

BORDERS



COLLEGE

Report and Financial Statements

for year ended

31 July 2007

Charity Reg No. SCO21180

Head Office:
Thorniedean
House
Melrose Road
Galashiels

Borders College
Report and Financial Statements
For The Year Ended 31 July 2007

CONTENTS

	Page
Board of Management	3-4
Report of the Board of Management	5-13
Corporate Governance Statement	14-16
Responsibilities of the Board of Management	17-18
Report of the Auditors	19-20
Statement of Principal Accounting Policies	21-24
Consolidated Income and Expenditure Account	25
Consolidated Statement of Historical Cost Surpluses and Deficits	25
Statement of Total Recognised Gains and Losses	26
Balance Sheets	27
Consolidated Cash Flow Statement	28
Notes to the Accounts	29-51

Borders College

Board of Management

Year to 31 July 2007

PRINCIPAL

R B Murray (until 3 August 2006)
L McIntyre (from 14 August 2006)

CHAIR OF BOARD OF MANAGEMENT

S Dawson

CLERK TO THE BOARD OF MANAGEMENT

G R Bone (until 28 October 2006)
J W Withers (from 12 February 2007)

APPOINTED MEMBERS OF THE BOARD OF MANAGEMENT

	<u>Occupation</u>
S Dawson	Self Employed Marketing Consultant
A Aitken	Self Employed Consultant, and formerly Nursing Director & Child Health Commissioner, NHS Borders
L Alexander	Education for Work Development Officer
A Bowlas	Retired Marketing & Operations Manager, BP
H G Clarke (Until 14 September 2006)	Retired Sales and Marketing Executive
N J Howitt	Chartered Accountant, Joint Senior Partner of JRW Group, Hawick
N Sargent	Former Director, Partnership, Skills & Learning, Scottish Enterprise Borders
A Strain	Solicitor, Partner of Biggart Baillie, Edinburgh
A Wayness	Chartered Accountant, Partner of Hogg & Thorburn CA
M Wilson	Senior Farm Trader, Scotgrain Agriculture Ltd
S Rogers (From 29 March 2007)	Executive Director of Human resources, Scottish Ambulance Service
M Watson (From 29 March 2007)	Self Employed Economics Consultant

ELECTED MEMBERS OF BOARD OF MANAGEMENT

	<u>Designation</u>
C Nicholls	Staff Member (Non-teaching)
K Thomson	Staff Member (Teaching)
K McLeod	Student Representative

Borders College

College Committees

31 July 2007

APPOINTED MEMBERS OF THE FINANCE AND GENERAL PURPOSES COMMITTEE

N J Howitt, Chair
S Dawson
L Alexander
A Wayness (Until 10 May 2007)
A Strain
S Rogers (From 10 May 2007)
M Watson (From 10 May 2007)

APPOINTED MEMBERS OF THE AUDIT COMMITTEE

A Bowlas, Chair
A Aitken
M Wilson
A Wayness
J Campbell, (co-opted)

APPOINTED MEMBERS OF THE REMUNERATION COMMITTEE

S Dawson, Chair
L Alexander
A Bowlas
A Strain
A Aitken

APPOINTED MEMBERS OF THE CHAIR'S COMMITTEE

S Dawson, Chair
A Aitken
N Howitt
L Alexander
A Strain

NOMINATIONS COMMITTEE

S Dawson, Chair
A Aitken
L Alexander

Borders College

Report of the Board of Management

For The Year Ended 31 July 2007

Charity Reg No SCO21180

HISTORY OF COLLEGE

Borders College was formed in 1984 by the amalgamation of Galashiels Technical College, Henderson Technical College (Hawick), Duns Agricultural Centre and the Agricultural Centre, Newtown St Boswells. On 1 April, 1993, under the Further and Higher Education (Scotland) Act 1992, the College was transferred from the Borders Regional Council to a Body Corporate.

STATUTORY BACKGROUND

The College is one of thirty-nine Colleges of Further Education in Scotland and is governed by a Board of Management. The College is funded directly by the Scottish Funding Council (SFC) and is responsible to the Scottish Executive.

PRINCIPAL FUNCTIONS

Borders College, together with its commercial subsidiary company operates from ten sites (Galashiels, Hawick, Duns, Newtown St Boswells, Peebles, Jedburgh and Edinburgh, Kelso, Eyemouth and Ettrick Riverside) and is the sole Further Education College and major provider of training in the Scottish Borders Region. Each year there are around 9,000 student enrolments on a wide range of courses and programmes, both day and evening, to HND level and beyond, particularly in subject areas that will enable students to dovetail into local employment opportunities. The College has developed its provision in line with local needs and has extensive links with industry and commerce by way of its industrial liaison network. The College has worked closely with the Local Enterprise Company to shape its curriculum against the forecast needs of the local labour market.

MISSION STATEMENT

Board members reviewed the College's mission during 2006/07:

❖ Mission Statement:

Borders College will contribute to the economic and social development of the Scottish Borders through the provision of high quality education, training and skills which will **raise aspirations, create opportunities** and **enhance the lives** of its learners.

❖ Key Strategic Aims:

Borders College aims to be:

- Successful
- Innovative
- Well-led
- Financially Secure
- Inclusive
- An effective partner
- Well-resourced

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

SETTING HIGH STANDARDS

We are determined to build on our standards so we are continuing to benchmark ourselves against other Colleges in Scotland. We are learning, adapting and applying the relevant best practices to the College. During the year the College took part with other Scottish FE Colleges in a National Cost Benchmarking Exercise sponsored by SFC. In addition the College takes part in the Rural Colleges Benchmarking Group.

KEY BUSINESS ACHIEVEMENTS

- Appointment of New Principal in August 2006.
- Embarking on the implementation stage of major estates redevelopment programme. Two of the three Scottish Borders Campus construction projects are now underway.
- Managing change associated with implementation of the Estates Strategy through a programme entitled "Momentum".
- College identified as a model of good practice in delivery of employability skills.
- Achieved targets set by the Scottish Funding Council for student activity.
- Budget surplus set for 2006/07 has been exceeded.
- The College continues to meet its student activity levels agreed with SFC.
- Redevelopment of the current Newtown St Boswells Campus.

ECONOMIC IMPORTANCE

With operations on ten sites (either in partnership or on our own), we have a growing impact on businesses throughout the Borders and beyond. We are ourselves employers, (208 full-time equivalent employees) and therefore it is important to the Borders economy that we continue to grow. It is recognised that a strong, vibrant College is a key element in the future economic development of the Scottish Borders Region.

THE FUTURE

The Learning Environment within the Scottish Borders is changing. Borders College is the only FE College serving the region, which has the most dispersed population outwith the Highlands. There has been significant growth in community-based programmes and part-time vocational training which has been driven by the demand for learning from SMEs (small-medium enterprise) in a wide range of companies including those in the care sector and in catering, hospitality and tourism. Activity levels have more than doubled in the last ten years. Increasingly, the demand is for greater flexibility, local access to a wide portfolio of learning opportunities and workplace-based learning.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

The existing College infrastructure and estates present significant constraints on learning delivery and will not meet the future demands of learners, the majority of whom are those in employment, looking to develop and enhance their skills, or preparing for employment in SMEs across the Borders. With this in mind the College is committed to develop a new Borders College designed to sustain the provision of further and higher education in Scottish Borders and ensure that we meet current and future needs of learners.

The new Borders College will take the form of a "hub and spoke" model. The main curriculum will be delivered from the "hub", which will be situated in Galashiels at the Scottish Borders Campus and provide enhanced learning opportunities in the Borders by working in partnership with Heriot Watt University and a number of Higher Education Institutions.

The "hub" will be complemented by a new Hawick Community College and a network of outreach facilities (Spokes) in Kelso, Duns, Jedburgh, Peebles, Eyemouth, Newtown St Boswells with learning access points in a variety of small rural communities where any needs are identified. The Company will continue to operate out of their Edinburgh office. The College completed the construction of the new Landbased Centre in St Boswells October 2006.

The new Scottish Borders Campus will provide modern teaching facilities with accommodation tailored to the needs of vocational specialisms with the additional benefit of a modern central learning resource centre along with a Virtual Learning Environment which will facilitate eLearning, guidance and support and is specifically designed to support remote users. The College vision is to create a central student service point in the entrance area of the new campus at Netherdale.

PHYSICAL DEVELOPMENTS

The College has continued to develop its strategy to move to one main site co-located with Heriot-Watt University at Netherdale with community education facilities in other Borders towns. Substantial funding has been secured from SFC and the South of Scotland EU Partnership to take forward this project. The College has proceeded beyond the Scottish Funding Councils Gateway 3 stage and has commenced construction work at the Scottish Borders Campus Netherdale, in particular:

- A refurbishment programme is largely complete on the High Mill Building at the Scottish Borders Campus.
- Construction has commenced on the Technology Building which will be completed by the end of the year.
- The College has acquired a new site for the Hawick Campus.
- A new learning facility in Peebles opened in April of this year.
- The College completed the construction of a new Vocational Training Centre in Newtown St Boswells.

All other work carried out has focussed on that of a Health and Safety nature, reactive maintenance and upgrading of student and staff facilities to an acceptable standard.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

FUTURE DEVELOPMENTS

The College Board of Management has concluded that the optimum solution for the Borders is the co-location of Borders College with Heriot-Watt University at the University campus at Netherdale in Galashiels. Hawick will be served by a new community education facility.

FINANCIAL RESULTS FOR THE YEAR

The College's income has remained at £9m for the year to 31st July 2007. Salary costs have reduced slightly despite a pay award to all staff equivalent to 2.5%. The College originally set a small surplus budget for 2006-07. The surplus/deficit on continuing operations shows a surplus of £252k.

The budget for 2007-08 forecasts a small operating surplus. However the College will strive to make efficiencies in its operations and actively seek opportunities for increasing income and profitability. In so doing, it is hoped that an operating surplus (excluding exceptional items) can be achieved for the fifth consecutive year. In addition the College will continue with its strategy to eliminate the major cost drivers of a multi-site Campus.

GENERATION OF INCOME FROM OTHER SOURCES

The College generates income from activities such as consultancy, which is offset against the College's expenditure, thereby releasing funds to develop additional educational activities. The major elements of commercial activity are undertaken by BC Business Consultants Limited. This company is a wholly-owned subsidiary of the College. The company has generated a profit of £185,430 in its ninth accounting period (2005/2006 (£23,944)).

EVENTS SINCE THE END OF THE YEAR

There have been no events since the end of the year that necessitate revision of the figures included in the accounts or inclusion in a note thereto.

BOARD OF MANAGEMENT

The names of members of the Board of Management are prefixed to this report.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

APPOINTMENT OF AUDITORS

Audit Scotland is now responsible for the external audit of all colleges in the sector and Henderson Loggie has been appointed as auditors for Borders College for financial years 2006/2007 to 2010/2011. This appointment has been approved by the Board of Management. The management of the audit process is undertaken by the Audit Committee who present an annual report to the Board.

EQUAL OPPORTUNITIES AND EMPLOYMENT OF DISABLED PERSONS

Borders College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, able-bodiedness, religious belief and age. We strive vigorously to remove conditions, which place people at a disadvantage and we will actively combat discrimination. This policy will be resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy, including its Race Equality Policy, is published on the College's Internet site.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees.

DISABILITY STATEMENT

The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Act 2001.

- a) The College has appointed an Assistive Technology Co-ordinator who provides information, advice and arranges support where necessary for students with disabilities.
- b) There is a list of specialist equipment which the College can make available for use by students and a range of assistive technology is available in the Learning Centre.
- c) The admissions policy for all students is described in the College Handbook. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- d) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- e) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

- f) Counselling and welfare services are described in the College Student Handbook. This is issued to Students, as are procedures for complaints and disciplines, at induction.

RACIAL EQUALITY AND OPPORTUNITIES FOR ALL

The College promotes equality of opportunity for all and strives for good relations between people of different racial and religious backgrounds. The College produced a Racial Equality Policy in April 2003.

HEALTH AND SAFETY

All College Policies and procedures continue to be reviewed on an ongoing basis as required. Relevant health and safety information continues to be distributed to, and discussed by, the College Health and Safety Committee. Circulation of information such as copies of the Health and Safety Bulletin and Accident Report Summary includes Board of Management Members.

COSHH (Control of substances hazardous to health) assessment records and risk assessments continue to be reviewed on an ongoing basis and in many cases on an annual basis.

A summary of risk assessments carried out by the Health and Safety Officer is presented to the Health and Safety Committee.

Promotion of health awareness for staff continues with participation in the Scotland Health at Work scheme. New risk assessment activities are being carried out in the areas of noise and vibration in the workplace. This is to enable the College to fulfil its legal obligations and comply with impending changes in legislation during 2006 and 2007.

The College carried out two Health and Safety audits per teaching department during the year. In addition 100 Work Placement Health and Safety audits were completed in the year. Significant progress has been made with staff training in Health and Safety.

STAFF AND STUDENT INVOLVEMENT

The College recognises the benefits of keeping employees informed on performance and encourages suggestions for the improvement of the College's position. In particular, a Joint Consultative Committee (JCC) comprising management, members of the recognised trade unions, both teaching and support staff, has been established for this purpose. In addition periodic Core Communication Sessions are held on all sites to brief staff on current developments and receive information. The College publishes newsletters that are readily available to all staff. There is also a student representative on the governing body, supported by a sub forum for each curriculum area. Each year students are invited to give feedback to the College through enrolment, induction and learning.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

STATEMENT ON SYSTEM OF INTERNAL FINANCIAL CONTROL

We, the Board of Management are aware of the need for effective internal financial control and acknowledge our responsibility for the system for such control operated by Borders College. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal financial control is based on a framework of regular management information, financial regulations and administrative procedures including the segregation of duties.

In particular it includes:

- comprehensive budgeting systems within an annual budget which is approved by the Board of Management,
- regular (7 per annum) reviews by the Finance and General Purposes Committee of financial reports which indicate financial performance against the forecasts,
- setting targets to measure financial and other performance,
- procedures for the Board of Management to review and agree the budgets,
- clearly defined capital investment control guidelines.

Borders College has an internal audit service, the work of which concentrates on areas of key activity determined by an analysis of the areas of greatest risk and in accordance with the annual internal audit plan approved by the Board of Management. The internal auditors report to the Principal and to the Audit Committee on a regular basis and have direct access to the chairman of the Audit Committee. The internal auditors have issued a report on the adequacy, reliability and effectiveness of the College's internal control system. Our review of the effectiveness of the system of internal financial control is thus conducted through the work of the internal auditors, the Board of Management and the Audit Committee. In all cases the Auditors have reported general satisfaction with internal controls and in their Annual Report for 2006/07 stated "We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Borders College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work."

PROMPT PAYMENT TO SUPPLIERS

The College complies with the CBI prompt payment code and has a policy of paying its suppliers within 30 days of invoice on the 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 year was 12%, equivalent on an annualised basis to 42 creditor days.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

PROFESSIONAL ADVISORS

The College's professional advisors during the year to 31 July 2007 were:

External Auditors	-	Henderson Loggie, Royal Exchange, Panmure Street, Dundee
Internal Auditors	-	Scott-Moncrieff, 17 Melville Street, Edinburgh Wylie & Bisset, 168 Bath Street, Glasgow
Bankers	-	Royal Bank of Scotland, 35 Bank Street, Galashiels
Solicitors	-	Morisons, Erskine House, 68 Queen Street, Edinburgh
Project Managers	-	Gleeds, Turnberry House, 93 West George Street, Glasgow
Architects	-	Parr Architects, Elliot Street Mews, 40 Elliot Street, Glasgow

CHARITABLE AND TAXATION STATUS

The College is registered as a charity with the Inland Revenue and is not liable to Corporation Tax on its educational activities.

RELATED PARTY TRANSACTIONS

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

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

<u>Member</u>	<u>Organisation</u>	<u>Position</u>
N Sargent	Scottish Enterprise Borders	Former Director of Partnership, Skills & Learning
A Aitken L Alexander	Self-employed Consultant Galashiels Academy	Self-employed Consultant Education for Work Development Officer
J Campbell (Co-opted)	Scottish Borders Council	Director of Corporate Resources
N J Howitt	JRW Group	Senior Partner

The Board of Management of Borders College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by The Scottish Funding Council (SFC). SFC is regarded as a related party. A breakdown on income received from the Funding Council is included in Note 1.

Borders College

Report of the Board of Management (cont'd)

For The Year Ended 31 July 2007

During the year Borders College had various material transactions with SFC and with other entities for which SFC is regarded as the sponsor Department viz. A number of other colleges and higher education institutions. In addition Borders College has had a small number of material transactions with other Government Departments and other central government bodies.

On behalf of the Board of Management on 13 December 2007,

S Dawson, Chair
Board of Management
Borders College
Thorniedean House
Melrose Road,
Galashiels, TD1 2AF

Borders College

31 July 2007

Corporate Governance Statement

INTRODUCTION

The College is committed to exhibiting best practice in all aspects of Corporate Governance. The College complies fully with the provision of the Combined Code. This summary describes the manner in which the College has applied the principles set out in the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003 and Guide for College Board Members issued by the Association of Scotland's Colleges in 2006.

In the opinion of the Board, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2007.

GOVERNING BODY

The College's Board of Management is responsible for the College's strategic direction, reputation, financial wellbeing, the well being 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 its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board of Management is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that it has been in place for the year ended 31 July 2007 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board and accords with the internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group and guidance provided by the Scottish Funding Council in its Accounts Direction for Scotland's Colleges and Universities. The process applied to review the effectiveness of the system of internal control includes:

- Monitoring reports from the College's internal audit service on the effectiveness of the College's internal control system.
- Holding Board meetings where the College internal auditors facilitate discussions on the effectiveness of the system of internal control.
- Receiving reports from management on the major strategic risks faced by the College.

The College's Board of Management meets seven times a year and has a number of committees, including a Finance and General Purposes Committee, a Chair's Committee, a Nominations Committee, a Remuneration Committee and an Audit Committee. All these Committees are formally constituted with terms of reference which have been approved by the Board. They comprise mainly lay members of the Board, one of whom is the Chair.

CORPORATE STRATEGY

The Board of Management adopted a revised approach to strategic management in September 2006. This was required to plan effectively for the major capital project and relocation of the College to a new premises and to ensure improved articulation throughout the plan with national and local policy drivers. This approach has involved the following elements:

- Focused involvement of the Board of Management at a strategic planning event in November.
- Full scale college-wide staff consultation on current plans and future strategic directions.

Borders College

31 July 2007

Corporate Governance Statement (cont'd)

- Early stakeholder consultation with key partners through New Ways Partnership.
- Stakeholder consultation events with Scottish Borders Council and Scottish Enterprise Borders.
- A new approach to structuring the strategic plan around key activities, markets and policy requirements.
- A new strategic plan containing a revised mission, values and strategic aims and a new set of strategic objectives was approved by the Board of Management in June 2007.

It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Board is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed Capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues.

The Board performance appraisal system involves the Chair meeting with each member annually to discuss their objectives and training needs as added value. The College has set out in its Strategy Plan 2007-2010 how it will respond to key stakeholders throughout Scotland.

Full minutes of all meetings, except those deemed to be confidential by the Board, are available from the Clerk to the Board at:

Borders College
Thorniedean House
Melrose Road
Galashiels
TD1 2AF

RISK MANAGEMENT AND INTERNAL CONTROLS

The Clerk to the Board maintains a register of financial and personal interests of the Board members. The register is available for inspectors at the above address.

The Finance and General Purposes Committee inter alia recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets and updates of forecasts. The College has developed comprehensive financial regulations, detailing financial controls and procedures approved by the Audit Committee and Board. These regulations are currently under review and an updated set will be presented to the Audit Committee in 2007.

The Nominations Committee considers nominations for co-opted vacancies in the Board of Management membership under the relevant Statute. Members of the Board are appointed for a term of office not exceeding 4 years. The current process for appointing board members involves advertising in the local press. Return applications are considered by the Chair's Committee and a selection made. Board Members can be re-appointed for one further term of four years.

The Remuneration Committee determines the remuneration of the most senior staff, including the Principal. It also reviews redundancy terms and conditions as required. Details and remuneration for the year ended 31 July 2007 are set out in note 6 to the Financial Statements.

Borders College

31 July 2007

Corporate Governance Statement (cont'd)

The Audit Committee is responsible for agreeing the annual programme of work from the internal audit service. The Audit Committee meets five times a year, with the College's external and internal auditors in attendance as appropriate. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business and monitors adherence to the regulatory requirements. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. Times are allotted within Audit Committee meetings for auditors to meet without senior executives in attendance. A new firm, Scott Moncrieff, chartered accountants, was appointed on the 21st June 2007 as internal auditors.

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

The Senior Management Team and the Board of Management also receive regular reports from the internal auditors and from the Health and Safety Committee 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.

GOING CONCERN

The Board of Management considers that the College has adequate resources to continue in operation for the foreseeable future. This assumption is supported by detailed financial modelling into the future.

CONCLUSION

The Board of Management at its meeting on 13th December 2007 considered the College's systems of internal control and capacity to handle risk. The Board is satisfied that the College is taking appropriate steps in developing its compliance with best practice in corporate governance and is improving its systems of internal control.

On behalf of the Board of Management on 13 December 2007,

S Dawson, Chair
Board of Management
Borders College
Thorniedean House
Melrose Road,
Galashiels, TD1 2AF

Borders College

31 July 2007

Responsibilities of the Board of Management

The members of the Board of Management of the College are required to present audited financial statements for each financial period.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and the Group and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder and are presented in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable accounting standards.

Meantime, within the terms and conditions of the Financial Memorandum agreed between Scottish Funding Council (SFC) and the Board of Management of the College, the Board through the Principal, as Accounting Officer, is required to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the College and the Group and the surplus or deficit and cash flows of the group for that period.

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 on operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future.

The Board of Management have the responsibility to:

- ensure that funds from Scottish Funding Council (SFC) are used only in accordance with the Financial Memorandum with the SFC and any other conditions which SFC may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud and other irregularities;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from application of public funds by the Board are not put at risk.

Borders College

31 July 2007

Responsibilities of the Board of Management (cont'd)

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and 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.

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

Borders College

31 July 2007

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

We have audited the financial statements of Borders College for the year ended 31 July 2007 under the Further and Higher Education (Scotland) Act 1992. These comprise the Consolidated Income and Expenditure Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities or to third parties.

Respective responsibilities of the Board of Management, Principal and auditor

The Board of Management and Principal are responsible for preparing the annual report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Principal's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Report by the Board of Management is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Statement of Board Management Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Principal in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

*Henderson Loggie
Chartered Accountants &
Registered Auditor
13 December 2007*

Dundee

Borders College

Statement of Principal Accounting Policies

For the Year Ended 31 July 2007

ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: *Accounting in Further and Higher Education* and in accordance with applicable Accounting Standards. They conform to guidance published by the Scottish Funding Council. The income and expenditure shown in these financial statements is on continuing operations.

(b) Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention modified by the valuation of inherited fixed assets on acquisition.

(c) Basis of Consolidation

The consolidated financial statements include the College and its subsidiary undertaking, BC Business Consultants Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure accounts from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

The Group Financial Statements are in compliance with FRS2 'Accounting for Subsidiary Undertakings' and FRS9 'Associates and Joint Ventures'.

(d) Recognition of Income

Income from grants, contracts and other services rendered is recognised in the income and expenditure account in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. The main annual recurrent allocations from the Scottish Funding Council are recognised in the period in which they are receivable. Non-recurrent grants from the Scottish Funding Council or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the related assets. Income from specific endowments is included to the extent of the relevant expenditure incurred during the period.

(e) Bursary and Access Funds

The College administers Bursary and Access Fund grants from the Scottish Funding Council on behalf of its students. Unexpended funds are included in creditors. As the income and expenditure does not represent College funds it is excluded from the income and expenditure account. This treatment of disbursing funds as a paying agent is in accordance with FRS5 Revenue Recognition.

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2007

ACCOUNTING POLICIES (cont'd.)

- (f) Maintenance of Premises
The cost of long-term and routine corrective maintenance is charged to the income and expenditure account in the period that it is incurred.
- (g) 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.
- (h) Pension Schemes
Retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) and the Scottish Borders Council Local Government Pension Fund. These are defined benefit schemes which are externally funded, and contracted out of the State Earnings Related Pension Scheme (SERPS).

Contributions to the Teachers' Superannuation Scheme are charged to the income and expenditure 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 Local Government Pension Fund are measured using closing market values. Local Government Pension Fund 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. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the Local Government Pension Scheme.

- (i) Land and Buildings
Land and buildings inherited by the College at 1 April 1993, are stated in the balance sheet at depreciated replacement cost on the basis of a valuation on acquisition. Land and buildings acquired since incorporation are included in the balance sheet at cost. Feuhold land associated with the buildings and undeveloped feuhold land is not depreciated. New buildings are depreciated over their expected useful economic life to the College of 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 at 7.5%. 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

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2007

ACCOUNTING POLICIES (cont'd.)

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.

(j) Equipment

Equipment costing less than £10,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

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

Building improvements	7 ¹ / ₂ % per year
Motor vehicles and general equipment	25% per year
Computer equipment	25% per year
Buses	12 ¹ / ₂ % per year

Where equipment is acquired with the aid of specific 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 income and expenditure account over the expected useful economic life of the related equipment.

(k) 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 income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets. Assets held under hire purchase contracts that have the characteristics of finance leases are depreciated over their useful lives.

(l) 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.

Investments that form part of Endowment Assets are included in the balance sheet at market value.

Current asset investments are included in the balance sheet at the lower of their original cost and net realisable value.

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2007

ACCOUNTING POLICIES (cont'd.)

(m) Taxation

The College is registered under Scottish Charity Number SC 021180 and as such 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. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged to the income and expenditure account.

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

(n) 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.

(o) Deferred Taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future calculated at the rates at which is expected that tax will arise.

(p) Liquid Resources

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

(q) Stock

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

Borders College

Consolidated Income and Expenditure Account

For The Year Ended 31 July 2007

	<u>Note</u>	<u>Year Ended 31 July 2007</u>	<u>Year Ended 31 July 2006</u>
INCOME		£000	£000
Funding council grants	1	6,823	6,742
Tuition fees & education contracts	2	1,405	1,581
Other grant income	3	475	511
Other operating income	4	116	126
Investment income	5	<u>156</u>	<u>122</u>
Total Income		<u>8,975</u>	<u>9,082</u>
 EXPENDITURE			
Staff costs	6	6,310	6,391
Other operating expenses	7	2,178	2,404
Depreciation	10	170	178
Interest payable	8	<u>65</u>	<u>29</u>
Total Expenditure		<u>8,723</u>	<u>9,002</u>
 Surplus on continuing operations after depreciation of assets at valuation and before tax and exceptional item.		252	80
Provision for restructuring	22	0	(92)
Impairment Charge		<u>0</u>	<u>0</u>
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and exceptional item, and before tax.		252	(12)
 Taxation	9	<u>0</u>	<u>0</u>
Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation, Exceptional Item and Tax.		<u>252</u>	<u>(12)</u>

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

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation, Exceptional Item and Taxation		252	(12)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount.	25	44	44
Difference due to impairment of revalued assets in the year	25	<u>0</u>	<u>0</u>
Historical cost surplus/deficit for the period		<u>296</u>	<u>32</u>

Borders College

Statement of Total Recognised Gains and Losses

For the Year Ended 31 July 2007

	<u>Year</u> <u>31 July 2007</u> <u>£000</u>	<u>Year</u> <u>31 July 2006</u> <u>£000</u>
Surplus / (deficit) on continuing operations after depreciation of assets at valuation and taxation	252	(12)
Disposal / Write down of re-valued fixed assets	-	-
Release of funds from Restricted Reserve	180	-
Appreciation of endowment asset investments	1	2
Actuarial gain/(loss) in respect of Pension Scheme	<u>557</u>	<u>(635)</u>
Total recognised gains / (losses) relating to the period	<u>990</u>	<u>(645)</u>
Prior year adjustment	-	(1,267)
Total recognised gains and losses since last annual report	<u>990</u>	<u>(1,912)</u>
Reconciliation		
Opening reserves and endowments	(1,109)	803
Total Recognised Grants and Losses for the Year	<u>990</u>	<u>(1,912)</u>
Closing reserves and endowments	<u>(119)</u>	<u>(1,109)</u>

Borders College

Balance Sheets

As at 31 July 2007

	<u>Note</u>	<u>Group</u> <u>31 July</u> <u>2007</u>	<u>College</u> <u>31 July</u> <u>2007</u>	<u>Group</u> <u>31 July</u> <u>2006</u>	<u>College</u> <u>31 July</u> <u>2006</u>
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	10	10,135	10,135	2,654	2,638
Investments	11	<u>0</u>	<u>10</u>	<u>0</u>	<u>10</u>
		<u>10,135</u>	<u>10,145</u>	<u>2,654</u>	<u>2,648</u>
Endowment Assets	11	<u>23</u>	<u>23</u>	<u>22</u>	<u>22</u>
Current Assets					
Stocks	12	-	-	-	-
Debtors	13	1,764	1,818	968	1,153
Investments	14	350	350	-	-
Cash at bank and in hand	15	<u>2,969</u>	<u>2,768</u>	<u>1,905</u>	<u>1,422</u>
		5,083	4,936	2,873	2,575
Creditors: amounts falling due within one year	16	<u>(3,108)</u>	<u>(2,988)</u>	<u>(1,947)</u>	<u>(1,748)</u>
Net current assets		<u>1,975</u>	<u>1,948</u>	<u>926</u>	<u>827</u>
Total assets less current liabilities		12,133	12,116	3,602	3,497
Creditors: amounts falling due after more than one year	17	(5,144)	(5,144)	(450)	(450)
Provision for liabilities and charges	22	<u>(20)</u>	<u>0</u>	<u>(152)</u>	<u>(60)</u>
Net assets excluding pension asset/(liability)		6,969	6,972	3,000	2,987
Net pension asset/(liability)	26	<u>(2,368)</u>	<u>(1,928)</u>	<u>(2,905)</u>	<u>(2,301)</u>
Net assets including pension (liability)		<u>4,601</u>	<u>5,044</u>	<u>95</u>	<u>686</u>
Deferred capital grants	23	4,448	4,448	751	746
Endowments – specific	24	23	23	22	22
SFC designated funds	20	278	278	453	453
Reserves					
Income and expenditure account including pension reserve	25	(1,725)	(1,282)	(2,752)	(2,156)
Revaluation reserve	25	<u>1,577</u>	<u>1,577</u>	<u>1,621</u>	<u>1,621</u>
Total reserves		<u>(148)</u>	<u>295</u>	<u>(1,131)</u>	<u>(535)</u>
Total Funds		<u>4,601</u>	<u>5,044</u>	<u>95</u>	<u>686</u>

The financial statements on pages 21 to 51 were approved by the Board of Management on 13 December 2007 and signed on its behalf by:

S Dawson - Chair
L McIntyre - Principal

Borders College

Consolidated Cash Flow Statement

For The Year Ended 31 July 2007

	Note	<u>Year</u> <u>Ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>
Cash flow from operating activities	31	139	(827)
Returns on investments and servicing of finance	32	126	88
Capital expenditure and financial investment	32	855	221
Management of liquid resources	32	0	0
Financing	32	(56)	(56)
Increase/(Decrease) in Cash in the Period		<u>1,064</u>	<u>(574)</u>
 Reconciliation of Net Cash Flow to Movement in Net Debt (Note 33)			
Increase / (Decrease) in cash		1,064	(574)
Increase in endowment asset investments		1	1
Cash (outflow)/inflow from unsecured loan		39	39
Cash (outflow) / inflow from liquid resources		0	0
Cash outflow on hire purchase and finance leases		<u>17</u>	<u>17</u>
Change in net debt resulting from cash flows		1,121	(517)
New hire purchase and finance leases		<u>-</u>	<u>-</u>
Movement in net debt in the period		1,121	(517)
Net debt at 31 July 2006		<u>1,420</u>	<u>1,937</u>
Net debt at 31 July 2007		<u>2,541</u>	<u>1,420</u>

Borders College

Notes to the Accounts

For the Year Ended 31 July 2007

	<u>Year Ended</u> <u>31 July 2007</u>	<u>Year Ended</u> <u>31 July 2006</u>
1. SFC GRANTS	£000	£000
SFC Recurrent Grant (Including FEE Waiver)	6,407	5,852
Financial Security	0	246
Estates Grants	3	60
Capital Grant	0	0
Strategic Initiatives grant / Widening Access funds	205	162
CPD / Quality funding	0	56
FE Childcare Fund	72	97
Funding for increased STSS Contributions	77	103
Release of deferred capital grants (Note 23a)	30	140
Release from designated fund (Note 20)	<u>29</u>	<u>26</u>
	<u>6,823</u>	<u>6,742</u>
Bursary and Hardship Funds are accounted for in Note 30		
2. TUITION FEES & EDUCATION CONTRACTS		
Higher Education – Home & EU	203	205
Further Education fees - UK	<u>334</u>	<u>338</u>
	537	543
Further Education fees - EU	0	0
Further Education fees – Non-EU	0	0
Education contracts	<u>868</u>	<u>1,038</u>
	<u>1,405</u>	<u>1,581</u>
3. OTHER GRANT INCOME		
Release of deferred capital grants – non SFC (Note 23a)	15	8
European Union funds	383	420
Other grants & contracts	<u>77</u>	<u>83</u>
	<u>475</u>	<u>511</u>
4. OTHER OPERATING INCOME		
Exam & registration fees	1	3
Income from academic departments	56	39
Sundry income	55	83
Hire of accommodation & equipment	<u>4</u>	<u>1</u>
	<u>116</u>	<u>126</u>

As catering operations are managed for the College by an external agency, catering income has been excluded from the accounts.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

		<u>Year Ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>
5. INVESTMENT INCOME			
<u>Interest Receivable</u>			
Endowment income	(Note 24)	0	0
Other funds		156	117
Net return on pension assets		<u>0</u>	<u>5</u>
		<u>156</u>	<u>122</u>
<u>Access funds</u>	(Note 30)	<u>1</u>	<u>0</u>

Interest received on Access Funds increases support funding available for H.E. students. Therefore it is not included in the College's income and expenditure account or cash flow statements.

6. STAFF COSTS

Employee Numbers

The average weekly number of persons (including senior post-holders) employed by the College during the period, expressed as full-time equivalents was:

	<u>Number</u>	<u>Number</u>
Teaching departments	104	89
Teaching and other support services	16	27
Administration and central services	75	80
Premises	<u>13</u>	<u>13</u>
	<u>208</u>	<u>209</u>

The above figures exclude agents' staff

Staff costs for the above persons	<u>£000</u>	<u>£000</u>
Wages and salaries	5,306	5,251
Social security costs	384	387
Other pension costs (including FRS 17 adjustment)	620	753
Exceptional Restructuring costs	<u>0</u>	<u>0</u>
	<u>6,310</u>	<u>6,391</u>
Teaching departments	3,606	3,271
Teaching and other support services	238	570
Administration and central services	2,218	2,320
Premises	<u>248</u>	<u>230</u>
Total	<u>6,310</u>	<u>6,391</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

6. STAFF COSTS (cont'd.)

Staff costs are analysed as

	<u>Year Ended</u> <u>31 July 2007</u> <u>£000</u>	<u>Year Ended</u> <u>31 July</u> <u>2007</u> <u>Number</u>	<u>Year Ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>Year Ended</u> <u>31 July</u> <u>2006</u> <u>Number</u>
Staff on permanent contracts	5,125	159	5,130	160
Staff on temporary contracts	<u>1,185</u>	<u>49</u>	<u>1,261</u>	<u>49</u>
	<u>6,310</u>	<u>208</u>	<u>6,391</u>	<u>209</u>

Senior Post-holders

The number of staff, including senior post-holders and the Principal, who received emoluments (excluding pension contributions and employers national insurance) in the following ranges was:

<u>Per Annum</u>	<u>Year Ended</u> <u>31 July</u> <u>2007</u> <u>Number</u>	<u>Year Ended</u> <u>31 July</u> <u>2006</u> <u>Number</u>
£50,001 to £60,000	2	2
£70,001 to £80,000	1	0
£80,001 to £90,000	<u>0</u>	<u>1</u>
	<u>3</u>	<u>3</u>

Senior post-holders received a pay award of 2½% during 2006-07. This pay award was in line with general pay awards. No bonuses or other salary enhancements were awarded to senior post-holders or other higher paid staff. Pay awards for 2007-08 were being negotiated for all three staff negotiating groups at 31 July 2007.

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

	<u>Year</u> <u>Ended</u> <u>31 July 2007</u> <u>£</u>	<u>Year</u> <u>Ended</u> <u>31 July 2006</u> <u>£</u>
Salary	77,079	80,162
Benefits in kind	<u>0</u>	<u>0</u>
	<u>77,079</u>	<u>80,162</u>
Pension contribution	<u>9,901</u>	<u>10,020</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employers' contributions to the Scottish Teachers Superannuation Scheme and Local Government Superannuation Scheme and are paid at the same rate as for other employees. Other than the Principal, no member of the Board of Management received any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

7. ANALYSIS OF EXPENDITURE

	<u>Other Operating Expenses</u>	<u>Depreciation</u>	<u>Interest Payable</u>	<u>Year Ended 31 July 2007 £000</u>	<u>Year Ended 31 July 2006 £000</u>
	£000	£000	£000		
Teaching departments	537	170	65	772	900
Teaching and other support services	20	0	0	20	19
Administration & central services	945	0	0	945	918
Catering	22	0	0	22	30
Premises	<u>654</u>	<u>0</u>	<u>0</u>	<u>654</u>	<u>744</u>
TOTAL	<u>2,178</u>	<u>170</u>	<u>65</u>	<u>2,413</u>	<u>2,611</u>

<u>Year Ended</u>	<u>Year Ended</u>
<u>31 July 2007</u>	<u>31 July 2006</u>

Other operating expenses include:

	<u>£000</u>	<u>£000</u>
Auditors remuneration, including irrecoverable VAT	20	17
- external audit – audit services*	15	16
- internal audit – audit services	21	4
- external audit – other services	0	2
- internal audit – other services	96	86
Hire of land, buildings and equipment – operating leases		
*includes £17,466 in respect of College (2006: £15,155)		

8. INTEREST PAYABLE

	<u>Year Ended 31 July 2007 £000</u>	<u>Year Ended 31 July 2006 £000</u>
On loans, repayable in more than five years	30	28
On hire purchase and finance leases	-	1
Net return on pension asset	<u>35</u>	-
	<u>65</u>	<u>29</u>

9. TAXATION

Neither the College nor its subsidiary company has a current or deferred liability to corporation tax in respect of the period (2006: £nil).

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

10a. TANGIBLE FIXED ASSETS (Group)

Cost or valuation	<u>Assets under Construction</u>	<u>Land & Buildings</u>	<u>Plant & Equipment</u>	<u>TOTAL</u>
	£000	£000	£000	£000
As at 1 August 2006	537	1,842	2,809	5,188
Additions	7,629	0	36	7,665
Reclassifications	(551)	506	45	0
Disposals	—	—	(32)	(32)
As at 31 July 2007	<u>7,615</u>	<u>2,348</u>	<u>2,858</u>	<u>12,821</u>
 Depreciation				
As at 1 August 2006	-	92	2,442	2,534
Charge for 12 months	-	52	118	170
Disposals	—	—	(18)	(18)
As at 31 July 2007	<u>—</u>	<u>144</u>	<u>2,542</u>	<u>2,686</u>
 Net book value				
As at 31 July 2006	<u>537</u>	<u>1,750</u>	<u>367</u>	<u>2,654</u>
As at 31 July 2007	<u>7,615</u>	<u>2,204</u>	<u>316</u>	<u>10,135</u>

	<u>Assets under Construction</u>	<u>Land & Buildings</u>	<u>Plant & Equipment</u>	<u>TOTAL</u>
	£000	£000	£000	£000
Net book value				
Inherited (Note 25)	-	1,577	-	1,577
Financed by capital grant	2,865	321	93	3,279
Other	<u>4,750</u>	<u>306</u>	<u>223</u>	<u>5,279</u>
As at 31 July 2007	<u>7,615</u>	<u>2,204</u>	<u>316</u>	<u>10,135</u>

Inherited Land and Buildings were inherited by the College at 1 April 1993 and are accounted for at depreciated replacement cost on the basis of a valuation on acquisition. If inherited land and buildings had not been valued they would have been included at Nil Value. Land and buildings with a net book value of £3,616,000 have been funded from Exchequer funds. These assets may not be disposed of without the prior approval of The Scottish Funding Council.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

10b. TANGIBLE FIXED ASSETS (College)

Cost or valuation	<u>Assets under Construction</u>	<u>Land & Buildings</u>	<u>Plant & Equipment</u>	<u>TOTAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
As at 1 August 2006	537	1,842	2,747	5,126
Additions	7,629	0	36	7,665
Reclassifications	(551)	506	45	0
Disposals	-	-	-	-
As at 31 July 2007	<u>7,615</u>	<u>2,348</u>	<u>2,828</u>	<u>12,791</u>

Depreciation

As at 1 August 2006	-	92	2,396	2,488
Charge for Year	-	52	116	168
Disposals	-	-	-	-
As at 31 July 2007	<u>-</u>	<u>144</u>	<u>2,512</u>	<u>2,656</u>

Net book value

As at 31 July 2006	<u>537</u>	<u>1,750</u>	<u>351</u>	<u>2,638</u>
As at 31 July 2007	<u>7,615</u>	<u>2,204</u>	<u>316</u>	<u>10,135</u>

	<u>Assets under Construction</u>	<u>Land & Buildings</u>	<u>Plant & Equipment</u>	<u>TOTAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Inherited (Note 25)	-	1,577	-	1,577
Financed by capital grant	2,865	321	93	3,279
Other	<u>4,750</u>	<u>306</u>	<u>223</u>	<u>5,279</u>
As at 31 July 2007	<u>7,615</u>	<u>2,204</u>	<u>316</u>	<u>10,135</u>

10c. TANGIBLE FIXED ASSETS (cont'd.) (Group & College)

Plant and equipment includes assets under hire purchase and finance leases with a net book value of £NIL (2006 £25,150).

The depreciation charge for the period is analysed as follows:

	<u>Year Ended 31 July 2007</u>	<u>Year Ended 31 July 2006</u>
	<u>£000</u>	<u>£000</u>
Depreciation based on cost	126	134
Depreciation based on valuation on acquisition	44	44
	<u>170</u>	<u>178</u>
Owned assets	170	160
Assets held under hire purchase and finance leases	0	18
	<u>170</u>	<u>178</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

11a. INVESTMENTS	<u>College</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2006</u> <u>£000</u>
Subsidiary company	<u>10</u>	<u>10</u>

The College owns 100% of the issued ordinary £1 shares of BC Business Consultants Limited, a company incorporated in Scotland. The principal business activity of BC Business Consultants Limited is carrying out training of employees on behalf of their employers.

11b. ENDOWMENT ASSETS (Group & College)	<u>Year</u> <u>Ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>
Balance at 1 August 2006	22	21
Increase in cash balances	<u>1</u>	<u>1</u>
Balance at 31 July 2007	<u>23</u>	<u>22</u>
Represented by: cash balances	<u>23</u>	<u>22</u>

	<u>Group</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Group</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2006</u> <u>£000</u>
12. STOCKS				
Stocks for resale	=	=	=	=
13. DEBTORS: Amounts falling due within one year				
Trade debtors	833	817	492	413
EU debtors	618	541	165	165
Prepayments & accrued income	299	237	282	205
Amounts owed by subsidiary undertakings	<u>-</u>	<u>209</u>	<u>-</u>	<u>341</u>
	1,750	1,804	939	1,124
Amounts falling due after one year	<u>14</u>	<u>14</u>	<u>29</u>	<u>29</u>
	<u>1,764</u>	<u>1,818</u>	<u>968</u>	<u>1,153</u>
14. Investments				
Assets held for resale	<u>350</u>	<u>350</u>	<u>0</u>	<u>0</u>
15. Cash at Bank and In Hand				
College Funds	2,927	2,726	1,740	1,257
Restricted Bursary	33	33	157	157
Student Support Funds	<u>9</u>	<u>9</u>	<u>8</u>	<u>8</u>
	<u>2,969</u>	<u>2,768</u>	<u>1,905</u>	<u>1,422</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

	<u>Group</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Group</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2006</u> <u>£000</u>
16. CREDITORS: Amounts falling due within one year				
Trade creditors	747	741	226	202
Other tax & social security	103	73	137	104
Loans (Note 18)	39	39	39	39
Financial Security grant	265	265	130	130
Hire purchase & finance leases (Note 21)	18	18	17	17
Other creditors & accruals	1,915	1,831	1,270	1,128
SFC claw-back of funds	-	-	-	-
Hardship funds (Note 30)	9	9	8	8
Bursary funds (Note 30)	12	12	120	120
Amounts owed to subsidiary undertakings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>3,108</u>	<u>2,988</u>	<u>1,947</u>	<u>1,748</u>
	<u>Group</u> <u>31 July</u> <u>2007</u>	<u>College</u> <u>31 July</u> <u>2007</u>	<u>Group</u> <u>31 July</u> <u>2006</u>	<u>College</u> <u>31 July</u> <u>2006</u>
17. CREDITORS: Amounts falling due after more than one year (Group & College)				
Bank loans (Note 18)	394	394	433	433
Financial Security Grant – restricted reserve	-	-	-	-
Hire purchase and finance leases (Note 21)	-	-	17	17
Other Creditor (Netherdale) (Note 19)	<u>4,750</u>	<u>4,750</u>	<u>0</u>	<u>0</u>
	<u>5,144</u>	<u>5,144</u>	<u>450</u>	<u>450</u>
18. LOANS (Group & College)		<u>Group & College</u> <u>31 July 2007</u> <u>£000</u>	<u>Group & College</u> <u>31 July 2006</u> <u>£000</u>	
Within one year		39	39	
Between one and two years		39	39	
Between two and five years		118	118	
In more than five years		<u>237</u>	<u>276</u>	
		<u>433</u>	<u>472</u>	

Bank bridging loans totalling £590,000 were replaced by a term loan in May 2003, repayable over 15 years. Interest is charged at L.I.B.O.R. plus 1%. The loans are unsecured.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

19. Other creditor (Netherdale)	<u>Group & College</u> <u>31 July 2007</u> £000
Less 1 year	0
More than 1 year	<u>4,750</u>

DEFERRED CONSIDERATION

During the year 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 year term, commencing in October 2008, the date on which the College will move to the refurbished campus. No interest is payable on the consideration. The cost of the campus acquisition is within Assets under Construction additions in note 10.

20. DESIGNATED FUNDS (Group and College)	<u>Group & College</u> <u>2007</u> £000	<u>Group & College</u> <u>2006</u> £000
<u>Sale of Exchequer-funded Assets</u>		
Balance b/fwd at 1 August	180	180
Received in year, from sale of building in Duns	-	-
Expenditure in year	<u>180</u>	<u>-</u>
Balance c/fwd at 31 July	<u>0</u>	<u>180</u>
 <u>Bursary Reserve</u>		
Balance b/fwd at 1 August	273	193
Received in year	34	106
Expenditure in year	<u>(29)</u>	<u>(26)</u>
Balance c/fwd at 31 July	<u>278</u>	<u>273</u>
 Total SFC Designated Funds	 <u>278</u>	 <u>453</u>

	<u>Group & College</u> <u>31 July 2007</u> £000	<u>Group & College</u> <u>31 July 2006</u> £000
21. HIRE PURCHASE AND FINANCE LEASES (Group & College)		
The net obligations payable to which the College is committed are as follows:		
Within one year	18	17
Between one and two years	-	17
Between two and five years	<u>-</u>	<u>1</u>
	<u>18</u>	<u>35</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

	<u>Group</u>	<u>College</u>	<u>Group</u>	<u>College</u>
	<u>31 July</u>	<u>31 July</u>	<u>31 July</u>	<u>31 July</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
22. PROVISION FOR LIABILITIES AND CHARGES				
(Group & College)				
<u>Provision for restructuring</u>				
As at 1 August	0	0	0	0
Transferred from I & E in the year	0	0	0	0
Provision for principal's retirement made in year	0	0	60	60
Provision for restructuring made in year	0	0	92	0
Provision for dilapidation – Edinburgh Lease	<u>20</u>	<u>0</u>	<u>0</u>	<u>0</u>
As at 31 July	<u>20</u>	<u>0</u>	<u>152</u>	<u>60</u>

23a. DEFERRED CAPITAL GRANTS (Group)

	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>
	<u>SFC</u>	<u>Other</u>	<u>TOTAL</u>	<u>TOTAL</u>
	<u>£000</u>	<u>Grants</u>	<u>£000</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>As at 1 August</u>				
Land and buildings (Restated)	599	123	722	285
Equipment	<u>24</u>	<u>5</u>	<u>29</u>	<u>29</u>
	<u>623</u>	<u>128</u>	<u>751</u>	<u>314</u>
<u>Grants received in period</u>				
Land and buildings	3,090	575	3,665	562
Equipment	<u>64</u>	<u>17</u>	<u>81</u>	<u>23</u>
	<u>3,154</u>	<u>592</u>	<u>3,746</u>	<u>585</u>
<u>Released to income and expenditure account</u>				
Land and buildings	20	12	32	124
Due to impairment of grant funded land and buildings	-	-	-	-
Equipment	<u>10</u>	<u>7</u>	<u>17</u>	<u>24</u>
	<u>30</u>	<u>19</u>	<u>49</u>	<u>148</u>
<u>As at 31 July</u>				
Land and buildings	3,669	686	4,355	723
Equipment	<u>78</u>	<u>15</u>	<u>93</u>	<u>28</u>
	<u>3,747</u>	<u>701</u>	<u>4,448</u>	<u>751</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

23b. Deferred Capital Grants (College)	<u>2007</u> <u>SFC</u>	<u>2007</u> <u>Other</u> <u>Grants</u>	<u>2007</u> <u>TOTAL</u>	<u>2006</u> <u>TOTAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>As at 1 August</u>				
Land and buildings (Restated)	599	123	722	284
Equipment	<u>24</u>	<u>0</u>	<u>24</u>	<u>19</u>
	<u>623</u>	<u>123</u>	<u>746</u>	<u>303</u>
<u>Grants received in period</u>				
Land and buildings	3,090	575	3,665	562
Equipment	<u>64</u>	<u>17</u>	<u>81</u>	<u>23</u>
	<u>3,154</u>	<u>592</u>	<u>3,746</u>	<u>585</u>
<u>Released to income and expenditure account</u>				
Land and buildings	20	12	32	124
Due to impairment of grant funded land and buildings	-	-	-	-
Equipment	<u>10</u>	<u>2</u>	<u>12</u>	<u>18</u>
	<u>30</u>	<u>14</u>	<u>44</u>	<u>142</u>
<u>As at 31 July</u>				
Land and buildings	3,669	686	4,355	722
Equipment	<u>78</u>	<u>15</u>	<u>93</u>	<u>24</u>
	<u>3,747</u>	<u>701</u>	<u>4,448</u>	<u>746</u>

24. ENDOWMENTS – SPECIFIC (Group & College)	<u>Year Ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Year Ended</u> <u>31 July 2006</u> <u>£000</u>
As at 1 August 2006	22	21
Income for period	1	1
Transfer to income and expenditure account	<u>0</u>	<u>0</u>
At 31 July 2007	<u>23</u>	<u>22</u>
Representing prize funds	<u>23</u>	<u>22</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

25. RESERVES

<u>Income and expenditure account reserve</u>	<u>Group</u>	<u>College</u>	<u>Group</u>	<u>College</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
As at 1 August	(2,758)	(2,162)	(2,156)	(1,819)
College's surplus for the period	252	252	13	13
Deficit generated by subsidiary undertaking			(24)	
Release of Funds from Restricted Reserve	180	180	0	0
Actuarial gains/(losses) in respect of pension.	557	404	(635)	(400)
Transfer from revaluation reserve	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>
At 31 July	<u>(1,725)</u>	<u>(1,282)</u>	<u>(2,758)</u>	<u>(2,162)</u>
Income and Expenditure account excluding pension reserve	643	646	147	139
Pension Reserve	<u>(2,368)</u>	<u>(1,928)</u>	<u>(2,905)</u>	<u>(2,301)</u>
Income and Expenditure account including pension reserve	<u>(1,725)</u>	<u>(1,282)</u>	<u>(2,758)</u>	<u>(2,162)</u>

Revaluation Reserve

	<u>Group and College</u>	<u>Group and College</u>
	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
As at 1 August 2006	1,621	1,665
Release of revaluation reserve in respect of depreciation on inherited land and buildings	(44)	(44)
Release of revaluation reserve in respect of impairment of inherited land and buildings	-	-
Release of revaluation reserve in respect of disposal of property	-	-
At 31 July 2007	<u>1,577</u>	<u>1,621</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS

Two pension schemes have members drawn from the employees of the College. These pension schemes are The Scottish Teachers' Superannuation Scheme (STSS) and the Scottish Borders Council Local Government Pension Fund (LGPS) and are both of the defined benefit type. The Teachers Scheme is a notional fund regulated by the Government actuary. The Council Scheme is administered by Scottish Borders Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 as amended. The latest available actuarial valuation for the Teachers Scheme was at 31 March 2001. The Scheme was valued at 31 March 2005. A full report has not yet been made available. The latest formal valuation of the Council Scheme was at 31 March 2005 with the next formal valuation due as at 31 March 2008. In order to assess the actuarial value of the Fund's liabilities as at 31 July 2007 the actuaries have rolled forward the actuarial value of the liabilities as recorded as at 31 March 2005, allowing for changes in financial assumptions reported.

Method of Valuation

The valuation method used by the actuaries for the scheme is as follows:

Council Scheme

Projected Unit Method

FRS17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the Scottish Teachers Superannuation Scheme is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme.

Total Pension Cost for the Year

The total pension charge in the financial statements reflects the Costs incurred by the group during the year of £778,000 (2006-£660,000)

Group 31 July 2007 £000	Group 31 July 2006 £000
----------------------------------	----------------------------------

The Total Pension charge is analysed as follows:

Scottish Teachers Superannuation Scheme (STSS)	303	248
Scottish Borders Council Local Government Pension Scheme (LGPS)	<u>475</u>	<u>412</u>
	<u>778</u>	<u>660</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS (cont'd)

The pension costs are assessed in accordance with advice of independent qualified actuaries using the projected unit method. The latest actuaries valuation of the Scottish Borders Council Local Government Pension Scheme was as at 31st March 2005.

In accordance with FRS17 'Retirement Benefits' the total pension charge disclosed for Scottish Borders Council Local Government Pension Scheme is the current service cost which represent the increase in the present value of the scheme's liabilities expected to arise from employee service in the current year. In addition the SBC Pension Scheme cost includes past service cost and NET return.

**Local Government
Pension Scheme
Financial Assumptions –
LGPS Scheme**

	<u>Council Scheme Projected Unit Method Year Ended 31.07.07</u>	<u>Council Scheme Projected Unit Method Year ended 31.07.06</u>	<u>Council Scheme Projected Unit Method Year ended 31.07.05</u>	<u>Council Scheme Projected Unit Method Year ended 31.07.04</u>	<u>Council Scheme Projected Unit Method Year ended 31.07.03</u>
Price Inflation per annum	3.5%	3.2%	2.7%	2.9%	2.6%
Salary scale increases per annum	5.0%	4.7%	4.2%	4.4%	4.1%
Real salary increase	1.5%	1.5%	1.5%	1.5%	1.5%
Pension increases per annum	3.5%	3.2%	2.7%	2.9%	2.6%
Investment returns per annum	See below	See below	See below	See below	See below
Discount rate applied to scheme's liabilities	5.8%	5.1%	4.9%	5.8%	5.5%
Real discount rate	2.2%	1.8%	2.1%	2.8%	2.8%

The assumptions adopted for the Council Scheme (above) are based on a set of demographic assumptions that have been updated from those used for the normal funding valuation of the LGPS as at 31 March 2005.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS (cont'd)

The assets in the scheme (of which the College's share is estimated at 1.5%) and the expected rate of returns were:

Asset Value and Expected Return on Assets – Council Scheme (College)

<u>Assets</u> <u>(Employer)</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2007</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2006</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2005</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2005</u> <u>£000</u>
Equities	7.4%	3497	7.5%	3,103	7.5%	2,505
Gilts	4.8%	305	4.4%	257	4.5%	298
Other Bonds	5.8%	349	5.1%	372	5.3%	326
Property	6.9%	370	7.0%	293	7.0%	249
Cash	5.8%	101	4.5%	86	4.3%	95
Total Market Value of Assets	7.0%	4,623	7.0%	4,111	6.9%	3,473
Net Pension Asset as at		<u>31 July</u> <u>2007</u>		<u>31 July</u> <u>2006</u>		<u>31 July</u> <u>2005</u>
College's estimated asset share (A)		4,623		4,111		3,473
Present Value of Funded liabilities		(5,763)		(5,596)		(4,654)
Present Value of Unfunded Liabilities		(790)		(817)		(722)
Total Value of Liabilities (B)		(6553)		(6,413)		(5,376)
Net Pension Asset (A) – (B)		<u>(1930)</u>		<u>(2,302)</u>		<u>(1,903)</u>

Asset Value and Expected Return on Assets (BC Consultants)

<u>Assets</u> <u>(Employer)</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2007</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2006</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2005</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July</u> <u>2005</u> <u>£000</u>
Equities	7.4%	1,468	7.5%	1,282	7.5%	937
Gilts	4.8%	128	4.4%	106	4.5%	111
Other Bonds	5.8%	147	5.1%	154	5.3%	122
Property	6.9%	155	7.0%	121	7.0%	93
Cash	5.8%	42	4.5%	35	4.3%	36
Total	7.0%	1940	7.0%	1,699	6.9%	1,300

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS (cont'd)

Net Pension Assets as at	<u>31 July</u> <u>2007</u> <u>£000</u>	<u>31 July</u> <u>2006</u> <u>£000</u>	<u>31 July</u> <u>2005</u> <u>£000</u>
BC Consultants Company's Estimated Asset Share (A)	1,941	1,699	1,300
Present Value of Funded liabilities	(2,384)	(2,303)	(1,637)
Present Value of Unfunded liabilities	0	0	0
Total Value of Liabilities (B)	(2,384)	(2,303)	(1,637)
Net Pension Asset (A)-(B)	<u>(443)</u>	<u>(604)</u>	<u>(337)</u>

Financial Reporting Standard 17 – Retirement Benefits

Analysis of amount charged to Staff Costs

	<u>Borders</u> <u>College</u> <u>Year ended</u> <u>31 July 2007</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year ended</u> <u>31 July 2006</u> <u>£000</u>	<u>BC</u> <u>Consultants</u> <u>Year ended</u> <u>31 July 2007</u> <u>£000</u>	<u>BC</u> <u>Consultants</u> <u>Year ended</u> <u>31 July 2006</u> <u>£000</u>
Current Service Cost	(301)	(258)	(156)	(154)
Curtailment and settlements	0	0	(49)	(5)
Past Service Cost	<u>26</u>	<u>0</u>	<u>40</u>	<u>0</u>
Total operating charge	(275)	(258)	(165)	(159)
Less: Contributions Paid	<u>234</u>	<u>214</u>	<u>173</u>	<u>125</u>
Pension Costs Less Contributions Payable	<u>(41)</u>	<u>(44)</u>	<u>8</u>	<u>(34)</u>

Analysis of Amount Credited to Other Finance Income

Expected Return on Pension Scheme Assets	297	239	124	96
Interest on Pension Liabilities	<u>(335)</u>	<u>(236)</u>	<u>(121)</u>	<u>(94)</u>
Net Return	<u>(38)</u>	<u>3</u>	<u>3</u>	<u>2</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS (cont'd)

Financial Reporting Standard 17 – Retirement Benefits

Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)

The following amounts would be recognised in the STRGL:

	<u>Borders College Year ended 31 July 2007 £000</u>	<u>Borders College Year ended 31 July 2006 £000</u>	<u>BC Consultants Year ended 31 July 2007 £000</u>	<u>BC Consultants Year ended 31 July 2006 £000</u>
Actual return less expected return on assets	(66)	315	(28)	126
Experience gains / (losses) on liabilities	0	(288)	0	(174)
Change in assumptions underlying present value of scheme liabilities	<u>470</u>	<u>(427)</u>	<u>180</u>	<u>(187)</u>
Actuarial gain / (loss) recognised in the STRGL	<u>404</u>	<u>(400)</u>	<u>153</u>	<u>(235)</u>

Movement in deficit in the year

The movement in deficit in the year was as follows:

	<u>Borders College Year ended 31 July 2007 £000</u>	<u>Borders College Year ended 31 July 2006 £000</u>	<u>BC Consultants Year ended 31 July 2007 £000</u>	<u>BC Consultants Year ended 31 July 2006 £000</u>
Surplus / (deficit) at 1 August 2006	(2,302)	(1,902)	(605)	(338)
Current service cost	(301)	(258)	(156)	(154)
Employer contributions	234	214	173	125
Impact of settlements and curtailments	0	0	(49)	(5)
Past Service Cost	26	0	40	0
Unfunded pension payments	48	41	0	0
Net return on assets	(38)	3	3	2
Actuarial gains / (losses)	<u>404</u>	<u>(400)</u>	<u>153</u>	<u>(235)</u>
Surplus / (deficit) at 31 July 2007	<u>(1,929)</u>	<u>(2,302)</u>	<u>(441)</u>	<u>(605)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

26. PENSION COMMITMENTS (cont'd)

Financial Reporting Standard 17 – Retirement Benefits

History of actuarial gains / (losses)

Actuarial gains and losses over the year were as follows:

	<u>Borders</u> <u>College</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2003</u> <u>£000</u>	<u>BCC</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>BCC</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>BCC</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>BCC</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>BCC</u> <u>Year</u> <u>ended</u> <u>31 July</u> <u>2003</u> <u>£000</u>
Actual return less expected return on assets	(66)	315	266	29	(101)	(28)	126	97	10	(12)
Value of assets	4,623	4,111	3,473	2,756	2,344	1,941	1,699	1,300	971	748
Return as a percentage of year end Fund assets	(1.4%)	7.7%	8.0%	1.0%	(4.3%)	(1.4%)	7.4%	7.0%	1.0%	(1.6%)
Experience gains / (losses) on liabilities	-	(289)	-	(289)	(638)	-	(175)	0	0	(92)
Present value of liabilities	6,553	6,414	5,375	4,365	3,880	2,384	2,304	1,638	1,231	999
Percentage of the present value of liabilities	-	(4.5%)	0.0%	(1.1%)	(16.4%)	-	(7.6%)	0.0%	0%	(9.2%)
Actuarial gain / (losses) recognised in the STRGL	404	(400)	(262)	(25)	(1214)	153	(235)	(70)	8	(265)
Present value of liabilities	6,553	6,414	5,375	4,365	3,880	2,384	2,304	1,638	1,231	999
Percentage of the present value of liabilities	6.2%	(6.2%)	(4.9%)	(0.6%)	(31.3%)	6.4%	(10.2%)	(4.3%)	0.6%	(26.5%)

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

27. CAPITAL COMMITMENTS	<u>31 July 2007</u>	<u>31 July 2006</u>
	£000	£000
Outstanding capital commitments not provided for in the accounts amounted to:		
Contracted, but not provided in these accounts	<u>19,008</u>	<u>2,543</u>
Expenditure authorised but not yet contracted	<u>3,030</u>	<u>-</u>
<p>Capital commitments relate to fees for the College's ongoing Co-Location project with Heriot-Watt University.</p>		
28. OPERATING LEASE COMMITMENTS		
Annual rental commitments under operating leases are as follows:	<u>Land, Buildings And Equipment</u>	<u>Land, Buildings and Equipment</u>
	<u>Year Ended</u>	<u>Year Ended</u>
	<u>31 July 2007</u>	<u>31 July 2006</u>
	£000	£000
Leases which expire in less than one year	<u>32</u>	<u>15</u>
Leases which expire between one and five years	<u>62</u>	<u>87</u>
29. CONTINGENT LIABILITIES	<u>31 July 2007</u>	<u>31 July 2006</u>
Material contingent liabilities	<u>0</u>	<u>0</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

30a. BURSARY FUNDS

	<u>2006-07</u> <u>FE</u> <u>Bursary</u> <u>£000</u>	<u>2006-07</u> <u>FE</u> <u>Hardship</u> <u>£000</u>	<u>2006-07</u> <u>EMAs</u> <u>£000</u>	<u>2006-07</u> <u>Other</u> <u>£000</u>	<u>2006-07</u> <u>Total</u> <u>£000</u>	<u>2005-06</u> <u>Total</u> <u>£000</u>
Balance b/fwd	120	50	(13)	8	165	52
Allocation received in year	1,307	68	235	21	1,631	1,554
Interest earned in year	0	0	0	1	1	0
Expenditure	(1,328)	(28)	(249)	(14)	(1,619)	(1,336)
Transferred to Restricted Reserve	(34)	0	0	0	(34)	(105)
Virements	0	0	0	0	0	0
Funds repaid to Funding Council as Clawback	(53)	(42)	0	(7)	(102)	0
Balance c/fwd	<u>12</u>	<u>48</u>	<u>(27)</u>	<u>9</u>	<u>42</u>	<u>165</u>
Represented by:						
Repayable to Funding Council as clawback	0	40	0	8	48	102
Retained by College for students	12	8	(27)	1	(6)	63

FE CHILDCARE FUNDS

	<u>Year ended</u> <u>31 July</u> <u>2007</u> <u>£000</u>	<u>Year ended</u> <u>31 July</u> <u>2006</u> <u>£000</u>
Balance b/fwd	39	9
Allocation received in year	97	101
Expenditure	(72)	(71)
Virements	0	0
Funds repaid to Funding Council as clawback	(28)	0
Balance c/fwd	<u>36</u>	<u>39</u>
Represented by:		
Repayable to Funding Council as clawback	25	28
Retained by College for students	11	11

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

30b. H.E. STUDENT SUPPORT FUNDS	<u>2006-07</u>	<u>2006-07</u>	<u>2005-06</u>
	<u>Hardship</u>	<u>Childcare</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance b/fwd	8	0	8
Allocation received in year	11	10	21
Interest earned in year	1	0	1
Virements	0	0	0
Disbursements in support of students	(4)	(9)	(13)
Allowable administration costs	0	(1)	(1)
Repaid to Funding Council as clawback	(7)	0	(7)
Balance c/fwd	<u>9</u>	<u>0</u>	<u>9</u>
Represented by:			
Repayable to Funding Council as clawback	8	0	8
Retained by the College for students	1	0	1

Funding Council grants are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

31. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>Year Ended</u>	<u>Year Ended</u>
	<u>31 July 2007</u>	<u>31 July 2006</u>
	<u>£000</u>	<u>£000</u>
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation	252	(12)
Release from Designated Reserve	180	0
Depreciation	171	178
Amounts written off against work in progress 2005/06	0	51
Deferred capital grants released to income	(49)	(148)
Loss/Profit on disposal of tangible fixed assets	0	0
Interest receivable	(156)	(122)
Interest payable	30	29
Pension costs less contributions payable	37	37
(Increase)/Decrease in stock	0	4
(Increase)/Decrease in debtors	(796)	(308)
Increase/(Decrease) in designated reserves	(350)	(25)
Increase/(Decrease) in creditors	1,161	(663)
Increase/(Decrease) in Restricted Reserves	(209)	0
Increase/(Decrease) in provisions	<u>(132)</u>	<u>152</u>
Net cash inflow from operating activities	<u>139</u>	<u>(827)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

32. ANALYSIS OF GROSS CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	<u>Year</u> <u>Ended</u> <u>31 July 2007</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2006</u> <u>£000</u>
<u>Returns on investment and servicing of finance</u>		
Interest from endowments	1	1
Other interest received	155	117
Interest paid		
Interest element of Term Loan repaid	(29)	(29)
Interest element of hire purchase and finance lease payments	(1)	0
Net cash inflow from returns on investment and servicing of finance	<u>126</u>	<u>88</u>
<u>Capital expenditure and financial investment</u>		
Payments to acquire tangible fixed assets	(3,466)	(470)
Reclassifications	509	0
Sale of tangible fixed assets	32	-
Deferred capital grants received	3,746	585
Bursary funding received	34	106
Endowment income invested	-	-
Net cash inflow/(outflow) from capital expenditure and financial investment	<u>855</u>	<u>221</u>
<u>Management of liquid resources</u>		
Net cash inflow/(outflow) from short-term deposits	<u>0</u>	<u>0</u>
<u>Financing</u>		
Debt due after more than one year -		
Loan repayments	(39)	(39)
Capital element of hire purchase and finance lease rental payments	(17)	(17)
New finance leases	<u>0</u>	<u>0</u>
	<u>(56)</u>	<u>(56)</u>

33. ANALYSIS OF CHANGE IN NET DEBT

	<u>As at</u> <u>31 July</u> <u>2006</u> <u>£000</u>	<u>Cash</u> <u>flows</u> <u>£000</u>	<u>Other</u> <u>non-cash</u> <u>changes</u> <u>£000</u>	<u>As at</u> <u>31 July</u> <u>2007</u> <u>£000</u>
Cash in hand and at bank	1,905	1,064	0	2,969
Endowment asset investments	22	1	0	23
Debt due within one year	(39)	0	0	(39)
Debt due after more than one year	(433)	39	0	(394)
Hire purchase and finance leases	(35)	17	0	(18)
Short term deposits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Debt	<u>1,420</u>	<u>1,121</u>	<u>0</u>	<u>2,541</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2007

34. RELATED PARTY TRANSACTIONS

Due to the nature of the College's operations and the composition of the Board of Management (being drawn from public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. Further details are disclosed on Page 12 within the report of the Board of Management

35. POST BALANCE SHEET EVENTS

There were no events after 31 July 2007 that would have a material effect on the financial statements.