



For the future you want

**ANNUAL REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 JULY 2017

Scottish Charity Number SCO21213

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

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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 SCO21213. 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 2017.

MESSAGE FROM THE CHAIR OF THE BOARD OF MANAGEMENT

Over the last few years at Edinburgh College, we have been preoccupied with discussing the challenges we've faced and how we deal with them. We have spent a lot of time examining ourselves as well as meeting the demands of external scrutiny as a public sector organisation. This has been an essential process and throughout it we have held firm to our belief that changes made to the business over the last two years will have a positive outcome. Now, having met our credits target for the first time and on course to break-even in 2018/19, we have vindication of our approach. More importantly, we are in a very positive position thanks to some dramatic improvements to our operations.

The nature of transformative change is that it doesn't happen overnight. Since launching our ambitious Business Transformation Plan in 2015 we knew we had to stay patient and have confidence that we knew how to meet our challenges. This year, however, we're seeing major advances resulting from the last two years of transformation work, following a tremendous effort from staff in all areas to make our college better. This is what we set out to do and it gives great cause for optimism.

For the first time since merger, we've not only hit but exceeded our credits target for the year. Overhauling how we recruit and retain students has had an enormous impact on this, as well as changes to the curriculum to make sure it offers what students and businesses need. We've demonstrated through this that the college has a viable long-term future, providing the education the region requires.

Our financial projections are on track towards reaching a break-even position in 2018/19, which will be a phenomenal achievement. In combination with an achievable credits target that will secure our future funding, at that point we will achieve sustainability. Then we will be able to implement plans to grow the organisation, and already we are exploring ways to support innovation and development.

These strands and the figures behind them provide the big picture of our direction of travel but our narrative has many elements; a successful college must also be measured by the student experience and student performance.

New students' satisfaction has increased significantly over the last year and complaints by the college have fallen dramatically. We know students are getting a better experience and that we have mechanisms in place to ensure this continues on an upward trajectory.

We also know that 98% of our successful full-time students go on to work or further studies within eight months of leaving us, which is exactly what we aim for. However, we know too that in some areas our Performance Indicators need significant improvement, so there is much still to be done.

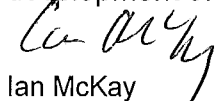
The Board has been very satisfied with how the college has responded to the challenges it experienced in the first couple of years after merger. It's actually been very agile in how it has identified what it needed to change and how it has gone about it, so we have confidence it can solve outstanding issues.

This confidence has been bolstered by the new Edinburgh College Strategic Plan 2017-22, which is a strong and concise roadmap to our development over the next five years. This takes into account the digital revolution that is changing learning and teaching; the

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shifting needs of students, who might not find the traditional classroom model works best for them; the need to support and inspire our people; and the need to be a positive influence on our communities.

With the new Strategic Plan taking over from the Business Transformation Plan as our guide, over the next five years we aim to be at the vanguard of a further education sector that is confident, effective and innovative, and that is playing its role in driving the development of our industries and our country.



Ian McKay
Chair of Edinburgh College Board of Management

PERFORMANCE REPORT

OVERVIEW

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

Principal and Chief Executive's statement

It is now five years since Edinburgh College began and two and a half years since I came to the college as Principal, and the changes in that time have been significant. Regionalisation, changes to funding methodology, reduced public spending and policy changes hasn't always been simple for the sector to get to grips with. At Edinburgh College, at times the changes have been felt acutely. But, half a decade on from our vesting day, this precise moment in time feels like a watershed for the college, with our improvement work now paying off.

Over the last couple of years, Edinburgh College's challenges have included tackling our financial deficit: the result of not having the correct recruitment and retention mechanisms in place to get the right students on the right courses and then supporting them to succeed.

We identified these issues in 2015 and at the end of that year launched the Edinburgh College Business Transformation Plan to make the improvements needed.

The Business Transformation Plan was a complex project with many strands running to implement change and improvement across the entire college. Its successes are many but can now be boiled down into one main point – that this year, for the first time, we have hit our credits target for student activity, and actually exceeded it. To be a successful college, this is our most basic and most fundamental measure. Meeting the target means we're delivering the education we promised and that our region needs, and puts us in a strong position for the future.

We have done this collectively through some extremely hard work from teams throughout the college, in particular to improve recruitment and – just as importantly – retention of students. We have also made changes to our curriculum so it's now a better size and shape to meet the demands of students, business and the economy. This is ahead of more comprehensive redevelopment of the curriculum offer as part of our new *Curriculum Strategy*.

Intensive strategic planning has been taking place across all campuses of the college, not only the curriculum, under the auspices of our new overarching *Edinburgh College Strategic Plan 2017-22*. This follows on from the Business Transformation Plan, which was essentially a recovery plan. Now we are in a much better position and we can adopt a more standard strategic model to shape the

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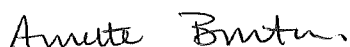
college in the coming years. The new Strategic Plan enables us to look forward with positivity, using the hard-won lessons of our first five years as inspiration to become sector-leading.

The *Strategic Plan* sits alongside its partner document, the *Edinburgh College Blueprint*, which outlines how we will achieve the aims of the plan. It contains 19 strategic change projects that will deliver on our strategic aims and enable us to meet our Regional Outcome Agreement.

Strategies can sometimes seem esoteric until you actually see the work being done on the ground to achieve them. The success of ours is based on involving every department and every colleague, supporting them to deploy their particular skills for the best outcomes. Our aim upon implementing the *Strategic Plan* is that if you ask any member what they're doing, whatever they say you'll be able to link it back clearly to one of the strategic aims.

We know that the current year will be a challenge while we make it towards our projected break-even position. We have, however, over the last year, demonstrated that we can make significant improvements to the student experience even during straitened times. Once we have achieved financial sustainability the really exciting work to develop our college can get underway, including supporting people with vision and ideas to make strides forward in how we teach, how students learn and how to give students a great experience while they're with us.

This Annual Report tells much of the story of the progress we have made over the last year and the platform we now have for the future. We have areas of strength and some areas where challenges remain, but we know for certain now that we have the talent and experience to face challenges head on and continue heading in the right direction.



Annette Bruton
Principal and Chief Executive

Purpose and Activities of the Organisation

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 19,300 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. In 2016/17, 77% of the College's

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income was from public funds. Other sources of income included tuition fees, education and employability contracts, and general operating income.

Key Issues and Risks affecting Edinburgh College

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, and the enhancement of gender balance on certain courses.

Edinburgh College is making good progress in fulfilling these objectives within set timescales, and within its financial envelope. In that context, the College has identified key areas of risk as follows:

Financial Sustainability

In 2015/16 the College agreed a business transformation plan with the Scottish Funding Council following an agreed reduction in its activity level due to lower student numbers, and challenges with student retention. This transformation plan encapsulated the strategic context in which the College will reduce its cost base, and identify sustainable growth by £3.8m over the next three years. The overall financial targets for the first year of the Transformation Plan have been achieved. The 2017/18 budget has been approved on the basis that the second year will also be met. This budget includes the savings achieved from voluntary severance as well as other staff and non-staff costs. These have been offset by national pay award cost pressures.

During the financial year, the Scottish Funding Council provided £1.8 million in financial support of its voluntary severance scheme, which has enabled the College to reduce its cost base in a measured and controlled way. The Scottish Funding Council also provided £2.9 million by way of a repayable grant to cover working capital requirements in advance of the reduction in costs as a result of the credit activity reduction and subsequent release of staff through voluntary severance and other cost reductions.

The College is dependent on public funding for the greater part of its activities, therefore if there is further funding change in government policy this will have a proportionate effect on the College's transformation plan.

Aside from those external factors over which the Board of Management and Executive Team have limited influence, financial sustainability is dependent on the recruitment and retention of students, the quality of the student experience, and the growth of new sustainable income streams. The mitigation of risk in all those areas, are principally prioritised through key programmes being undertaken through the transformation plan. These programmes include curriculum plans for the future, associated workforce plans, and an estates review together with priority based budgeting.

Reputation

The College recognises that its reputation among stakeholders is critical to its sustainability, and that reputational risk will be minimised by ensuring that adequate compliance is in place to satisfy regulatory requirements. Strong relationships with staff, students, internal and external partners, and other stakeholders are also critical to the College's reputational success.

Staff and Culture

The College recognises that ongoing organisational change can have an impact on staff effectiveness. As such, the College will ensure that it retains key skills and experience, and provide appropriate support for staff during periods of organisational change which will be clearly articulated and reinforced by leadership actions.

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 2016/17 and are forecast to be met in the 12 months from the date of these financial statements.

The College has faced a number of financial challenges as a result of reduced funding and is part way through a transformation plan which is designed to deal with these challenges and put the College on a sustainable financial footing. The College has achieved its overall financial and activity targets in the first year of this plan. However completion of this plan will take time and place an immediate demand on resources.

The Board of Management has approved financial forecasts which detail the sources of income and expenditure of the College. These forecasts indicate that, during the periods to 2018/19 there is very little headroom on available cash facilities.

During this period, and until the transformation plan is fully implemented, the College will require the support of its funding body, the Scottish Funding Council, in order to meet its liabilities as they fall due. Specifically the Scottish Funding Council provided funding in the current year of £2.9 million to support the implementation of the transformation plan, repayable at some point in the future which will be determined at a later date. The Scottish Funding Council has also provided a grant of £1.8 million in the current year to meet the costs of making voluntary severances. Additionally, given the lack of headroom on available cash facilities in the forecasts, the Scottish Funding Council has provided written assurances that it will support the College during the period through to 2018/19, by which point the transformation plan will be fully implemented and, provided the College can demonstrate satisfactory progress against its transformation plan, provide such funding as is required to enable it to remain a viable institution.

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

Performance Summary and Overview

Edinburgh College achieved its 2016/17 student activity targets and financial objectives in line with the first year of its three year Transformation Plan.

The annual students' credit target of 186,028 credits was over-achieved by 950 credits, total 186,978 credits. As shown in the table on page 8, the operating deficit was £0.2m, which includes the £2.9m of SFC grant funding. These figures exclude pension actuarial revaluations. The current year total operating deficit is £2.5m (2016: £7.0m) after current pension actuarial revaluations of £2.3m (2016: £2.2m).

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 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 Group continues to raise awareness of risk across the College and increase the profile of risk management accordingly.

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During the year Edinburgh College continued to implement its transformation plan. Edinburgh College has in 2017 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 deficit of £2.5m for the year compared to a 2016 deficit of £7.0m. This deficit has been directly impacted by FRS 102 pension adjustments of £2.2m (2016 - £1.9m), early retirement pension revaluation £0.1m (2016 - £0.3m), voluntary severance costs of £1.9m (2016: £1.1m) offset by funding for these of £1.8m (2016: £0.6m), and advanced funding received from SFC of £2.9m, to be repaid in a future period yet to be agreed.

Consistent with the previous period, the year to 31 July 2017 was filled with many financial challenges. Despite these, the College exceeded overall targets contained within the first year of its Business Transformation plan and continued to provide high quality education to its students in an appropriate learning environment.

The income and expenditure position is summarised below:

	2017	2016
	£m	£m
Income	65.9	63.0
Expenditure	(66.1)	(67.9)
	(0.2)	(4.9)
Grant accrued in 2015 reversed in 2016	-	0.8
Funding for Exceptional staff costs	1.8	0.6
Exceptional staff costs	(1.9)	(1.1)
Annual leave provision movement	0.1	(0.2)
FRS 102 Pension costs (actuarial revaluation)	(2.2)	(1.9)
Early Retirement revaluation	(0.1)	(0.3)
(Deficit) for the year	(2.5)	(7.0)
Actuarial gain / (loss) on pension	5.5	(0.3)
Total comprehensive income for the year	3.0	(7.3)

Income

2017 income of £65.9m is 5% higher in comparison to 2016. The reason for this was primarily as a result of the College receiving additional Teaching and Fee Waiver grant income as well as the £2.9m advanced funding described above. This was partially offset by a fall in Employability Contract income.

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Expenditure

Expenditure at £66.1m is down by 3% in comparison to 2016. This was largely the result of reductions in staff costs (caused by the savings resulting from voluntary severance offset by national pay increases - £0.5m), in other operating costs (reductions across several areas but notably in premises costs - £0.6m) and depreciation (the result of assets reaching the end of their depreciation period - £0.7m).

Balance Sheet

Fixed assets at the year-end totalled £146.5m, a net decrease of £3.7m compared to the prior year, the movement reflecting the annual depreciation charge offset by additions of £1.6m.

Net current liabilities decreased by £0.5m. This is mostly due to a £2.8m higher cash balance (caused by receiving the College Energy Efficiency Pathfinder project funds and other capital grants in July in advance of expenditure after the year-end). This is also the reason for the increase in creditors as the unspent amounts are shown in Funding Council Grants within creditors.

At 31 July 2017, the College had an accumulated surplus of £40.5m on its Income and Expenditure Account, and in complying with FRS102 s28 (Retirement Benefits) the pension liability decreased by £3.3m to £22.0m.

Cash Flow

There was a net cash inflow of £2.8m (2016: net cash outflow £1.1m) mainly as a result of the College Energy Efficiency Pathfinder (CEEP) project funds received in July, with the associated spend being incurred in 2017/18. At 31 July 2017 the College held cash and deposits of £4.8m (2016: £2.0m). £1.9m of this is related to student support funds, and these are managed in accordance with the College's Treasury Management policy. The College held long-term debt of £10.6m (2016: £11.0m) which is attributable to the Milton Road and Midlothian campuses redevelopment.

The College Estate and Capital Resources

The College has capital assets of £146.5m (£139.3m related to the estate), and in 2016/17 received capital funds of £1.6m to maintain its estate and to improve its ICT infrastructure and associated systems. The College has underpinned this capital investment with net recurring expenditure of circa. £4.7m to cover the operating costs of the estate.

Review of Resource outturn for year ended 31 March 2017

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 2016/17 are outlined below:

	RDEL £'k	CDEL £'k
Resource budget for year ended 31 March 2017	55,612	1,617
Expenditure against resource budget	56,426	1,617
Net (overspend) /underspend against budget	(814)	-

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The RDEL deficit includes net expenditure on student support funds, and capital repayments, but does not include revaluation of pension liabilities. The RDEL deficit is consistent with the financial statements when adjusted for the above items and the different reporting year.

Cash Budget for Priorities

One consequence of college reclassification as a public body is that, from 1 April 2014, while colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, the College is also required to comply with Central Government budgeting rules. This affects, amongst other things, the way in which non-cash depreciation charges are treated for budgeting purposes and how Colleges spend the cash funds (cash budget for priorities) which were previously earmarked for depreciation.

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

Table of cash budget for priorities spend		
Revenue	2017 £'000	2016 £'000
Pay award	637	874
Operating deficit		470
Total Impact on operating position	637	1,344
Capital		
Loan repayments	406	385
Payments against provisions pre 1 April 2014	1,192	1,133
Total Capital	1,598	1,518
Total cash budget for priorities spend	2,235	2,862

Underlying 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 underlying 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 underlying position on this basis is shown in the table below.

	2017 £'000	2016 £'000
(Deficit) before other gains and losses	(2,479)	(7,035)
Add back:		
- Depreciation (net of deferred capital grant release)	2,235	2,862
- Non-cash pension adjustments	2,198	1,829
Deduct:		
- Exceptional Income	(2,900)	-
- Revenue funding allocated to loan repayments and other capital items	(1,598)	(1,518)
Underlying operating surplus / (deficit)	(2,544)	(3,862)

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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 2017 was 27 days (2016 – 27 days). There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Key Financial 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.

KPI	Purpose	2017	2016	2015
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
Operating Deficit as % of Total Income	Measures Deficit as % of Total Income	3.6%	10.9%	6.2%
Non SFC income as a % of income	Measures non SFC income as a % of total income	22.9%	25.6%	24.2%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	68.6%	72.8%	66.5%
Student Activity (credits/WSUMs)	Measure of Student activity	186,978	180,144	249,833
Performance Against credit Activity Target	Measures Student activity performance against target	100%	97%	98%
Credit/ WSUMs per Staff FTE	Measure of Credit/ WSUMs per Staff FTE	172	155	211
Total Student Enrolments	Measures total number of enrolments of students	21,569	21,423	25,841
Unique Student Enrolments	Measures number of different students.	19,491	18,862	19,305
Student Retention Rate	Measures percentage of students completing studies	85.8%	85.0%	88.3%

Student Activity Performance Highlights

Delivery of widening access and progression targets.

- Gender balance of learners: 51.2% male (2016: 50.2% 2015: 50.6%), 48.7% female (2016: 49.6% 2015: 49.3%).
- Disability: 17.2% of students reported having a disability (2016: 14.5%, 2015: 11.6%).
- Ethnic minority student percentages (home students): 8.6% (2016: 8.1%, 2015: 8.4%).
- 8.5% of credits delivered to learners in the most deprived of postcodes (2016: 10.4%, 2015: 10.4%).
- Senior phase: 0.82% of the college's total credit delivery (2016: 3.4% 2015: 3%).

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

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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 2017.

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).

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	2017	2016	2015
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
% of credits delivered as NRQs:	Shows proportion of Credits arising from NRQs	98.5%	98.2%	97.9%

Retention and Achievement:

KPI	Purpose	2017	2016	2015
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
NRQs Student Retention Rate (FE)	Measure of Retention and Achievement	84.4%	85.7%	86.1%
NRQs Student Retention Rate (HE)	Measure of Retention and Achievement	96.8%	88.5%	87.0%
NRQs Student Achievement Rate	Measure of Retention and Achievement	72.2%	75.8%	73.0%
Full-time FE	Measure of Retention and Achievement	68.8%	73.0%	60.0%
Full-time HE	Measure of Retention and Achievement	76.0%	77.5%	72.8%
Part-time HE	Measure of Retention and Achievement	80.9%	78.4%	68.9%
Part-time FE	Measure of Retention and Achievement	74.2%	76.6%	79.9%

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 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, Social care and Childhood practice as well as Business and Financial Services are considered priority areas, as well as the reach and opportunities for students in English for Speakers of Other Languages (ESOL) learning and Community based learning and Access to College programmes.

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 2016/17

Edinburgh College recognises the importance of environmental issues and sustainability, and endeavours to consider these matters as part of decision making. We are 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 protect it 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 2016 and recycled 29% of its waste in 2016.

During the year the College was awarded £2.2million from the Scottish Funding Council's College Energy Efficiency Pathfinder (CEEP) fund, which supports colleges to become more energy efficient and reduce their carbon footprints. It is expected that the energy-efficiency works will save the College a guaranteed saving of £0.2million per year of its approximate £1.2million annual energy bill. This equates to 12% of its energy consumption.

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 achieve Fairtrade status. Edinburgh College complied with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

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The College's policy on climate change and sustainability shall be reviewed on an annual basis and at such times as deemed necessary by the College Board of Management.

Annette Bruton

Annette Bruton
Principal and Chief Executive
12 December 2017

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

Directors' Report

The membership of the Board of Management during the year to 31 July 2017 is outlined at page 22, 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 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:

Annette Bruton - 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
Jonny Pearson - Assistant Principal, Recruitment and Retention

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.

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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 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 is aligned to the College's Transformation Plan to address emerging and future needs of students, and associated curriculum provision. Edinburgh College is based on 4 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 for Milton Road.

Over the next five years the Estates Transformation Programme is set out to deliver the recommendations of the Edinburgh College Estates Review. In all aspects of managing the college estate and future developments, sustainability will be a key priority to monitor and improve environmental performance through its buildings, implementing projects to reduce carbon footprint, and embedding sustainable practices within the curriculum.

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 Governance Statement section of the Scottish Public Finance Manual (SPFM).

The arrangement for strategic development are included, as are those for the identification, evaluation and management of organisational risk, and the monitoring of internal controls. The statement concludes with a confirmation of the college as a going concern. The section on page 7 in the Performance Report provides support for the use of the going concern accounting policy.

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.

Due to prior year under-achievement of credit targets, the College implemented a business transformation plan in order to bring the college back into a sustainable operating position. Good progress is now being made.

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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 2017 are provided at page 22.

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. The Board met six times in the period between 1 August 2016 and 31 July 2017, 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 2016 and 31 July 2017 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 2016/17. The Committee comprises three Non-Executive Members and one Co-opted Member. Three members have recent relevant financial experience. The College's internal and external auditors were represented at all meetings. 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 2016/17. 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. The Committee has established a Commercial and International Sub-Group and Board Engagement Sub-Group to advance the Committee's work in those areas in a more flexible and responsive way. Both sub-groups are chaired by Non-Executive Members.

The External Engagement Committee met four times in 2016/17. The Committee comprises three Non-Executive Members, the 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 2017 the Board comprised 50% women and 50% men.

The Nominations Committee meets as required and not less than once per year. In 2016/17 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 requires 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.

Further to this, the Committee oversees and reports to the Board on the implementation of the Business Transformation Plan. For agenda items relating to the transformation plan, representatives of the Scottish Funding Council were invited to attend meetings throughout 2016/17.

The Policy & Resources Committee met five times during 2016/17. The Committee is chaired by the Vice Chair of the Board.

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 2016 and 31 July 2017. The Board consists of 18 members following a phase of non-executive recruitment in November 2016 to fill vacancies on the Board.

The Board is satisfied that election of a Support Staff Board Member, in November 2016, was conducted in line with good practice guidance for the election of staff board members. No Academic Staff Board Member elections were held in 2016/17.

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 an induction event in December 2016. New Board Members appointed in November 2016 and March 2017 have been formally invited to participate in CDN induction events scheduled in early 2017/18. Other development sessions during the year focused on Health & Safety, CONTEST (counter terrorism) and College Finances.

Evaluation

The Board undergoes a robust evaluation process at the end of each academic year. This includes individual review meetings with the Chair of the Board, committee operational reviews and a review of the Chair's performance led by the Vice Chair as Senior Independent Director. Individual reviews include objective-setting and review of progress against the previous year's objectives in order to accommodate the assessment requirements for extension of appointments described in the Ministerial guidance on appointments. The Vice Chair's report on the Chair's performance is shared with Scottish Ministers.

In March 2017 the Board approved an external evaluation report for submission to the Scottish Funding Council. The evaluation procedure was conducted in accordance with the Code and took account of recommendations of the Scottish Government's Good Governance Task Group in March 2016. 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.

Compliance with Best Practice

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 the principles set out in the Code of Good Governance for Scotland's Colleges (the Code) for the year to 31 July 2017. These principles are:

- Duty/Public Service
- Selflessness
- Integrity
- Objectivity
- Accountability & Stewardship
- Openness
- Honesty
- Leadership
- Respect

Corporate Strategy

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

In December 2016, the Board of Management received a report on the preparations towards developing a new strategic plan to reflect a future vision and refreshed values of Edinburgh College. This included high-level strategic objectives which were reflective of the college's wider commitments. The development of the Edinburgh College Strategic Plan 2017-22 was based around broad strategic themes emerging from the Board Strategy Day held in October 2016.

To ensure that Board members received a further opportunity to contribute to the College's strategic vision, a Strategic Planning Working Group (consisting of six Board members) was created. The Board of Management received further strategic planning updates at each of its scheduled meetings in February, May and June 2017.

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The Edinburgh College Strategic Plan 2017/22, and an accompanying Blueprint, was approved by the Board of Management on 19 September 2017.

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 Group. This Committee 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.

There has been no significant movement in individual items identified on the top risk register for the financial year to 31 July 2017, with the exception of the following:

- A risk which refers to the 'national pay bargaining resulting in unaffordable settlement', adversely moved from Green to Red on the RAG scale between February and June 2017;
- A risk relating to 'shortfall in recruitment' and 'poor retention' positively moved from Amber to Green on the RAG scale in February 2017.

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 2017, 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

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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 2017, 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.

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 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; and
- comments and recommendations made by the College's external auditor;
- 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.

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

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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 12 December and approved the year-end financial statements and 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.

Conclusion

Based on the Corporate Governance Statement 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 2017. This is evidenced through the good progress shown in the implementation of the Business Transformation Plan, and the approval by the Board of Management of the Edinburgh College Strategic Plan 2017/22 in September 2017. 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 12 December 2017.

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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	1/7/2017	
Colin Arthur	Staff Representative (Academic)		
Neal Black	President of Edinburgh College Students' Association	1/7/2017*	
Kellie Bradford	Staff Representative		1/9/2016
Annette Bruton	Principal and Chief Executive		
Sandra Cairncross	Industry, Commerce or Public Sector Representative		1/10/2016
Bruce Cassidy	Staff Representative (Support)	1/11/2016	
Amanda Clark	Vice President of Edinburgh College Students' Association		1/6/2017
Bob Downie	Industry, Commerce or Public Sector Representative		
Stephen Dunn	Industry, Commerce or Public Sector Representative		
Lesley Drummond	Industry, Commerce or Public Sector Representative	1/3/2017	
Alan Johnston	Industry, Commerce or Public Sector Representative		
Ann Landels	Industry, Commerce or Public Sector Representative		
Elaine Lee	Industry, Commerce or Public Sector Representative		1/1/2017

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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
Ian McKay	Industry, Commerce or Public Sector Representative		
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	1/3/2017	
Jeanette Stevenson	Industry, Commerce or Public Sector Representative	1/3/2017	
Robin Stimpson	Industry, Commerce or Public Sector Representative		1/3/2017
Ian Young	Industry, Commerce or Public Sector Representative		

**Neal Black was reappointed as the ECSA Student President in July 2017.*

Professional Advisors

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

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

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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
Member from start of period to September 2016						
Kellie Bradford			✓	✓		
Member from start of period to October 2016						
Sandra Cairncross	✓				✓	
Member from start of period to January 2017						
Elaine Lee	✓					
Member from start of period to March 2017						
Robin Stimpson					✓	✓
Member from start of period to Present						
Colin Arthur	✓			✓		
Annette Bruton	✓					
Bob Downie		✓	✓			
Stephen Dunn					✓	✓
Alan Johnston			✓		✓	✓
Ann Landels	✓					
Ian McKay				✓	✓	
Nicola McKenzie		✓			✓	✓
Nigel Paul		✓			✓	
Student President	✓		✓			
Student Vice President*	✓			✓		
Fiona Riddoch	✓	✓		✓	✓	
Azra Sharif-Qayyum			✓			
Ian Young			✓	✓	✓	
Member from November 2016 to present						
Bruce Cassidy			✓	✓		
Members from March 2017 to present						
Lesley Drummond			✓			
Judith Sischy		✓				
Jeanette Stevenson	✓					

*Includes membership of Amanda Clark (left June 2017) and Beth Anderson

The non-Board membership of the Academic Council for the four Academic Council meetings held in 2016/17 was as follows: Juliet Harkin, Justin Sales, David Tait, Chris Turnbull, Jennifer Russell, Neil Manning, Iris Aitchison, Ethlinda Lashley-Scott; Kevin Maloney and Tia Cotton.

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

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Remuneration and Staff Report

Staff Report - audited

Staff Numbers	2017 Number	2016 Number
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	502	538
Teaching Support	31	33
Administration and Central Services	425	465
Premises	31	31
Catering and Residences	45	45
Other Income Generating Activities	43	46
Total	1,083	1,164

Staff Costs

	2017 £000	2016 £000
Senior management	724	809
Teaching staff	24,842	24,493
Teaching Support	1,129	964
Administration and central services	16,664	17,187
Premises	895	932
Catering and residences	1,075	895
Revaluation of Early Retirement Provision	77	306
FRS102 s28 Pensions Adjustments	1,572	975
Other income generating activities	1,366	1,236
Movement in Employee Leave Accrual	(59)	234
Total	48,285	48,031

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:

	2017 Senior Post Holders	2017 Other Staff	2016 Senior Post Holders	2016 Other Staff
£60,001 - 70,000	3	6	1	4
£70,001 - 80,000	-	-	1	
£80,001 - 90,000	2	-	1	
£90,001 - 100,000				
£100,001 - 110,000				
£110,001 - 120,000				
£120,001- £150,000	1		1	
	6	6	4	4

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.

Remuneration 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.

Board Member Remuneration

The Regional Chair received a 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.

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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 2017			year ended 31 July 2016		
	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ian McKay, Chair of the Board of Management	30 - 35	-	30 - 35	30 - 35	-	30 - 35
Annette Bruton, Principal and Chief Executive*	140 - 145	0 - 5	140 - 145	140 - 145	725-730*	870 - 875
Craig Wilson, Deputy Principal/VP People, Performance and Planning (Retired 30 Nov 2016)**	25 - 30	**	**	85 - 90	45-50	135 - 140
Alan Williamson, Chief Operating Officer	85 - 90	60 - 65	145 - 150	75 - 80	30-35	105 - 110
Ray McCowan, VP Curriculum & Quality (left 20 May 2016)	-	-	-	60 - 65	-	60 - 65
Jonathan Pearson, Assistant Principal	70 - 75	50 - 55	120 - 125	60 - 65	115 - 120	170 - 175
Jonathan Buglass, Assistant Principal	70 - 75	60 - 65	130 - 135	60 - 65	30 - 35	90 - 95
Michael Jeffrey, Assistant Principal	70 - 75	40 - 45	110 - 115	55 - 60	10 - 15	70 - 75
Julie McCran, Director of Strategic Projects (Curriculum) (Left 30 Nov 2015)	-	-	-	25 - 30	*	*
Alex Craig, Depute Principal (start date 1 Oct 2016)***	80 - 85	15 - 20	100 - 105	-	-	-

* Due to anomalies caused by moving from one local government pension fund to another, the figures in 2017 and 2016 are not directly comparable for Annette Bruton.

** Craig Wilson retired from the College on 30 November 2016 and pension figures for July 2017 are therefore not available. Prior year figures for Julie McCran are not disclosed as the relevant information from the pension fund was unobtainable under data protection.

*** The salary for Alex Craig, Depute Principal 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 (2016: £nil).

Board members not listed above received no remuneration.

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 2016/17 was £145,000 (2015-16: £145,000) This was 3.9 times (2016:4.3 times) the median remuneration of the workforce which was £37,013 (2016: £34,083). The decrease is a result of the national pay award paid to lecturers as a result of national bargaining. The range of staff full-time equivalent salaries at 31 July 2017 was from £15,990 to £145,000.

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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 2017	Real increase in pension and related lump sum 1 August 2016 to 31 July 2017	Cash equivalent transfer value at 31 July 2017	Cash equivalent transfer value at 31 July 2016	Real increase in cash equivalent transfer value
	£'000	£'000	£'000	£'000	£'000
Annette Bruton*					
Pension	95 – 100	0 – 2.5			
Related lump sum	-	-			
Transfer value			1,710	1,597	50
Alan Williamson					
Pension	30 - 35	2.5 - 5			
Related lump sum	65 – 70	0 – 2.5			
Transfer value			760	641	77
Jonathan Pearson					
Pension	15 - 20	2.5 - 5			
Related lump sum	40 - 45	2.5 - 5			
Transfer value			291	240	51
Jonathan Buglass					
Pension	15 - 20	2.5 - 5			
Related lump sum	50 - 55	5 - 10			
Transfer value			336	278	58
Michael Jeffrey					
Pension	7.5 - 10	2.5 - 5			
Related lump sum	-	-			
Transfer value			81	56	24
Alex Craig (Start date 1 October 2016)					
Pension	25 -30	0 – 2.5			
Related lump sum	75 - 80	2.5 - 5			
Transfer value			559	518	40

*Prior year pension values for Annette Bruton included an amount transferred from a different pension provider in the year.

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.

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- (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.

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

Eighty one people left the College under voluntary severances arrangements during the year. They received compensation payments totalling £1,800k. The cost to the College of strain costs in pensions (as required under the scheme rules) was £83k.

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	-	10	10
£10,000 - £25,000	-	40	40
£25,000 - £50,000	-	30	30
£50,000 - £100,000	-	1	1
Total number of exit packages (audited)	-	81	81
Total Cost (£'000)	-	1,883	1,883

Staff Profile

At 31 July the College employed 495 male members of staff and 622 female members of staff.

Staff Data as at 31 July 2017 (FTE)	Total	Male	Female
Number of staff	1,064	469	595
Number of staff on permanent contracts	1,021	453	568
Number of staff (on temporary contracts	43	16	27

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 2016/17 was 4.4 % (2015/16 4.9%).

The College incurred £186k in agency staff costs. It is not possible to determine the FTE and gender split associated with these roles as the information is not held.

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.

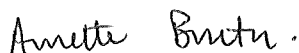
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

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.

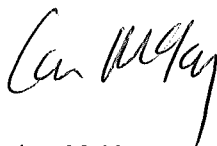
As part of our Public Sector Equality Duty, every two years we report on our progress in achieving our equality aims, and every four years we develop a new set of Equality Outcomes. Our most recent report was in April 2017, when we published an Equality Report covering:

- 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.



Annette Bruton
Principal and Chief Executive

12 December 2017



Ian McKay
Chair of Edinburgh College Board of Management

12 December 2017

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 financial statements of Edinburgh College for the year ended 31 July 2017 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 2017 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

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 the 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. 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 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.

Report on regularity of expenditure and income

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 prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

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.

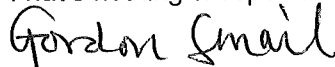
Matters on which I am required to report by exception

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report or the Corporate Governance Statement.

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.



Gordon Smail
Assistant Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

14 December 2017

Gordon Smail 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 2017**

	Notes	2017 £000	2016 £000
Income			
Scottish Funding Council Grants	2	52,136	47,922
Tuition Fees and Education Contracts	3	10,780	10,838
Other Grant Income	4	798	1,493
Other Operating Income	5	3,961	4,180
Endowment and Investment Income	6	1	11
Total Income		67,676	64,444
Expenditure			
Staff Costs – Recurring	7	46,402	46,890
Other Staff Costs – Exceptional	7	1,883	1,141
Other Operating Expenses	9	15,315	15,906
Depreciation	12	5,289	5,997
Interest and other Finance Costs (Gain) on revaluation of assets	10	1,266	1,545
Total Expenditure		70,155	71,479
(Deficit) for the year		(2,479)	(7,035)
Actuarial gain / (loss) in respect of pension schemes		5,473	(249)
Total Comprehensive income for the year		2,994	(7,284)

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.

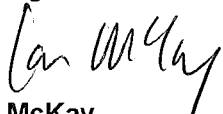
**STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 JULY 2017**

	Income and expenditure reserve £000	Pension Reserve £000	Revaluation reserve £000	Total £000
Balance at 1 August 2015	44,701	(23,216)	28,764	50,249
(Deficit) from the income and expenditure statement	(7,035)	-	-	(7,035)
Other comprehensive income	-	(249)	-	(249)
Transfers between revaluation and income and expenditure reserves	623		(623)	-
Transfers between pension and income and expenditure reserves	1,829	(1,829)	-	-
Total comprehensive income for the year	(4,583)	(2,078)	(623)	(7,284)
Balance at 31st July 2016	40,118	(25,294)	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)	-
Transfers between pension and income and expenditure reserves	2,198	(2,198)	-	-
Total comprehensive income for the year	342	3,275	(623)	2,994
Balance at 31 July 2017	40,460	(22,019)	27,518	45,959

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

BALANCE SHEET AS AT 31 JULY 2017			
	Notes	2017	2016
		£000	£000
Fixed Assets			
Tangible Fixed Assets	12	146,462	150,179
		146,462	150,179
Current Assets			
Stock		136	122
Debtors	13	2,141	2,645
Cash at Bank and In Hand		4,799	1,991
		7,076	4,758
Current Liabilities			
Less: Creditors – amounts falling due within one year	14	(13,896)	(12,097)
Net Current (Liabilities) / Assets		(6,820)	(7,339)
Total Assets less current liabilities		139,642	142,840
Less: Creditors – amounts falling due after more than one year	15	(66,810)	(69,507)
Less: Provisions for liabilities and charges	17	(4,854)	(5,074)
Net assets excluding pension liability		67,978	68,259
Net Pension Asset / (Liability)	22	(22,019)	(25,294)
Net Assets including pension liability		45,959	42,965
Reserves			
Income and Expenditure Account excluding pension reserve		40,460	40,118
Pension Reserve		(22,019)	(25,294)
Income and Expenditure Account including pension reserve		18,441	14,824
Revaluation Reserve	19	27,518	28,141
Total Reserves		45,959	42,965

The financial statements on pages 34 to 61 were approved and authorised for issue by the Board of Management on 12 December 2017 and signed on its behalf by


Ian McKay
 Chairman of Board of Management


Annette Bruton
 Principal and Chief Executive

**CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 JULY 2017**

	Notes	2017 £000	2016 £000
Cash Flow from operating activities			
Deficit for the year		(2,479)	(7,035)
Adjustment for non-cash items			
Depreciation		5,289	5,997
Deferred capital grants released to income	2	(3,054)	(3,135)
Decrease / (increase) in Stock		(14)	15
Decrease in debtors	13	504	1,208
Increase / (decrease) in creditors	14	980	663
Increase / (decrease) in provisions	17	(220)	34
Pension costs less contributions payable	22	1,572	975
Loss on sale of assets		10	-
Adjustment for investing or financing activities			
Investment income	6	(1)	(11)
Interest payable	10	1,266	1,545
Net Cash inflow from operating activities		3,853	256
Cash flows from investing activities			
Investment income	6	1	11
Proceeds from sale of fixed assets	12	14	-
Payments made to acquire fixed assets	12	(1,597)	(740)
Deferred capital grant received	18	1,583	429
		1	(300)
Cash flows from financing activities			
Interest paid	10	(640)	(691)
Repayments of amounts borrowed	16	(406)	(385)
		(1,046)	(1,076)
(Decrease)/ increase in cash and cash equivalents in the year		2,808	(1,120)
Cash and cash equivalents at beginning of the year		1,991	3,111
Cash and cash equivalents at end of the year		4,799	1,991

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

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 2016/17 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 2016/17 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 is designed to deal with these challenges and put the College on a sustainable financial footing. This transformation plan encapsulated the strategic context in which the College will reduce its cost base, and identify sustainable growth by £3.8m over the next three years. The overall financial targets for the first year of the Transformation Plan have been met. The 2017/18 budget has been approved on the basis that the second year will also be met.

The Board of Management has approved financial forecasts which detail the sources of income and expenditure of the College. These forecasts indicate that, during the periods to 2018/19 there is very little headroom on available cash facilities.

During this period, and until the transformation plan is fully implemented, the College might require the support of its funding body, the Scottish Funding Council, in order to meet its liabilities as they fall due. Specifically, in the 2016/17 financial year, the Scottish Funding Council provided funding of £2.9 million to support the implementation of the transformation plan, repayable at some point in the future which will be determined at a later date, and up to £2.4 million to meet the costs of making voluntary severances. Additionally, given the lack of headroom on available cash facilities in the forecasts, the Scottish Funding Council provided written assurances in 2015/16 that it will support the College during the period through to 2018/19, by which point the transformation plan will be fully implemented and, provided the College can demonstrate 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.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (*Continued*)

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.

Group Accounts

The financial statements include the College only, its subsidiary Thomas Telford Trust (dissolved during the previous year) is not consolidated on grounds of materiality. 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

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

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 employee 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.

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 assets 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.

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.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Equipment

Equipment costing less than £10,000 per individual item is charged to the income and expenditure account 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 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

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

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

Maintenance of Premises

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

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.

FE and HE childcare student support funds receivable and payable are shown in the income and expenditure account, and are shown separately in note 25.

2 FUNDING COUNCIL GRANTS

	2017 £000	2016 £000
SFC Recurrent Grant	40,162	38,245
FE childcare funds	1,516	1,493
Release of Deferred Capital Grants	3,054	3,135
Voluntary Severance Scheme Grants	1,775	650
Business Transformation Plan Grants	2,900	1,923
Other SFC Grants	2,729	2,476
	52,136	47,922

In the prior year the Scottish Funding Council clawed-back £1.9m of Teaching and Fee Waiver grant. However, this funding was subsequently provided to the College to support progress of its business transformation plan. This clawback was as a result of not achieving the annual credit targets for 2014/15 and 2015/16.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

3	TUITION FEES AND EDUCATION CONTRACTS	2017 £000	2016 £000
	FE Fees – UK	666	761
	FE Fees – non EU	1,305	1,069
	HE Fees	5,467	5,739
	SDS Contracts	646	599
	Education Contracts	1,632	1,629
	Other Contracts	1,064	1,041
		10,780	10,838
4	OTHER GRANT INCOME	2017 £000	2016 £000
	European Funds	-	23
	Employability Contracts	775	1,362
	Other Grants	23	108
		798	1,493
5	OTHER OPERATING INCOME	2017 £000	2016 £000
	Residences and Catering	2,036	2,271
	Nursery Income	905	996
	Other Income	1,020	913
		3,961	4,180
6	ENDOWMENT AND INVESTMENT INCOME	2017 £000	2016 £000
	Bank Interest Receivable	1	11
		1	11

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

7 STAFF COSTS

	2017 Number	2016 Number
Staff Numbers		
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	502	538
Teaching Support	31	33
Administration and Central Services	425	465
Premises	31	31
Catering and Residences	45	45
Other Income Generating Activities	43	46
Total	1,083	1,164

	2017 £000	2016 £000
Recurring Staff Costs:		
Salaries	35,367	36,344
Pensions	5,982	6,086
Social Security Costs	3,409	2,945
Apprenticeship Levy	54	-
Revaluation of Early Retirement Provision	77	306
FRS 102 s28 Pensions Adjustments	1,572	975
Movement in Employee Leave Accrual	(59)	234
Total Staff Costs - Recurring	46,402	46,890

Exceptional Staff Costs

Voluntary Severance	1,800	966
Pension Strain Costs	83	175
	<u>1,883</u>	<u>1,141</u>
	48,285	48,031

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

7 STAFF COSTS (*Continued*)

	2017 £000	2016 £000
Senior management	724	809
Teaching staff	24,842	24,493
Teaching Support	1,129	964
Administration and central services	16,664	17,187
Premises	895	932
Catering and residences	1,075	895
Revaluation of Early Retirement Provision	77	306
FRS102 s28 Pensions Adjustments	1,572	975
Other income generating activities	1,366	1,236
Movement in Employee Leave Accrual	(59)	234
Total	48,285	48,031

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:

	2017 Senior Post Holders	2017 Other Staff	2016 Senior Post Holders	2016 Other Staff
£60,001 - 70,000	3	6	1	4
£70,001 - 80,000	-	-	1	
£80,001 - 90,000	2	-	1	
£90,001 - 100,000				
£100,001 - 110,000				
£110,001 - 120,000				
£120,001- £150,000	1		1	
	6	6	4	4

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:

	2017	2016
	£	£
Salaries as Board Members	34,320	32,697
Allowances, travel and subsistence paid to Board Members	4,380	3,661
	38,700	36,358

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.

Emoluments of Senior Post-holders

	2017 Number	2016 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:		
	2017 £000	2016 £000
Salaries	553	493
Employers' Pension Contribution	96	75
	649	568

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

	2017 £000	2016 £000
Salary	145	145
Employers' Pension Contribution	25	25
	170	170

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.

The increase in senior post-holders costs is due to the new team, who were appointed during the prior year, being in place for the full year.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

8 SENIOR POST-HOLDERS' EMOLUMENTS (Continued)

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

	2017 £000	2016 £000
Compensation payable to former senior post holders:	-	87

9 OTHER OPERATING EXPENSES

	2017 £000	2016 £000
Teaching	2,763	2,761
Administration	4,989	5,050
Premises	4,676	4,826
Planned Maintenance	29	92
Other income generating activities	1,023	1,213
Other employee related costs	133	195
Childcare	1,516	1,493
Agency Staff	186	276
	15,315	15,906

	2017 £000	2016 £000
Other expenses include:		
Auditor's Remuneration (including irrecoverable VAT):		
- External Auditor's Remuneration – Audit	29	29
- Internal Audit (including Student Support Funds Audit)	36	24
Hire of equipment – operating leases	212	284

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

10 INTEREST PAYABLE

	2017	2016
	£000	£000
Pension Finance Cost – interest on early retirement provision	25	50
Pension Finance Cost – FRS102 s28 Net interest cost	626	854
On bank loans, overdrafts and other loans: Repayable wholly or partly in more than 5 years	615	641
	1,266	1,545

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 2017

12 TANGIBLE FIXED ASSETS

	Land & Buildings £000	Plant & Equipment (Owned) £000	Plant & Equipment (Leased) £000	Computers £000	Fixtures & Fittings £000	Total £000
COST OR VALUATION						
At 1 August 2016	147,945	5,832	298	10,545	12,500	177,120
Additions	16	158	-	601	822	1,597
Disposals	-	(70)	-	(66)	-	(136)
At 31 July 2017	147,961	5,920	298	11,080	13,322	178,581
DEPRECIATION						
At 1 August 2016	5,400	4,562	298	7,297	9,384	26,941
Charge for Year	3,285	346	-	1,069	589	5,289
Disposals	-	(45)	-	(66)	-	(111)
At 31 July 2017	8,685	4,863	298	8,300	9,973	32,119
NET BOOK VALUE						
At 31 July 2017	139,276	1,057	-	2,780	3,349	146,462
At 31 July 2016	142,545	1,270	-	3,248	3,116	150,179
Represented by:						
Inherited	8,125	-	-	-	-	8,125
Financed by:						
Capital Grant	53,237	946	-	2,658	2,759	59,600
Other	77,914	111	-	122	590	78,737
At 31 July 2017	139,276	1,057	-	2,780	3,349	146,462

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 James Barr, 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.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

The Government financial reporting manual (FReM) sets out guidance for us to consider how best to apply the valuation requirements to ensure that the Statement of Financial Position 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.

If land and buildings were reported on a cost basis, the carrying value would be £122,626k (2016: £125,808).

Land and buildings with a net book value of £139,276k (2016: £142,545k) 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) which expires in 2026.

13 DEBTORS

Amounts falling due within one year:	2017 £000	2016 £000
Trade Debtors	975	867
Other Debtors	145	334
Debts due from Students	19	11
Prepayment and Accrued Income	1,002	1,433
	2,141	2,645

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2017 £000	2016 £000
Trade Creditors		1,126	1,198
Payments received in advance		335	241
Other Taxation and Social Security		961	898
VAT		257	243
Lennartz VAT repayable		775	889
Bank Loans	16	436	408
Funding Council Grants		2,542	75
Accruals, Deferred Income and Other Creditors		4,211	5,080
Deferred capital grants - government	18	3,253	3,065
		13,896	12,097

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

15 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2017 £000	2016 £000
Bank loan (note 16)		10,141	10,575
Lennartz VAT		262	866
Deferred Capital Grants - Government	18	56,407	58,066
		66,810	69,507

The Lennartz repayment is due payable over an outstanding period of up to 2 years, a repayment of £775k is due in 2017/18, which is included in note 14.

16 BORROWINGS

	2017 £000	2016 £000
Bank Loan Repayable:		
In one year or less	436	408
Between one and two years	458	429
Between two and five years	1,525	1,431
In five years or more	8,158	8,715
	10,577	10,983

The Bank Loan is due payable by instalments up to February 2034, with a capital repayment of £436k due in 2017/18. The average interest rate for the duration of the loan is expected to be 5.7%.

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement Pension Costs £000	Others £000	Total £000
At 1 August 2016	5,037	37	5,074
Payments in the year	(284)	(37)	(321)
Additional in year provision	76	-	76
Interest applied	25	-	25
At 31 July 2017	4,854	-	4,854

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 0.0% (2016 – 0.5%).

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

18 DEFERRED CAPITAL GRANTS

	Funding Council Grants £000	Other Government Grants £000	Total £000
At 1 August 2016	60,604	527	61,131
Received during year			
Land and Buildings	16	-	16
Fixtures, Fittings & Equipment	1,567		1,567
Release to Income and Expenditure Account			
Land and Buildings	(1,359)	(27)	(1,386)
Fixtures, Fittings & Equipment	(1,611)	(57)	(1,668)
At 31 July 2017	59,217	443	59,660

19 REVALUATION RESERVE

	2017 £000	2016 £000
Revaluation Reserve		
At 1 August 2016	28,141	28,764
Release of revaluation reserve in respect of depreciation on land and buildings	(623)	(623)
Revaluation of land and buildings in year	-	-
At 31 July 2017	27,518	28,141

20 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2016 £000	Cash Flows £000	Other Non Cash Flows £000	At 31 July 2017 £000
Cash	1,991	2,808	-	4,799
Debt due within one year	(408)	406	(434)	(436)
Debt due after one year	(10,575)	-	434	(10,141)
	(8,992)	3,214	-	(5,778)

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

21 FINANCIAL COMMITMENTS

At 31 July 2017 the College had total commitments under non-cancellable operating leases for Plant and Equipment as follows:

	2017 £000	2016 £000
Payable within one year	222	305
Payable between two and five years	127	29
	349	334

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.

Total pension cost for the year

	2017 £000	2016 £000
STSS: Contributions paid	3,121	3,143
LGPS: Contribution paid	2,861	2,943
S28 Pensions Movement	<u>1,572</u>	<u>975</u>
Total pension cost	7,554	7,061
LGPS Pension Strain Cost	83	175
Total Pension cost for year	7,637	7,236

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.

22 PENSION AND SIMILAR OBLIGATIONS (Continued)

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 £3,838k of which employer's contributions totalled £2,944k and employees' contributions totalled £894k.

During the current period the employer's contribution rate was 17.5% plus a lump sum payment of £19,158 per month. The employees' contribution rate did not change. Surpluses and deficits are spread over employees' future service lives.

FRS102 Section 28

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

	2017	2016
Rate of increase in salaries	4.5%	4.4%
Rate of increase for pensions / inflation	2.5%	1.9%
Discount rate for liabilities	2.7%	2.4%

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	22.1 years	23.7 years
Future pensioners	24.2 years	26.3 years

22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

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 2017	Value at 31 July 2017 £000	Long term rate of return at 31 July 2016	Value at 31 July 2016 £000
Equities	2.6%	92,970	2.4%	70,994
Bonds	2.6%	14,303	2.4%	21,925
Property	2.6%	7,152	2.4%	8,352
Cash	2.6%	4,768	2.4%	3,132
Total market value of assets		119,193		104,403
		Value at 31 July 2017 £000		Value at 31 July 2016 £000
Present value of scheme liabilities				
Funded		140,477		128,929
Unfunded		735		768
Deficit in the scheme		(22,019)		(25,294)

Analysis of the amount charged to income and expenditure account

	2017 £000	2016 £000
Current service cost	4,488	4,026
Past service cost	9	3
Total operating charge	4,497	4,029

Analysis of net return on pension scheme

Interest Income on Plan Assets	(2,528)	(3,042)
Interest cost	3,154	3,896
Total	626	854

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

	2017	2016
	£000	£000
Movement in deficit during year		
At 1 August 2016	(25,294)	(23,216)
Movement in year:		
Current service cost	(4,488)	(4,026)
Employer contributions	2,877	3,004
Contributions in respect of unfunded benefits	48	50
Past service cost	(9)	(3)
Net finance costs	(626)	(854)
Actuarial gain / (loss)	5,473	(249)
Deficit in scheme at 31 July 2017	(22,019)	(25,294)

	2017	2016
	£000	£000
Reconciliation of defined benefit obligation		
Liabilities at start of year	129,697	106,651
Current service cost	4,488	4,026
Interest cost	3,154	3,896
Contributions by members	894	926
Actuarial loss	4,741	16,002
Past Service cost	9	3
Estimated Unfunded benefits paid	(48)	(50)
Estimated Benefits paid	(1,723)	(1,757)
Liabilities at end of year	141,212	129,697

	2017	2016
	£000	£000
Reconciliation of fair value of employer assets		
Opening fair value of employer assets	104,403	83,435
Interest income on plan assets	2,528	3,042
Contributions by members	894	926
Contributions by the employer	2,877	3,004
Contributions in respect of unfunded benefits	48	50
Actuarial gains	10,214	15,753
Estimated Unfunded benefits paid	(48)	(50)
Estimated Benefits paid	(1,723)	(1,757)
Closing fair value of employer assets	119,193	104,403

22 PENSION AND SIMILAR OBLIGATIONS (Continued)**Amounts for the current and previous accounting periods**

	2017 £000	2016 £000
Fair value of employer assets	119,193	104,403
Present value of defined benefit obligation	(141,212)	(129,697)
Deficit	(22,019)	(25,294)
Experience Gains on liabilities	13	1,557

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.

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 may have an interest. All transactions involving organisations in which a member of the Board of Management may have an interest are conducted at arm's length and in accordance with the College's financial regulations and 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 hold official positions.

Member	Organisation	Position	Sales £000	Purchases £000
Ian Young Elaine Lee	Edinburgh College Development Trust	Trustee Trustee	36	-
Alan Johnston	Edinburgh University	Trustee and Court member	36	2
Sandra Cairncross	Edinburgh Napier University	Assistant Principal Student Experience	454	23
Ian Young	The Business Partnership	Director	-	22
Amanda Clark / Beth Anderson Neal Black	Edinburgh College Students' Association	Vice President President	242	284 (grants awarded)
Azra Sharif-Qayyum	NHS Lothian	Biomedical Scientist	94	21
Ian Doig	The Care Inspectorate	Board Member	48	-
Annette Bruton	College Development Network	Board Member	-	5
	Hibernian Community Foundation	Director	-	19

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

24 BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	EMA £000	Other £000	Total for 2017 £000	Total for 2016 £000
Balance brought forward	1,456	38	301	1,795	199
Allocation received in the year	8,461	824	845	10,130	10,512
Expenditure	(6,983)	(859)	(736)	(8,578)	(8,799)
Repaid to Funding Council as Clawback	(1,443)	-	(281)	(1,724)	(86)
College contribution to funds	-	-	-	-	-
Virements	(74)	-	-	(74)	(31)
Balance c/fwd.	1,417	3	129	1,549	1,795
Represented by:					
Repayable to Scottish Funding Council	1,417	-	129	1,546	1,757
Payments due from SFC	-	-	-	-	-
Retained by college for students	-	3	-	3	38
	1,417	3	129	1,549	1,795

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 Income and Expenditure Account.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

25 FE AND HE CHILDCARE FUNDS

	2017 £000	2016 £000
Balance b/fwd.	175	3
Allocation received in year	1,530	1,665
Expenditure	(1,588)	(1,524)
Repaid to funding council as clawback	(171)	
Virements	74	31
Balance c/fwd.	20	175
Represented by:		
Repayable to Scottish Funding Council	20	175

Further and Higher Education Childcare Fund transactions are included within the College Income and Expenditure Account 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. Occupancy levels have improved since the contract started, and due to the variable nature of occupancy levels, it is not practicable to estimate the financial effect.

27 POST BALANCE SHEET DATE EVENTS

No events occurred between 1 August 2017 and the time these Financial Statements were signed that would materially affect the information provided.

28 ADJUSTED OPERATING POSITION ON CENTRAL GOVERNMENT ACCOUNTING BASIS

	2017 £000	2016 £000
(Deficit) before other gains and losses (FE / HE SORP basis)	(2,479)	(7,035)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	637	1,344
Operating surplus / (deficit) on Central Government accounting basis	(1,842)	(5,691)

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.

Under the FE/HE SORP, the College recorded an operating deficit of £2,479k for the year ended 31 July 2017. After taking account of the Government non-cash budget, the College shows an "adjusted" deficit of £1,842k on a Central Government accounting basis. This

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

demonstrates that the College is moving towards the achievement of its Business Transformation Plan.

29 CAPITAL COMMITMENTS

Capital commitments contracted for but not provided in the financial statements to £2,116k (2016: £Nil). This amount is in relation to the College Energy Efficiency Pathfinder (CEEP) project.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

2016/17 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 2016/17 (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 2017.
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
30 June 2017