of 1.6% for full time Higher Education students (72.5%), resulting in us being 0.9% above the national average for 2016/17. Part time Further Education and Higher Education success rates both remain above the sector average.

In our final 2017/18 return to the Scottish Funding Council, we delivered 173 credits above our target of 25,387 credits.

At its meeting on 22 June 2017, the Regional Board (the Board) budgeted for an operating deficit of £80k for the year to 31 July 2018. Subsequent revisions brought the planned deficit to £69k. The actual result was an operating deficit of £76k before accounting for the actuarial gain of £4,154k, taking the net operating position to a surplus of £4,078k.

### The College

Borders College has been designated as the Regional College for the Scottish Borders. The College was established under the Further and Higher Education (Scotland) Act 1992 and is funded directly by the Scottish Further and Higher Education Funding Council (SFC). The College

is a registered charity (Scottish Charity Number SC021180) and is recognised by HM Revenue and Customs (HMRC) as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988. As such, the College is exempt from corporation tax on its charitable activities.

The College's main market is Further Education (FE). With around 1,300 full time (FT) students enrolling (1,000 FE and 300 higher education (HE)) and another 3,400 part time (PT), the College directly interacts with a large portion of the Scottish Borders population each year.

With operations taking place on ten sites in the Scottish Borders and Edinburgh, the College has a significant impact on businesses covering a wide geographical spread. We are ourselves employers, with 326 employees (200 full time equivalents), and it is therefore important to the Borders economy that we maintain our presence and continue to work with other employers to deliver education which supports growth. A strong, vibrant College is a key element in the future economic development of the Scottish Borders.

Since April 2009, the College's principal site has been Scottish Borders Campus at Netherdale in Galashiels. The other main sites are at Hawick and Newtown St. Boswells, with smaller facilities at other locations in the Borders, and an Edinburgh office serving the College's commercial business operating in the city. In April 2017, the College added a facility in Tweedbank to meet the needs of its growing engineering curriculum. Geographically, the vast majority of our students are drawn from the Scottish Borders. The main competition for FE students is from Edinburgh based colleges with small numbers of students leaving the area to enrol on specialist courses.

## **Strategic Plan**

In June 2016, the College agreed its Strategic Plan – "*Our Strategy – Towards 2020*". The Plan defines the following:

### **Strategic purpose**

Borders College will deliver success for all learners through:

- Successful qualification outcomes and
- Positive destinations

Borders College will support the economic and social development of the Scottish Borders through:

- The coherent and responsive provision of education, training and skills and
- Excellence in learning and teaching

### **Vision**

To be a College in which all learners succeed and which inspires growth, creates opportunity, raises aspirations and enhances lives.

### **Values and behaviours**

For our learners, our staff, our partners and our communities we will be:

- ✓ Inspiring
- ✓ Collaborative
- ✓ Innovative
- ✓ Supportive
- ✓ Excellent

And to deliver our values we will:

- ✓ Behave as one team with a common purpose – the success of our learners, ourselves and our colleagues
- ✓ Maintain the highest level of respect for each other
- ✓ Value the contribution of everyone working for, learning in and associated with the College
- ✓ Act professionally and with integrity at all times
- ✓ Provide a positive role model for each other and for our learners

## Strategic goals

We have set five strategic goals to guide our plans towards 2020:

- ➔ Respond to the needs of our region
- ➔ Deliver successful outcomes for all learners
- ➔ Provide a high quality college experience
- ➔ Grow our business
- ➔ Build sustainability

The College has developed a set of supporting strategies, which are available on our [website](#).

## Key Risks

During 2017/18 the College successfully managed its programme of risk mitigating actions, reducing the level of risk across three of the five strategic goals, and reducing risk ratings by 43%.

Strategic Goal	25 May 2017		14 June 2018		
	No of risks	Sum of risk rating	No of risks	Sum of risk rating	Within target level
Respond to the needs of our region	10	93	10	71	6
Deliver successful outcomes for all our learners	6	45	8	47	3
Provide a high quality College experience	5	39	4	25	2
Grow our business	4	36	4	30	1
Build sustainability	6	68	11	87	4

The table below contains a description of the high and medium risks on the strategic risk register as at 14 June 2018. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

Strategic Goal	Risks	Rating
Respond to the needs of our region	IF partners do not engage successfully with the College, THEN the College will not be able to identify and meet their needs	9
	IF EU funded credit activity is withdrawn THEN the College may not be able to sustain activity levels	15
	IF BREXIT has a significant impact on the Borders economy THEN the College cannot meet the needs of the region	9

Strategic Goal	Risks	Rating
Deliver successful outcomes for all our learners	IF staff do not deliver teaching in methods that are engaging and effective THEN students are less likely to achieve a successful outcome	9
	IF national pay bargaining has a negative effect on staff engagement, THEN student outcomes may decline	9
Provide a high quality College experience	IF SFC does not provide sufficient capital maintenance funding THEN the quality of student experience will be reduced	9
Grow our business	IF the market for commercial delivery is not sufficient to enable the College to meet income targets THEN we may not have the ability to generate sufficient funds to invest in new resources	9
	IF BREXIT adversely affects the Regional economy, THEN employers may not have the capacity to undertake commercial training	9
Build sustainability	IF alternative sources of income are not found, THEN the ability to develop new delivery and trial new products is restricted	9
	IF national bargaining drives pay awards upwards ahead of any additional resources which are generated through growth, THEN the College will have less flexibility in managing its remaining resources	12
	IF regional demand reduces, THEN the credit target may not be achieved and funding reduced	9
	IF procurement reform does not deliver efficiencies, THEN the College will have reduced resources to deploy to support activity	9
	IF EU-funded Credit activity is withdrawn, THEN the College may not be able to sustain activity levels	10
	IF rules for student support funding no longer allow the use of bursaries to purchase mobile devices, THEN the ability to deliver our Bring Your Own Device strategy will be compromised	12

As evidenced by the risk ratings above, the College has identified national pay bargaining, coupled with uncertainty over BREXIT, and the sustainability of funding levels, as the greatest threats to achieving its strategic goals.

## Performance Summary

Overall, the College performed well against its targets and performance indicators. The College exceeded its activity target set in its Outcome Agreement by 0.7%. Student success was again strong, with success rates above the sector average.

Excluding pension fund charges, a small trading deficit was generated, in line with the level planned at the outset of the year. The College was able to use its full resource allocation from the SFC, as far as the availability of cash allowed.

## 2. Performance Analysis

### Implementation of the Strategic Plan

To implement the Strategic Plan, the College sets annual priorities and agrees an annual development plan. For academic year 2017/18, the College set the following annual priorities with progress reported to the Board in June as:

Annual Priorities for 2017/18	Progress June 2018
<b>Goal One – Respond to the needs of our Region</b>	
<p><b>AP 1</b> To ensure our Curriculum Strategy reflects the needs of our community and future employment we will develop a five year plan which responds to local market intelligence data, building on our school partnerships, increasing our higher level skills offer and building external partnerships which secure progression to employment and HE.</p>	<p>A five year Curriculum Strategy has been developed in response to local and national intelligence and priorities. We have also been cognisant of demographic shifts and expectations along with the impact of Industry 4.0 on businesses and the economy. This will be launched in August at an all staff presentation.</p>
<b>Goal Two – Deliver successful outcomes for all learners</b>	
<p><b>AP 2</b> To reduce the student withdrawal rate by improving our wraparound support offer to keep students engaged.</p>	<p>At 23 May FE FT student retention was 0.9%, 2.1% improved on the last year and 1.3% ahead of the sector average in 16/17. At 23 May, HE FT student retention was 1% higher than this time last year at 14.9%. This is an improvement of 0.8% compared to 2016/17 which was 15.7%. Withdrawals for HE FT programmes remain above the sector average of 12.5%.</p>
<p><b>AP 3</b> To improve student success rates by providing clarity to all staff of College Key Performance Indicators (KPIs) and their contribution towards these.</p>	<p>Some progress has been made with the purchase of Advantage software. Reports have been developed but regular review and resulting interventions are not yet embedded into practice. Success rate targets are discussed in Senior Leadership Team (SLT) and through performance review meetings. Courses identified at the start of the year as needing to improve are using data to inform progress in course meetings.</p>



<p><b>AP 4</b> To improve student success rates by taking a differentiated approach to supporting students to achieve success by identifying those most at risk, undertaking closer monitoring and providing early intervention.</p>	<p>We have created an 'at risk' indicator matrix. The Achievement Coaches are using this to good effect at the start of the academic year to try to identify those who may be vulnerable. After the induction period referrals are picked up from staff and followed up by the Achievement Coaches.</p>
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**Goal Three – Provide a high quality college experience**

<p><b>AP 5</b> To improve our distributed leadership by developing our College Management Team (CMT) to play a more significant role in our strategic thinking and ownership of our success.</p>	<p>The SLT has replaced the CMT. The SLT have engaged in four out of five Leadership Development Programme days and three training events including Disaster Response Training, Child Protection and 'Are you and your Learners ready for the future event?' This has brought the team together and broken down most silos. We are planning a Middle Manager Leadership Development programme for 2018/19 and plan to continue with SLT development.</p>
<p><b>AP 6</b> To improve student success rates by providing a more accessible and differentiated curriculum delivery model through increasing the blended learning opportunities through our Virtual Learning Environment.</p>	<p>Each curriculum area identified two modules/units for online delivery development. The most successful has been the work placement modules. All courses for 2018/19 have identified aspects of their provision which will be developed as an e-learning opportunity. We have established, as part of our Curriculum Strategy, to have 30% of all delivery available on line by 2023.</p>

**Goal Four – Grow our business**

<p><b>AP 7</b> Increase our income by identifying and engaging with our key employers and stakeholders</p>	<p>Stakeholder Strategy developed and a number of engagement activities occurred as a result. We are working with a number of new employers, in particular the private sector, and our income target will be met this year along with a significant increase in apprenticeship numbers.</p>
<p><b>AP 8</b> Increase our income by reviewing our Business Development strategy and approach to sales and generating new business</p>	<p>How we capture, track leads and target new business remains an area for improvement. We have developed an online employer engagement tool which captures all engagement across the College ensuring we engage with employers in a more informed way and do not duplicate effort.</p>

<p><b>AP 9</b> Grow our business by exploiting our new Curriculum Strategy and revising our marketing strategy and targeting new or under exploited geographical and curriculum areas.</p>	<p>A marketing review of community learning was carried out which was mostly positive of our current offer with minor recommendations that we will take on board for 2018/19. We have notionally split the marketing budget into priority sectors providing departments with some autonomy over expenditure, being mindful to retain a corporate and 'brand' approach. Our focus continues on positive Public Relations (PR) to keep the profile of the college at the forefront of minds. The use of social media and Yammer for generating PR is an area of good practice.</p>
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<b>Goal Five – Build sustainability</b>	
<p><b>AP 10</b> To develop a more flexible, empowered staff body we will adapt our organisation practice and promote systems thinking.</p>	<p>Revised structure of curriculum leadership is underway, which will provide more flexibility. College conversations have taken place during the spring term with suggested projects with SLT for consideration. Cultural change has been patchy with work still to be done to engage staff at the chalk face to contribute ideas and support our improvement.</p>
<p><b>AP 11</b> To increase our use of digital technologies and reduce cost we will set expectations around the use of technology and improve staff digital skills.</p>	<p>The original investment to improve our infrastructure is complete. Roll out of mobile devices and laptops/tablets for classroom delivery is underway with further plans for 2018/19. Digital bid with South of Scotland Economic Partnership (SOSEP) to provide portable distance learning will be rolled out in 2018/19 and 2019/20. A clear implementation plan has been agreed regarding priority areas for development in 2018/19. A revised Information Services and Learning Technology (ISLT) development plan will be developed after the appointment of the new Head of ISLT.</p>
<p><b>AP 12</b> To be more efficient in our information management by introducing Information Communications and Technology (ICT) infrastructure improvements and reduce duplication of information processing and increase automation.</p>	<p>Limited progress has been made in this area. We have advertised for a report writer post which will help to increase automation but structural changes still need to be made. The introduction of electronic registers and timetabling has been problematic. Our new Director of Business Improvement and Performance is mapping out our systems and process infrastructure.</p>

## Summary of Key Strategic Indicators

In accordance with SFC requirements, the College is required to publish and report progress against targets for national priorities. The Strategic Plan "Towards 2020" contains Key Strategic Indicators designed to measure performance and ensure institutional sustainability. The table below shows achievement for the year to 31 July 2018, with targets for the following two years. Performance figures for 2017/18 were extracted in October 2018 to support the self-evaluation, and remain subject to change up to the date of final publication by SFC in January 2019.

UPDATED OCTOBER 2018 – aligned to Outcome Agreement		Academic Year		
No.	Key Strategic Indicator	2017/18 actual	2018/19 target	2019/20 target
<b>Activity levels</b>				
1	The number of credits delivered	25,560	25,654	25,654
2	The proportion of credits delivered to students between the ages of 16 and 19 years old	58%	56.6%	56.6%
<b>Learner success</b>				
3	Overall learner success rate (incorporate level, mode, withdrawal, and partial success measures)			
	FE Full Time Learner Success	68.8%	69.5%	71.0%
	FE Part Time Learner Success	81.8%	84.0%	85.0%
	HE Full Time Learner Success	72.5%	76.5%	77.5%
	HE Part Time Learner Success	77.6%	82.5%	83.5%
<b>Equality</b>				
4	Proportion of enrolled MD (Multiple Deprivation) 10 students successful achieving a recognised qualification			
	FE Full Time Learner Success	56.8%	62.2%	66.7%
	FE Part Time Learner Success	61.2%	87.7%	88.9%
	HE Full Time Learner Success	100.0%	80.0%	80.0%
	HE Part Time Learner Success	83.3%	78.6%	80.0%
5	Proportion of full time enrolled Care Experienced students successfully achieving a recognised qualification.			
	% Full Time FE Care Experienced achieving recognised qualification	44.2%	64.0%	66.0%
	% Full Time HE Care Experienced achieving recognised qualification	50.0%	75.0%	83.3%
6	Proportion of full time FE enrolled students aged 16-19 successfully achieving a recognised qualification.			
	Full Time FE aged 16-19	64.3%	69.0%	71.0%
7	The proportion of full time programmes where one gender makes up more than 75% of the enrolments.	80.0%	71.0%	69.0%
8	The number and proportion of successful students who have achieved HNC or HND qualifications articulating to degree level courses with advanced standing			
	Number of successful students articulating as above	17	15	20
	Proportion of successful students articulating as above	30.4%	33.3%	40.0%
9	The proportion of full time college qualifiers in work, training and/or further study 3 – 6 months after qualifying			
	Proportion of FE for above criteria	86.0%	94.5%	93.9%
	Proportion of HE for above criteria	81.0%	98.0%	98.0%
10	The percentage of students overall, satisfied with their college experience (SSES survey).			
	FE Full Time	91.0%	96.0%	96.5%
	FE Part Time	95.0%	96.5%	97.0%
	HE Full Time	79.0%	95.0%	96.0%
	HE Part Time	100.0%	90.0%	92.5%
<b>Workforce</b>				
11	The percentage of full time permanent lecturing staff with TQFE or equivalent	100%	100%	100%
<b>Sustainability</b>				
12	Gross carbon footprint (tCO2).	512	546	486

UPDATED OCTOBER 2018 – aligned to Outcome Agreement		Academic Year		
No.	Key Strategic Indicator	2017/18 actual	2018/19 target	2019/20 target
13	Number of credits delivered per full time equivalent member of teaching staff.	330	304	306
14	Non-SFC income as a percentage of turnover	29%	29%	30%
15	Staff costs as a percentage of turnover	67%	65%	65%

## Curriculum Performance and Developments

### Student numbers

In academic year 2017/18 the College delivered activity that provided for the full draw down from the SFC of Activity Based Funding of £7.6m (last year £7.4m). In academic year 2017/18, the College enrolled 1,268 FT and 3,421 PT students. At the time of writing, the College's curriculum plan anticipates the number of full time students on HE programmes and part time students to increase.

### Student achievement

Learner success rates have significantly improved for both FT FE and HE programmes and those completing and achieving their qualification has increased from 76% to 77.2%. The College operates several Realistic Working Environments that enable students studying Hairdressing, Beauty Therapy and Hospitality to gain skills in preparation for employment. In addition, the majority of students participate in an external work placement or benefit from industry-led projects.

### Curriculum development

The College opened new facilities at Tweedbank to enable further development of construction and engineering, ensuring the continued focus on Science, Technology, Engineering and Maths (STEM) subjects. The College introduced a new award for Fabrication and Welding and an Introduction to Engineering Skills.

The Rural Skills department have adapted their course provision for animal care, moving from Business and Technology Education Council (BTEC) to Scottish Qualification Authority (SQA) awards. Students can now progress from an Introduction to Animal Care to the National Certificate (NC) in Animal Care.

The Schools Academy Programme was expanded to include a summer transition programme and new courses in Journalism, Activity Tourism and Animal Care.

### Student involvement

The College has a wide range of approaches to gaining feedback from students on the quality of its services. These include annual survey, focus groups, and lesson and unit evaluations. There are two student representatives on the Board. The Faculty Councils are the most important source of consultation with students with their output used to help progress the faculty's quality enhancement agenda. The membership is made up of all elected class representatives and the managers from the Faculty. They are tasked with producing a report on the quality of the students' experiences for incorporation into the faculty's self-evaluation and development planning. They have responsibility for monitoring the actions for improvement from the faculty focus groups and ensuring that these lead to improvements in the student experience. They have played a significant role in ensuring that students' views help shape improvements in the services the college provides. Each year students are invited to give feedback to the College through enrolment, induction and learning.

## Financial Planning and Performance

### Financial objectives

The College's financial objectives are:

Financial Sustainability	<ul style="list-style-type: none"> <li>• Prioritise ongoing Outcome Agreement negotiations with the SFC to ensure the needs of the Region are recognised and that the College receives a resource allocation to meet demand and deliver on national and local priority areas</li> <li>• Manage its financial resources to allow it to fully fund the maintenance of its estate and ICT infrastructure, together with future identified estates developments</li> <li>• Ensure that all costs are accounted for, including depreciation and financing costs</li> <li>• Use planning processes to ensure that longer-term projections are always considered as part of the budgeting process.</li> </ul>
Resource Deployment	<ul style="list-style-type: none"> <li>• Allocate resources through a budgeting cycle which considers external economic influence and uses scenario planning techniques</li> <li>• Fully use its allocation from SFC on both an academic and financial year basis</li> <li>• Ensure that strategic priorities, including estates, ICT and curriculum planning are fully integrated into the budget cycle</li> <li>• Ensure that expenditure on staff costs is maintained at a level of no more than 67% of turnover in year 2016/17, reducing to 65% in year 2019/20.</li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>• Maximise returns, against agreed risk profiles and within the constraints of the public sector regulatory framework</li> <li>• Minimise financing and banking costs</li> <li>• Retain adequate cash reserves, at a level of not less than 10 days trading activity.</li> </ul>
Innovation and Flexibility	<ul style="list-style-type: none"> <li>• Optimise the use of SFC income to support innovation in learning and teaching while continuing to deliver against our core performance indicators</li> <li>• Maximise funding from sources other than the SFC, with such funding to be at a level of not less than 27% in 2016/17, rising to 29% by 2019/20.</li> </ul>

### Financial results

The financial statements have been prepared under the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and Financial Reporting Standard 102 (FRS 102).

At its meeting on 22 June 2017, the Board originally budgeted for an operating deficit of £80k for the year to 31 July 2018. This deficit was as a result of a 1% pay award, and it was assumed that savings of £80k ought to be possible by 2018/19. In August 2017, the Chairs Committee approved a budgeted deficit of £110k for the academic year, noting that management would take action to bring back a balanced outturn position. Subsequent revisions reported in November brought the budgeted I&E deficit to £69k. The actual result was an operating deficit of £76k before accounting for the actuarial gain of £4,154k, taking the net operating position to a surplus of £4,078k.

The College's income for the 12 months to 31 July 2018 was £12.7m (last year £11.8m). Salary costs for the period, at £8.5m were 67% of income, 3% lower than for the previous year.

The College's underlying operating position is shown below.

	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Deficit before other gains and losses	(76)	(646)
Add back:		
- Depreciation (net of deferred capital grant release)	311	270
- Non-cash pension adjustments	836	666
Deduct:		
- Non-Government capital grants	0	0
- Revenue funding allocated to loan repayments	(248)	(237)
<b>Underlying operating surplus</b>	<b>823</b>	<b>53</b>

At 31 July 2018, the College has accumulated reserves of £4.6m (excluding pension reserve) and cash balances of £2.5m.

In response to the Office of National Statistics (ONS) re-classification, cash reserves are held at as low a level as possible, however, the College must hold sufficient cash from year-to-year to allow for servicing of the Scottish Borders Campus Lifecycle Fund.

Fixed asset additions during the period amounted to £1.611m of which £0.843m was a transfer from Assets Under Construction. Of this, £0.421m related to the refurbishment of light systems, with the remainder relating to plant and equipment purchases.

The College has significant reliance on the SFC as its principal funding source, largely from recurrent grants. In the 12 months to 31 July 2018 the SFC provided 70.8% of the College's total income (last year 73.0%).

During 2017/18, the College retained one subsidiary company, BC Business Consultants Limited; however, the Company ceased trading on 31 July 2010 when all operations were transferred to the College. Final residual transactions for the company were posted in 2012/13 and the company is dormant.

### **Taxation status**

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

### **Treasury policies and objectives**

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

Although undertaking any treasury management activities are restricted by the Scottish Public Finance Manual (SPFM), the College has retained a Treasury Management Policy. Subject to requirements of the SPFM, any short term borrowing for temporary revenue purposes is authorised by the College's Finance and General Purposes Committee. Such arrangements are restricted by



limits in the College Treasury Management Policy and Financial Regulations, and the Financial Memorandum with the SFC.

### Cash flow

Cash flow for the 12 months to 31 July 2018 showed a net outflow of £489k (last year net inflow of £746k).

### Liquidity

The College maintained positive operating cash flows over the years up until the period to 31 March 2014, resulting in a positive cash position. The College cannot retain cash balances for future expenditure in advance of need. Remaining cash is retained as a provision for identified future expenditure, principally the Scottish Borders Campus Lifecycle Costs. The College currently carries no bank loans or overdrafts and has no plans to use such facilities to finance operations or developments.

### Cash budget for priorities

A consequence of the College being classified as a central government body is that, from 1 April 2014, while the accounts are prepared under the SORP, there is also a requirement to comply with Central Government budgeting rules. This affects, amongst other things, the way in which depreciation charges are treated for budgeting purposes and how the College uses the cash released as a result of accounting for depreciation. The College sector separately identifies this as a “cash budget for priorities”, recognising that the Scottish Government has identified specific priorities for its use.

Spend from the College’s cash budget for priorities, and the impact on the operating position, is detailed below.

	2017/18 £000	2016/17 £000
<b>Revenue</b>		
Student Support	0	0
2015/16 pay Award	0	4
Other – Lifecycle costs	0	0
<b>Total Impact on Operating Position</b>	<b>0</b>	<b>4</b>
<b>Capital</b>		
Loan Repayments	248	237
<b>Total Capital</b>	<b>248</b>	<b>237</b>
<b>Total Cash Budget for Priorities Spend</b>	<b>248</b>	<b>241</b>

### Post Balance Sheet events

There are no events after the Balance Sheet date that require to be disclosed.

### Future developments

As noted previously, the College is in year two of implementation of the Strategic Plan “Towards 2020” and supporting strategies.

In negotiating the Borders Regional Outcome Agreement 2018/19 with SFC, the College has agreed to teaching funding totalling £8.74m (last year £7.6m), that includes £0.655m for national bargaining harmonisation costs. The College budget for 2018/19 is based on this level of funding and the College is confident that it can achieve its budgeted position for the year. The Board have

agreed a £44k budgeted deficit in 2018/19. Reductions in expenditure on temporary staffing ought to be possible in year to accommodate this.

In line with advice on budget setting for the College sector, the College is planning for the level of SFC teaching grant for activity levels to remain relatively static in future years. While recognising the SFC provision of medium-term support for the impact of national pay bargaining, the College recognises that significant efficiencies will be required in the future.

In negotiating future Outcome Agreements, we continue to make a case for additional activity in the Borders Region, reflecting current unmet demand. The College plans to continue to reduce dependency on the SFC Grant and is seeking opportunities in the areas where it currently performs well, while also targeting increased contributions to training costs from employers. The College continues to seek best value in its activities through the use of collaborative procurement and framework agreements.

The College has acquired new premises at Tweedbank to support our expanding engineering curriculum and is developing a new STEM facility at our Hawick Campus due for completion in the summer of 2019. The College is currently evaluating Newtown St Boswells for long term planning and continues to focus on maintenance and lifecycle priorities. The College continues to focus on a long term reduction in carbon emissions.

### **Creditor payment policy**

The College complies with the Confederation of British Industry (CBI) prompt payment code and has a policy of paying its suppliers within 30 days of invoice on the 6th and 20th of each month unless the invoice is contested. During the year no interest was paid by the College in respect of invoices paid beyond that date. The level of creditors in terms of the proportion of the year-end creditors to the aggregate invoiced amounts during the period was 1.4% (last year 6%), equivalent on an annualised basis to five creditor days (last year 21 days).

### **Corporate Social Responsibility**

The Board has a corporate social responsibility to provide leadership in equality and diversity as set out in the Code of Good Governance for Scotland's Colleges. All members of the Board are responsible for making sure that the College complies with equality legislation, meets all its duties and ensures that our outcomes are achieved and our action plan is followed. Board recruitment is conducted in compliance with ministerial guidance, including encouraging participation from a wide and representative group of individuals.

The College recognises its position in the community as a partner to businesses and voluntary organisations throughout the Scottish Borders and further afield. Its relationships are not simply as an education and training provider, but also as a supplier and consumer of goods and services. To develop and maintain such relationships, the College will also consider the local economy when appraising procurement options.

### **Equalities, diversity and inclusion**

Borders College is committed to the principles of equality, diversity and inclusion. We promote an organisational culture that enables every student and every member of staff to feel respected and included, whatever their background, abilities, age, race, faith, sexuality or gender. We embrace the benefits and opportunities that come from having a diverse mix of staff and learners in the College environment. We aim to ensure that the College is an environment that is free from negative discrimination, harassment and victimisation.



Our commitment to equality, diversity and inclusion is enshrined within our mission and values. Our vision is to be a College in which all learners succeed and which inspires growth, creates opportunity, raises aspirations and enhances lives.

We oppose all unlawful or unfair forms of discrimination, harassment and victimisation on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation or background e.g. criminal, trade union membership or any other unjustifiable grounds.

We recognise diversity in its broadest sense. Everyone is different so diversity includes us all not just those from minority groups.

We promote a culture of equality of opportunity, worth and process. We acknowledge that people often have different starting points and may face disadvantages and barriers. We will ensure that everyone has a fair chance to achieve their agreed goals and that we may take positive action or, where permissible, positively discriminate to help them achieve those goals.

#### *Our key principles*

- students and staff should benefit from College life and the College is committed to adopting flexible strategies and practices that cater for all and take into account individual circumstances and varying needs
- the College is firmly committed to ensuring that all people have the same right to access learning
- the College is committed to promoting equality and diversity, avoiding unfair discrimination within our own recruitment practices for both employment and study
- the College is committed to ensuring that any changes in the way it provides its service or how its services are accessed do not negatively impact on any particular section of society, and will impact assess any change to ensure that this is achieved or minimised.

We will ensure that the College's educational provision responds, as far as possible, to the diverse needs of students from a wide range of circumstances including:

- gender
- sexual orientation
- different racial ethnic and religious backgrounds
- those with specific learning difficulties and disabilities, physical and mobility difficulties
- sensory impairments and medical conditions
- rural isolation
- different ages
- care experienced
- gender reassignment
- social disadvantage.

We monitor our recruitment, our provision and the success of students from across the range of protected characteristics.

We are particularly concerned with ensuring that those groups within society who are more likely to experience discrimination and are protected by the Equality Act 2010 do not experience unfair discrimination, harassment or victimisation while working, studying or visiting Borders College.

We have set six equality outcomes for the College. Regardless of any protected characteristic:

1. learners from all backgrounds have good access to our services and achieve high levels of success (advancing equality of opportunity between different groups)

2. learners are prepared for life, work and to be responsible citizens (fostering good relations between different groups)
3. learners and staff are treated with dignity and respect and their views help shape and improve our services (eliminating unlawful discrimination, harassment and victimisation)
4. staff feel valued and have the opportunity to develop their knowledge and skills and to progress in their careers (advancing equality of opportunity between different groups)
5. the Board and College staff are representative of our community and offers a model of good practice in the promotion of opportunities for individuals with protected characteristics (advancing equality of opportunity between different groups)
6. users of our facilities and services can access them easily (eliminating unlawful discrimination, harassment and victimisation).

(Note: The general duty to which each outcome primarily applies is shown in brackets after the outcome statement.)

### Human rights

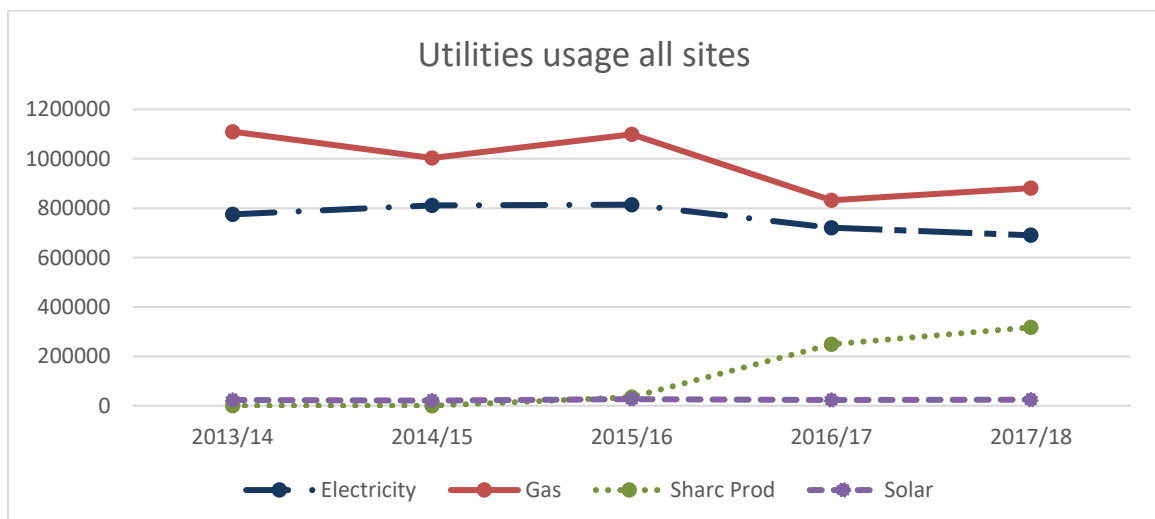
Borders College is committed to protecting the human rights of all staff and students and base the principals of all of our policies and procedures on important principles of dignity, fairness, respect and equality. This ensures that staff and students are protected in everyday life regardless of who they are, where they live and how they chose to live their life.

### Environmental and sustainability reporting

Five factors have affected our consumption and emissions over the past few years:

- implementation of the recent College Energy Efficiency Project (CEEP)
- use of SHARC heating plant in comparison to previous years
- weather patterns in comparison to previous years
- solar production against previous years
- size and usage of current estate.

2017/18 has seen a record year for the Campus solar production. The following chart details the last five years electricity and gas consumption along with SHARC and solar production. These figures are Borders College only with Heriot Watt University usage excluded.



The above shows a decline in gas usage since the installation of the SHARC system over the past two to three years and the corresponding increase in heat from the SHARC system. Electricity usage over the past two years has decreased by approximately 25% as a direct result of the investment in LEDs and the CEEP that completed in 2017.

Co2 emissions continue to fall, exceeding our carbon management targets, reducing from 806 tcO2 in 2014/15 to 556 tco2 in 2017/18.

The College complies with Scottish Government's sustainability reporting framework in line with the requirements of the Climate Change (Scotland) Act 2009.

### **Anti-bribery and anti-corruption**

The College's Anti-Bribery Policy describes our position:

- Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we, or will we, accept bribes or improper inducements.
- To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.
- We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance 'business as usual', rather than as a one-off exercise.

Our Anti-Fraud and Corruption Policy states that the results of fraud and/or corruption can be costly, time consuming, disruptive and unpleasant. The College, therefore, sees that the overriding principle to be applied is that of prevention. Where this fails, reporting, investigation and, where necessary, sanctions, will be pursued rigorously and swiftly. The Policy is available on our website and sets out preventative measures including policies and procedures, systems, internal audit, culture, and staff recruitment and training.

### **Disclosure of Information to Auditors**

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each 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.

**Signed: Principal.....**

**6 December 2018**

## Accountability Report

### 1. Corporate Governance Report

#### Directors' Report

##### Statement of responsibilities of the Regional Board

The Borders College Regional Board (the Board) is required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board 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 year.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the SORP for Further and Higher Education, FRS 102 and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between SFC and the Board of the College, the Board through its designated office holder, is required to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the College and the surplus or deficit and cash flows of the group for that year.

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

In preparing the financial statements the Board is required to:

- select suitable accounting policies, then 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 assume that the College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions that SFC may from time to time prescribe
- ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and funds from other sources

- safeguard the assets of the College and prevent and detect fraud
- secure the economic, efficient and effective management of the College's resources and expenditure.

## **Governing body**

The Board is the College's governing body. It is responsible for bringing independent judgement to bear on issues pertaining to the College's strategic direction, reputation, financial wellbeing, the wellbeing of staff and students and establishing high standards of academic conduct and probity. In addition the Board is responsible for systems of internal control and for reviewing their effectiveness.

The Board met four times in 2017/18 and is supported by a Chair's Committee, an Audit Committee, a Finance and General Purposes Committee, a Remuneration Committee, a Human Resources (HR) Committee, a Nominations Committee, and a Curriculum and Quality Committee. All Committees are formally constituted with terms of reference that have been approved by the Board. They are comprised mainly of independent members, one of whom is the Chair.

The Board performance appraisal system involves the Chair meeting with each member once per year during their term of office (with the exception of the student member due to their appointment being on an annual basis) to discuss their objectives and training needs.

Full minutes of all meetings, except those deemed to be confidential by the Board, are available on the College [website](#).

The Secretary to the Board maintains a register of financial and personal interests of the Board members. The register is available on the College [website](#).

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

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

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

## **Appointments to the Board**

Regional Chairs are appointed by the Scottish Ministers and are subject to the Public Appointments process.

The Nominations Committee is responsible on behalf of the Board for identifying other new Board Members, considering extensions of tenure for existing Board Members and considering nominations for co-opted Members. The Nominations Committee will make recommendations to the Board concerning appointments, with the full Board retaining responsibility for approval of new members, extensions and appointment of co-opted members. Any such appointment is also subject to approval by Scottish Ministers.

The current recruitment process for appointing new Board members involves advertising in local or national press, targeted letters to relevant organisations and existing Board members identifying potential new members. All applicants are required to undergo the same selection process that includes submitting a written application and interview by the Nominations Committee. Members

of the Nominations Committee are required to confirm whether they have any prior knowledge of the applicants before the interview process is undertaken.

Members are appointed to the Board for an initial period of four years; this initial period can be extended for a further four years. Only in exceptional circumstances, and where compelling reasons exist, may a further extension of up to two years be approved. The members who served on the Board during the year and up to the date of signature of this report were as listed below. Actual attendance is compared to the number of meetings that the member was eligible, as a member of the Board, to attend during the year.

Name	Date of Appointment	Date of Resignation	Status of Appointment	Board attendance	Committee Served
<b>T Jakimciw</b>	4 March 2014 Chair from 4 March 2014 Re-appointed 4 March 2018		Independent Member	4 out of 4	Finance & General Purposes Nominations HR Remuneration Curriculum & Quality Chairs
<b>A Cox</b>	30 January 2017		Principal	4 out of 4	Finance & General Purposes HR Curriculum & Quality
<b>E Acaster</b>	14 August 2014 Re-appointed 14 August 2018		Independent Member	3 out of 4	Finance & General Purposes Remuneration Nominations
<b>G Crosier</b>	4 March 2014 Re-appointed 14 August 2014	02 October 2017	Independent Member	0 out of 0	HR Remuneration Nominations
<b>D Elder</b>	8 March 2018		Student Member	2 out of 2	Finance & General Purposes
<b>J Gaddie</b>	1 March 2015		Independent Member	3 out of 4	Audit HR Remuneration
<b>V Grant</b>	1 March 2015		Independent Member	3 out of 4	Curriculum & Quality Nominations
<b>P Hutchison</b>	1 July 2017	3 October 2018	Curricular Staff Member	2 out of 4	Curriculum & Quality Finance & General Purposes
<b>I Ireland</b>	4 March 2014 Re-appointed 1 March 2015		Independent Member	3 out of 4	Curriculum & Quality Audit HR
<b>D Jardine</b>	19 June 2018		President, Student Association	0 out of 0	Audit Curriculum & Quality
<b>D Johnson</b>	1 June 2018		Independent Member	1 out of 1	Finance & General Purposes Curriculum & Quality
<b>S Ker</b>	1 October 2015		Independent Member	3 out of 4	Audit

Name	Date of Appointment	Date of Resignation	Status of Appointment	Board attendance	Committee Served
<b>J Martin</b>	4 March 2014 Re-appointed 1 March 2015	28 August 2017	Independent Member	0 out of 0	Audit Curriculum & Quality
<b>B McGrath</b>	4 March 2014 Re-appointed 14 August 2014 Re-appointed 14 August 2018		Independent Member	3 out of 4	Audit Nominations
<b>N McIlwraith</b>	5 August 2016		Independent Member	0 out of 4	Finance & General Purposes
<b>J MacKenzie</b>	22 June 2017		Support Staff Member	4 out of 4	Audit
<b>L Parkes</b>	1 March 2015		Independent Member	2 out of 4	Finance & General Purposes HR
<b>D Peace</b>	1 March 2015		Independent Member	3 out of 4	Finance & General Purposes Nominations
<b>A Rae-Hewitt</b>	26 October 2017	December 2017	Student Member	1 out of 1	
<b>S Shinton</b>	5 August 2016		Independent Member	2 out of 4	Curriculum & Quality
<b>E Smith</b>	1 July 2017	23 March 2018	President, Student Association	2 out of 3	Audit Curriculum & Quality

Secretary to the Regional Board: J Ayling (from 1 August 2017)

In addition, the following Senior Managers exert influence on the direction of the College as a whole:

Name	Designation
H Anderson	Vice Principal – Curriculum and Student Services
D Killean (Resigned 30 September 2017)	Vice Principal – Quality and Innovation
H Robertson (From 22 October 2018)	Vice Principal – Finance and Corporate Services
P Smith (Resigned 14 September 2018)	Vice Principal – Finance and Corporate Services

## Committees

The Board delegates certain responsibilities to its Committees. All Committees are required to report to the Board on their activities.

### **Audit Committee** Chair S Ker Met four times in 2017/18

The Committee is responsible for agreeing the annual programme of work from the internal audit service. It meets with the College's external and internal auditors in attendance as appropriate. It considers detailed reports together with recommendations for improvement in systems of internal control, and management's responses and action plans. It receives and considers reports from the SFC as they affect the College's business and monitors adherence to regulatory requirements.

Whilst senior managers attend as necessary, they are not members. Time is allotted for auditors to meet without senior managers in attendance.

The SLT receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units and



	<p>reinforced by risk awareness training. The SLT and Board receive regular reports, and recommendations for improvement, from internal auditors and the Health and Safety Committee.</p> <p>Its role is confined to a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.</p>
<p><b>Finance and General Purposes Committee</b> Chair E Acaster Met four times in 2017/18</p>	<p>The Committee agrees matters of financial policy and regulation, including treasury management. It recommends the annual revenue and capital budget to the Board and receives detailed reports comparing actual spend against budget. It considers recommendations for budget review at regular intervals throughout the year.</p> <p>The Terms of Reference of this Committee are in the process of being updated to reflect the assumption of the duties of the HR Committee.</p> <p>It has delegated responsibility for approving expenditure between £100,000 and £249,999, and recommending fees to be charged for College services.</p>
<p><b>Remuneration Committee</b> Chair J Gaddie Met two times in 2017/18</p>	<p>The Committee determines the remuneration of the most senior staff, including the Principal. It reviews redundancy terms and conditions as required. Details of remuneration for the year ended 31 July 2018 are set out in note 6 to the Financial Statements and in the Remuneration and Staff Report on pages 29-34.</p>
<p><b>HR Committee</b> Chair T Jakimciw Met two times in 2017/18</p>	<p>The Committee receives reports on matters related to Human Resources policy and gives assurance to the Board that appropriate policies are in place and managed effectively.</p> <p>At the June 2018 Board it was agreed that the role of this committee would be assumed by the Finance and General Purposes Committee.</p>
<p><b>Nominations Committee</b> Chair T Jakimciw Met once in 2017/18</p>	<p>The Committee deals with nominations, appointments / extensions to the Board of ordinary members, including induction, training and development, and succession of Board members.</p>
<p><b>Curriculum and Quality Committee</b> Chair I Ireland Met four times in 2017/18</p>	<p>The Committee was established to consider matters related to the standards of service provided by the College. It considers the appropriateness of curriculum offered and is responsible for driving the quality assurance agenda for the College. KPIs for student achievement and retention are considered.</p>
<p><b>Chairs Committee</b> Chair T Jakimciw Met once in 2017/18</p>	<p>The Committee advises the Board on the selection of the Principal, and on any matters relating to misconduct on the part of the Principal, Board Secretary or any member.</p>



The Committee oversees any urgent matter that may affect the operation of the College, and makes recommendations in relation to matters of unusual or special interest not within the remit of any other Committee.

## **Governance Statement**

### **Introduction**

The College is committed to exhibiting best practice in all aspects of Corporate Governance with regards to its business and that of all its subsidiaries. This statement describes the manner in which the College has applied the principles of good governance, set out in the 2016 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.

The College complies with all the principles of the 2016 Code of Good Governance for Scottish Colleges, and it has complied throughout the year ended 31 July 2018.

### **Risk Management and Internal Control**

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic faculties and administrative departments
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of KPIs 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
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance & General Purposes Committee
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board and whose head provides the Board with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

### **Scope of responsibility**

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

## **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Borders College for the year ended 31 July 2018 and up to the date of approval of the annual report and financial statements.

## **Capacity to handle risk**

The Board has reviewed the risks that the College is exposed to, together with the operating, financial and compliance controls that have been implemented to mitigate risks. The Board is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2018 and up to the date of approval of the annual report and financial statements. This is regularly reviewed by the Board.

## **The risk and control framework**

The College has embedded strategic, financial and operational risk management arrangements that are designed to protect the College's assets and reputation.

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, that is reviewed and agreed by the Board
- regular reviews by the Board of periodic and annual financial reports that indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Borders College has an internal audit service, that operates in accordance with the requirements of the SFC's Financial Memorandum. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Board on the recommendation of the Audit Committee. At a minimum annually, the Internal Auditors provide the Board with a report on internal audit activity in the College. The report includes their independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

The Performance Report on pages 6-7 contains an analysis of the risk profile of the College, across its strategic aims. The table on page 7 sets out the medium and high risks facing the College at this time. The College has a strategic risk register that sets out existing controls and planned actions to mitigate risk, and has in 2017/18, been able to manage risks downwards.

## Lapses in Data Security

There were no significant lapses in data security in 2016/17 or 2017/18. The College has implemented a programme of work to ensure compliance with the General Data Protection Regulations that came into force in May 2018.

## Going Concern

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

## Review of Effectiveness

The Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

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

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

Based on the Strategic Plan, the SLT annually undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, and specific actions that should mitigate the potential impact on the College. These internal controls are implemented and the subsequent year's appraisal will review the effectiveness of risk mitigation actions. In addition to the annual review, the SLT also consider risks relating to new areas of work.

The strategic risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate risks. Risks are rated using a consistent scoring system, and assigned a target level. All risks are assigned to senior managers to manage, with additional support from operational managers. Monthly, the SLT considers changes to the potential impact and likelihood of risks materialising and opens or closes risks as appropriate. The updated register is presented for review to each meeting of the Board and its Committees.

The SLT receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, that are embedded within the academic faculties and support departments and reinforced by risk awareness training. The SLT and the Audit Committee also receive regular reports from the internal auditors, that include recommendations for improvement.

The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its September 2018 meeting, the Audit Committee carried out the annual assessment for the year ended 31 July 2018 by considering documentation from senior management and internal audit, and taking account of events since 31 July 2018.

## **Conclusion**

The Board considers that there is an ongoing process for identifying, evaluating and managing the College's operations, which reflects the strategic priorities and significant risks facing the College. This process has been in place for the year ended 31 July 2018 and up to the date of approval of the annual report and financial statements. The Board is satisfied that the internal control arrangements comply with all required regulatory standards and that all necessary disclosures have been made to aid the reader in understanding this report and financial statements.

## 2. Remuneration and Staff Report

### Remuneration Policy

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

Remuneration of the Principal and senior management is agreed by the Remuneration Committee. The Committee takes into account public pay policy, pay awards to other categories of staff and guidance from the SFC and Scottish Government.

### Remuneration including salary and pension entitlements

#### Salary entitlements<sup>1</sup>

The following table provides detail of the remuneration and pension interests of the Regional Chair and senior management.

Name	Year ended 31 July 2018			Year ended 31 July 2017		
	Salary £000	Pension Benefit £000	Total £000	Salary £000	Pension Benefit £000	Total £000
<b>T Jakimciw</b> Chair of the Regional Board – Actual	20-25	-	20-25	20-25	-	20-25
<b>A Cox</b> Principal – Actual from 30/1/17 (annual equivalent)	100-105	30-35	135-140	50-55 (100-105)	15-20	65-70
<b>L McIntyre</b> Principal – Actual to 4/12/2016 (annual equivalent)				35-40 (100-105)	5-10	45-50
<b>H Anderson</b> Vice Principal – Curriculum and Student Services – Actual	70-75	10-15	80-85	70-75	5-10	75-80
<b>D Killean</b> Vice Principal – Quality and Innovation – Actual to 30/9/17 (Annual Equivalent)	10-15 (70-75)	(10-15)	15-20	70-80	5-10	75-80
<b>P Smith</b> Vice Principal – Finance and Corporate Services - Actual	75-80	10-15	85-90	70-75	30-35	100-105

### Median remuneration

Based on the 12 month equivalent figures above, the remuneration of the highest paid official in the organisation in the financial year 2017/18 was £104,615 (last year £103,632). This was 3.8 times (last year 3.3 times) the median remuneration of the workforce which was £27,690 (last year £31,881). The remuneration of the lowest paid member of staff was £15,666 (last year £15,141).

<sup>1</sup> Note:

- The salaries in the table above represent the amount earned in the financial year and include salary, bonuses, overtime and other allowances (as applicable)
- The value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The x20 multiplier aims to bring public bodies in line with other industries in disclosing an assessed cumulative pension benefit for a standard 20 year period which is the estimated life span following retirement.
- The details in this table are subject to audit

## Accrued pension benefits

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

Both are Career Average Revalued Earnings schemes. This means that pension benefits are based on the revalued average of pensionable years' pay and the number of years that the person has been a member of the scheme.

Normal retirement age is linked to the member's individual State Pension Age.

Contribution rates are set annually for all employees and can be found in note 29. LGPS members with pre 01 April 2009 service have an automatic entitlement to a lump sum. Members with only post 01 April 2009 service have 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 manager's pension

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

Name and role	As at July 2018		31 July 2017 to 31 July 2018		At 31 July 2018	At 31 July 2017	Real increase in CETV
	Accrued pension at pension age	Accrued lump sum at pension age	Real increase in pension	Real increase in lump sum	CETV	CETV	
	£000	£000	£000	£000	£000	£000	
<b>T Jakimciw</b> Chair of the Regional Board	-	-	-	-	-	-	-
<b>A Cox</b> Principal	0-5	-	0-5	0-5	34	11	13
<b>H Anderson</b> Vice Principal – Curriculum and Student Services	25-30	85-90	0 – 5	0 – 5	637	571	31
<b>D Killean</b> Vice Principal – Quality and Innovation*	25-30	85-90	nil	nil	680	652	1
<b>P Smith</b> Vice Principal – Finance and Corporate Services	30-35	55-60	0 – 5	nil	530	493	15

\*Data is as at 30 September 2017.

## Cash equivalent transfer value (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a

member at a particular point in time.

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total pensionable service and not just their current appointment.

In considering accrued pension benefits figures the following contextual information should be taken into account:

- the figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement
- the accrued benefits figures reflect the pension contributions that both the employer and the scheme member have made over a period of time.

### Real increase in CETV

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

### Remuneration of senior post holders

Details of the remuneration of senior post holders is set out in Note 6 to the accounts, on page 47.

### Compensation for loss of office

Five employees left under voluntary exit terms during the year. They received a total payment of £67,331. The table below summarises the packages by cost band.

Cost band	Year to 31 July 2018			2017
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total number of exit packages by cost band
<£10,000	0	2	2	4
£10,001 - £25,000	0	3	3	0
£25,001 - £50,000	0	0	0	0
Total number of packages	0	5	5	4
<b>Total cost (£)</b>	<b>£0</b>	<b>£67,331</b>	<b>£67,331</b>	<b>£12,937</b>

## Salaries and related costs

	Year to 31 July 2018			Year to 31 July 2017
	Directly employed staff	Seconded and agency staff	Total	Total
Wages and salaries	£6,249,573	0	£6,249,573	£6,162,040
Social security costs	£570,328	0	£570,328	£555,387
Other pension costs	£1,677,527	0	£1,677,527	£1,536,484
<b>Total</b>	<b>£8,497,428</b>	<b>0</b>	<b>£8,497,428</b>	<b>£8,253,911</b>
Average number of FTE	200	0	200	208

The College employed 112 males and 214 females at 31 July 2018. At the time of approval of the Remuneration and Staff Report, senior management comprised three females.

## Sickness absence

The total number of days lost per full time equivalent (FTE) to sickness absence during 2017/18 was 16.07 days, an increase from 7.7 days last year. The increase in year was due to a small number of individuals with long term sickness absence throughout the course of the year. Occupational Health have been involved and a resolution is anticipated.

## Equalities, diversity and inclusion

The Performance Report on page 17 and 18 sets out the College commitment to the principles of equality, diversity and inclusion. We promote an organisational culture that enables every member of staff to feel respected and included, whatever their background, abilities, age, race, faith, sexuality or gender. Three of our six equality outcomes set out our position in relation to staff. Regardless of any protected characteristic:

- staff are treated with dignity and respect and their views help shape and improve our services (eliminating unlawful discrimination, harassment and victimisation)
- staff feel valued and have the opportunity to develop their knowledge and skills and to progress in their careers (advancing equality of opportunity between different groups)
- College staff are representative of our community and offers a model of good practice in the promotion of opportunities for individuals with protected characteristics (advancing equality of opportunity between different groups).

## Employment policies

The Employee Resourcing Policy states our policy as being to recruit the best person for each vacancy, regardless of any protected characteristic. Applications for employment, training and promotion are monitored by protected characteristic and reported in the Equality Mainstreaming Report. Any pattern of inequality will be addressed. All College staff who participate in any aspect of the staff recruitment and selection process will have undergone training in recruitment and selection procedures and in equality and diversity.

Any applicant with a disability will be afforded reasonable adjustment with regard to all stages of the recruitment process. Where a candidate with a disability meets the minimum criteria, as set out in the person specification, they will be guaranteed an interview.



The College is committed to retaining and supporting individuals who have a disability and engage the services of the NHS Borders Occupational Health Service to provide guidance and recommendations to enable this to happen.

We monitor and report on disability both to the SFC as part of the staffing return and through the Mainstreaming Report. Staff feel supported in their role and have opportunities to develop and apply for promotion.

The College has been awarded and has retained the Disability Confident Employer Award which demonstrates our commitment to disabled staff and those applying to work with the College.

### **Staff development**

The College has undertaken a senior leadership development programme that has been rolled out to middle managers and to 13 staff who are on a Talent Development Programme. The Programme will run into 2018/19 and beyond. These activities will develop current managers and provide opportunities and development activities for individuals who see themselves as future leaders.

### **Staff involvement**

The College has an HR and Staff Development Strategy that states that we will maintain a committee structure that allows for consultation and negotiation with all staff groups and will provide, where possible, staff with the opportunity to progress through the implementation of next generation opportunities, promotions and talent management. Management meet regularly with the recognised trade unions, the EIS, Unison and a non-union staff representative for support staff.

We recognise the benefits of keeping employees informed about performance and encouraging suggestions for improvement of the College's position. In particular, a Joint Consultative Committee comprising management, members of recognised trades unions (both teaching and support staff) has been established for this purpose. In addition, periodic core communication sessions are held on all sites to receive information and brief staff on current developments. The College publishes newsletters that are readily available to all staff. Staff consultation is a key part of our strategic planning process with workshops taking place to allow all academic faculties and support departments to contribute.

Pay policy is determined at a national level through membership of the Employers Association National Joint Negotiating Committee. Local engagement activity takes place through the Local Joint Negotiation and Consultation Committees, representation on Equalities and Inclusion Committee, and Health & Safety Committee, as well as informal meetings where we discuss staff matters, training and development.

### **Health and safety**

The College recognises and accepts its duties under the Health and Safety at Work Act 1974 and is committed to ensuring the health, safety and welfare of its employees, so far as is reasonably practicable. It also fully accepts its responsibility for other persons who may be affected by its activities. The College will take steps to ensure that its statutory duties are met at all times. The College upholds the principle of inclusiveness and will ensure that each employee and learner will be given health and safety information, and instruction and training in a format suitable for the learner. Adequate facilities and arrangements will be maintained to enable employees and their representatives to raise issues of health and safety. Competent people will be appointed to assist the College in meeting its statutory duties including, where appropriate, specialists from outside the College. In 2017/18 the College reported three incidents under the Reporting of Injuries, Diseases

and Dangerous Occurrences Regulations (last year three). There were no connections between the incidents reported and no follow up action required by the Health and Safety Executive.

### **Trade union facility time**

Facility time is the provision of paid or unpaid time off from an employee's normal role to undertake Trade Union duties and activities as a Trade Union representative. There is a statutory entitlement to reasonable paid time off for undertaking Trade Union duties. There is no statutory entitlement to paid time off for undertaking Trade Union activities.

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, we are required to publish specific information on trade union officials and facility time. This information is to be published by 31 July each year.

This information is available on the College's website under College documents, reports, or via this [hyperlink](#).

The Remuneration and Staff Report was approved by order of the members of the Borders College Regional Board on 6 December 2018 and signed on its behalf by:

**T Jakimciw**  
**Chair**

**A Cox**  
**Principal**

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

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice 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.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

We have audited the financial statements in the annual report and accounts of Borders College for the year ended 31 July 2018 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, and Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2018 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).

#### **Basis of opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Responsibilities of the Regional Board for the financial statements**

As explained more fully in the Statement of the Regional Board's Responsibilities, the Regional Board is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Regional Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Regional Board is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Other information in the annual report and accounts**

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

In connection with our audit of the financial statements in accordance with ISAs (UK), our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Report on regularity of expenditure and income**

#### **Opinion on regularity**

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

Scottish Ministers.

### **Responsibilities for regularity**

The Regional Board is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Report on other requirements**

#### **Opinions on other matters prescribed by the Auditor General for Scotland**

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

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

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

### **Matters on which we are required to report by exception**

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Gary Devlin, (for and on behalf of Scott-Moncrieff)  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

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

## Statement of Comprehensive Income

	<u>Note</u>	<u>Year ended 31 July 2018</u> <u>£000</u>	<u>Year ended 31 July 2017</u> <u>£000</u>
<b>Income</b>			
SFC grants	1	9,009	8,630
Tuition fees and education contracts	2	1,354	1,320
Other grant income	3	821	410
Other operating income	4	1,546	1,467
Investment income	5	1	1
<b>Total income</b>		<b><u>12,731</u></b>	<b><u>11,828</u></b>
<b>Expenditure</b>			
Staff costs	6	8,497	8,254
Fundamental restructuring costs	6	4	72
Other operating expenses	7	2,704	2,759
Donation to charitable trust	10	50	0
Depreciation	11	1,176	1,036
Interest and other finance costs	8	376	353
<b>Total Expenditure</b>		<b><u>12,807</u></b>	<b><u>12,474</u></b>
<b>Deficit before other gains and losses, and tax</b>		<b>(76)</b>	<b>(646)</b>
Taxation	9	0	0
<b>Deficit for the year</b>		<b><u>(76)</u></b>	<b><u>(646)</u></b>
Actuarial gain/(loss) in respect of pension schemes	29	4,154	(331)
<b>Total comprehensive income for the year</b>		<b><u>4,078</u></b>	<b><u>(977)</u></b>
Represented by:			
Endowment comprehensive income for the year		0	0
Restricted comprehensive income for the year		0	0
Unrestricted comprehensive income for the year		<u>4,078</u>	<u>(977)</u>
		<b><u>4,078</u></b>	<b><u>(977)</u></b>

All items of income and expenditure relate to continuing activities.

The Statement of Comprehensive Income is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 33 provides details of the adjusted operating position on a Central Government accounting basis.

## Balance Sheet

	<u>Note</u>	<u>31 July</u> <u>2018</u> £000	<u>31 July</u> <u>2017</u> £000
<b>Non-current assets</b>			
Fixed assets	11	27,471	27,879
Investments	12	10	0
		<u>27,481</u>	<u>27,879</u>
<b>Current assets</b>			
Trade and other receivables	13	486	503
Investments (assets held for resale)	14	585	585
Cash and cash equivalents	15	<u>2,544</u>	<u>3,033</u>
		3,615	4,121
Less: Creditors: amounts falling due within one year	16	<u>(2,279)</u>	<u>(3,354)</u>
<b>Net current assets</b>		1,336	767
<b>Total assets less current liabilities</b>		<u>28,817</u>	<u>28,646</u>
Creditors: amounts falling due after more than one year	17	(22,710)	(23,335)
<b>Provisions</b>			
Pension provisions	22	(5,337)	(8,645)
Other provisions	21	(702)	(676)
<b>Total net assets/(liabilities)</b>		<u><b>68</b></u>	<u><b>(4,010)</b></u>
<b>Restricted reserves</b>			
Income & expenditure reserve – endowment reserve	23	22	22
Income & expenditure reserve – restricted reserve	24	15	36
<b>Unrestricted reserves</b>			
Income & expenditure reserve - unrestricted	25	(769)	(4,877)
Revaluation reserve		800	809
<b>Total reserves</b>		<u><b>68</b></u>	<u><b>(4,010)</b></u>

The financial statements on pages 38 to 59 were approved by the Regional Board on 6 December 2018 and signed on its behalf on that date by:

**T Jakimciw**  
Chair

**A Cox**  
Principal

## Statement of Changes in Reserves

	Income and expenditure account			Revaluation reserve	Total
	<u>Endowment</u> <u>(Note 23)</u>	<u>Restricted</u> <u>(Note 24)</u>	<u>Unrestricted</u> <u>(Note 25)</u>		
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Balance at 1 August 2016</b>	<b>22</b>	<b>56</b>	<b>(3,929)</b>	<b>818</b>	<b>(3,033)</b>
Deficit from the income & expenditure statement			(646)		(646)
Other comprehensive income			(331)		(331)
Transfers between revaluation and income & expenditure reserve			9	(9)	0
Release of restricted funds in year		(20)	20		0
	0	(20)	(948)	(9)	(977)
<b>Balance at 1 August 2017</b>	<b>22</b>	<b>36</b>	<b>(4,877)</b>	<b>809</b>	<b>(4,010)</b>
Deficit from the income & expenditure statement			(76)		(76)
Other comprehensive income			4,154		4,154
Transfers between revaluation and income & expenditure reserve			9	(9)	0
Release of restricted funds in year		(21)	21		0
Total comprehensive income for the year	0	(21)	4,108	(9)	4,078
<b>Balance at 31 July 2018</b>	<b>22</b>	<b>15</b>	<b>(769)</b>	<b>800</b>	<b>68</b>



## Cash Flow Statement

	<u>Note</u>	<u>Year ended 31 July 2018 £000</u>	<u>Year ended 31 July 2017 £000</u>
<b>Cash flow from operating activities</b>			
Deficit for the year		(76)	(646)
<b>Adjustment for non-cash items</b>			
Depreciation	11	1,176	1,036
Decrease/(increase) in trade and other receivables	13	17	(8)
Decrease in creditors	16	(2,227)	(199)
Increase in other provisions	21	26	63
Increase in pension provisions	22	836	666
<b>Adjustment for investing or financing activities</b>			
Investment income	5	(1)	(1)
Interest payable	8	376	353
<b>Net cash inflow from operating activities</b>		<u>127</u>	<u>1,264</u>
<b>Cash flows from investing activities</b>			
Investment income		1	1
Receipt of deferred capital grants		527	747
Payments made to acquire fixed assets		(768)	(913)
		<u>(240)</u>	<u>(165)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(376)	(353)
		<u>(376)</u>	<u>(353)</u>
<b>(Decrease)/increase in cash and cash equivalents in the year</b>		<u>(489)</u>	<u>746</u>
Cash and cash equivalents at beginning of the year	15	3,033	2,287
Cash and cash equivalents at end of the year	15	2,544	3,033

## Statement of Accounting Policies

### 1. Basis of Preparation

These financial statements have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC that requires compliance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2015), and in accordance with Financial Reporting Standards 102 (FRS 102). The financial statements must also comply with the Scottish Public Finance Manual (SPFM), the Government Financial Reporting Manual (FReM) and Consolidated Budgeting Guidance (CBG).

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

### 2. Basis of Accounting

In preparing the financial statements, the College is required to make estimates and assumptions that affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The College is satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied as follows:

<b>Estimate</b>	<b>Basis of Estimation</b>
Valuation of buildings	College buildings are of a specialist nature and are valued on the depreciated replacement cost basis.
Useful economic lives of buildings and equipment	Buildings are depreciated over their expected remaining useful economic life as assessed by an independent, qualified valuer
Recoverable amount of trade debtors	Trade debtors are reviewed by appropriately experienced senior management team members with appropriate provision for non-payment of debt being charged to the financial statements as required.
Obligations under the LGPS	The Board has relied on the actuarial assumptions of qualified actuaries which have been reviewed and are considered reasonable and appropriate.

### 3. 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.

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

All income from short-term deposits and investments is credited to the Statement of Comprehensive Income on a receivable basis.

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the Statement of Comprehensive Income.

#### *Grant funding*

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

Grants from non-government sources are recognised in income when the College has met any performance-related conditions of the grant. Income received in advance of performance-related conditions being met is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate on the Balance Sheet and released to income as the conditions are met.

#### **4. Tangible Fixed Assets**

##### *Land and buildings*

Land and buildings are stated in the Balance Sheet at depreciated replacement cost on the basis of a valuation carried out in January 2014. Freehold land associated with the buildings and undeveloped freehold land is not depreciated. New buildings are depreciated over their expected useful economic life to the College of up to 50 years.

A review for impairment of fixed assets is carried out if events or changes in circumstances indicated that the carrying amount of the fixed asset may not be recoverable. Major improvements to buildings, where no new floor space is created, are depreciated over a term consistent with their useful life, to a maximum of the remaining undepreciated life of the building.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. Finance costs that are directly attributable to the construction of buildings are capitalised as part of the cost of those assets. Buildings are not depreciated until they are brought into use.

##### *Subsequent expenditure on existing fixed assets*

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

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

##### *Revaluation reserve*

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

### *Equipment*

Equipment costing less than £3,000 per individual item, unless it is part of a group of items purchased as part of a discrete project, is written off to the Statement of Comprehensive Income in the period of acquisition. Additionally, individual assets whose cost falls below the threshold but pose a risk of fraud or theft, and are of a similar type are grouped together and capitalised. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful economic life as follows:

Plant, equipment, furnishings and fittings	- up to 10 years
Computer equipment	- up to 8 years
Motor vehicles and general equipment	- up to 8 years
Buses	- up to 8 years

Where equipment is acquired with the aid of specific Government grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the Statement of Comprehensive Income over the expected useful economic life of the related equipment.

### *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 elements of the leasing commitments are 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 Statement of Comprehensive Income 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 held under hire purchase contracts that have the characteristics of finance leases are depreciated over their useful lives.

### *Maintenance of premises*

The cost of long-term and routine corrective maintenance is charged to the Statement of Comprehensive Income in the period which it is incurred.

### *Impairment of assets*

Any reduction in the recoverable amount of fixed assets arising from impairment reviews are recognised in the Statement of Comprehensive Income or Statement of Changes in Reserves as appropriate.

## **5. Investments**

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value. Current asset investments are included in the Balance Sheet at the lower of their original cost and net realisable value.

## **6. Foreign Currency Translation**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

## **7. Taxation**

The College is registered under Scottish Charity Number SC021180 and is a "Charity" within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the College is potentially exempt from taxation in respect of income and capital gains received

within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Charitable Gains Act 1992, to the extent that such income and gains are applied to exclusively charitable purposes.

The College has no similar exemption in respect of Value Added Tax (VAT). Non-recoverable VAT arising from expenditure on non-trading activities is charged to the Statement of Comprehensive Income.

The College's subsidiary company is subject to Corporation Tax and VAT in the same way as any commercial organisation.

## **8. Financial Instruments**

Financial instruments are recognised in the Balance Sheet when the College becomes party to the contractual provisions of the instrument. All of the College's financial instruments are classified as 'basic' in accordance with Chapter 11 of FRS 102. All of the College's financial instruments are measured at transaction price.

Financial assets are derecognised when the contractual rights to the cash flows from asset to expire, or when the College has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Cash and cash equivalents: liquid resources include sums on short term deposits with recognised banks and building societies and government securities.

## **9. Provisions**

Provisions are recognised when the institution 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.

## **10. Pension Schemes**

Retirement benefits to employees of the College are provided by the STSS and the LGPS.

Contributions to the STSS are charged to the Statement of Comprehensive Income so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method.

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the LGPS.

## **11. Bursary and Discretionary Funds**

The College administers Bursary and Discretionary Funds from the SFC, on behalf of its student, acting as paying agent on behalf of SFC. Unexpended funds are included in creditors.

## Notes to the Accounts

	<u>Note</u>	<u>Year</u> <u>ended 31</u> <u>July 2018</u> <u>£000</u>	<u>Year</u> <u>ended 31</u> <u>July 2017</u> <u>£000</u>
<b>1. SFC grants</b>			
SFC recurrent grant (including fee waiver)		7,570	7,360
Estates (maintenance) grants		200	227
Other SFC grants		288	226
HE & FE childcare funds	30	156	122
Release of deferred capital grants - SFC	20	795	695
		<u>9,009</u>	<u>8,630</u>
<b>2. Tuition fees &amp; education contracts</b>			
Higher education fees – home & EU		341	302
Further education fees – UK		344	355
Skills Development Scotland contracts		297	263
Education contracts		372	400
		<u>1,354</u>	<u>1,320</u>
<b>3. Other grant income</b>			
Release of deferred capital grants – other government	20	71	71
European union funds		70	52
Other grants (revenue & capital)		313	222
UK based charities (revenue & capital)		367	65
		<u>821</u>	<u>410</u>
<b>4. Other operating income</b>			
Exam & registration fees		4	3
Income from academic departments		83	69
Sundry income		140	107
Catering & residences		106	76
Hire of accommodation & equipment		1,213	1,212
		<u>1,546</u>	<u>1,467</u>
<ul style="list-style-type: none"> <li>Because catering operations are managed by an external agency, catering income has been excluded from the Statement of Comprehensive Income.</li> <li>Hire of accommodation and equipment includes the recovery of costs from Heriot Watt University per the agreed Service Level Agreement.</li> </ul>			
<b>5. Investment income</b>			
Investment income on endowments	23	0	0
Other investment income		1	1
Net return on pension scheme	29	0	0
		<u>1</u>	<u>1</u>

- Interest received on discretionary funds increases support funding available for HE students therefore it is not included in the College's Statement of Comprehensive Income or Cash Flow Statements.

	<u>Note</u>	<u>Year ended 31 July 2018 £000</u>	<u>Year ended 31 July 2017 £000</u>
<b>6. Staff costs</b>			
Staff costs:			
Wages and salaries		6,249	6,162
Social security costs		570	556
Other pension costs (including FRS 102 adjustment)		1,678	1,536
		<u>8,497</u>	<u>8,254</u>
Fundamental restructuring costs		4	72
		<u>8,501</u>	<u>8,326</u>
Teaching departments		4,232	3,874
Teaching and other support services		574	529
Administration and central services		3,156	3,291
Premises		535	560
		<u>8,497</u>	<u>8,254</u>
Fundamental restructuring costs		4	72
		<u>8,501</u>	<u>8,326</u>
Senior post holders emoluments:			
Salaries		299	311
		<u>299</u>	<u>311</u>
Pension contributions		46	54
		<u>46</u>	<u>54</u>
The above senior post holder emoluments include amounts payable to the Principal of:		<u>£</u>	<u>£</u>
Salaries		108,015	95,466
		<u>108,015</u>	<u>95,466</u>
Pension contributions		18,890	16,099
		<u>18,890</u>	<u>16,099</u>
Average weekly number of staff (including senior post holders) expressed as full time equivalent (excluding agency staff):		<u>No.</u>	<u>No.</u>
Teaching departments		87	89
Teaching and other support services		18	16
Administration and central services		74	82
Premises		21	21
		<u>200</u>	<u>208</u>
Remuneration of senior post holders, including the Principal (excluding employers' NI and pension contributions):			
£70,001 to £80,000		2	3
£90,001 to £100,000		0	1
£100,001 to £110,000		1	0
		<u>3</u>	<u>4</u>

- Pension contributions for senior post holders are employers' contributions to the STSS and LGPS and are paid at the same rate as for other employees.



	<u>Year ended</u> 31 July 2018 <u>£000</u>	<u>Year ended</u> 31 July 2018 <u>No.</u>	<u>Year ended</u> 31 July 2017 <u>£000</u>	<u>Year ended</u> 31 July 2017 <u>No.</u>
<b>Staff costs (continued)</b>				
Staff costs are analysed as:				
Staff on permanent contracts	7,095	167	6,523	161
Staff on temporary contracts	1,402	33	1,731	47
	<u>8,497</u>	<u>200</u>	<u>8,254</u>	<u>208</u>

## 7. Analysis of expenditure by activity

	<u>Other operating expenses</u> <u>£000</u>	<u>FE &amp; HE childcare fund</u> <u>£000</u>	<u>Depre- ciation</u> <u>£000</u>	<u>Interest &amp; other finance costs</u> <u>£000</u>	<u>Year ended</u> 31 July 2018 <u>£000</u>	<u>Year ended</u> 31 July 2017 <u>£000</u>
Teaching departments	568	156	1,176	376	2,276	2,039
Teaching and other support services	21				21	22
Administration & central services	959				959	1,046
Catering & residences	120				120	88
Premises	880				880	953
Donation to charitable trust	50				50	0
<b>TOTAL</b>	<u>2,598</u>	<u>156</u>	<u>1,176</u>	<u>376</u>	<u>4,306</u>	<u>4,148</u>

Other operating expenses include:

External auditors remuneration – audit services (including VAT)	18	17
External auditors remuneration – non audit services (including VAT)	3	2
Internal auditors remuneration – audit services (including VAT)	9	13
Operating lease rentals – land, buildings & equipment	174	189

## 8. Interest and other finance costs

	<u>Note</u>		
On loans, repayable in more than five years		150	161
Net charge on pension scheme	29	226	192
		<u>376</u>	<u>353</u>

## 9. Taxation

Neither the College nor its subsidiary company has a current or deferred liability to corporation tax in respect of the year (2017 £Nil).

	<u>Year</u> <u>ended 31</u> <u>July 2018</u> <u>£000</u>	<u>Year</u> <u>ended 31</u> <u>July 2017</u> <u>£000</u>
<b>10. Deficit for the year</b>		
The deficit for the year is comprised as follows:		
College deficit	(26)	(646)
Donation to Borders Further Education Trust	(50)	0
	<u>(76)</u>	<u>(646)</u>

#### Donation to Charitable Trust

Following the re-classification of Borders College as a public body by the ONS, the College is unable to generate and retain its own reserves for future investment. Cash backed reserves at 31 March 2014 and any future surplus generated can be donated to a charitable trust to be used in the future for the benefit of learners and potential learners at Borders College.

The Borders Further Education Trust is an independent charity approved by OSCR (Charity Number SC044668). Transactions with this body are carried out at arm's length.

#### 11. Fixed assets

	<u>Note</u>	<u>Assets</u> <u>under</u> <u>Construction</u> <u>£000</u>	<u>Land &amp;</u> <u>buildings</u> <u>£000</u>	<u>Plant &amp;</u> <u>equipment</u> <u>£000</u>	<u>TOTAL</u> <u>£000</u>
<b>Cost or valuation</b>					
As at 31 July 2017		843	29,892	2,785	33,520
Additions		1	268	499	768
Reclassifications		(843)	843	0	0
As at 31 July 2018		<u>1</u>	<u>31,003</u>	<u>3,284</u>	<u>34,288</u>
<b>Depreciation</b>					
As at 31 July 2017		0	3,215	2,426	5,641
Charge for year		0	1,017	159	1,176
Reclassifications		0	0	0	0
As at 31 July 2018		<u>0</u>	<u>4,232</u>	<u>2,585</u>	<u>6,817</u>
<b>Net book value</b>					
As at 31 July 2017		<u>843</u>	<u>26,677</u>	<u>359</u>	<u>27,879</u>
As at 31 July 2018		<u>1</u>	<u>26,771</u>	<u>699</u>	<u>27,471</u>
<b>Net book value</b>					
Inherited		0	800	0	800
Financed by govt capital grant	20	0	19,723	274	19,997
Other		1	6,248	425	6,674
As at 31 July 2018		<u>1</u>	<u>26,771</u>	<u>699</u>	<u>27,471</u>

- Land and buildings were revalued at January 2014 by Allied Surveyors Scotland plc in the capacity of independent valuer. The basis of valuation adopted was depreciated replacement cost and the valuation was made in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards. Land and buildings with a net book value of £26,579,979 have been funded from exchequer funds. These assets may not be disposed of without prior approval of the SFC.
- Plant and equipment includes assets under hire purchase and finance leases with a net book value of £Nil (2017 £Nil).

	<u>Year ended</u> <u>31 July</u> <u>2018</u> <u>£000</u>	<u>Year ended</u> <u>31 July</u> <u>2017</u> <u>£000</u>
The depreciation charge for the period is analysed as follows:		
Depreciation based on cost	1,167	1,027
Depreciation based on valuation dated January 2014	9	9
	<u>1,176</u>	<u>1,036</u>
Owned assets	1,176	1,036
Assets held under hire purchase and finance leases	0	0
	<u>1,176</u>	<u>1,036</u>

## 12. Investments (College only)

	<u>Year ended</u> <u>31 July</u> <u>2018</u> <u>£000</u>	<u>Year ended</u> <u>31 July</u> <u>2017</u> <u>£000</u>
Subsidiary company	10	0
Impairment of investment in subsidiary company	0	0
	<u>10</u>	<u>0</u>

The College owns 100% of the issued ordinary £1 shares of BC Business Consultants Limited, a company incorporated in Scotland. BC Consultants Limited ceased trading on 31 July 2010 and is dormant.

## 13. Trade & other receivables

### Amounts falling due within one year:

Trade receivables	145	92
Prepayments and accrued income	335	405
Amounts due from subsidiary undertakings	0	0
	<u>480</u>	<u>497</u>
<b>Amounts falling due after one year</b>	<u>6</u>	<u>6</u>
	<u>486</u>	<u>503</u>

## 14. Investments (assets held for resale)

Assets held for resale as at 1 August 2017	585	585
Reclassifications	0	0
Assets held for resale as at 31 July 2018	<u>585</u>	<u>585</u>

	<u>Year ended</u> <u>31 July</u> <u>2018</u> <u>£000</u>	<u>Year ended</u> <u>31 July</u> <u>2017</u> <u>£000</u>
<b>15. Cash and cash equivalents</b>		
College funds	2,448	2,596
Bursary funds	61	288
Other student support funds	13	127
Endowment funds	23 22	22
	<u>2,544</u>	<u>3,033</u>
<b>16. Creditors: amounts falling due within one year</b>		
Trade payables	58	267
Other tax and social security	59	16
Other creditors and accruals	792	1,527
HE discretionary funds	30 7	9
Bursary funds	30 61	288
Other creditors (Netherdale)	18 273	248
Other creditors (HMRC – Lennartz)	19 146	149
Deferred capital grants (Government)	20 883	850
	<u>2,279</u>	<u>3,354</u>
<b>17. Creditors: amounts falling due after more than one year</b>		
Other creditors and accruals	822	657
Other creditors (Netherdale)	18 2,774	3,047
Other creditors (HMRC – Lennartz)	19 0	146
Deferred capital grants (Government)	20 19,114	19,485
	<u>22,710</u>	<u>23,335</u>
<b>18. Other creditors (Netherdale)</b>		
Amounts falling due within one year	273	248
Amounts due after more than one year	<u>2,774</u>	<u>3,047</u>
	<u>3,047</u>	<u>3,295</u>
<b>Deferred Consideration</b>		
<p>During 2006/07 the College acquired the Scottish Borders Campus of Heriot Watt University for a consideration of £4.75m. The cost of acquiring the Campus will be repaid to the University over a 17.5 year term, commencing in April 2009, the date on which the College moved to the refurbished campus. No interest is payable on the consideration. The cost of the campus acquisition is within Land and Buildings in note 11.</p>		
<b>19. Other creditors (HMRC – Lennartz)</b>		
Amounts falling due within one year	146	149
Amounts due after more than one year	0	146
	<u>146</u>	<u>295</u>

During 2008/09 the College reached an agreement with HMRC to apply the Lennartz mechanism to the building works at Netherdale and Newtown St Boswells. The amount received from HMRC is required to be repaid to them over a ten year period.

## 20. Deferred capital grants (government)

	<u>2018</u> <u>SFC</u> <u>£000</u>	<u>2018</u> <u>Other govt</u> <u>£000</u>	<u>2018</u> <u>Total</u> <u>£000</u>	<u>2017</u> <u>Total</u> <u>£000</u>
<b>As at 1 August</b>				
Land and buildings	18,037	2,056	20,093	20,109
Equipment	242	0	242	245
	<u>18,279</u>	<u>2,056</u>	<u>20,335</u>	<u>20,354</u>
<b>Grants received in year</b>				
Land and buildings	421	0	421	660
Equipment	106	0	106	87
	<u>527</u>	<u>0</u>	<u>527</u>	<u>747</u>
<b>Released to Statement of Comprehensive Income</b>				
Land and buildings	721	71	792	676
Equipment	73	0	73	90
	<u>794</u>	<u>71</u>	<u>865</u>	<u>766</u>
<b>As at 31 July</b>				
Land and buildings	17,737	1,985	19,722	20,093
Equipment	275	0	275	242
	<u>18,012</u>	<u>1,985</u>	<u>19,997</u>	<u>20,335</u>

## 21. Other provisions

	<u>2018</u> <u>Lifecycle</u> <u>costs -</u> <u>Netherdale</u> <u>£000</u>	<u>2018</u> <u>Leasehold</u> <u>dilapidation</u> <u>£000</u>	<u>2018</u> <u>Total</u> <u>£000</u>	<u>2017</u> <u>Total</u> <u>£000</u>
As at 1 August	671	5	676	613
Released to Statement of Comprehensive Income	(95)	0	(95)	(58)
Provision for lifecycle costs - Netherdale	121	0	121	121
As at 31 July	<u>697</u>	<u>5</u>	<u>702</u>	<u>676</u>

## 22. Pension provision

	<u>Note</u>	<u>Year</u> <u>ended 31</u> <u>July 2018</u> <u>£000</u>	<u>Year</u> <u>ended 31</u> <u>July 2017</u> <u>£000</u>
<b>Scottish Borders Council Pension Fund</b>	29		
Scheme assets		22,005	18,761
Scheme liabilities		27,342	27,407
Deficit in the scheme – pension liability		<u>(5,337)</u>	<u>(8,646)</u>

## 23. Endowment Reserves

Restricted net assets relating to endowments are as follows:

George Heron Wilson Bequest	21	21
Robert Noble Trust	1	1
	<u>22</u>	<u>22</u>
Represented by:		
Cash and cash equivalents	22	22

## 24. Restricted Reserves

The restricted reserve represents the proceeds from the sale of exchequer funded assets that are being held for reinvestment in future estates' expenditure.

## 25. Unrestricted Reserves

	<u>Note</u>	<u>Year ended 31 July 2018</u> <u>£000</u>	<u>Year ended 31 July 2017</u> <u>£000</u>
General reserve		4,568	3,768
Pension reserve	29	<u>(5,337)</u>	<u>(8,645)</u>
		<u>(769)</u>	<u>(4,877)</u>

## 26. Capital and other commitments

Provision has not been made for the following capital commitments:

Commitments contracted for	1,147	273
Expenditure authorised but not yet contracted	<u>0</u>	<u>0</u>
	<u>1,147</u>	<u>273</u>

## 27. Lease obligations

Annual rental commitments under operating leases are as follows:

### Land, buildings and equipment

Leases that expire in less than one year	5	87
Leases that expire between one and five years	24	24
Leases that expire later than five years	<u>41</u>	<u>41</u>
	<u>70</u>	<u>152</u>

Future minimum operating lease payments due:

### Land, buildings and equipment

That expire in less than one year	74	152
That expire between one and five years	222	187
That expire later than five years	<u>126</u>	<u>167</u>
	<u>422</u>	<u>506</u>

## 28. Contingent liabilities

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

## 29. Pension schemes

Different categories of staff were eligible to join one of two schemes:

- Scottish Teachers' Superannuation Scheme (STSS)
- Scottish Borders Council Local Government Pension Fund (LGPS).

	<u>2018</u> <u>£000</u>	<u>2017</u> <u>£000</u>
<b>The total pension charge is analysed as follows:</b>		
STSS - contributions paid	476	496
LGPS - contributions paid	531	
LGPS – FRS 102 charge	<u>620</u>	
	1,151	989
Unfunded pensioner payments	<u>51</u>	<u>51</u>
Charge to the Statement of Comprehensive Income (staff costs)	<u>1,678</u>	<u>1,536</u>

### Scottish Teachers Superannuation Scheme

The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four yearly valuation was undertaken as at 31 March 2012. The next valuation is at 31 March 2016 and will set contribution rates from 1 April 2019.

The scheme is a multi-employer defined benefit scheme, however it is accepted under FRS 102(28) that the scheme can be treated for accounting purposes as a defined contribution scheme as the College is unable to identify its share of the underlying assets and liabilities of the scheme.

As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The employer contribution rate from 1 August 2015 was 14.9% of pensionable pay, increasing to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.

### Scottish Borders Council Local Government Pension Fund

The scheme is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014 and currently provides benefits based on career average revalued earnings. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. Contribution rates are set every three years as a result of the actuarial valuation of the fund required by the regulations. The last three yearly valuation took effect from 31 March 2017 and has set contribution rates for the period 1 April 2018 to 31 March 2021.

On the employers' withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 62 which will determine the termination contribution due by the employer, on a set of assumptions deemed appropriate by the fund actuary.

In the triennial valuation of the Fund as at 31 March 2017, the employer contribution rate was raised from 18% to 20.6%, effective from 1 August 2018. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.



## LGPS – assumptions

The financial assumptions used to calculate scheme liabilities under FRS 102 are:

	<u>As at 31 July</u> <u>2018 %p.a.</u>	<u>As at 31 July</u> <u>2017 %p.a.</u>
Price inflation (RPI)	3.35	3.6
Price inflation (CPI)	2.35	2.7
Salary increases	3.35	3.7
Pension increases	2.35	2.7
Discount rate	2.65	2.7

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on life expectancy of members at age 65.

	<u>As at 31 July</u> <u>2018</u>	<u>As at 31 July</u> <u>2017</u>
Retiring today:		
Males	21.6	22.9
Females	24.2	23.8
Retiring in 20 years:		
Males	23.4	25.2
Females	26.1	26.2

## LGPS - scheme assets and expected rate of return

The return on the fund (on a bid value to bid value basis) for the year to 31 July 2018 is estimated to be 9% (2017 15%). The actual return on the fund assets over the year may be different.

<b>Asset breakdown</b>	<u>31 July 2018</u> <u>£000</u>	<u>31 July 2017</u> <u>£000</u>
Equities	12,923	12,233
Gilts	3,193	285
Other Bonds	n/a	1,508
Property	2,998	1,345
Cash	80	94
Multi-Asset Fund	1,536	3,296
Private Credit	1,113	n/a
Infrastructure	162	n/a
<b>Total Market Value of Assets</b>	<b><u>22,005</u></b>	<b><u>18,761</u></b>

Based on the above, the College's share of the assets of the fund is approximately 3%.

## LGPS – analysis of the amount shown in the Balance Sheet

<b>Net pension asset as at</b>		
Present value of defined benefit obligation	26,608	26,602
Fair value of fund assets (bid value)	22,005	18,761
<b>Deficit</b>	<b><u>4,603</u></b>	<b><u>7,841</u></b>
Present value of unfunded obligation	734	805
<b>Net defined benefit liability</b>	<b>22 <u>5,337</u></b>	<b><u>8,646</u></b>

### LGPS – analysis of the amount charged to staff costs

Current service cost	(1,187)	(1,016)
Past service cost, including curtailments	(6)	(15)
Administration expenses	(8)	(8)
<b>Total Operating Charge</b>	<b>(1,201)</b>	<b>(1,039)</b>
Less: contributions paid	581	565
	<b>(620)</b>	<b>(474)</b>

### LGPS – analysis of the amount charged to interest payable/credited to investment income

Interest on net deficit	(226)	(192)
<b>Net return</b>	<b>(226)</b>	<b>(192)</b>

### LGPS - analysis of other comprehensive income

	Note	As at 31 July 2018	As at 31 July 2017
Return on fund assets in excess of interest		1,159	2,025
Other actuarial gains on assets		1,328	0
Change in financial assumptions		1,772	(2,351)
Change in demographic assumptions		336	0
Experience loss on defined benefit obligation		(441)	(5)
<b>Re-measurement of the net assets/(defined liability)</b>		<b>4,154</b>	<b>(331)</b>

### Movement in deficit in the year

<b>Surplus/(deficit) at start of period</b>	(8,646)	(7,649)
Current service cost	(1,186)	(1,016)
Employer contributions	581	565
Past service cost, including curtailments	(6)	(15)
Unfunded pension payments	0	0
Interest cost	(226)	(192)
Administration expenses	(8)	(8)
Gain/(loss) recognised in other comprehensive income	4,154	(331)
<b>Surplus/(deficit) at end of period</b>	<b>(5,337)</b>	<b>(8,646)</b>

### Asset and Liability Reconciliations

<b>Liabilities at start of period</b>	<b>27,408</b>	<b>23,651</b>
Service cost	1,187	1,016
Interest cost	736	612
Employee contributions	180	172
Change in financial assumptions	(1,772)	2,351
Change in demographic assumptions	(337)	0
Experience loss on defined benefit obligation	441	5
Benefits paid	(455)	(364)
Past service costs, including curtailments	6	15
Unfunded pension payments	(52)	(50)
<b>Liabilities at end of period</b>	<b>27,342</b>	<b>27,408</b>

<b>Assets at start of period</b>	<b>18,761</b>	<b>16,001</b>
Interest on assets	510	420
Return on assets less interest	1,159	2,025
Other actuarial gain	1,328	0
Administration expenses	(8)	(8)
Employer contributions	581	565
Employee contributions	180	172
Benefits paid	(506)	(414)
<b>Assets at end of period</b>	<b>22,005</b>	<b>18,761</b>

### 30a. FE bursaries and other student support funds

	<u>2017/18</u> <u>FE</u> <u>bursary</u> <u>£000</u>	<u>2017/18</u> <u>EMAs</u> <u>£000</u>	<u>2017/18</u> <u>Other</u> <u>£000</u>	<u>2017/18</u> <u>Total</u> <u>£000</u>	<u>2016/17</u> <u>Total</u> <u>£000</u>
<b>Balance b/fwd</b>	<b>373</b>	<b>(3)</b>	<b>9</b>	<b>379</b>	<b>160</b>
Allocation received in year	1,849	170	110	2,129	2,055
Expenditure	(1,660)	(180)	(150)	(1,990)	(1,681)
Repaid to funding council as clawback	(501)	0	(9)	(510)	(155)
College contribution to funds	0	0	0	0	0
Intra-region allocations	0	0	0	0	0
Virements	0	0	0	0	0
<b>Balance c/fwd</b>	<b>61</b>	<b>(13)</b>	<b>(40)</b>	<b>8</b>	<b>379</b>
<b>Represented by:</b>					
Repayable to funding council as clawback	61	0	0	61	382
Retained by college for students	0	(13)	(40)	(53)	(3)

- These grants are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

### 30b. FE & HE childcare funds

	<u>Note</u>	<u>Year</u> <u>ended 31</u> <u>July 2018</u> <u>£000</u>	<u>Year</u> <u>ended</u> <u>31 July</u> <u>2017</u> <u>£000</u>
<b>Balance b/fwd</b>		<b>36</b>	<b>17</b>
Allocation received in year		163	158
Expenditure		(156)	(122)
Virements		0	0
Funds repaid to funding council as clawback		(36)	(17)
<b>Balance c/fwd</b>		<b>7</b>	<b>36</b>
<b>Represented by:</b>			
Repayable to funding council as clawback		7	36
Retained by College for students		0	0

- FE & HE childcare fund transactions are included within the College Statement of Comprehensive Income in accordance with the Accounts Direction issued by SFC.

### 31. Related party transactions

Borders College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 and receives funding from the SFC.

Scottish Borders Council and the SFC are registered as related parties. During the year Borders College had various material transactions with these bodies and a number of other colleges and higher education institutions.

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

During the year under review, the College received £65,908 from the Robertson Trust. T Jakimciw is a member of the Scholarship Committee of the Robertson Trust. The College had no other transactions with non-public bodies in which a member of the Board has an interest and that, in aggregate, exceeded £6,000.

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

Member	Organisation	Position
A Cox	Borders FE Trust	Trustee
I Ireland	Borders FE Trust	Trustee
T Jakimciw	Colleges Scotland	Director & Trustee
B McGrath	Scottish Borders Council	Head of Economic Development & Environment
N McIlwraith	Scottish Borders Housing Association	Neighbourhood Services Manager
E McIntyre	Colleges Scotland	Director & Trustee

Organisation	Invoices issued to organisation during the period	Balance due to Borders College at year end (and included in trade receivables)
Borders FE Trust	£167,093	£4,276
Scottish Borders Council	£492,938	£1,733
Scottish Borders Housing Association	£193	£0

Organisation	Invoices received from organisation during the period	Balance due to organisation at year end (and included in creditors)
Scottish Borders Council	£161,309	£5,469
Colleges Scotland	£26,000	£0

Under FRS 102, members of senior management are classed as key management personnel as they have authority and responsibility for the planning, directing and control of the organisation. Detail of the remuneration paid to senior managers is within the Remuneration and Staff Report.

### 32. Events after the reporting period

There are no events after the reporting period that require to be disclosed.

### 33. Non-cash Budget for Depreciation

	<u>2017/18</u>	<u>2016/17</u>
	<u>£000</u>	<u>£000</u>
Deficit before other gains and losses (FE/HE SORP basis)	(76)	(646)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	311	241
Operating surplus/(deficit) on Central Government accounting basis	235	(405)

Following reclassification, colleges received additional non-cash budget to cover depreciation but this additional budget is not recognised under the SORP accounting rules. As a result, colleges show a deficit equivalent to net depreciation (where funds are spent on revenue items) in order to meet Government accounting rules and the requirement to spend the entire cash allocation.

Under the SORP, the College recorded an operating deficit of £76k for the year ended 31 July 2018. After taking into account of the Government non-cash budget, the college shows an 'adjusted' surplus of £235k on a Central Government accounting basis. This demonstrates that the college is operating sustainably within its funding allocation.

### 34. Financial Instruments

	<u>Year</u> <u>ended 31</u> <u>July 2018</u>	<u>Year</u> <u>ended</u> <u>31 July</u> <u>2017</u>
	<u>£000</u>	<u>£000</u>
<b>Financial assets</b>		
Financial assets measured at amortised cost	2,689	3,125
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	2,208	2,504

## **Appendix 1 – Scottish Funding Council accounts direction (page 1)**

### **2017/18 Accounts direction for Scotland's colleges**

- 1 It is the Scottish Funding Council's direction that colleges comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
- 2 Colleges must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).
- 3 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2017-18 (FReM) where applicable.
- 4 Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2018.
- 5 The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.
- 6 Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council  
13 July 2018