



For the future you want

**ANNUAL REPORT  
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JULY 2018**

Scottish Charity Number SC021213

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Contents

Message from the Chair of the Board of Management	p3
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### Performance Report

#### Overview

Principal and Chief Executive's Statement	p4
Purpose and Activities	p5
Key Issues and Risks	p5
Performance Summary	p7

#### Performance Analysis

Operational Review	p7
Financial Review	p7
Sustainability Report 2018/19	p13

### Accountability Report

#### Corporate Governance Report

Directors' Report	p14
Statement of Board of Management's Responsibilities	p15
Corporate Governance Statement	p16

Remuneration and Staff Report	p26
-------------------------------	-----

#### Audit Report

Report of the Independent Auditor	p33
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### Financial Statements

Financial Statements	p36
Appendix 1 – 2017/18 Accounts direction for Scotland's colleges	p63

The College, in terms of the Further and Higher Education (Scotland) Act 1992, was established as a free-standing corporate body on 1 April 1993 and is recognised as a charity for the purposes of Section 505 of the Income and Corporation Taxes Act 1988 with Scottish Charity Number SC021213. Edinburgh's Telford College was the host College to merge with Stevenson College Edinburgh and Jewel & Esk College in 2012 to create Edinburgh College. The Post-16 Education Act 2013 designated Edinburgh College as a Regional College in March 2014.

The College Board presents its annual report and the audited financial statements for the year ended 31 July 2018.

**MESSAGE FROM THE CHAIR OF THE BOARD OF MANAGEMENT**

I am pleased to be writing my first Annual Report message as the Chair of the Board of Management following a year of continued improvement and immense change for the College. It is an exciting time to be a part of Edinburgh College and I'd like to thank everyone for the warm welcome I have been given since arriving.

Since taking up my position as Chair in April this year, and joining a team of committed Board members, I have been very impressed by the dedication of our staff and the achievements of our students across the whole College.

We are all here to ensure we are providing excellent, world class education, training and skills that improve the lives of our learners and in 2017/18 we helped over 24,000 students on their path to the future they want – our largest number yet.

The accomplishments of our students is testament to the brilliant education delivered across all curriculum areas and 2017/18 has been another fantastic year of academic achievements, award wins and student success stories. Our students benefit from a wealth of industry experience via our lecturers and partners, and have access to first-class industry standard facilities across campuses. In 2018/19 we will continue to work to ensure Edinburgh College is a place where everyone, regardless of their background or level of education, feels welcome and supported to fulfil their potential and go onto a positive destination.

I was privileged to join the College at a stage when, after merging almost six years ago, we are overcoming many of the challenges we faced post-merger and are now looking forward with confidence and positivity. The positive position the College is now in is thanks to the hard work of all staff under the leadership and direction of former Principal Annette Bruton and my predecessor, Ian McKay - I'd like to thank them for everything they did to bring the College to this point.

2017/18 saw the College successfully complete the implementation of our Business Transformation Plan which set out to address some key problems with our operating model and to improve our business model to ensure we were able to weather the public sector budget reductions and economic challenges colleges are facing. A key part of the plan was to support our financial recovery strategy to achieve a more financially sustainable position. As the result of the transformation work the College is now on course to break even at the end of the 2018/19 academic year.

Assurances that the Board has received over the past year illustrate that the College is now in a confident place. Our Strategic Plan is continuing the progress we've already made and will ensure that we continue to be an innovative and forward-thinking College which meets the needs of the region and our students.

As the College continues to grow and develop, guided by the Strategic Plan and its accompanying Blueprint, we will build on our relationships with partners across the region to offer increased opportunities for students.

There's no doubt we, along with colleges across the sector, will face further challenges over the next academic year - but with challenge comes opportunity and I am confident Edinburgh College is now in a great position to embrace opportunities and build on the success of recent years.

Under the guidance of new Principal Audrey Cumberford, the college will continue to develop in 2018/19 making sure we are meeting the needs of students, employees, businesses, policy makers and our economy. The Board looks forward to working with Audrey in the months and years ahead to take the College into its next phase of development and to cement our place as one of the UK's most innovative and forward-thinking colleges.



Sir Ian Diamond  
Chair of Edinburgh College Board of Management

## **PERFORMANCE REPORT**

### **OVERVIEW**

The report provides information on the college, its main purpose, activities, objectives and strategies and the principal risks that it faces. The report also contains an Overview and a Performance Analysis.

### **Principal and Chief Executive's statement**

I was delighted to join Edinburgh College at the beginning of September, at a point in time which feels extremely significant - a time when the College has overcome many of the challenges it faced over a period of significant change; a time when the College has exceeded its credit target for the second year in a row and a time when the College is progressing its ambitious strategic aims for the future.

This Annual Report details the progress made over the past year and demonstrates the strong foundations which can now be built on to ensure we are providing a learning environment where talent can flourish and our students and staff can thrive.

Without doubt 2017/18 has been a successful year for our College and we are proud of what we have achieved – as one of the UK's largest colleges we welcomed over 24,000 students from 132 countries, from Afghanistan to Zimbabwe, and continue to be the single biggest provider of Higher Education (HE) students to each of Edinburgh's universities. Our students and staff continued to astound and achieve - scooping national and international awards; we joined the UK-wide Collab Group of colleges, influencing policy and the role of colleges across our four nations; we launched our Science, Technology, Engineering and Mathematics (STEM) Manifesto, which sets out how we will support the growth of the country's increasingly technology-based industries; and we became an accredited Living Wage employer.

The scale and reach of our College is vast. We deliver more than 800 courses and work with more than 2,000 industry partners to provide our students with the best possible opportunities for employment and will continue to build on this in 2018/19. To enable us to do this it is important to look back to learn from previous challenges and to look forward, evolve and improve what we do and how we do it.

Edinburgh College has a great future ahead of it. We're now in a position, both financially and operationally, to build on the foundations already in place thanks to the hard work of our staff. I have no doubt that we have the skills, pride and enthusiasm throughout our workforce to help deliver the ambitious aims we believe will ensure Edinburgh College is Scotland's pre-eminent College.

There is no question that colleges will continue to face challenges in the years to come and in that respect we are no different to many other sectors and organisations. The real test will be how we collectively respond not just to the challenges we face as a College but how we maximise opportunities. The successful delivery of the College Blueprint will be dependent on how agile, responsive and resilient we are. We must prosper in an uncertain policy and funding context and in an environment where digital and technological advances are impacting upon everything we do - and at a pace which is exponential. The Strategic Plan and Blueprint will act as our guide for the

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

next four-years but it is our people, with their professionalism and passion, who will drive the development and progress of the College.

In order to develop the next generation of leaders and innovators we must future-proof our College and continue to develop our curriculum to suit the needs of the region. The past year has been a great stepping stone in getting our College to where we want to be, I look forward to the year ahead, to turning challenges into opportunities, and to Edinburgh College continuing to grow and prosper.



Audrey Cumberford  
Principal and Chief Executive

### **Purpose and Activities**

Edinburgh College, as an incorporated college in Scotland, is a public body constituted under statute and a Scottish charity (SC021213). It was designated a Regional College in March 2014 under the Post-16 Education (Scotland) Act 2013.

The constitution and proceedings of the Board of Management are determined by Schedule 2 to the Further and Higher Education (Scotland) Act 1992, as amended (the 1992 Act). Its powers are determined by Section 12 of the 1992 Act, as amended.

The core purpose of the College is the provision of further and higher education in the Edinburgh and Lothian regions. It delivers education programmes on a full-time and part-time basis to in excess of 20,000 students annually.

In seeking to develop a relevant curriculum and provide educational opportunities that meet the social and economic needs of the region, the College works closely with regional partners including other education providers, business leaders and Community Planning Partnerships.

The College's strategic direction is set by the Board of Management, informed by education policy as determined by Scottish Ministers, and by guidance provided by the Scottish Funding Council. The Financial Memorandum between the College and the Funding Council sets out the terms under which the College, as a fundable body, receives and is held accountable for the use of public funds.

The College's objectives in relation to the public funding it receives are set out annually in its Regional Outcome Agreement with the Scottish Funding Council (SFC). In 2017/18, 77% of the College's income was from public funds. Other sources of income included tuition fees, education and employability contracts, and general operating income.

### **Key Issues and Risks**

The Scottish Government set out a number of key policy objectives for Colleges, including its Developing the Young Workforce strategy, the Commission on Widening Access, the prioritisation of Science, Technology, Engineering and Mathematics subjects, improving the Learner Journey and the enhancement of gender balance in the curriculum. Edinburgh College is making good progress in fulfilling these objectives within set timescales, and within its financial envelope.

Edinburgh College's 2018/19 Regional Outcome Agreement lists the following as priority areas:

- Improve the attainment of full time students in Further Education.
- Increase Developing the Young Workforce numbers.
- Deliver the Access and Inclusion Strategy.
- Deliver strategies for Sustainability and Innovation.
- Increase the proportion of full-time students achieving a positive destination.
- Increase the numbers of students articulating to university with advanced standing.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

- Achieve student recruitment target in 2018/19 in line with SFC-agreed credit target.
- Increase the employment experience of our learners.
- Increase the numbers of students studying childcare in the region.

The College's Risk Management Framework includes

- a Risk Management Policy,
- a risk appetite statement,
- operational Risks Registers, managed by each member of the Senior Management Group aligned to their respective operational plans, which cover all College business,
- the Edinburgh College Top Level Risk Register, which identifies the major risks drawn from Operational Risk Registers, risks identified by the Board of Management and its Committees, and risks identified by the Executive Team.

The Risk Management Framework is overseen by the College's Risk Management and Assurance Group (RMAG), which reports into the Audit and Risk Committee. This group meets every three months to review the Top Level Risk Register, and a rolling review programme of Operational Risk Registers. It also recently reviewed the College's risk appetite statement.

Currently, as of September 2018, the top five risks facing the college have been identified as:

1. Insufficient Scottish Funding Council funding to cover national pay increases.
2. Insufficient college budget to cover cost of living and pension increases.
3. Impacts of BREXIT on college business.
4. Industrial relations.
5. Non-compliance with GDP regulations.

It should be noted that significant progress has been made during 2017/18 to manage and mitigate the risks associated with cyber security resilience, shortfalls in commercial income, student retention, stakeholder confidence and performance against ROA targets.

### Going Concern

The College meets its day to day, and medium to long term funding requirements through a combination of cash draw-down from the SFC, and a term loan provided by its bankers. Under the terms of the loan agreement the College must meet certain financial covenants. These were met during 2017/18 and are forecast to be met in the 12 months from the date of these financial statements.

The College faced a number of financial challenges as a result of reduced activity and a transformation plan was put in place in 2015/16 which was designed to deal with these challenges and put the College on a sustainable financial footing. The College successfully completed the implementation of our Business Transformation Plan in 2018. The plan included financial targets for the three year period to 2018/19. The overall financial targets for the first two years have been exceeded and the 2018/19 budget has been approved on the basis that the third year will also be met. Edinburgh College has in 2018 developed a new Strategic Plan outlining the vision over the next five years supplemented by a blueprint outlining how the plan will be delivered.

The Board of Management has approved financial forecasts which outline the repayment of the Business Transformation Plan grant of £2.9m received in 2016/17. The Scottish Funding Council provided written assurances in 2015/16 that it will support the College during the period through to 2018/19 and, provided the College demonstrates satisfactory progress against its transformation plan, provide such funding as is required to enable it to remain a viable organisation.

On this basis the Board of Management continues to adopt the going concern basis in preparing these financial statements.

## Performance Summary

Edinburgh College achieved its 2017/18 student activity targets and financial objectives in line with the second year of its three years Transformation Plan.

The annual students' credit target of 187,742 credits was over-achieved by 5,248 credits. As shown in the table on page 8, excluding pension actuarial revaluations, there was a breakeven position. The current year total operating surplus is £0.2m (2017: £2.5m deficit) after inclusion of the current pension actuarial revaluations deficit of £2.2m (2017: £2.2m) and gain on revaluation of £2.5m (2017: £nil) which offsets previous losses on revaluation.

## PERFORMANCE ANALYSIS

### Operational Review

The College continued to invest in resources appropriate to the size and complexity of its business; and managed its key organisational risks whilst committing to satisfactory standards of corporate governance. It maintained its institution-wide risk management process, monitored by the Risk Management Assurance Group, which reports to the Audit and Risk Assurance Committee of the Board. The key risks reported on the Top Risk Register continue to be under close review, and emerging risks promptly managed and mitigated accordingly. The Risk Management Assurance Group continues to raise awareness of risk across the College and increase the profile of risk management accordingly.

During the year Edinburgh College completed the implementation of its transformation plan. A final overview of the plan was presented to the Policy and Resources Committee in August 2018 and approval was given to close it. Edinburgh College has in 2018 developed a new Strategic Plan outlining the vision over the next five years supplemented by a blueprint outlining how the plan will be delivered.

The College will continue reviewing operational processes to improve the learner journey as more efficiency is required to address the challenges of uncertain future income and national pay awards. However, these challenges will not alter Edinburgh College's vision and it will continue to exert financial rigour and realise future sustainable benefits. It will continue to manage its key strategic and operational risks in a structured and coherent manner for the benefit of its staff and students.

### Financial Review

The Statement of Comprehensive Income shows a surplus of £0.2m for the year compared to a 2017 deficit of £2.5m. After adjusting for the repayable funding of £2.9m from Scottish Funding Council provided to support the implementation of the transformation plan that was included in 2017 income and the year-end adjustments (as shown in the table below), this result represents an improvement of £3.1m on the 2017 deficit. These year-end adjustments are FRS 102 pension adjustments of £2.2m deficit (2017 - £2.2m), early retirement pension revaluation charges of £0.04m (2017-£0.1m), a negative movement in the annual leave provision of £0.1m (2017: credit £0.1m), voluntary severance costs of £0.6m (2017: £1.9m) offset by voluntary severance funding of £0.6m (2017: £1.8m) and gain on revaluation of £2.5m (2017: £nil).

In the year to 31 July 2018, the College continued the recovery outlined within the Business Transformation plan exceeding overall second year targets, and continued to provide high quality education to its students in a progressive learning environment.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

The income and expenditure position is summarised below:

	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
Income	65.7	65.9
Expenditure	(65.7)	(66.1)
	0.0	(0.2)
Funding for exceptional staff costs	0.6	1.8
Exceptional staff costs	(0.6)	(1.9)
Annual leave provision movement	(0.1)	0.1
FRS 102 Pension costs (actuarial revaluation)	(2.2)	(2.2)
Early Retirement revaluation	-	(0.1)
Gain on revaluation	2.5	-
<b>Surplus/(deficit) for the year</b>	<b>0.2</b>	<b>(2.5)</b>
Actuarial gain / (loss) on pension	14.3	5.5
Revaluation of buildings in the year	16.0	-
<b>Total comprehensive income for the year</b>	<b>30.5</b>	<b>3.0</b>

### Income

Income at £65.7m is lower by £0.2m in comparison to 2017. The reason for this is that in 2017 the Scottish Funding Council (SFC) provided repayable funding of £2.9m to support the implementation of the transformation plan (2018: nil). This is offset by increased SFC Recurrent Grant and Other Grant income (primarily Workforce Development income).

### Expenditure

Expenditure at £65.7m is lower by £0.4m in comparison to 2017. This was largely the result of reductions in staff operating costs (created by the savings resulting from voluntary severance offset by national pay increases), as well as in other operating costs (reductions across several areas but notably in premises and examination fees).

### Balance Sheet

Fixed assets at the year-end totalled £162.6m, a net increase of £16.1m compared to the prior year. This is mainly due to an interim revaluation of land and buildings undertaken at 31 July 2018 which increased the land and buildings valuation by £18.5m, plus additions of £3.1m consisting mainly of the College Energy Efficiency Pathfinder (CEEP) project investment. This was offset by depreciation charges of £5.4m during the year.

Net current liabilities decreased by £0.9m as a result of lower amounts of advanced International income received and lower accrued expenditure aligned to reduced costs in the year.

At 31 July 2018, the College had an accumulated surplus of £31.0m on its Income and Expenditure Account, and in complying with FRS102 s28 (Retirement Benefits) the pension liability decreased by £12.1m to £9.9m (2017 : £22m).



## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Cash Flow

There was a net cash outflow of £3.9m (2017: net cash inflow £2.8m). This was a result of the College Energy Efficiency Pathfinder (CEEP) project funding being received in July 2017, with the associated spend being incurred in 2018 (£2.1m) as well as the repayment of underspent student support funds from the prior year (£1.4m). At 31 July 2018 the College held cash and deposits of £0.9m (2017: £4.8m), of which £0.4m related to student support funds. These are managed in accordance with the College's Treasury Management policy. The College held long-term debt of £10.1m (2017: £10.6m) which is attributable to the Milton Road and Midlothian campuses redevelopment in 2009/10.

### The College Estate and Capital Resources

The College has capital assets of £162.6m (£154.5m related to the estate), and in 2017/18 received capital funds of £3.3m to maintain its estate and to improve its ICT infrastructure and systems. The College has underpinned this capital investment with net recurring expenditure of approximately £4.4m to cover the operating costs of the estate.

### Review of Resource outturn for year ended 31 March 2018

Following the reclassification of colleges as public bodies on 1 April 2014, the College has complied with government accounting and budgeting rules on a financial year basis (to 31 March). The College is given a revenue resource budget (RDEL) and a capital resource budget (CDEL) and must account for these budgets on a financial year basis. The resource budgets and final outturn for 2017/18 are outlined below:

	RDEL £'k	CDEL £'k
Resource budget for year ended 31 March 2018	55,332	3,285
Expenditure against resource budget	54,509	3,054
Net underspend against budget	823	231

The RDEL surplus includes net expenditure on student support funds, capital repayments, and income relating to a voluntary severance scheme which had not yet taken place, but does not include revaluation of pension liabilities. The RDEL surplus is consistent with the financial statements when adjusted for the above items and the different reporting year. The CDEL figures include CEEP expenditure (£2.1m). The CDEL surplus relates to a retention amount that will be paid out in future years.

### Cash Budget for Priorities

Following their reclassification as central government bodies from 1 April 2014, colleges are now also required to comply with Central Government budgeting rules. In addressing the impact of these budgeting rules, Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities.

Colleges have now been given a fixed cash budget for priorities which must be spent on agreed government priorities as outlined in the table below. Spend of the College's cash budget for priorities, and impact on the operating position for the academic year, is detailed below.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Table of cash budget for priorities spend		
Revenue priorities	2018 £'000	2017 £'000
Pay award 2015-16	874	637
Estates costs	132	-
<b>Total Impact on operating position</b>	<b>1,006</b>	<b>637</b>
Capital priorities		
Loan repayments	428	406
Payments against provisions pre 1 April 2014	1,113	1,192
<b>Total Capital</b>	<b>1,541</b>	<b>1,598</b>
<b>Total cash budget for priorities spend</b>	<b>2,547</b>	<b>2,235</b>

**Adjusted operating position**

Under Central Government budgeting rules, the non-cash depreciation and pension adjustments are reported under separate budget lines from the operating position. The accounts direction requires the disclosure of an adjusted financial position. This removes the impact from accounting adjustments for pensions from the college's deficit. It also removes the impact of the college spending net depreciation funding on those items prioritised by the SFC. The adjusted position on this basis is shown in the table below.

	2018 £'000	Restated 2017 £'000
<b>Deficit before other gains and losses</b>	(2,299)	(2,479)
<b>Add back:</b>		
- Depreciation (net of deferred capital grant release)	2,060	2,235
- Non-cash pension adjustment – Net service cost (note 7)	1,542	1,572
- Non-cash pension adjustment - Net interest cost (note 10)	614	626
- Non-cash pension adjustment – Early retirement provision (note 7)	40	70
<b>Deduct:</b>		
- Exceptional Income	-	(2,900)
- Revenue funding allocated to loan repayments and other capital items	(1,541)	(1,598)
<b>Adjusted operating surplus / (deficit)</b>	<b>416</b>	<b>(2,474)</b>

**Creditor Payment Policy**

It is the College's policy to agree payments with its suppliers in advance and to make payment, where practicable, in accordance with those terms, subject to satisfactory performance by the supplier. Where necessary, suppliers are made aware of the terms of payment. The College adheres to "The Better Payment Practice Code". The average number of creditor days for 2018 was 31 days (2017 – 27 days). There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Key Performance Indicators

In accordance with Scottish Funding Council guidance, the College is required to publish and report progress against targets for national priorities. These indicators monitor performance against the Colleges financial objectives. Most KPIs are measures of credits, student numbers, achievement and retention, all of which are linked to the financial performance and reputation of the College.

KPI	Purpose	2018	2017	2016
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
Operating Surplus/ Deficit as % of Total Income	Measures Deficit as % of Total Income	0.2%	(3.6)%	(10.9)%
Non SFC income as a % of income	Measures non SFC income as a % of total income	23.4%	22.9%	25.6%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	69.9%	68.6%	72.8%
Student Activity (credits)	Measure of Student activity	192,990	186,978	180,144
Performance Against credit Activity Target	Measures Student activity performance against target	103%	100%	97%
Credits per Staff FTE	Measure of Credits per Staff FTE	184	172	155
Unique Student Enrolments	Measures number of students	23,959	19,491	18,862
Full Time Applications	Measures student demand	17,488	16,923	15,856
Number of FT FE enrolled students aged 16-19	Measures number of students	3,356	2,730	2,654
Student Retention Rate	Measures percentage of students completing studies	89.8%	85.8%	85.0%

### Student Activity Performance Highlights

#### Delivery of widening access and progression targets.

- Gender balance of learners: 49.3% male (2017: 51.2% 2016: 50.2%), 50.7% female (2017: 48.7% 2016: 49.6%).
- Disability: 15.7% of students reported having a disability (2017: 17.2%, 2016: 14.5%).
- Ethnic minority student percentages (home students): 10.2% (2017: 8.6%, 2016: 8.1%).
- 8.8% of credits delivered to learners in the most deprived of postcodes (2017: 8.6%, 2016: 10.4%).
- Senior phase: 0.81% of the college's total credit delivery (2017: 0.82% 2016: 3.4%).

In April 2017, Edinburgh College published its Equality Report (including Equality Outcomes and Gender Action Plan) to meet equalities legislation. This report sets out the progress the College has made towards mainstreaming equality across the curriculum and in delivering equal opportunities for all our students. The Gender Action Plan was published in July 2018. The Board

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

of Management leads, with support from the Nominations Committee and all other committees, how we uphold the Equality and Diversity Policy of Edinburgh College, which reflects equality legislation and best practice.

### Curriculum focus on employer needs, with employers involved in curriculum design.

The College's self-evaluation model has been significantly changed to incorporate stakeholder engagement (from industry) within the evaluation and planning of the 2017/18 course provision. This approach has also been incorporated in the review of the College's future curriculum through the Business Transformation Plan. As a result, the College has now repositioned itself as a STEM centre of excellence which was recognised through receiving STEM Assured Status. Employer engagement is also key to programmes associated with Developing the Young Workforce (DYW), with courses such as Foundation Apprenticeships in key skills areas identified by Skills Development Scotland (SDS). The College works with over 2,000 employers and representative stakeholders in the region.

### Improved support to increase completion of courses and progression to University.

The College continues to ensure that students continue to study on programmes that lead to national recognised qualifications (NRQs):

KPI	Purpose	2018	2017	2016
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
% of credits delivered as NRQs:	Shows proportion of Credits arising from NRQs	97.9%	98.5%	98.2%

### Analysis of Achievement:

KPI	Purpose	2018	2017	2016
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
The percentage enrolled students achieving a recognised qualification				
Full-time FE aged 16-19	Measure of Achievement	54.9%	57.5%	61.6%
Full-time FE	Measure of Achievement	62.0%	62.9%	65.0%
Full-time HE	Measure of Achievement	71.1%	73.1%	73.7%
Part-time HE	Measure of Achievement	82.6%	82.1%	73.8%
Part-time FE	Measure of Achievement	82.9%	71.9%	75.5%

There was a significant increase in the numbers of full-time FE students aged 16-19 enrolled at the College and a decrease in the percentage achieving a recognised qualification. A priority has been given to addressing this in the year ahead.

### Curriculum development to align to regional economic need.

The policy to redesign/rebalance the curriculum to meet needs of local industry continues focussing on developing an attractive curricular offer and extending links into schools, through setting targets in relation to Developing the Young Workforce (DYW). The process of reshaping

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

our offer, as part of the College's ongoing three-year transformation plan has been successful with a new curricular structure, to meet these external needs and provide growth. The curriculum offer in Engineering and the Built Environment, Creative Industries and Computing, Health and Social care, Childcare as well as Business and Financial Services are considered priority areas. Community based learning opportunities for ESOL (English for Speakers of Other Languages) and Access to College programmes are also key areas for the College to grow and develop.

### **Employment of Disabled Individuals.**

The College's Recruitment and Selection Policy sets out that applications from disabled people are welcomed, and procedures are in place to ensure such applicants are treated fairly.

### **Sustainability Report 2018/19**

Edinburgh College recognises the importance of sustainability and environmental issues, and endeavours to consider these matters as part of decision making. The College is committed to meeting our environmental responsibilities as a public body, and of supporting the national outcome to 'value and enjoy our built and natural environment, and to protect and enhance it for future generations'.

The College's sustainability policy outlines the College's commitment to sustainability and how it will reduce emissions, adapt to climate change and act in a sustainable manner in line with its obligations. The College is named as a 'major player' by the Scottish Government in the Climate Change (Scotland) Act 2009 and has a public duty to a) reduce emissions b) adapt to climate change and c) act in a sustainable manner. In addition our role in education provides us with a clear mandate to lead in sustainability in everything we do.

Edinburgh College has reduced Carbon emissions by 19% between 2013 and 2017 and is projected to reduce carbon emissions in 2017/18 by a further 9%. We now recycle 30% of our waste and will continue to work to improve this figure with our recovery rate 'off-campus' now at over 90% for mixed recycling and 60% for general waste with all our food waste processed into green energy via an anaerobic digester.

The College energy-efficiency works have continued and our appointment of a dedicated Energy Officer in August 2018 will now enable us to evaluate and monitor the largest projects which include a combined heat and power unit (CHP) at Granton, LED lighting at Sighthill, Midlothian and Milton Road and new boilers and plant at Milton Road

We aim to create a sustainable organisation that respects the diversity of staff and students and enables them to fulfil their potential, to contribute fully and to derive maximum benefit and enjoyment from their involvement in the life of the College.

The College seeks to develop staff and students who are aware of, and take action on sustainability throughout their lives enabling them to be global citizens. We promote the principles of 'Education for Sustainable Development' through teaching, research and knowledge transfer activities. We support social responsibility across the College and in our communities and encourage the use of Fairtrade products and the achievement of Fairtrade status. Edinburgh College complied with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

The College's strategy on climate change and sustainability for 2018/2023 has been drafted for approval by the College's Executive team and Board of Management.

Edinburgh College is unique amongst similar institutions in that we have Community Gardens on two campuses and growing opportunities at the other campuses. The Community Gardens are

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

used extensively as part of the learning experience of students in the college, as well as by a number of community groups. The Gardens won the UK and International Award in the Green Gown Student Engagement Category in 2015. The college has also spent considerable time enhancing biodiversity on our estate and is a member of the Edinburgh Biodiversity Action Plan. Climate Change is predicted to have far reaching consequences in the future including: increased flooding; droughts and water shortages and increased wind speeds and storms, many of which could directly and indirectly impact the operation of the college and we are working on plans to cover some aspects of climate change adaptation.

### Anti-Fraud, Bribery and Corruption Policy

Edinburgh College reviewed and updated the Anti-Fraud, Bribery and Corruption policy during the year. This policy sets out Edinburgh College's position on fraud, bribery and corruption and its approach to preventing, detecting, reporting and investigating fraud, bribery and corruption.



Audrey Cumberland  
Principal and Chief Executive  
11 December 2018

## ACCOUNTABILITY REPORT

### CORPORATE GOVERNANCE REPORT

#### Directors' Report

The membership of the Board of Management during the year to 31 July 2018 is outlined at page 23, and includes all members who served for part or the whole of the reporting period. The respective Register of Interests for these members is available on the college website at: <http://www.edinburghcollege.ac.uk/Welcome/Governance/Board-of-Management/Register-of-Interests>

The Board complies with the Code of Good Governance for Scotland's Colleges ('the Code') as developed and owned by the college sector. Further to this, the Board has adopted and operates under the model Code of Conduct developed by the Standards Commission. There has been no requirement during the year to report any personal data-related incidents to the Information Commissioners Office.

The Board's authority, reserved matters and the delegation of authority are set out in the Scheme of Delegation. Delegation of authority in relation to financial decision-making is further detailed in the College's Financial Regulations. Both documents are published on the College's website.

All agendas, minutes and relevant reports from Board and Committee meetings are published online in the interests of ensuring transparent decision-making, and in accordance with the model Publication Scheme for public authorities provided by the Scottish Information Commissioner.

The Executive Team comprises:

Audrey Cumberland - Principal and Chief Executive \*  
Alex Craig - Depute Principal\*\*  
Alan Williamson - Chief Operating Officer  
Jon Buglass - Assistant Principal, Curriculum Design and Development  
Michael Jeffrey - Assistant Principal, Income and Product Design

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Jonny Pearson - Assistant Principal, Recruitment and Retention

*\* From 3 September 2018. Up to 2 September 2018 this position was held by Annette Bruton.*

*\*\*The Depute Principal had a request for voluntary severance accepted by the College, and stepped down from his post on 31 July 2018.*

These members also influence the decisions of the college as a whole.

### Statement of Board of Management's Responsibilities

The Board of Management defines its overall responsibilities in accordance with the Code:

- to lead the College and set its strategic direction and values;
- to ensure effective management and financial controls to support the student experience within a framework of public accountability and transparency;
- to deliver high quality learning and outcomes.

In addition, the Board of Management is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year. The Board of Management also confirms that the annual report and accounts as a whole are fair, balanced and understandable. The Board of Management also confirms that as far as it is aware there is no relevant audit information of which the auditors are unaware, and that it has taken all reasonable steps to make it aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

The Board of Management governance framework sets out the roles, accountabilities and expectations for board members, board committees, staff and students. The Board of Management Articles of Governance are publicly available via the [college website](#).

### Estates Strategy

The College's Estates Strategy, which aligns to the Edinburgh College Strategic Plan 2018/23 and accompanying Blueprint, addresses emerging and future needs of students, and associated curriculum provision. Edinburgh College is based on four main campuses of Sighthill, Granton, Milton Road and Midlothian. Since merger in 2012 the college has continued to invest in its curriculum areas and the maintenance of its buildings. Most recent projects have concerned energy efficiency and the college was delighted to be part of the SFC's College Energy Efficiency Partnership which resulted in investment in LED lighting, CHP Plant and new main boilers and plant for Milton Road.

Our vision is an estate that is fit for purpose, technologically advanced, future proofed, sustainable and cost efficient. It will be a learning, social and working environment that meets the needs of future students, staff and commercial clients.

The Edinburgh College Estates strategy describes the drivers behind estates development over the next five years. It sets out a number of improvement objectives aligned to the college's strategic aims, and a range of performance measures and governance arrangements to ensure delivery.

The College Strategic Plan 2017/22 sets out five key strategic aims:

- Delivering a superb student experience.
- Supporting and inspiring our people.
- Valued in partnership and by communities.
- Providing an excellent curriculum.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

- An effective and efficient college.

The improvement objectives of the strategy are:

- Ensure that the needs of students and learning and teaching drive the shape of the estate.
- Develop a more environmentally sustainable estate.
- Ensure a high quality, well run and well maintained estate.
- Develop a more cost efficient estate, generating more income.
- Explore learning and teaching options for the estate as part of the Blueprint Estates Transformation Project.

Delivery of the Strategy is overseen by the Head of Estates and IT, supported by the Estates Management team, reporting to the College Senior Management Team, the Executive. The implementation of the strategy is monitored by the Policy and Resources Committee.

A range of performance measures aligned to the improvement objectives include:

- Capital expenditure on maintenance works in line with condition surveys.
- Utility costs.
- Carbon Footprint.
- Income generated through commercial or community use of the estate.

The strategy will be reviewed again in June 2023.

### Corporate Governance Statement

#### Introduction

The governance statement is provided to summarise the operation, responsibilities, structure and functions of the Edinburgh College Board of Management, with approaches to ensure effectiveness and improvements. Due recognition has been given to the guidance set out in the Code of Good Governance for Scotland's Colleges and the Governance Statement section of the Scottish Public Finance Manual (SPFM).

Edinburgh College, as an incorporated college in Scotland, is a public body constituted under statute and a Scottish charity (SC021213). It was designated a Regional College in March 2014 under the Post-16 Education (Scotland) Act 2013.

The constitution and proceedings of the Board of Management are determined by Schedule 2 to the Further and Higher Education (Scotland) Act 1992, as amended (the 1992 Act). Its powers are determined by Section 12 of the 1992 Act, as amended.

The College has successfully delivered the main objectives of its Business Transformation Plan, which has brought the college to a more sustainable operating position. A final outcomes report was agreed at the September 2018 Board meeting. The College has now initiated the next phase of its transformation through the delivery of its Strategic Plan 2017/22 and the accompanying Blueprint.

The Board comprises a Chair appointed by Scottish Ministers, the Principal, twelve Non-Executive Members whose appointments are made in accordance with the relevant guidance and approved by both the Chair and Scottish Ministers, two Staff Members elected respectively by the academic and support staff of the College, and two Student Members nominated by the Students' Association of the College. Details of membership during the year to 31 July 2018 are provided at page 23.



## **Governance Framework**

The Board and its committees play a vital role in the oversight of college business and hold management accountable for performance against targets and performance indicators, specifically Regional Outcome Agreement targets, the recommendations of self-evaluation activity against the 'How Good is Our College' framework and the delivery of key college strategies and plans.

The Board met five times in the period between 1 August 2017 and 31 July 2018, in addition to meetings of its committees. The key responsibilities are set out below. All Board and committee meetings held in the period from 1 August 2017 and 31 July 2018 were quorate.

All Committees operate under the authority of, and with terms of reference approved by, the Board. Meetings of the Board and its Committees are conducted in accordance with Standing Orders which are approved by the Board, and minutes of these meetings are published on the College's website.

### ***Audit & Risk Assurance Committee***

The Audit & Risk Assurance Committee's remit and terms of reference address those principles listed under Audit and Risk Management in the Code, and conform to guidance in the Audit Committee Handbook incorporated in the Scottish Public Finance Manual. The Committee assesses its performance against the checklist from the Handbook as part of its annual evaluation process.

The Audit & Risk Assurance Committee met four times in 2017/18. The Committee comprises three Non-Executive Members and one Co-opted Member. Two members have recent relevant financial experience. The College's internal and external auditors were represented at all meetings. The College's internal auditors regularly present the findings from internal audits, and monitor implementation of agreed management actions in response to these audits. The Chair of the Board and Principal attend meetings regularly but are not members of the Committee. Committee Members meet with Auditors without members of the College Executive present for part of a meeting at least once per year.

### ***Academic Council***

The Academic Council retains oversight of learning and teaching, the student experience and engagement, curriculum management, continuing professional development, and quality enhancement and assurance. Within that remit, the Academic Council reviews both Education Scotland reports, student surveys and monitors the implementation of relevant action plans.

The Academic Council met four times in 2017/18. The committee includes Academic Staff and Student Board Members alongside three Non-Executive Members, and an extended co-opted membership of staff and students.

### ***External Engagement Committee***

The remit of the External Engagement Committee is to oversee commercial and international development, communications, marketing and external engagement, and to foster constructive relationships with external stakeholders including community planning partners. To ensure that the college fulfils its statutory obligations under the Community Empowerment (Scotland) Act 2015, the Committee has invited community planning partners to meetings throughout the year to discuss the achievement of each partners local outcome.

The External Engagement Committee met four times in 2017/18. The Committee comprises three Non-Executive Members, a Non-teaching Staff Member and a Student Member.

### ***Nominations Committee***

The Nominations Committee oversees recruitment of Non-Executive Members to the Board in compliance with education legislation and the College Sector Board Appointments: 2014 Ministerial Guidance. It reviews membership of the Board and its Committees, skills balance and attendance and undertakes succession planning.

In all such activities, the Nominations Committee, on behalf of the Board, seeks to uphold the Equality and Diversity Policy of Edinburgh College, which reflects equality legislation and best practice. While recommendations for appointment are made wholly on the basis of merit, the Board's guiding principle is to advance equality of opportunity, and vacancies are advertised widely to encourage applications from under-represented groups. With regard to gender balance, at 31 July 2018 the Board comprised 50% women and 50% men.

The Nominations Committee meets as required and not less than once per year. In 2017/18 it met two times. The Committee is chaired by the Chair of the Board.

### ***Policy & Resources Committee***

The terms of reference of the Policy & Resources Committee require its membership to include representation of all other committees to enable it to fulfil a broad strategic remit which includes College policy, public funding and financial management, human resources and organisational development, and estates and infrastructure. The Committee scrutinises and recommends the College's annual budget to the Board for approval, and retains strategic oversight of matters of corporate social responsibility. It considers the Estates Strategy and ensures that the College's buildings are fit for purpose and maintained to an appropriate standard.

Further to this, the Committee oversees and reports to the Board on the implementation of the Business Transformation Plan.

The Policy & Resources Committee met four times during 2017/18. The Committee is chaired by the Vice Chair of the Board.

### ***Remuneration Committee***

Information on the Remuneration Committee is covered in the Remuneration and Staff Report below.

## **Operation of the Board of Management**

### ***Membership***

In alignment with the Post-16 Education Act (2013), Edinburgh College continued to formally review its Board membership in the period from 1 August 2017 and 31 July 2018. The Board consists of 18 members following a phase of non-executive recruitment in November 2017 to fill a vacancy on the Board.

The Board is satisfied that election of a Teaching Staff Board Member, in November 2017, was conducted in line with good practice guidance for the election of staff board members. No Support Staff Board Member elections were held in 2017/18.

The Board has in place a Board Secretary whose duties are consistent with those set out in the Code of Good Governance for Scotland's Colleges and who is supported by a secretariat team.

### ***Induction and Development***

All new Members receive a formal induction provided by the College. The majority of Board Members participated in induction training facilitated by the College Development Network (CDN) in 2016/17, with the remaining members attending induction events held in early 2018. New Board Members appointed in December 2017 and March 2018 have been formally invited to participate

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018**

in CDN induction events scheduled in early 2018/19. Other development sessions during the year focused on Health & Safety and key strategic matters with implications for the college (e.g. Brexit).

### ***Evaluation***

The Board undergoes a robust evaluation process at the end of each academic year. Due to the appointment of a new Chair of the Board on 02 March 2018, the Board agreed that the annual evaluation of the Chair (by the Vice Chair) would be postponed for 2017/18. The Board was advised, in June 2018, that Board members wishing to informally discuss any matters relating to the performance of the Chair should contact the Vice Chair (in confidence) directly.

Individual review meetings with the Chair of the Board, committee operational reviews and an online survey comprising of a series of questions focussing on current governance arrangements at the college and future enhancements were all conducted.

In March 2017, the Board approved an external evaluation report for submission to the Scottish Funding Council. Based on the outcomes of the external evaluation report and other external guidance, the Board also approved a Development Plan to progress matters relating to future induction, training and evaluation. Progress against the Development Plan has been reviewed by the Board at each of its meeting in 2017/18, and a refreshed Development Plan was considered by the Board in September 2018 for continued review over the coming academic year.

### **Compliance with the 2016 Code of Good Governance for Scottish Colleges**

The Board of Management continues to seek to fully comply with the Code of Good Governance and associated guidance, without exception, so far as its provisions apply to the college sector.

In the opinion of the Principal and Chief Executive, and the Board of Management, the College has complied with all the principles of the 2016 Code of Good Governance for Scottish Colleges throughout the year ended 31 July 2018. These principles are:

- Leadership and strategy;
- Quality of the student experience;
- Accountability;
- Effectiveness; and,
- Relationships and Collaboration.

### **Corporate Strategy**

In respect of its strategic and development responsibilities, the Board of Management receives recommendations and advice from its committees, the Principal & Chief Executive and the Executive Team. In addition to Board meetings, additional board development day sessions are held in each academic year to provide an opportunity to focus debate on matters of vision and strategic direction.

In September 2017, the Board of Management approved a new Strategic Plan, setting out Edinburgh College's strategic aims over the next five years to 2022.

The Strategic Plan 2017/22 sets out the vision of the college for further education as a regional college across Edinburgh, Midlothian and East Lothian. It outlines the approach of the college to delivering an expansive and progressive curriculum to meet the needs of industry and equip students to meet the demands of the modern workplace. The plan has the college's values at its centre, to define our culture and foster a positive working environment. It also focuses on the status of the college as a key partner in community planning partnerships.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Accompanying the plan is the Edinburgh College Blueprint: Delivering the Strategic Plan 2017/22. This document outlines exactly how the college will deliver on its Strategic Plan, covering the work programmes that will enable it to achieve its aims. The Blueprint was approved by the Board in September 2017 and since then there has been good progress with continued development of individual programmes and projects being overseen by the Policy & Resources Committee.

### Risk Management

#### *Risk Management Arrangements*

The Risk Management Policy and Procedures details and communicates the College's approach to risk management and assurance and the evaluations of internal controls, and is part of the College's internal control and corporate governance arrangements. There were no known significant lapses of data security during the year.

The Audit & Risk Assurance Committee receives regular reports from the college's internal Risk Management & Assurance Group. This Group reviews operational risk and proposes updates to the Top Risk Register. Any proposed changes to the Top Risk Register are highlighted and discussed by the Audit & Risk Assurance Committee, prior to a Summary Top Risk Register being presented to the Board of Management. Heads of department are also invited to attend this Committee to provide a statement on risk assurance and risk mitigation in relation to their areas of expertise. Following these meetings it is acknowledged that more work is required to improve business continuity planning during 2018/19.

The Audit & Risk Assurance Committee has also undertaken a series of risk 'deep dives' throughout the academic year 2017/18. The purpose of each deep dive was to consider key risks in greater detail to allow members to understand current and planned mitigations, internal controls and seek further assurances - if required. Examples of risk deep dives which took place in 2017/18 include: ICT / Cyber Security; General Data Protection Regulation (GDPR); Fraud and Anti-Corruption; and, Commercial Income. With regards to GDPR the Committee noted that there were no known significant lapses of data security during the year.

There has been no significant movement in individual items identified on the operational risk register for the financial year to 31 July 2018, with the exception of the following:

- A risk which refers to 'Negative media coverage' positively moved from Moderate to Low in August 2017.
- Risks referring to 'Loss of stakeholder confidence' and 'Maintaining senior level capacity' both positively moved from Moderate to Low in January 2018.
- A new risk which refer to 'Impact of BREXIT on college business' was added in January 2018 and in March was given a Moderate status.
- A risk which refers to the 'national pay bargaining resulting in unaffordable settlement', positively moved from High to Moderate in January 2018, however adversely moved back from Moderate to High on the RAG scale in March 2018 due to uncertainty over funding;
- A risk 'cyber security breaches within the college' positively moved from High to Moderate on the RAG scale in March 2018. The College attained its Cyber Essentials Plus certificate.
- In March 2018 two Low risks referring to 'Mismatch of Staff Resource to Need' and 'Maintaining Senior Level Capacity' were combined into a new risk 'Workforce Planning and Development' and assigned a status of Low.
- In March 2018 two Low risks referring to 'Estates/Infrastructure Cannot Meet Current Business Need' and 'Estates/Infrastructure not aligned to Curriculum Development' were combined into a new risk 'Estates/Infrastructure not aligned to Business Need' and assigned a status of Moderate.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

- An emerging risk 'Employers pension contributions increase' will be considered in November 2018.

### ***Capacity to handle risk***

The Board of Management has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board of Management is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that have been in place for the period ending 31 July 2018, and up to the date of approval of the annual report and financial statements which accords with good practice as outlined in the UK Corporate Governance Code 2016. This process is regularly reviewed by the Board of Management.

### **Statement on Internal Control**

#### ***Scope of responsibility***

The Board of Management is responsible for ensuring the effectiveness of the College's systems of internal control.

The Board of Management has delegated the day-to-day responsibility to the Principal and Chief Executive, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives whilst safeguarding public funds and assets for which the Principal and Chief Executive is responsible, in accordance with the Financial Memorandum between the College and the Scottish Funding Council (SFC). The Principal and Chief Executive is also responsible for reporting to the Board of Management any material weaknesses or break-down in internal control.

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

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

#### ***The risk and control framework***

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board of Management;
- regular reviews by the Board of Management of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The College has an internal audit service, and the Board ensures that there is objectivity and independence in the selection of auditors for non-audit work through a competitive tendering framework. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Board of Management on the recommendation of the Audit & Risk Assurance Committee.

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

The Chair of the Audit & Risk Assurance Committee provides the Board of Management with a report on internal audit activity in the College annually. The report includes the Chair of the Audit & Risk Assurance Committee's independent opinion on the adequacy and effectiveness of the College's system of risk management, internal controls and governance processes.

### Review of Effectiveness

The Principal and Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The Principal and Chief Executive's review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditor. The conclusion in their annual report was that Edinburgh College has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks;
- the work of the Executive and Managers within the College who have responsibility for the development and maintenance of the internal control framework and annual assurance statements;
- comments and recommendations made by the College's external auditor;
- handover and discussions with the outgoing Principal; and
- the College's risk management assurance group.

The Principal and Chief Executive has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Audit & Risk Assurance Committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place. On the basis of these assurances, the Principal & Chief Executive is able to confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM/accounts direction, have operated for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts. Additionally external auditors tested a range of key controls within the main financial processes during the year and did not identify any significant control weaknesses.

Over the period from July 2017 to May 2018 Edinburgh College appointed an Information Manager, an Information Asset Auditor and a Data Protection Officer to review and significantly improve the college's approach to information and records management (IRM) and data protection compliance. The college initiated its first full information asset audit in April 2018, to identify and centrally catalogue all information assets across the organisation. This is due for completion by March 2019 and will underpin the college's approach to IRM (including the deployment of a Business Classification Scheme in 2019) and enhance business intelligence more generally. The College has deployed mandatory information security and data protection compliance training for all staff, published a revised Data Protection Policy and privacy notices and entered into data sharing agreements with a range of external partners.

The Executive Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the Faculties and Departments. The Executive Team and Audit & Risk Assurance Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit & Risk Assurance Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board of Management's agenda includes a standing item for consideration of risk and control and receives reports thereon from the Executive Team and the Audit & Risk Assurance Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The Board met on 11 December 2018

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

and approved the year-end financial statements and the external auditors report, taking account of Audit & Risk Assurance Committee recommendations.

### Going Concern

The Board can confirm the College is a going concern based on its financial performance and all other relevant information. The annual financial statements have been prepared on a "going concern" basis. For further information refer to the Going Concern section on page 6.

### Conclusion

Based on the information above, it is the opinion of the Principal and Chief Executive and the Board of Management that the College has made good progress over the financial year to 31 July 2018. This is evidenced through the good progress shown in the implementation of the Business Transformation Plan, the approval by the Board of Management of the Edinburgh College Strategic Plan 2017/22 in September 2017, and the development of the accompanying Blueprint and the programmes and projects it contains. Further to this, the Principal and Chief Executive and the Board of Management are content that effective arrangements are in place for the identification, evaluation and management of organisational risk, and the monitoring of internal controls.

The Board will ensure the effective implementation of the Edinburgh College Strategic Plan 2017/22 (and the associated Blueprint) going forward, and will continue to evaluate and enhance its own practice through the Board Development Plan and other such mechanisms.

Approved by order of the members of the Board of Management on 11 December 2018.

### Membership of the Board of Management

#### BOARD OF MANAGEMENT

The College's Board of Management is drawn from industry and the professions. The wide experience of the Board ensures the strategic direction of the College is set in conjunction with industry's needs and that due attention is paid to maintaining a financially sustainable College.

The members who served the College during the year were as follows:

Board Member	Status of Appointment	New Appointment during the year and subsequently, up to the date of signing of Accounts	Month of departure from the Board during the year and subsequently, up to the date of signing of the Accounts
Beth Anderson *	Vice President of Edinburgh College Students' Association		
Colin Arthur	Staff Representative (Academic)		1/10/2017
Neal Black	President of Edinburgh College Students' Association		1/7/2018
Annette Bruton	Principal and Chief Executive		2/9/2018

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018**

Audrey Cumberford	Principal and Chief Executive	3/9/2018	
Bruce Cassidy	Staff Representative (Support)		
Mike Cowley	Staff Representative (Academic)	1/12/2017	18/9/2018
Ian Diamond	Regional Chair	1/3/2018	
Bob Downie	Industry, Commerce or Public Sector Representative		2/11/2018
Stephen Dunn	Industry, Commerce or Public Sector Representative		16/8/2018
Lesley Drummond	Industry, Commerce or Public Sector Representative		
Sarah Hay	President of Edinburgh College Students' Association	1/7/2018	
Sam Hogrefe	Industry, Commerce or Public Sector Representative	1/3/2018	
Alan Johnston	Industry, Commerce or Public Sector Representative		1/3/2018
Ann Landels	Industry, Commerce or Public Sector Representative		
Ian McKay	Regional Chair		2/3/2018
Nicola McKenzie	Industry, Commerce or Public Sector Representative		
Nigel Paul	Industry, Commerce or Public Sector Representative		
Fiona Riddoch	Industry, Commerce or Public Sector Representative		
Azra Sharif-Qayyum	Industry, Commerce or Public Sector Representative		
Judith Sischy	Industry, Commerce or Public Sector Representative		
Jeanette Stevenson	Industry, Commerce or Public Sector Representative		
Ian Young	Industry, Commerce or Public Sector Representative		

*\*Beth Anderson was reappointed as the ECSA Student Vice President in July 2018.*



## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Professional Advisors

Internal Auditor:	Scott Moncrieff, Edinburgh
Bankers:	Royal Bank of Scotland, Edinburgh
Solicitors:	Anderson Strathern LLP, Edinburgh
External Auditor:	Audit Scotland

Helen Russell (Audit Scotland) is appointed under the Public Finance and Accountability (Scotland) Act 2000 to carry out the external audit of Edinburgh College.

### Committees

The following table shows the committees that each current member of the Board of Management served during the year:

	Academic Council	Audit & Risk Assurance	External Engagement	Nominations	Policy & Resources	Remuneration
<b>Member from start of period to October 2017</b>						
Colin Arthur	✓			✓		
<b>Member from start of period to March 2018</b>						
Alan Johnston			✓		✓	✓
Ian McKay				✓	✓	
<b>Member from start of period to August 2018</b>						
Stephen Dunn					✓	✓
<b>Member from start of period to September 2018</b>						
Annette Bruton	✓			✓		
<b>Member from start of period to November 2018</b>						
Bob Downie		✓				
<b>Member from start of period to Present</b>						
Bruce Cassidy			✓	✓		✓
Lesley Drummond			✓			
Ann Landels	✓					
Nicola McKenzie					✓	✓
Nigel Paul		✓			✓	
Student President*	✓		✓			
Student Vice President	✓			✓		
Fiona Riddoch	✓			✓	✓	
Azra Sharif-Qayyum			✓			
Judith Sischy		✓				
Jeanette Stevenson	✓					
Ian Young			✓	✓	✓	
<b>Member from December 2017 to September 2018</b>						
Mike Cowley	✓			✓		
<b>Members from March 2018 to present</b>						
Ian Diamond				✓	✓	
Sam Hogrefe			✓			

\*Includes membership of Neal Black (left June 2018) and Sarah Hay

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

The non-Board membership of the Academic Council for the four Academic Council meetings held in 2017/18 was as follows: Iris Aitchison, Cameron Connor, Tia Cotton, Valerie Jackman, Ethlinda Lashley-Scott, Neil Manning, Kevin Maloney, Ryan Quinn, Jennifer Russell and Chris Turnbull.

Ian Doig (Industry, Commerce or Public Sector Representative) is a co-opted member of the Audit & Risk Assurance committee.

### Remuneration and Staff Report

#### Remuneration Policy

Under the College's Financial Regulations, which are consistent with the Code of Good Governance for Scotland's Colleges, the Board of Management has the authority to appoint, grade, suspend, dismiss and determine the pay and conditions of service of the Principal and other senior post-holders.

Under its Scheme of Delegation the Board delegates authority to the Remuneration Committee to consider, approve and report to the Board on decisions regarding the remuneration, package, terms and conditions and, where appropriate, severance payments of the Principal and Chief Executive and the Executive Team.

The Remuneration Committee comprises three independent Non-Executive Board Members, one of whom is appointed Chairman. The Chairman of the Board may not be Chairman of the Remuneration Committee.

The Remuneration Committee meets as required and not less than once per year.

#### Remuneration of Regional Chair and Senior Management including salary and pension entitlements

##### Salary entitlements – audited

The following table provides detail of the remuneration and pension interests of senior management:

Name	year ended 31 July 2018			year ended 31 July 2017		
	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ian McKay, Chair of the Board of Management*	20 – 25	-	20 – 25	30 – 35	-	30 – 35
Sir Ian Diamond, Chair of the Board of Management	-	-	-	-	-	-
Annette Bruton, Principal and Chief Executive	140 – 145	10 – 15	155 – 160	140 – 145	0 – 5	140 – 145
Craig Wilson, Deputy Principal/VP People, Performance and Planning (Retired 30 Nov 2016)**	-	-	-	25 – 30	**	**
Alan Williamson, Chief Operating Officer	85 – 90	30 – 35	120 – 125	85 – 90	60 – 65	145 – 150
Jonathan Pearson, Assistant Principal	70 – 75	15 – 20	85 – 90	70 – 75	50 – 55	120 – 125
Jonathan Buglass, Assistant Principal	70 – 75	15 – 20	85 – 90	70 – 75	60 – 65	130 – 135
Michael Jeffrey, Assistant Principal	70 – 75	15 – 20	85 – 90	70 – 75	40 – 45	110 – 115

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Name	year ended 31 July 2018			year ended 31 July 2017		
	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Alex Craig, Depute Principal (start date 1 Oct 2016)***	105 – 110	5 – 10	110 – 115	80 – 85	15 – 20	100 – 105

\* The salary for Ian McKay for the year ended 31 July 2018 is pro-rata after taking into account his leaving date of 02 March 2018. His full year equivalent would have fallen into the £30k – £35k band. The new Chair of the Board of Management has waived his right to a salary for the year ended 31 July 2018.

\*\* Craig Wilson retired from the College on 30 November 2016 and pension figures for July 2017 are therefore not available.

\*\*\* The salary for Alex Craig, Depute Principal for the year ended 31 July 2017 is pro-rata after taking into account his starting date of 01 October 2016.

There were no performance related payments or bonuses paid in the year (2017: £nil).

Board members not listed above received no remuneration.

### Board Member Remuneration

The Regional Chair is entitled to receive remuneration in accordance with instruction from Scottish Government. There is no remuneration for non-executive director posts on the Board of Management. Expenses incurred are paid as a result of carrying out the duties of the appointment including reasonable travel and subsistence.

On appointment as Chair of the Edinburgh College Board of Management, Sir Ian Diamond requested not to receive a salary for the period of his tenure. Other than reimbursement for appropriate expenses from 01 March to 31 July 2018, the Chair of the Board of Management received no further remuneration.

### Accrued Pension Benefits

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

Both STSS and LGPS were final salary schemes until 31 March 2015, meaning that members' benefits were based on the final year's pay and the number of years that the person has been a member of the scheme. From 1 April 2015, both schemes became career average schemes, meaning that benefits are based on the career average earnings of the member, and the number of years that the person has been a member of the scheme.

The schemes' normal retirement age is the state retirement age.

Contribution rates are set annually for all employees, and depend on the salary of the employee. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on final pensionable pay to 31 March 2015, career average earnings from 1 April 2015, and years of pensionable service.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Senior Officials' Pension - audited

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

Name	Accrued pension and related lump sum at pension age at 31 July 2018 £'000	Real increase in pension and related lump sum 1 August 2017 to 31 July 2018 £'000	Cash equivalent transfer value at 31 July 2018 £'000	Cash equivalent transfer value at 31 July 2017 £'000	Real increase in cash equivalent transfer value £'000
<b>Annette Bruton</b>					
Pension	100 – 105	0 – 2.5			
Related lump sum	-				
Transfer value			1,729	1,710	(40)
<b>Alan Williamson</b>					
Pension	35 – 40	0 – 2.5			
Related lump sum	65 – 70	0 – 2.5			
Transfer value			825	760	38
<b>Jonathan Pearson</b>					
Pension	15 - 20	0 - 2.5			
Related lump sum	40 - 45	0 - 2.5			
Transfer value			326	291	24
<b>Jonathan Buglass</b>					
Pension	20 - 25	0 - 2.5			
Related lump sum	50 - 55	0 - 2.5			
Transfer value			373	336	25
<b>Michael Jeffrey</b>					
Pension	10 - 15	0 - 2.5			
Related lump sum	-	-			
Transfer value			98	81	13
<b>Alex Craig</b>					
Pension	25 -30	0 – 2.5			
Related lump sum	75 - 80	2.5 - 5			
Transfer value			608	559	35

**Cash Equivalent Transfer Value (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

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

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

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

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Real increase in CETV

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

Note 8 to the accounts provides information on senior post holders' remuneration.

### Compensation for Loss of Office - audited

Twenty two people left the College under voluntary severances arrangements during the year. They received compensation payments totalling £576k. The cost to the College of strain costs in pensions (as required under the scheme rules) was £16k.

The table below summarises the exit packages by cost band.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages (audited) by cost band
<£10,000	1	4	5
£10,000 - £25,000	-	9	9
£25,000 - £50,000	-	8	8
£50,000 - £100,000	-	1	1
Total number of exit packages	1	22	23
Total Cost (£'000)	5	576	581

### Median Remuneration - audited

Based on the 12 month equivalent figures above, the remuneration of the highest paid official in the organisation in the financial year 2017/18 was £145,000 (2016/17: £145,000). This was 3.9 times (2016/17:4.3 times) the median remuneration of the workforce which was £37,105 (2016/17: £34,083). The range of staff full-time equivalent salaries at 31 July 2018 was from £15,990 to £145,000 (2016/17: £15,990 to £145,000).

### Staff Report - audited

	2018 Number	2017 Number
<b>Staff Numbers</b>		
The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:		
Senior Management	6	6
Teaching Staff	500	502
Teaching Support	30	31
Administration and Central Services	409	425
Premises	27	31
Catering and Residences	44	45
Other Income Generating Activities	37	43
<b>Total</b>	<b>1,053</b>	<b>1,083</b>

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

### Staff Costs

	2018 £000	2017 £000
Senior management	821	724
Teaching staff	24,681	24,842
Teaching Support	838	1,129
Administration and central services	15,760	16,664
Premises	845	895
Catering and residences	1,174	1,075
Other expenditure:		
- Revaluation of Early Retirement Provision	40	77
- FRS102 s28 Pensions Adjustments	1,542	1,572
- Other income generating activities	1,142	1,366
- Movement in Employee Leave Accrual	86	(59)
<b>Total</b>	<b>46,929</b>	<b>48,285</b>

Senior management costs for 2018 includes a £95k voluntary severance payment made to the Deputy Principal who left the College in July 2018.

The number of staff, including senior post-holders and the Principal and Chief Executive who received emoluments including benefits in kind, but excluding pension contributions and payments for loss of office in excess of £60,000, in the following ranges was:

	2018 Senior Post Holders	2018 Other Staff	2017 Senior Post Holders	2017 Other Staff
£60,001 - 70,000	-	9	3	6
£70,001 - 80,000	3	-	-	-
£80,001 - 90,000	1	-	2	-
£90,001 - 100,000	-	-	-	-
£100,001 - 110,000	1	-	-	-
£110,001 - 120,000	-	-	-	-
£120,001- £150,000	1	-	1	-
	<b>6</b>	<b>9</b>	<b>6</b>	<b>6</b>

### Staff Profile

At 31 July the College employed 514 male members of staff and 723 female members of staff.

The Executive Team (including the Principal) are included within the above staff figures. The composition of the Executive Team is 5 male members of staff and 1 female member of staff and all are on permanent contracts.

The proportion of staff absence during 2017/18 was 4.3% (2016/17 4.4%).

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Salaries and Related costs – audited

	2018	2018	2018	2017
	Directly employed staff on permanent UK contracts £'000	Other staff including short term contract, seconded and agency staff £'000	Total £'000	Total £'000
Wages and salaries	34,903	331	35,234	35,494
Social security costs	3,441	1	3,442	3,409
Other pension costs	6,043	3	6,046	5,982
<b>Total</b>	<b>44,387</b>	<b>335</b>	<b>44,722</b>	<b>44,885</b>
Average number of FTE	1050	13	1,063	1,090

Facility time - audited

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, the College provided the following support through paid facility time for union officials working at the College for the Government reporting period from 1 April 2017 to 31 March 2018.

Relevant union officials

Number of employees who were relevant union officials during the relevant period:	Full-time equivalent employee number:
20	19

Percentage of time spent on facility time

Percentage:	Number of employees:
0%	-
1%-50%	-
51%-99%	-
100%	20

Percentage of pay bill spent on facility time

Total cost of facility time:	£0.09m
Total pay bill:	£45m
Percentage of the total pay bill spent on facility time:	0.2%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours:	100%
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Off-Payroll working through an intermediary (IR35) – workers engaged through a company

The HM Treasury off-payroll working arrangements are in place to ensure that where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and NICs as an employee. The College has a procedure to ensure that if it plans to offer temporary employment to someone who works through their own intermediary, the off-payroll working rules are applied accordingly.

## Equality and Diversity Policy

Edinburgh College is committed to equality of opportunity and to a culture that respects difference. We are committed to providing an inclusive ethos and environment, where everyone feels welcome, supported and respected.

We believe that, as an employer and public body, we can play a leading part in the promotion of equality and diversity more widely. We recognise that equality of access to education is crucial in unlocking many significant opportunities in life.

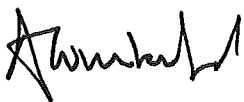
We aim to help remove barriers and advance equality for groups who experience disadvantage in our society, such as disabled people, carers or those from other vulnerable groups. Our Equality and Diversity Policy statement sets out our key principles and duties relating to equality, while further policies and procedures cover related issues connected with the staff and student experience.

As part of our Public Sector Equality Duty, every two years we report on our progress in achieving our equality aims, and every four years we develop a new set of Equality Outcomes. Our most recent report was in April 2017, when we published an Equality Report covering:

- A new set of Equality Outcomes 2017/21 which set out where we want to be in terms of eliminating discrimination, advancing equality of opportunity, and fostering good relations between people of different groups.
- Information on the progress we have made in achieving our previous Equality Outcomes.
- Information on the progress we have made in “mainstreaming” our equality duties into all functions. Mainstreaming means integrating equality into the day-to-day working of the College.
- Gender pay gap information.

## Employee Participation and Development

There is staff representation on the Board of Management and relevant committees. Consultation takes place in regular meetings held with unions. Staff development is facilitated through continuing professional development and a development and review processes designed to support employees in their career progression.



Audrey Cumberland  
Principal and Chief Executive

11 December 2018



Sir Ian Diamond  
Chair of Edinburgh College Board of Management

11 December 2018



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

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

**Opinion on financial statements**

I have audited the financial statements in the annual report and accounts of Edinburgh College for the year ended 31 July 2018 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2018 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

**Basis of opinion**

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

**Conclusions relating to going concern**

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

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

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

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

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

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

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

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

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

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

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

### **Opinion on regularity**

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

### **Responsibilities for regularity**

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

### **Report on other requirements**

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

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

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

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

#### **Matters on which I am required to report by exception**

I am required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Helen Russell BA CPFA  
4th Floor  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

12 December 2018

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

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 JULY 2018**

	Notes	2018 £000	2017 £000
<b>Income</b>			
Scottish Funding Council Grants	2	50,763	52,136
Tuition Fees and Education Contracts	3	10,632	10,780
Other Grant Income	4	1,074	798
Other Operating Income	5	3,763	3,961
Investment Income	6	20	1
<b>Total Income</b>		<b>66,252</b>	<b>67,676</b>
<b>Expenditure</b>			
Staff Costs – Recurring	7	46,332	46,402
Other Staff Costs – Exceptional	7	597	1,883
Other Operating Expenses	9	14,964	15,315
Depreciation	12	5,450	5,289
Interest and other Finance Costs	10	1,208	1,266
<b>Total Expenditure</b>		<b>68,551</b>	<b>70,155</b>
<b>Deficit for the year before other gains and losses</b>		<b>(2,299)</b>	<b>(2,479)</b>
Gain on revaluation of assets	12	2,461	-
<b>Surplus/(Deficit) for the year</b>		<b>162</b>	<b>(2,479)</b>
Actuarial gain in respect of pension schemes	22	14,270	5,473
Unrealised surplus on revaluation	12	16,063	-
<b>Total Comprehensive income for the year</b>		<b>30,495</b>	<b>2,994</b>

The Statement of Comprehensive Income is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 28 provides details of the adjusted operating position on a Central Government accounting basis.

**STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 JULY 2018**

	Income and expenditure reserve £000	Revaluation reserve £000	Total £000
Balance at 1 August 2016	14,824	28,141	42,965
(Deficit) from the income and expenditure statement	(2,479)	-	(2,479)
Other comprehensive income	5,473	-	5,473
Transfers between revaluation and income and expenditure reserves	623	(623)	-
<b>Total comprehensive income for the year</b>	3,617	(623)	2,994
<b>Balance at 31<sup>st</sup> July 2017</b>	<b>18,441</b>	<b>27,518</b>	<b>45,959</b>
Surplus from the income and expenditure statement	162	-	162
Other comprehensive income	14,270	16,063	30,333
Transfers between revaluation and income and expenditure reserves	623	(623)	-
<b>Total comprehensive income for the year</b>	15,055	15,440	30,495
<b>Balance at 31 July 2018</b>	<b>33,496</b>	<b>42,958</b>	<b>76,454</b>

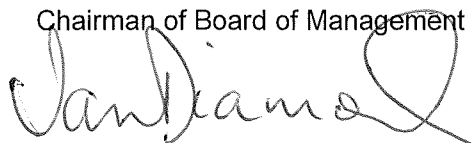
The pension and Income and expenditure reserves have been combined (because the SORP does not provide for a separate pension reserve), which has resulted in different prior year figures for the Income and expenditure reserve.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

<b>BALANCE SHEET AS AT 31 JULY 2018</b>			
	Notes	2018	2017
		£000	£000
<b>Fixed Assets</b>			
Tangible Fixed Assets	12	162,607	146,462
		<b>162,607</b>	<b>146,462</b>
<b>Current Assets</b>			
Stock		89	136
Debtors	13	2,244	2,141
Cash and cash equivalents		945	4,799
		<b>3,278</b>	<b>7,076</b>
<b>Current Liabilities</b>			
Less: Creditors – amounts falling due within one year	14	(9,242)	(13,896)
<b>Net Current (Liabilities) / Assets</b>		<b>(5,964)</b>	<b>(6,820)</b>
<b>Total Assets less current liabilities</b>		<b>156,643</b>	<b>139,642</b>
Less: Creditors – amounts falling due after more than one year	15	(65,704)	(66,810)
Less: Provisions for liabilities and charges	17	(4,580)	(4,854)
<b>Net assets excluding pension liability</b>		<b>86,359</b>	<b>67,978</b>
Net Pension Asset / (Liability)	22	(9,905)	(22,019)
<b>Net Assets including pension liability</b>		<b>76,454</b>	<b>45,959</b>
<b>Reserves</b>			
Income and Expenditure Account		33,496	18,441
Revaluation Reserve	19	42,958	27,518
<b>Total Reserves</b>		<b>76,454</b>	<b>45,959</b>

The financial statements on pages 36 to 63 were approved and authorised for issue by the Board of Management on 11 December 2018 and signed on its behalf by

**Sir Ian Diamond**  
Chairman of Board of Management



**Audrey Cumberland**  
Principal and Chief Executive



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 JULY 2018**

	Notes	2018 £000	2017 £000
<b>Cash Flow from operating activities</b>			
Deficit for the year		162	(2,479)
<b>Adjustment for non-cash items</b>			
Depreciation		5,450	5,289
Deferred capital grants released to income	2	(3,390)	(3,054)
Gain on revaluation of assets		(2,461)	-
Decrease / (increase) in Stock		47	(14)
(Increase) / decrease in debtors	13	(103)	504
(Decrease) / Increase in creditors	14	(5,146)	980
(Decrease) in provisions	17	(274)	(220)
Pension costs less contributions payable	22	1,542	1,572
Loss on sale of assets		-	10
<b>Adjustment for investing or financing activities</b>			
Investment income	6	(20)	(1)
Interest payable	10	1,208	1,266
<b>Net Cash (Outflow) / inflow from operating activities</b>		<b>(2,985)</b>	<b>3,853</b>
<b>Cash flows from investing activities</b>			
Investment income	6	20	1
Proceeds from sale of fixed assets	12	-	14
Payments made to acquire fixed assets	12	(2,938)	(1,597)
Deferred capital grant received	18	3,071	1,583
		<b>153</b>	<b>1</b>
<b>Cash flows from financing activities</b>			
Interest paid	10	(594)	(640)
Repayments of amounts borrowed	16	(428)	(406)
		<b>(1,022)</b>	<b>(1,046)</b>
<b>(Decrease)/ increase in cash and cash equivalents in the year</b>		<b>(3,854)</b>	<b>2,808</b>
Cash and cash equivalents at beginning of the year		4,799	1,991
<b>Cash and cash equivalents at end of the year</b>		<b>945</b>	<b>4,799</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2018****1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Basis of Preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice: *Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP)*, the 2017/18 Government Financial Reporting Manual (FReM) issued by HM Treasury and in accordance with applicable Accounting Standards. They have been prepared in a form prescribed by Scottish Ministers and in accordance with paragraph 28 of Schedule 2 of the Further and Higher Education (Scotland) Act 1992, the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) and in accordance with guidance published by the Scottish Funding Council.

The College meets its day to day, and medium to long term funding requirements through a combination of cash draw-down from the SFC, and a term loan provided by its bankers. Under the terms of the loan agreement the College must meet certain financial covenants. These were met during 2017/18 and are forecast to be met in the 12 months from the date of these financial statements.

The College faced a number of financial challenges as a result of reduced activity. A transformation plan was put in place in 2015/16 which was designed to deal with these challenges and put the College on a sustainable financial footing. Although the College successfully completed the implementation of our Business Transformation Plan in 2018, the plan included financial targets for the three year period to 2018/19. The overall financial targets for the first two years have been exceeded and the 2018/19 budget has been approved on the basis that the third year will also be met. Edinburgh College has in 2018 developed a new Strategic Plan outlining the vision over the next five years supplemented by a blueprint outlining how the plan will be delivered.

The Board of Management has approved financial forecasts which outline the repayment of the Business Transformation Plan grant of £2.9m received in 2016/17. The Scottish Funding Council provided written assurances in 2015/16 that it will support the College during the period through to 2018/19 and, provided the College demonstrates satisfactory progress against its transformation plan, provide such funding as is required to enable it to remain a viable organisation. .

On this basis the Board of Management continues to adopt the going concern basis in preparing these financial statements.

**Basis of Accounting**

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

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

**Continuing Activities**

The results reported in this statement of accounts are derived from the continuing activities of Edinburgh College.



## 1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### Group Accounts

The financial statements include the College only. In accordance with FRS 102 section 9, the activities of the Students' Association and Edinburgh College Development Trust have not been consolidated because the College does not control those activities.

### Recognition of Income

Edinburgh College has adopted the Accruals model for recognition of revenue grants from the Scottish Funding Council, and such grants are credited to the Statement of Comprehensive Income in the period in which the related costs are recognised.

Edinburgh College has adopted the Accruals model for recognition of capital grants from the Scottish Funding Council or other governmental bodies received in respect of the acquisition or construction of fixed assets, and such grants are treated as deferred capital grants within liabilities and amortised in line with depreciation over the life of the assets.

Grants received from non-governmental bodies are recognised when performance-related conditions related to the grant are met.

Income from tuition fees is recognised in the period for which it is received, and includes all fees chargeable to students or their sponsors.

### 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.

### Post-Retirement Benefits

Retirement benefits (apart from enhanced early retirements) to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (STSS), and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded. Contributions to the STSS are charged as incurred.

The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a projected benefit method such that contributions to the STSS scheme are charged to the Statement of Comprehensive Income 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 assets of the LGPS are measured using closing market values. The LGPS liabilities are measured using the projected unit credit 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 employees service in the period, is charged to the statement of comprehensive income. 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 other comprehensive income.

The costs of enhanced early retirement benefits are borne directly by the College. The College has made provision for the enhanced pensions paid to former employees of the STSS who have taken early retirement.

The STSS enhanced pension provision is revalued annually, in accordance with actuarial factors.

## 1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### FRS 102 Section 28

Under the definitions set out in Financial Reporting Standard (FRS) 102 Section 28, Retirement Benefits, the STSS 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 FRS 102 Section 28 and has accounted for its contribution to the scheme as if it were a defined contribution scheme. The College has set out in note 22 the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

### Tangible Fixed Assets

Fixed assets are capitalised at their cost of acquisition and/or installation. The threshold for capitalisation of assets is £10,000; however, individual assets whose costs fall below the threshold, but are of a similar type, will be grouped. All capitalised assets are detailed on a fixed asset register and are regularly reviewed for impairment.

#### a. Land and Buildings

Land and buildings are stated in the balance sheet at valuation less amounts written off by way of depreciation. They have been valued at depreciated replacement cost on an existing use basis, which is considered to be equivalent to open market value on an existing use basis. Heritable land is not depreciated. Heritable buildings are depreciated over the expected useful economic life to the College of up to 50 years. Revaluations are recognised in other comprehensive income.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. Related government grants are released to the Statement of Comprehensive Income over the useful economic life of the related asset on a basis consistent with the depreciation policy. Related non-government grants are recognised in the Statement of Comprehensive Income when any performance-related conditions are fulfilled.

Where land and buildings are acquired from other income, they are capitalised and depreciated over their useful economic life up to 50 years.

Finance costs which are directly attributable to the construction of buildings are capitalised as part of the cost of those assets.

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

Buildings or work under construction are accounted for at cost. These assets are not depreciated until they are brought into use.

The cost of routine corrective maintenance is charged to the Statement of Comprehensive Income in the period it is incurred.

#### b. Equipment

Equipment costing less than £10,000 per individual item is charged to the Statement of Comprehensive Income in the year of acquisition. However, individual assets whose cost falls below the threshold and pose a risk of fraud or theft, but are of a similar type are grouped together and capitalised. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful economic life as follows:

Plant, Equipment, Furnishings and Fittings	up to 10 years
Computer Equipment	up to 5 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the Capitalisation Policy. Related government grants are released to the statement

## 1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

of comprehensive income over the expected useful economic life of the related equipment. Related non-government grants are recognised in the Statement of Comprehensive Income when performance-related conditions are met.

Where equipment is acquired from other income, it is capitalised and depreciated over the expected useful economic life of the equipment.

Equipment is carried at depreciated historical cost, which is used as a proxy for fair value. Depreciated historical cost is deemed to be more appropriate than revaluing for equipment as it is common for such assets to reduce in value, rather than increase, as they are utilised by the College.

### Leased Assets

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 relevant assets are included under fixed assets and the capital element of leasing commitments is shown as an obligation 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 which have the characteristics of finance leases are depreciated over their useful lives.

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

### Taxation

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

### Cash and cash equivalents

Cash for the purposes of the cash flow statement comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

### Provisions

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

### Agency Arrangements

The College acts as an agent in the collection and payment of student support funds including bursary funds, discretionary funds and educational maintenance allowances. Related payments received are not included in the income and expenditure account and are shown separately in note 24, except for a small notional sum of the grant received which is available to the College to cover administration costs relating to the grant.

**1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

FE and HE childcare student support funds receivable and payable are shown in the Statement of Comprehensive Income, and are shown separately in note 25.

**2 FUNDING COUNCIL GRANTS**

	2018 £000	2017 £000
SFC Recurrent Grant	41,878	40,162
FE childcare funds	1,620	1,516
Release of Deferred Capital Grants	3,390	3,054
Voluntary Severance Scheme Grants	576	1,775
Business Transformation Plan Grants	-	2,900
Other SFC Grants	3,299	2,729
	<b>50,763</b>	<b>52,136</b>

**3 TUITION FEES AND EDUCATION CONTRACTS**

	2018 £000	2017 £000
FE Fees – UK	599	666
FE Fees – non EU	1,262	1,305
HE Fees	5,529	5,467
SDS Contracts	728	646
Education Contracts	1,650	1,632
Other Contracts	864	1,064
	<b>10,632</b>	<b>10,780</b>

**4 OTHER GRANT INCOME**

	2018 £000	2017 £000
Employability Contracts	1,013	775
Other Grants	61	23
	<b>1,074</b>	<b>798</b>

**5 OTHER OPERATING INCOME**

	2018 £000	2017 £000
Residences and Catering	1,924	2,036
Nursery Income	800	905
Other Income	1,039	1,020
	<b>3,763</b>	<b>3,961</b>

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

6 INVESTMENT INCOME

	2018 £000	2017 £000
Bank Interest Receivable	20	1
	<b>20</b>	<b>1</b>

7 STAFF COSTS

	2018 Number	2017 Number
<b>Staff Numbers</b>		
The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:		
Senior Management	6	6
Teaching Staff	500	502
Teaching Support	30	31
Administration and Central Services	409	425
Premises	27	31
Catering and Residences	44	45
Other Income Generating Activities	37	43
<b>Total</b>	<b>1,053</b>	<b>1,083</b>

	2018 £000	2017 £000
<b>Recurring Staff Costs</b>		
Salaries	35,017	35,367
Pensions	6,046	5,982
Social Security Costs	3,442	3,409
Apprenticeship Levy	159	54
Revaluation of Early Retirement Provision	40	77
FRS 102 s28 Pensions Adjustments	1,542	1,572
Movement in Employee Leave Accrual	86	(59)
<b>Total Staff Costs - Recurring</b>	<b>46,332</b>	<b>46,402</b>

**Exceptional Staff Costs**

Redundancy	5	-
Voluntary Severance	576	1,800
Pension Strain Costs	16	83
	<u>597</u>	<u>1,883</u>
	<b>46,929</b>	<b>48,285</b>

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

7 STAFF COSTS (Continued)

	2018 £000	2017 £000
Senior management	821	724
Teaching staff	24,681	24,842
Teaching Support	838	1,129
Administration and central services	15,760	16,664
Premises	845	895
Catering and residences	1,174	1,075
Other expenditure:		
- Revaluation of Early Retirement Provision	40	77
- FRS102 s28 Pensions Adjustments	1,542	1,572
- Other income generating activities	1,142	1,366
- Movement in Employee Leave Accrual	86	(59)
	<b>46,929</b>	<b>48,285</b>

The number of staff, including senior post-holders and the Principal and Chief Executive who received emoluments including benefits in kind, but excluding pension contributions and payments for loss of office in excess of £60,000, in the following ranges was:

	2018 Senior Post Holders	2018 Other Staff	2017 Senior Post Holders	2017 Other Staff
£60,001 - 70,000	-	9	3	6
£70,001 - 80,000	3	-	-	-
£80,001 - 90,000	1	-	2	-
£90,001 - 100,000	-	-	-	-
£100,001 - 110,000	1	-	-	-
£110,001 - 120,000	-	-	-	-
£120,001- £150,000	1	-	1	-
	<b>6</b>	<b>9</b>	<b>6</b>	<b>6</b>

8 SENIOR POST-HOLDERS' EMOLUMENTS

Emoluments of the Board of Management

The total remuneration of the Board of Management including pension contributions and benefits in kind but excluding the salaries of employee Board members classed as normal staff amounted to:

	2018 £	2017 £
Salaries as Board Members	20,020	34,320
Allowances, travel and subsistence paid to Board Members	6,671	4,380
	<b>26,691</b>	<b>38,700</b>

The Salary as Board Member relates to the chairman of the Regional Board, who was appointed by the Scottish Ministers and receives remuneration in line with rates specified by the Scottish Government. A new chairman was appointed from March 2018 and he has waived his salary hence the reduction above.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

**Emoluments of Senior Post-holders**

	2018 Number	2017 Number
The number of Senior post-holders including the Principal was:	6	6
The emoluments of Senior post-holders (excluding NI), including the Principal was:	2018 £000	2017 £000
Salaries	555	553
Voluntary severance	95	-
Employers' Pension Contribution	96	96
	<b>746</b>	<b>649</b>

The above emoluments include amounts paid to the Principal. The Principals emoluments for the year totalled:

	2018 £000	2017 £000
Salary	145	145
Employers' Pension Contribution	26	25
	<b>171</b>	<b>170</b>

The Principal and senior post-holders are ordinary members of their appropriate pension scheme and contributions are paid at the same rates as other scheme members.

One senior post-holder was given voluntary severance in July 2018.

Compensation for loss of office paid to former senior post holders including former Principals – not included in the above emoluments:

	2018 £000	2017 £000
Compensation payable to former senior post holders:	<b>95</b>	-

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

9 OTHER OPERATING EXPENSES

	2018	2017
	£000	£000
Teaching	2,927	2,763
Administration	4,518	4,989
Premises	4,417	4,676
Planned Maintenance	50	29
Other income generating activities	1,045	1,023
Other employee related costs	171	133
Childcare	1,620	1,516
Agency Staff	216	186
	<b>14,964</b>	<b>15,315</b>

	2018	Restated 2017
	£000	£000
Other expenses include:		
Auditor's Remuneration (including irrecoverable VAT):		
- External Auditor's Remuneration – Audit	29	29
- Internal Audit (including Student Support Funds Audit)	31	36
Operating lease payments	361	355

2017 Operating lease payments have been restated due to include amounts of £143k that were omitted from the disclosure.

10 INTEREST PAYABLE

	2018	2017
	£000	£000
Pension Finance Cost – interest on early retirement provision	-	25
Pension Finance Cost – FRS102 s28 Net interest cost	614	626
On bank loans, overdrafts and other loans: Repayable wholly or partly in more than 5 years	594	615
	<b>1,208</b>	<b>1,266</b>

11 TAXATION

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



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

12 TANGIBLE FIXED ASSETS

	Land & Buildings £000	Plant & Equipment (Owned) £000	Plant & Equipment (Leased) £000	Computers £000	Fixtures & Fittings £000	Total £000
<b>COST OR VALUATION</b>						
At 1 August 2017	147,961	5,920	298	11,080	13,322	178,581
Additions	-	182	-	510	2,379	3,071
Disposals	-	(66)	(298)	(34)	(51)	(449)
Interim Valuation	8,701	-	-	-	-	8,701
<b>At 31 July 2018</b>	<b>156,662</b>	<b>6,036</b>	<b>-</b>	<b>11,556</b>	<b>15,650</b>	<b>189,904</b>
<b>DEPRECIATION</b>						
At 1 August 2017	8,685	4,863	298	8,300	9,973	32,119
Charge for Year	3,289	281	-	1,162	718	5,450
Disposals	-	(66)	(298)	(34)	(51)	(449)
Interim Valuation	(9,823)	-	-	-	-	(9,823)
<b>At 31 July 2018</b>	<b>2,151</b>	<b>5,078</b>	<b>-</b>	<b>9,428</b>	<b>10,640</b>	<b>27,297</b>
<b>NET BOOK VALUE</b>						
<b>At 31 July 2018</b>	<b>154,511</b>	<b>958</b>	<b>-</b>	<b>2,128</b>	<b>5,010</b>	<b>162,607</b>
<b>At 31 July 2017</b>	<b>139,276</b>	<b>1,057</b>	<b>-</b>	<b>2,780</b>	<b>3,349</b>	<b>146,462</b>
Represented by:						
Inherited	7,970	-	-	-	-	7,970
Financed by:						
Capital Grant	51,848	861	-	2,077	4,555	59,341
Other	76,169	97	-	51	455	76,772
Interim Valuation	18,524	-	-	-	-	18,524
<b>At 31 July 2018</b>	<b>154,511</b>	<b>958</b>	<b>-</b>	<b>2,128</b>	<b>5,010</b>	<b>162,607</b>

## 12 TANGIBLE FIXED ASSETS (*Continued*)

To comply with the Government financial reporting manual (FReM), the basis of valuation of land and buildings is a current value basis. Land and buildings were independently valued as at 31 July 2015 for the purposes of the financial statements by external valuers GVA, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirements of RICS Valuation – Professional Standards, January 2014. The basis of valuation used was depreciated replacement cost.

The Government financial reporting manual (FReM) sets out guidance for the College to consider how best to apply the valuation requirements to ensure that the Balance Sheet gives a true and fair view of the value of the assets. The value of assets will be monitored annually and valuation undertaken when deemed necessary.

At July 2018 the college has supplemented the July 2015 quinquennial valuation with an indexation valuation update from external valuers GVA. Taking various factors into account they concluded that a positive indexation factor of 15% was appropriate to buildings. Of the total £18.5m increase in valuation of buildings, £2.5m was posted to the Income and Expenditure account in order to offset losses from previous valuations. There was no change to the valuation of land.

If land and buildings were reported on a cost basis, the carrying value would be £119,560k (2017: £122,740k).

Land and buildings with a net book value of £154,511k (2017: £139,276k) have been funded from Exchequer Funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council to surrender the proceeds.

There is a standard security with Grange Estates over the Hardengreen land (Midlothian campus).

## 13 DEBTORS

<b>Amounts falling due within one year:</b>	2018	2017
	£000	£000
Trade Debtors	569	975
Other Debtors	64	145
Debts due from Students	41	19
Prepayment and Accrued Income	1,570	1,002
	<b>2,244</b>	<b>2,141</b>

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2018 £000	2017 £000
Trade Creditors		1,259	1,126
Payments received in advance		234	335
Other Taxation and Social Security		910	961
VAT		268	257
Lennartz VAT repayable		262	775
Bank Loans	16	449	436
Funding Council Grants		260	2,542
Accruals, Deferred Income and Other Creditors		2,262	4,211
Deferred capital grants - government	18	3,338	3,253
		<b>9,242</b>	<b>13,896</b>

15 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2018 £000	2017 £000
Bank loan	16	9,700	10,141
Lennartz VAT		-	262
Deferred Capital Grants - Government	18	56,004	56,407
		<b>65,704</b>	<b>66,810</b>

The Lennartz repayment is due payable over an outstanding period of up to 1 year, a repayment of £262k is due in 2018/19, which is included in note 14.

16 BORROWINGS

	2018 £000	2017 £000
<b>Bank Loan Repayable:</b>		
In one year or less	449	436
Between one and two years	474	458
Between two and five years	1,581	1,525
In five years or more	7,645	8,158
	<b>10,149</b>	<b>10,577</b>

The Bank Loan is due payable by instalments up to February 2034, with a capital repayment of £449k due in 2018/19. The average interest rate for the duration of the loan is expected to be 5.8%.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement Pension Costs
	£000
At 1 August 2017	4,854
Payments in the year	(314)
Additional in year provision	40
Interest applied	-
<b>At 31 July 2018</b>	<b>4,580</b>

The pension provision relates to unfunded liabilities as a result of the early retirement of former teaching staff in advance of the normal retirement age. The pension provision has been revalued using a net interest rate of 0.5% (2017 – 0.0%).

18 DEFERRED CAPITAL GRANTS

	Funding Council Grants £000	Other Government Grants £000	Total £000
At 1 August 2017	59,217	443	59,660
Received during year			
Land and Buildings	-	-	-
Fixtures, Fittings & Equipment	3,071	-	3,071
Release to Income and Expenditure Account			
Land and Buildings	(1,376)	(12)	(1,388)
Fixtures, Fittings & Equipment	(1,978)	(24)	(2,002)
<b>At 31 July 2018</b>	<b>58,934</b>	<b>407</b>	<b>59,341</b>

19 REVALUATION RESERVE

	2018 £000	2017 £000
<b>Revaluation Reserve</b>		
At 1 August 2017	27,518	28,141
Release of revaluation reserve in respect of depreciation on land and buildings	(623)	(623)
Revaluation of land and buildings in year	16,063	-
<b>At 31 July 2018</b>	<b>42,958</b>	<b>27,518</b>

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

20 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2017	Cash Flows	Other Non Cash Flows	At 31 July 2018
	£000	£000	£000	£000
Cash	4,799	(3,854)	-	945
Debt due within one year	(436)	428	(441)	(449)
Debt due after one year	(10,141)	-	441	(9,700)
	<b>(5,778)</b>	<b>(3,426)</b>	<b>-</b>	<b>(9,204)</b>

21 FINANCIAL COMMITMENTS

At 31 July 2018 the College had total commitments under non-cancellable operating leases for Plant and Equipment and vehicles as follows:

	2018	Restated 2017
	£000	£000
Payable within one year	209	255
Payable between two and five years	307	406
Payable over five years	90	99
	<b>606</b>	<b>760</b>

2017 figures have been restated due to include amounts of £411k that were omitted from the disclosure.

22 PENSION AND SIMILAR OBLIGATIONS

Retirement Benefits

The College participates in two main pension schemes for the College's staff, being the Scottish Teachers' Superannuation Scheme ("STSS") and the Local Government Pension Scheme ("LGPS"). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS). The STSS provided benefits based on final pensionable salary for teaching staff up until 31 March 2015, and based on career average revalued earnings from 1 April 2015. The LGPS provides similar benefits for other staff of the College.

**22 PENSION AND SIMILAR OBLIGATIONS (Continued)****Total pension cost for the year**

	2018 £000	2017 £000
<b>STSS:</b> Contributions paid	3,790	3,121
<b>LGPS:</b> Contribution paid	2,256	2,861
S28 Pensions Movement	<u>1,542</u>	<u>1,572</u>
Total pension cost	7,588	7,554
LGPS Pension Strain Cost	16	83
<b>Total Pension cost for year</b>	<b>7,604</b>	<b>7,637</b>

**Local Government Pension Scheme ("LGPS")**

The LGPS is a pension scheme providing benefits based on final pensionable pay until 31 March 2015 and on career average revalued earning from 1 April 2015. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using a projected unit credit 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 statement of comprehensive income. The expected return on the schemes 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 other comprehensive income.

Contributions to the Scheme are determined by an actuary on the basis of triennial valuations using the Projected Unit Method.

The scheme is administered in accordance with the local Government Pension Scheme (Benefits Membership and Contributions) (Scotland) Regulations 2008, the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008.

The total contributions made for the year were £2,946k of which employer's contributions totalled £2,272k and employees' contributions totalled £674k.

During the current period the employer's contribution rate was 17.5% to 31 March 2018 and 17.8% from 1 April 2018 plus a lump sum payment of £19,158 per month. The employees' contribution rates did not change, however the salary bandings for each rate have increased. Surpluses and deficits are spread over employees' future service lives.

**FRS102 Section 28**

Formal LPF actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The most recent formal valuation was 31 March 2017. Hymans Robertson LLP carried out an Actuarial valuation as at 31 July 2018 for Accounting Purposes. The actuary projected the valuation results of the latest formal valuation date

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

forward to 31 July 2018 using approximate methods. The roll-forward allows for changes in financial assumptions, additional benefit accrual and estimated cash flows over the period.

The principal assumptions of the most recent valuation of the Local Government Pension Scheme are as follows:

	2018	2017
Rate of increase in salaries	4.1%	4.5%
Rate of increase for pensions / inflation	2.4%	2.5%
Discount rate for liabilities	2.8%	2.7%

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

	Males	Females
Current pensioners	21.7 years	24.3 years
Future pensioners	24.7 years	27.5 years

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

ASSETS (WHOLE FUND)	Long term rate of return at 31 July 2018	Value at 31 July 2018 £000	Long term rate of return at 31 July 2017	Value at 31 July 2017 £000
Equities	2.8%	94,050	2.6%	92,970
Bonds	2.8%	12,214	2.6%	14,303
Property	2.8%	8,550	2.6%	7,152
Cash	2.8%	7,329	2.6%	4,768
<b>Total market value of assets</b>		<b>122,143</b>		<b>119,193</b>
		Value at 31 July 2018 £000		Value at 31 July 2017 £000
Present value of scheme liabilities				
Funded		131,389		140,477
Unfunded		659		735
Deficit in the scheme		<b>(9,905)</b>		<b>(22,019)</b>

22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

## Analysis of the amount charged to the Statement Of Comprehensive Income (SOCl)

	2018 £000	2017 £000
Current service cost	(3,755)	(4,488)
Past service cost	(8)	(9)
<b>Total operating charge</b>	<b>(3,763)</b>	<b>(4,497)</b>
<b>Analysis of net return on pension scheme</b>		
Interest Income on Plan Assets	3,244	2,528
Interest cost	(3,858)	(3,154)
<b>Total</b>	<b>(614)</b>	<b>(626)</b>
<b>Credit/charge to other comprehensive income:</b>		
Return on assets	(2,354)	10,214
Other experience	9,006	13
Gains and losses arising on changes in financial assumptions	7,107	(4,754)
Gains and losses arising on changes in demographic assumptions	511	-
<b>Actuarial Gain/(loss)</b>	<b>14,270</b>	<b>5,473</b>
<b>Total charge to the SOCl</b>	<b>9,893</b>	<b>350</b>
	2018 £000	2017 £000
<b>Movement in deficit during year</b>		
At 1 August 2017	(22,019)	(25,294)
Movement in year:		
Current service cost	(3,755)	(4,488)
Employer contributions	2,176	2,877
Contributions in respect of unfunded benefits	45	48
Past service cost	(8)	(9)
Net finance costs	(614)	(626)
Actuarial gain / (loss)	14,270	5,473
<b>Deficit in scheme at 31 July 2018</b>	<b>(9,905)</b>	<b>(22,019)</b>



22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

	2018 £000	2017 £000
<b>Reconciliation of defined benefit obligation</b>		
<b>Liabilities at start of year</b>	141,212	129,697
Current service cost	3,755	4,488
Interest cost	3,858	3,154
Contributions by members	674	894
Actuarial (gain)/loss	(16,624)	4,741
Past Service cost	8	9
Estimated Unfunded benefits paid	(45)	(48)
Estimated Benefits paid	(790)	(1,723)
<b>Liabilities at end of year</b>	<b>132,048</b>	<b>141,212</b>

	2018 £000	2017 £000
<b>Reconciliation of fair value of employer assets</b>		
<b>Opening fair value of employer assets</b>	119,193	104,403
Interest income on plan assets	3,244	2,528
Contributions by members	674	894
Contributions by the employer	2,176	2,877
Contributions in respect of unfunded benefits	45	48
Actuarial (loss)/gain	(2,354)	10,214
Estimated Unfunded benefits paid	(45)	(48)
Estimated Benefits paid	(790)	(1,723)
<b>Closing fair value of employer assets</b>	<b>122,143</b>	<b>119,193</b>

## Amounts for the current and previous accounting periods

	2018 £000	2017 £000
Fair value of employer assets	122,143	119,193
Present value of defined benefit obligation	(132,048)	(141,212)
Deficit	(9,905)	(22,019)
Experience Gains on liabilities	9,006	13

**Scottish Teachers' Superannuation Scheme ("STSS")**

The College participates in the Scottish Teachers' Superannuation Scheme which is an unfunded multi-employer defined benefit scheme providing benefits based on final pensionable pay until 31 March 2015, and career average revalued earnings from 1 April 2015. The assets of the scheme are held separately from those of the College.

The costs of enhanced early retirement benefits are borne directly by the College. The College has made provision for the enhanced pensions paid to former employees of the STSS who have taken early retirement. The STSS enhanced pension provision is re-valued annually in accordance with actuarial factors.

**22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)**

A full actuarial valuation was carried out at 31 March 2012. As the scheme is unfunded there can be no surplus or shortfall. Employer contribution rates are reviewed every 5 years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and they reflect past experience of the scheme.

The main results and principal assumptions of the most recent valuation of the STSS are as follows:

Valuation date	31 March 2012
Valuation method	Prospective benefits
Value of notional assets	£19.6 billion

***Principal financial assumptions as at 31 March 2012:***

Rate of return (discount rate)	3.00%
Rate of return in excess of:	
Earnings increases	2.00%
Price increases	2.00%

The College paid a contribution rate of 17.2% during the year. The pension charge recorded by the College during the accounting period was equal to the contributions payable.

**FRS 102 Section 28**

Under the definitions set out in Financial Reporting Standard (FRS) 102 Section 28, Retirement Benefits, the STSS 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 FRS 102 and has accounted for its contribution to the scheme as if it were a defined contribution scheme. The College has set above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

**23 RELATED PARTY TRANSACTIONS**

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

The Scottish Funding Council and the Scottish Government: Education and Lifelong Learning Directorate are regarded as related parties. During the year the College had various transactions with these bodies and with other entities for which they are regarded as the sponsor department, including Student Awards Agency for Scotland, Scottish Enterprise Edinburgh and Lothian and a number of other Colleges and Higher Education institutions.

The College had transactions (over £5k) during the year, or worked in partnership with, the following publicly funded or representative bodies in which members of the Board of Management or key Managers of the College hold official positions.

23 RELATED PARTY TRANSACTIONS (*Continued*)

Member	Organisation	Position	Sales £000	Purchases £000
Ian Young Ann Landals	Edinburgh College Development Trust	Trustee Trustee	68	5
Alan Johnston	Edinburgh University	Trustee and Court member	10	-
Ian Young	The Business Partnership	Director	-	8
Beth Anderson Neal Black	Edinburgh College Students' Association	Vice President President	213	221 (grants awarded)
Azra Sharif-Qayyum	NHS Lothian	Biomedical Scientist	60	13
Sir Ian Diamond Ian McKay	Colleges Scotland	Board Member	9	69
Annette Bruton	College Development Network	Board Member	-	5
	Hibernian Community Foundation	Director	-	52
Jonny Pearson	Scottish Student Sport	Executive Committee member	-	5

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

24 BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	EMA £000	Other £000	Total for 2018 £000	Total for 2017 £000
Balance brought forward	1,417	3	129	1,549	1,795
Allocation received in the year	8,068	778	909	9,755	10,130
Expenditure	(7,840)	(778)	(879)	(9,497)	(8,578)
Repaid to Funding Council as Clawback	(1,410)	-	(120)	(1,530)	(1,724)
College contribution to funds	-	-	-	-	-
Virements	-	-	-	-	(74)
<b>Balance carried forward</b>	<b>235</b>	<b>3</b>	<b>39</b>	<b>277</b>	<b>1,549</b>
<b>Represented by:</b>					
Repayable to Scottish Funding Council	235	-	39	274	1,546
Payments due from SFC	-	-	-	-	-
Retained by college for students	-	3	-	3	3
	<b>235</b>	<b>3</b>	<b>39</b>	<b>277</b>	<b>1,549</b>

FE Bursary, FE Hardship, Educational Maintenance Allowances and HE Hardship grants are available solely for students, the College acting only as a paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

25 FE AND HE CHILDCARE FUNDS

	2018 £000	2017 £000
Balance b/fwd.	20	175
Allocation received in year	1,699	1,530
Expenditure	(1,620)	(1,588)
Repaid to funding council as clawback	(20)	(171)
Virements	-	74
<b>Balance c/fwd.</b>	<b>79</b>	<b>20</b>

**Represented by:**

Repayable to Scottish Funding Council	<b>79</b>	<b>20</b>
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Further and Higher Education Childcare Fund transactions are included within the College Statement of Comprehensive Income in accordance with the Accounts Direction issued by the Scottish Funding Council.

26 CONTINGENT LIABILITIES

In 2010/11 the College entered into a contract for the placement of students in residential accommodation. The contract includes clauses in relation to a guarantee of occupancy by the College. The possible outflow of resources is not recognised as a liability as there is sufficient uncertainty as to the timing and amounts of any payments required.

27 POST BALANCE SHEET DATE EVENTS

No events occurred between 1 August 2018 and the date these Financial Statements were signed that would materially affect the information provided.

28 ADJUSTED OPERATING POSITION ON CENTRAL GOVERNMENT ACCOUNTING BASIS

	2018 £000	Restated 2017 £000
Deficit before other gains and losses (FE / HE SORP basis) for academic year	(2,299)	(2,479)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,060	2,235
<b>Operating surplus/(deficit) on Central Government accounting basis for academic year</b>	<b>(239)</b>	<b>(244)</b>

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

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018**

Under the FE/HE SORP, the College recorded an operating deficit before other gains and losses of £2,299k for the year ended 31 July 2018. After taking account of the Government non-cash budget, the College shows an "adjusted" deficit of £239k on a Central Government accounting basis. The 2017 Government non-cash budget figure has been restated to be consistent with the current year.

### **29 CAPITAL COMMITMENTS**

Capital commitments contracted for but not provided in the financial statements to £nil (2017: £2,116k). This amount in the prior year was in relation to the College Energy Efficiency Pathfinder (CEEP) project.

APPENDIX 1

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

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

Scottish Funding Council  
13 July 2018

