



For the future you want



# ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2019

Scottish Charity Number SC021213



DUGALD STEWART  
NOVEMBER 22, 1753  
DIED JUNE 11, 1828

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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 SC021213. Edinburgh's Telford College was the host College to merge with Stevenson College Edinburgh and Jewel & Esk College in 2012 to create Edinburgh College. The Post-16 Education Act 2013 designated Edinburgh College as a Regional College in March 2014.

The College Board presents its annual report and the audited financial statements for the year ended 31 July 2019.

## MESSAGE FROM THE CHAIR OF THE BOARD OF MANAGEMENT



In 2018-19 Edinburgh College enjoyed another year of providing sector-leading education and training to its students, welcoming people from across the world to our campuses and outreach centres.

Our most valuable assets are, of course, our people and the Board and I have been impressed by the continued commitment, drive and passion shown by staff to deliver the best possible learning experience to 26,000 students this year. The efforts of our staff shine through in the achievements of their students, and on behalf of the Board of Management, I

would like to thank everyone for their invaluable contribution to Edinburgh College.

Staff and students have been recognised nationally and internationally for their fantastic work and outstanding achievements, during a year which has seen the College grow and expand its impact on the community and the economy.

We've increased our work with local, regional, national and international partners – building stronger relationships with industry to ensure we are providing a pipeline of highly skilled workers. We've worked with around 2,000 industry partners as part of our focus on preparing people for the world of work and helping those already in employment to upskill and reskill. The region we serve is one of the most dynamic in Scotland and the College has the ability and ambition to develop and inspire people across the region and beyond.

Guided by the five strategic priorities outlined in the Strategic Plan 2017-22 - Improving the student experience; to be valued in partnership and with communities; to provide an effective and efficient college programme; driving forward an excellent curriculum for the future; and to support and inspire our people - the College has exceeded its credit target for the third year running and continues to build on the progress already made.

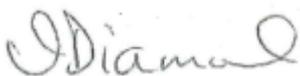
Colleges are a central part of our education systems and it is important that they take an ever more central place in public policy. Our College plays a pivotal role in our local community, across Edinburgh and the Lothians, wider Scotland and beyond - with our teaching and training helping to improve opportunities for everyone, no matter their situation or background.

As well as welcoming students, this year, the College has opened its doors to the wider community, providing space for conferences and discussions on important topics including tackling poverty and widening access to education. The College is an active partner in the Edinburgh, East Lothian and Midlothian community planning partnerships and will continue to grow its work with local people and beyond.

The next year will no doubt bring with it some challenges for the College, and the sector as a whole, due to the uncertainty of the political landscape. I am confident that Edinburgh College is in a strong position to face these challenges head on and to embrace new opportunities.

Sadly, I will have left the College by the time this report is issued, to take up the role of National Statistician. I have thoroughly enjoyed my time as Chair and would like to thank the College's staff, students and my fellow board members for making it such an enjoyable experience. It has been a wonderful institution to be a part of. The Scottish Government has commenced the process of appointing a new regional chair through the public appointments process, and in the short-term I am delighted that my colleague Ann Landels (the current Vice Chair of the Board) will act as interim Chair of the Board of Management.

Under the leadership of Principal Audrey Cumberland, the College will continue to build on its successes, strengthen its partnerships and provide an opportunity for all of its people to thrive.



**Sir Ian Diamond**

Chair of Edinburgh College Board of Management

30 October 2019

## PERFORMANCE REPORT

### OVERVIEW

This section provides information on the purpose and objectives of Edinburgh College, the main issues and risks that it faces, and a high level assessment of its performance over the year.

### PRINCIPAL AND CHIEF EXECUTIVE'S STATEMENT



Since becoming Principal and Chief Executive of Edinburgh College in September 2018, I have seen our College continue to evolve and flourish to better suit the needs of our students, our partners and businesses across the country. We are Scotland's capital College, the largest college in Scotland and one of the largest in the UK. Much has been achieved over the last year, with strong foundations in place to build on to realise our full potential: to be Scotland's pre-eminent College, to grow and to future-proof. We operate within an uncertain policy and funding context and in an environment where digital and technological advances are impacting on everything we do – and at a pace which is exponential.

Our ambitions require us to be innovative, bold, resilient and agile. As we focus on achieving our ambitions for the future it is also important to look back on what we have achieved and on lessons learnt.

2018-19 was a year which saw our 1,300 staff deliver over 800 courses to 26,608 students across our four campuses and outreach centres.

Our staff and students have continued to show why they are some of the best in the country – winning national and international awards and competitions on the world stage.

Our College became an Apple-accredited Training Centre for Education (AATCE) after four of our music and sound production lecturers completed a rigorous training course to become Apple-certified instructors.

We became the first College in Scotland to deliver mechanical engineering courses via desktop sharing technology, allowing employees to upskill from anywhere, including remote locations such as oil and gas platforms.

Our joint Daydream Believers programme has now launched online teaching resources which will help secondary school teachers develop essential skills such as creativity, critical thinking and problem solving among pupils.

In addition, we also launched our first ever Skills Report, having surveyed businesses in our region and have increased our dedication to the positive mental health and wellbeing of both staff and students.

We are also continuing to play a key role in the Edinburgh and South East Scotland City Region Deal, working alongside local partners to make Edinburgh and the Lothians a better place to live, work, study, visit and invest.

This annual report details the progress made over the past year and outlines the foundations which can now be built on to ensure we continue to contribute to developing Scotland's people and its businesses.

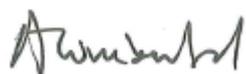
We have a huge responsibility to deliver education and training, not only to members of our local communities, but to people across the world. In 2018-19 we saw further growth in our international activity, expanding our global reach and reaffirming Edinburgh College as a truly international College.

Whilst we expect to be faced with challenges in 2019-20, including those brought about by the consequences of the UK's exit from the European Union, it is important that we focus on what we're good at – providing people with life-changing education, helping businesses to bridge their skills gaps and encouraging all of our students and staff to achieve their full potential.

As a College, we must continue to work strategically to impact on the economic growth of Edinburgh and the wider Lothian region by educating and training the current workforce and the workforce of the future. In 2019-20 we will focus on future-proofing and expanding the scale and reach of our College, working closely with partners in Scotland and across the world to deliver meta skills training and putting colleges at the forefront of education and training.

Along with other colleges in Scotland and across the UK, we will continue to champion college education and to demonstrate why college is a great path to take, no matter what stage of their life a person is at. We have opportunities for everyone and our doors are open to all.

We have exceeded our credit target for the third consecutive year and plan to exceed our 2019/20 target. Enrolments have increased by 46% over the last three years and the number of students studying at our College has increased by 41% over the same period. We have a professional and committed team of staff and I look forward to the year ahead, to working closely together to evolve and improve what we do and how we do it, whilst growing our College and its people.



**Audrey Cumberford MBE FRSE**

Principal and Chief Executive

## **PURPOSE AND ACTIVITIES**

Edinburgh College's purpose is to inspire futures, transform lives, and support communities by providing excellent education through a quality curriculum. It provides further and higher education in the Edinburgh and Lothian regions and delivers education programmes on a full-time and part-time basis to over 26,000 students annually.

The Principal and the Board of Management have a clear vision that Edinburgh College wants to be seen as a vibrant, dynamic and confident college that inspires success in its students and staff, delivers outstanding performance, and is highly regarded and sought after by partners, employers and the wider Scottish, UK and global communities.

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 (SFC).

The Financial Memorandum between the College and the SFC 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 (ROA) with the SFC. In 2018/19, 78% of the College's income

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

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.

## **KEY ISSUES AND RISKS**

The College Strategic Plan 2017-2022 sets out the main priorities for the period, and is informed by government policy and by guidance provided by the Scottish Funding Council (SFC) as outlined below. The Plan has five key strategic aims:

### **Delivering a superb student experience**

The College will continue to ensure that students are at the centre of College life and are fully engaged with being part of the College community. The College aspires to provide ever-greater amounts of flexibility, support, continued commitment to equality and choice for students in the way they learn.

### **Providing an excellent curriculum**

The College will provide a world-class system of vocational education, in which the College will work with schools, employers, and partners to deliver learning that is directly relevant to the job and being work ready employees. We will continue to bring about greater access to relevant areas of our curriculum at all levels of further and higher education, with a particular focus on key local and regional employment sectors.

### **Supporting and inspiring our people**

The vision of Edinburgh College can only be achieved through the commitment, hard work, and innovation of all our people. For the years ahead, we aspire to be an employer of choice committed to equality, and retaining and rewarding a motivated effective workforce. Our people will feel valued, engaged, and supported in all aspects of their professional role.

### **Valued in partnership and by communities**

The College will be an active partner and leader within local community planning, committed and responsive to improving outcomes in our local communities. The College will identify

areas where new or enhanced partnerships could significantly improve the quality and impact of what we do and move us towards our vision.

### **An effective and efficient College**

The College will continue to operate as a highly effective and efficient organisation, rigorously focusing on outcomes and identifying quickly where resources could be better utilised or performance enhanced. There will continue to be a college-wide approach to continuous improvement which recognises best practice, including strong financial and corporate controls, continued commitment to tackling climate change, investment in information technology, and high standards of safety and governance.

The College is committed to ensuring its performance is aligned to the 12 elements of the National Performance Framework (NPF). Specifically, College performance contributes to the following elements of the NPF:

- We have a globally competitive, entrepreneurial, inclusive and sustainable economy.
- We are open, connected and make a positive contribution internationally.
- We tackle poverty by sharing opportunities, wealth and power more equally.
- We are well educated, skilled and able to contribute to society.
- We have thriving and innovative businesses, with quality jobs and fair work for everyone.
- We respect, protect and fulfil human rights and live free from discrimination.

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 (STEM) subjects, improving the learner journey and the enhancement of gender balance in the curriculum. Edinburgh College is making good progress in fulfilling these objectives within set timescales, and within its financial envelope.

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

- Improve the attainment of full-time students in Further Education.
- Increase the numbers of students articulating to university with advanced standing.

- Increase Developing the Young Workforce numbers.
- Deliver the Access and Inclusion Strategy.
- Increase the proportion of full-time students achieving a positive destination.
- Increase the employment experience of our learners.
- Increase the numbers of students studying childcare in the region.
- Deliver strategies for Sustainability and Innovation.

Details of the College's Risk Management arrangements are provided in the Risk Management section of the Corporate Governance Report.

## PERFORMANCE SUMMARY

Edinburgh College provided education to 26,608 students during the year to 31 July 2019, and in doing so achieved credits of 188,030 for the year, exceeding its target by 62 credits. 88.5% of our student intake completed their studies, and there were many great achievements, some of which are highlighted in the Principal and Chief Executive's Statement. 53% of our students were female and 47% male. 19% of students reported having a disability and 6.5% of credits were delivered to learners from the most deprived postcodes. Of the full-time students who completed their studies in the year to 31 July 2018, 96% went on to a positive destination, either into work or into further study. Although the College has posted a £6.2m operating deficit for the year, it achieved an underlying surplus of £0.7m when pension actuarial revaluations and other non-cash items are stripped out.

Looking ahead, the College will navigate its way through a number of uncertainties and challenges to achieve its aims. These included the tight public sector funding environment, the ability to invest and to prepare students for the fast developing digital and data driven work and social environment, and the uncertainties of the impact of the UK withdrawal from the European Union.

Further details of the year's performance is described below, and details of the College's Governance and Risk Management arrangements are provided in the Corporate Governance Report.

## PERFORMANCE ANALYSIS

### OPERATIONAL REVIEW

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

KPI	Purpose	2019	2018	2017
		Actual (at 31 July)	Actual (at 31 July)	Actual (at 31 July)
Student activity (credits)	Measure of student activity	188,030	192,990	186,978
Performance against credit activity target	Measures student activity performance against target	100%	103%	100%
Credits per staff FTE	Measure of credits per staff FTE	179	184	172
Unique student enrolments	Measures number of students	26,608	23,959	19,491
Full-time applications	Measures student demand	18,351	17,488	16,923
Number of FT FE enrolled students aged 16-19	Measures number of students	2,779	2,572*	2,730
Student retention rate	Measures percentage of students completing studies	88.5%	89.8%	85.8%
Operating surplus/deficit as % of total income	Measures deficit as % of total income	(9.3%)	0.2%	(3.6%)
Non SFC income as a % of income	Measures non SFC income as a % of total income	21.7%	23.4%	22.9%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	74.8%	69.9%	68.6%

\* Figure has been restated for 2018 due to final figure being confirmed after signing of the accounts

## Student Activity Performance Highlights

### Delivery of widening access and progression targets

- Gender balance of learners: 47.0% male (2018: 49.3%, 2017: 51.3%), 53.0% female (2018: 50.7%, 2017: 48.7%).
- Disability: 19.1% of students reported having a disability (2018: 15.7%, 2017: 17.2%).
- Ethnic minority student percentages (home students): 10.2% (2018: 10.2%, 2017: 8.6%).
- 6.5% of credits delivered to learners in the most deprived of postcodes (2018: 8.8%, 2017: 8.6%).
- Senior phase: 0.53% of the College's total credit delivery (2017: 0.81% 2016: 0.82%).

In September 2019, Edinburgh College published its Equality Report (including Equality Outcomes and Gender Action Plan) to meet equalities legislation. This report sets out the progress the College has made towards mainstreaming equality across the curriculum and in delivering equal opportunities for all our students. The Gender Action Plan was published in September 2019. The Board of Management leads, with support from the Nominations Committee and all other committees, on how we uphold the Equality and Diversity Policy of Edinburgh College, which reflects equality legislation and best practice.

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

The College's self-evaluation model has been embedded into the planning process and incorporates stakeholder engagement (from industry) within the evaluation and planning of course provision. The College is a recognised STEM Hub, and its faculty for Creative Industries is seen as a major hub for employability through its annual employability conference, attended by over 700 students and delivered by over 60 employers. Employer engagement is also key to programmes associated with Developing the Young Workforce (DYW), with courses such as Foundation Apprenticeships in key skills areas identified by Skills Development Scotland (SDS). The College works with over 2,000 employers and representative stakeholders in the region.

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

Edinburgh College has one of highest proportions of articulating students in Scotland (529 students articulated with advanced standing in 2017/18). Our work in Associate Degree

provision, Scottish Wider Access Programme courses, strategic skills planning within the City Deal and regional planning in accordance with the College's curriculum strategy represent the College's commitment to ensuring that articulation continues to grow - especially for learners from the most deprived data zones.

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

KPI	Purpose	2019	2018	2017
		<b>Actual (at 31 July)</b>	<b>Actual (at 31 July)</b>	<b>Actual (at 31 July)</b>
<b>% of credits delivered as NRQs:</b>	Shows proportion of credits arising from NRQs	91.1%	97.9%	98.5%

The reduction above is the result of widening the access of the curriculum to include more programmes that do not lead to NRQs.

#### Analysis of Achievement:

KPI	Purpose	2019	2018	2017
		<b>Actual (at 31 July)</b>	<b>Actual (at 31 July)</b>	<b>Actual (at 31 July)</b>
<b>The percentage of enrolled students achieving a recognised qualification</b>				
<b>Full-time FE aged 16-19</b>	Measure of Achievement	46.5%	54.9%	57.5%
<b>Full-time FE</b>	Measure of Achievement	56.0%	60.7%*	62.9%
<b>Full-time HE</b>	Measure of Achievement	69.8%	71.3%*	73.1%
<b>Part-time HE</b>	Measure of Achievement	75.5%	84.3%*	82.1%
<b>Part-time FE</b>	Measure of Achievement	66.2%	70.8%*	71.9%

\* Figures have been restated for 2018 due to final figures being confirmed after signing of the accounts

The table above shows the percentage of enrolled students achieving a recognised qualification declined during 2018/19 in all categories. Appropriate measures to address the decline will be published in the college's evaluative report to the Scottish Funding Council.

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

The policy to redesign and rebalance the curriculum to meet needs of local industry continues to focus on developing an attractive curricular offer and extending links into schools, through setting targets in relation to DYW. The process of developing our offer is ongoing, to meet these external needs and provide growth. The curriculum offer in Engineering and the Built Environment, Creative Industries, Computing and Digital Skills, Health and Social Care, Childcare as well as Tourism, Business and Financial Services are considered priority economic areas. Community-based learning opportunities for ESOL (English for Speakers of Other Languages) and Access to College programmes are also key areas for the College to grow and develop. The College has begun to develop its Future Proof Curriculum Strategy for 2025, in line with City Region Deal priorities in partnership with key innovation stakeholders such as DataLab.

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.

### **Estates Strategy**

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

Therefore, the Estates strategy objectives are:

- To ensure that the needs of students and learning and teaching drive the shape of the estate.
- To develop a more environmentally sustainable estate.
- To ensure a high quality, well run and well-maintained estate.
- To develop a more cost-efficient estate, generating more revenue.

The key Estates performance measures attached to these objectives are; capital expenditure on maintenance adheres to condition survey report, effective management of utility costs, reducing the college's carbon footprint, and increasing revenue generated from the use of the estate.

The College is based across four main campuses at Sighthill, Granton, Milton Road and Midlothian, and during the year continued to invest in its curriculum areas and the maintenance of its buildings. Recent projects included the upgrading and refurbishing of

College buildings, including LED lighting, new boilers, solar PV panels and a combined heat & power plant. Much of this work has contributed to the College's drive to reduce its carbon footprint across all campuses. There has also been investment in refurbishing classrooms and creating new student social spaces.

## **SUSTAINABILITY REPORT 2018/19**

### **Environmental Sustainability Strategy**

The College's strategy on climate change and sustainability is in the process of being updated to take cognisance of the current Climate Change Bill which is progressing through the Scottish Parliament. The Bill will give the College a clear indication of new performance targets and associated enactment dates

### **Report on progress made during Session 2018/19**

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, protect it and enhance it for future generations'.

The College's sustainability policy outlines its commitment to sustainability and how it will reduce carbon emissions, adapt to climate change and act in a sustainable manner in line with its obligations. As such the College is named as a 'major player' by the Scottish Government in the Climate Change (Scotland) Act 2009. In addition, our role in education provides us with a clear mandate to lead in sustainability in everything we do. In October 2018 the College was awarded the FE sector's prestigious 'Sustainability Award' from the College Development Network (CDN) recognising its contributions to date.

Edinburgh College has reduced carbon emissions by 36% between 2013/14 and 2017/18 and continues to implement and pursue projects that will further reduce our end of year total of 4,817 tonnes of carbon. College waste management is improving with an offsite recovery rate of 90% for mixed recycling and 60% for general waste. All our food waste is processed into green energy via an anaerobic digester, and we are fully supportive of the prominence being given to tackling plastic pollution.

The College approach to energy-efficiency has continued and we have again invested in measures to further improve the College's efficiency. In 2018/19 we invested in a Solar PV Array of some 146 solar panels at our Sighthill Campus which produces 46.72 kWp with an annual estimated output of 37,810 kwh and a CO<sub>2</sub> offset of 19,623kg. We also invested in a full LED replacement lighting programmes across campuses

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 to derive maximum benefit and enjoyment from their involvement in the life of the College.

The College seeks to continue 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, retaining our Fairtrade status awarded jointly with Edinburgh College Students' Association in June 2018. The College is also a member of the Scottish Fair Trade Forum, and complies with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

### **Community Garden**

Edinburgh College continues to build its Community Garden projects on two campuses and is identifying growing opportunities at the other campuses. The community gardens are used extensively as part of the learning experience of students in the College, as well as by a number of community groups. The Gardens won the UK and International Award in the Green Gown Student Engagement Category in 2015.

The College has spent considerable time enhancing biodiversity on our estate and is a member of the Edinburgh Biodiversity Action Plan.

## **FINANCIAL REVIEW**

The adjusted operating position in the table below on page 18 shows a surplus of £0.7m for the year compared to a 2018 surplus of £0.4m. The Statement of Comprehensive Income shows a deficit of £6.3m for the year compared to a 2018 surplus of £0.2m. After considering the adjustments (as shown in the table below), this result represents a negative variance of £0.6m compared to the 2018 result. This variance includes additional depreciation in the current year of £0.5m resulting from the revaluation of buildings at 31 July 2018.).

The income and expenditure position is summarised below:

	2019 £m	2018 £m
Income	67.4	65.7
Expenditure	(68.0)	(65.7)
	<b>(0.6)</b>	<b>0.0</b>
Funding for exceptional staff costs	-	0.6
Exceptional staff costs	(0.1)	(0.6)
SFC grant income repayment	(0.5)	-
Annual leave provision movement	0.1	(0.1)
FRS 102 Pension costs (actuarial revaluation)	(3.9)	(2.2)
Early retirement revaluation	(0.3)	-
Gain on revaluation	-	2.5
Provision for future student accommodation losses	(0.9)	-
Loss on disposal of fixed assets	(0.1)	-
<b>(Deficit)/ surplus for the year</b>	<b>(6.3)</b>	<b>0.2</b>
Actuarial gain/(loss) on pension	(11.8)	14.3
Revaluation of buildings in the year	-	16.0
<b>Total comprehensive income for the year</b>	<b>(18.1)</b>	<b>30.5</b>

### Income

Income at £67.4m is higher by £1.7m in comparison to 2018. The main reasons for this is an increase in the Scottish Funding Council core grant to fund lecturers' harmonisation costs (£1.3m) and Workforce Development funding (£1.0m) offset by a reduction in income caused by the in-year cessation of a pre-employment contract (£0.4m) and the outsourcing of the catering service during the year (£0.6m).

## **Expenditure**

Expenditure at £68.0m is higher by £2.3m in comparison to 2018. This was largely the result of increases in staff operating costs (lecturers pay harmonisation cost of £1.3m and cost of living increases), as well as additional depreciation in line with the 2018 revaluation of buildings.

## **Balance Sheet**

Fixed assets at the year-end totalled £159.7m, a net decrease of £2.9m compared to the prior year. This is the result of depreciation charges of £5.9m during the year offset by additions of £3.1m consisting mainly of the SFC funded high priority backlog maintenance projects.

Net current liabilities decreased by £1.0m as a result of lower deferred capital grants, creditors, and the repayment of the outstanding Lennartz VAT amount.

At 31 July 2019, the College had an accumulated surplus of £17.7m (2018 : £33.5m) on its Income and Expenditure Account, and in complying with FRS102 s28 (Retirement Benefits) the pension liability increased by £15.7m to £25.6m (2018 : £9.9m) which is included in the Income and Expenditure Account reserve.

## **Cash Flow**

There was a net cash outflow of £0.01m (2018: net cash outflow £3.9m). At 31 July 2019 the College held cash and deposits of £0.9m (2018: £0.9m), of which £0.2m related to student support funds. These are managed in accordance with the College's Treasury Management Policy. The College held long-term debt of £9.7m (2018: £10.1m) which is attributable to the Milton Road and Midlothian campuses redevelopment in 2009/10.

## **The College Estate and Capital Resources**

The College has capital assets of £159.7m (£151.3m related to the estate), and in 2018/19 received capital funds of £3.1m to maintain its estate, ICT infrastructure and systems. The College has underpinned this capital investment with net recurring expenditure of approximately £5.6m to cover the operating costs of the estate.

## **Cash Budget for priorities**

Colleges are also required to comply with central government budgeting rules. In addressing the impact of these budgeting rules, the Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities.

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

<b>TABLE OF CASH BUDGET FOR PRIORITIES SPEND</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Revenue priorities</b>		
Pay award 2015-16	874	874
Estates costs	554	132
<b>Total impact on operating position</b>	<b>1,428</b>	<b>1,006</b>
<b>Capital priorities</b>		
Loan repayments	451	428
Lennartz cash payments	390	799
Payments against provisions pre-1 April 2014	278	314
<b>Total Capital</b>	<b>1,119</b>	<b>1,541</b>
<b>Total cash budget for priorities (CBP) spend</b>	<b>2,547</b>	<b>2,547</b>

### **Adjusted operating position**

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

	2019 £'000	2018 £'000
<b>Deficit before other gains and losses</b>	(6,227)	(2,299)
<b>ADD BACK:</b>		
• Depreciation (net of deferred capital grant release) on both government funded and privately funded assets (Note a)	2,446	2,060
• Pension adjustment - Net service cost (Note b)	3,611	1,542
• Pension adjustment - Net interest cost (Note c)	327	614
• Non-cash pension adjustment - Early retirement provision year-end valuation charged to SOCI (Note d)	276	40
• Non-cash pension adjustment - Early retirement provision interest (Note d)	23	-
• Non-cash provision adjustment - Others (Note e)	871	-
• Exceptional income repayment (Note f)	500	-
<b>DEDUCT:</b>		
• CBP allocated to loan repayments and other capital items (Note g)	(1,119)	(1,541)
<b>Adjusted operating surplus</b>	<b>708</b>	<b>416</b>

#### Explanation for adjusting items:

**Note a:** Depreciation does not have a cash impact on the College and capital expenditure will largely be funded by government grants, therefore the charge is taken out. See note 12 for depreciation and note 2 for deferred capital grants.

**Note b:** The adjustments to the pensions charge represent the net service cost (i.e. the present value of projected benefits resulting from employee service in the current year less cash contributions paid). See note 22.

**Note c:** The net interest cost is the interest accumulated on the pension liability and this is offset against the current year's interest earned on pension assets. See note 22.

**Note d:** The early retirement provision adjustment relates to the change in the assumptions and the interest rate during the year. See note 17.

**Note e:** The provision adjustment – Others relates to the provision made for the Granton accommodation during the year. See note 17.

**Note f:** Exceptional income repayment relates to an initial repayment of a Business Transformation Plan grant which was received in 2016/17. See note 2.

**Note g:** Cash budget for priorities is included in income but the loan repayment is not reflected in the costs therefore this amount is adjusted. See table of cash budget for priorities spend.

### **Creditor Payment Policy**

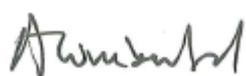
It is the College's policy to agree payments with its suppliers in advance and to make payment, where practicable, in accordance with those terms, subject to satisfactory performance by the supplier. Where necessary, suppliers are made aware of the terms of payment. The College adheres to "The Better Payment Practice Code". The average number of creditor days for 2019 was 43 days (2018: 31 days). The increase relates to capital invoices of £0.5m which were due at 31 July 2019. There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

### **Employment of individuals with a disability**

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

### **Anti-Fraud, Bribery and Corruption Policy**

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



**Audrey Cumberford MBE FRSE**

Principal and Chief Executive

10 December 2019

## ACCOUNTABILITY REPORT

### CORPORATE GOVERNANCE REPORT

#### **DIRECTORS' REPORT**

The membership of the Board of Management during the year to 31 July 2019 is outlined at page 35, 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](#).

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

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

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

#### **The Executive team comprises:**

<b>Audrey Cumberford</b>	- Principal and Chief Executive *
<b>Alan Williamson</b>	- Chief Operating Officer
<b>Jon Buglass</b>	- Vice Principal, Innovation, Planning and Performance
<b>Michael Jeffrey</b>	- Vice Principal, Corporate Development
<b>Jonny Pearson</b>	- Vice Principal, Education and Skills

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

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

## STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

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

## CORPORATE GOVERNANCE STATEMENT

### Introduction

The College is committed to complying with best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the Code of Conduct for Members of the Board of Management of Edinburgh College, and the 2016 Code of Good Governance for Scotland's College. Their purpose is to help the reader of the financial statements understand how the principles have been applied. It is a condition of the Financial Memorandum that Edinburgh College meets the principles of good governance set out in the Code of Good Governance for Scotland's College.

### Governance Framework

The Board and its committees play a vital role in the oversight of College business and hold management accountable for performance against targets and performance indicators, specifically Regional Outcome Agreement targets, the recommendations of self-evaluation

activity against the 'How Good is Our College' framework and the delivery of key College strategies and plans.

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 the Standing Orders and Scheme of Delegation approved by the Board on 18 September 2018, and minutes of these meetings are published on the College's website.



Fig1: Edinburgh College Board and committee structure.

The key responsibilities of each committee of the Board are set out below.

### **Audit and Risk Assurance Committee**

The Audit and 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 and Risk Assurance Committee met four times in 2018/19. The committee comprises four non-executive members and one co-opted member. Two members have recent relevant financial experience. The College's internal and external auditors were represented at all meetings. The College's internal auditors regularly present the findings from internal audits, and monitor implementation of agreed management actions in response to these audits. The Chair of the Board and Principal attend meetings annually 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 2018/19. The committee includes academic staff and student board members alongside three non-executive members, and an extended co-opted membership of staff and students.

## **Corporate Development Committee**

The remit of the Corporate Development Committee (formerly the External Engagement Committee, prior to 18 June 2019) is to oversee commercial and international development, communications, marketing and external engagement, and to foster constructive relationships with external stakeholders including community planning partners. To ensure that the College fulfils its statutory obligations under the Community Empowerment (Scotland) Act 2015, the committee has invited community planning partners to meetings throughout the year to discuss the achievement of each partners local outcome.

The Corporate Development Committee met four times in 2018/19. The committee comprises four non-executive board members, a non-teaching staff member and a student member.

## **Nominations Committee**

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

In all such activities, the Nominations Committee, on behalf of the Board, seeks to uphold the Equality and Diversity Policy of Edinburgh College, which reflects equality legislation and best practice. While recommendations for appointment are made wholly on the basis of merit, the Board's guiding principle is to advance equality of opportunity, and vacancies are advertised widely to encourage applications from under-represented groups. With regard to gender balance, at 31 July 2019 the Board comprised 56% women and 44% men.

The Nominations Committee meets as required and not less than once per year. In 2018/19 it met three times. The committee is chaired by the Chair of the Board.

## **Policy and Resources Committee**

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

Further to this, the committee oversees and reports to the Board on the implementation of the Edinburgh College Strategic Plan 2017-2022.

The Policy and Resources Committee met four times during 2018/19. The committee is chaired by the Vice Chair of the Board.

## **Remuneration Committee**

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

## **OPERATION OF THE BOARD OF MANAGEMENT**

### **Membership**

The Board comprises a Chair appointed by Scottish Ministers, the Principal and Chief Executive, eleven 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.

Following the appointment of two new non-executive board members on 8 March 2019, committee membership was reviewed by the Board on 19 March 2019. Details of Board and committee membership during the year to 31 July 2019 are provided at page 35.

The Chair of the Board, Sir Ian Diamond, has assumed the role of the UK's National Statistician (Chief Executive of the UK Statistics Authority and the Head of the UK Governments Statistical Services) on 1 November 2019. Sir Ian Diamond therefore stepped down from his role as Chair of the Edinburgh College Board of Management on 31 October 2019, and has been replaced by the Vice Chair of the Board, Ann Landels, in the interim until a new Regional Chair is appointed by the Scottish Government through a public appointments process.

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 the clerk to the Board and governance advisor.

On 18 February 2019, the Minister for Further Education, Higher Education and Science, wrote to the Convenor of the Scottish Parliament’s Education and Skills Committee outlining his decisions following the Good Governance Consultation which was published in April 2017. In furtherance of the action relating to partnership working, which would require college boards to; “introduce two trade union nominees to the boards of incorporated colleges in addition to the existing staff representatives, bringing the college sector into line with changes made in universities by the Higher Education Governance Act 2016”, it was agreed by the Board, on 19 March 2019, that recognised trade unions would be invited to future meetings as observers. Representatives from EIS-FELA and UNISON attended their first meeting of the Board on 18 June 2019, and will continue to attend until further guidance on the implementation of actions arising from the Good Governance Consultation has been confirmed.

### Meetings and Attendance

The Board met four times between 1 August 2018 and 31 July 2019, with a further 21 meetings of the various committees of the Board also taking place within this period.

All Board and committee meetings held in the period from 1 August 2018 and 31 July 2019 were quorate, with the exception of the Policy and Resources Committee on 19 February 2019. A review of committee representation in March 2019 refreshed the membership of the Policy and Resource Committee to ensure that future meetings were quorate.

Overall attendance at Board and committee meetings remained high between 1 August 2018 and 31 July 2019, at 86%, an increase of 5% from the previous academic year. Attendance across the Board and its committees throughout 2018/19 was as follows:

• Board of Management	88%	(2017/18: 81%)
• Academic Council	79%	(2017/18: 82%)
• Audit and Risk Assurance Committee	91%	(2017/18: 75%)
• Corporate Development Committee	88%	(2017/18: 88%)
• Nominations Committee	73%	(2017/18: 75%)
• Policy and Resources Committee	91%	(2017/18: 78%)
• Remuneration Committee	80%	(2017/18: 67%)

## Induction and Development

All new members receive a formal induction provided by the College, in line with the Board's Induction and Development Procedures. The majority of board members participated in induction training facilitated by the College Development Network (CDN) in 2017/18, with the remaining members attending induction events held in April 2019. Other development sessions during the year focused on health and safety and key strategic matters with implications for the College, including: digital, risk appetite and equality and diversity.

The Nominations Committee reviewed the following three induction and development procedures of the Board at its meeting in March and June 2019, to ensure the continued enhancement of the Board's operations: (i) Induction and Development Procedures; (ii) Committee Chair Induction Procedure; and, (iii) Mentorship Procedure.

## 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 was presented to the Board on 18 June 2019.

Further to the qualitative data collected, a quantitative online survey comprising of a series of questions focusing on current governance arrangements at the College and future enhancements were all conducted.

The outcome of a self-evaluation process was very positive. The following key areas identified for further improvement included:

- The need to ensure appropriate opportunities for one-to-one between with the Chair of the Board and non-executive, staff and student board members;
- the effective use of individual board members' networks and expertise to support the Chair of the Board in taking on an ambassadorial role of the College;
- the refinement of Board papers to improve the use of executive summaries, with greater focus on the decisions that needed to be made;

In August 2019, an external Board Governance Effectiveness Review commenced with a final report to be presented to the Board, by the external reviewer, for approval in

December 2019. Recommendations from the report will inform the development of a new improvement plan, replacing the plan previously implemented by the Board following the 2016 Governance Effectiveness Review, to progress matters relating to future induction, training and evaluation.

## **CORPORATE STRATEGY**

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

In September 2017, the Board of Management approved a new Strategic Plan and associated Blueprint, setting out Edinburgh College's strategic aims over the next five years to 2022. Following the Board Development Day on 30 October 2018, it was agreed that due to changes in external drivers and the appointment of a new Principal and Chief Executive (on 03 September 2018) the Board of Management, at its meeting on 11 December 2018, subsequently agreed that a re-shaped Blueprint retitled 'strategic themes' should focus on the following three ambitions for Edinburgh College:

- A College with a curriculum for the future;
- A high performing digital College;
- A resilient, agile College with reach and potential to grow.

Progress against the three ambitions, as reported by the Principal and Chief Executive, continue to be monitored by the Policy and Resources Committee - which reports directly to the Board.

The Board approved new College strategies and position statements relating to Finance, Estates and IT Infrastructure between 1 August 2018 and 31 July 2019, along with the 2019/20 Edinburgh College Regional Outcome Agreement.

## **RISK MANAGEMENT**

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 and Risk Assurance Committee receives regular reports from the College's internal Risk Management and Assurance Group. This group reviews operational risk and proposes updates to the Top Risk Register. Any proposed changes to the Top Risk Register are highlighted and discussed by the Audit and Risk Assurance Committee, prior to a Summary Top Risk Register being presented to the Board of Management. Heads of department are also invited to attend this committee to provide a statement on risk assurance and risk mitigation in relation to their areas of expertise.

The Board, through its Audit and Risk Assurance Committee, approved a 'Three Lines of Defence' Framework on 29 May 2019, with a view to enhancing further the College's approach to internal control, assurances and risk management. The model identifies organisational arrangements and clear lines of accountability, which are responsible for providing assurance with regard to the management of key business areas and risks.

The Audit and Risk Assurance Committee has also undertaken a series of risk 'deep dives' throughout the academic year 2018/19. The purpose of each deep dive was to consider key risks in greater detail to allow members to understand current and planned mitigations, internal controls and seek further assurances - if required. Examples of risk deep dives which took place include: Safeguarding; Fraud and Anti-Bribery; and Financial Sustainability.

The College's Risk Management & Assurance Framework includes

- a Risk Management Policy,
- a risk appetite statement,
- operational risks registers, managed by each member of the Senior Management team aligned to their respective operational plans, which cover all College business,
- the Edinburgh College Top Level Risk Register, which identifies the major risks drawn from operational risk registers, risks identified by the Board of Management and its committees, and risks identified by the Executive team and Senior Management team.
- A 'Three Lines of Defence' internal control and assurance framework, linked to the College's Top-Level Risk Register.

The Risk Management & Assurance Framework is overseen by the College's Risk Management and Assurance Group (RMAG), which reports into the Audit and Risk

Assurance Committee. This group meets every three months to review the Top Level Risk Register, and a rolling review programme of operational risk registers and business continuity plans. It also recently reviewed the College's risk appetite statement.

As of September 2019, the top four risks facing the College have been identified as:

1. Insufficient College budget to cover cost of living and pension increases.
2. Impacts of EU withdrawal on College business.
3. The College's IT infrastructure ageing and not meeting future business need.
4. Cyber security breaches within the College.

It should be noted that significant progress has been made during 2018/19 to manage and mitigate the risks associated with student retention, industrial relations, stakeholder confidence and performance against ROA targets.

There has been no significant movement in individual items identified on the operational risk register for the financial year to 31 July 2019. These risks are outlined in the Key Issues and Risks section of the Performance Report.

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 up to the date of approval of these 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 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 ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the College for the year ended 31 July 2019, and up to the date of approval of the annual report and financial statements.

The following internal audit reports have been reviewed by the Audit and Risk Assurance Committee in the financial year to 31 July 2019:

Audit	Overall Conclusion	Grading of Recommendations
Risk Management	Moderate	2 Moderate risk exposure; 4 Low risk exposure
Corporate Governance	Substantial	2 Low risk exposure
Financial Controls	Moderate	1 Moderate risk exposure; 5 Low risk exposure
Partnership Working	Moderate	6 Low risk exposure
Business Planning and Performance Management	Moderate	2 Moderate risk exposure; 8 Low risk exposure
Use of Technology	Moderate	3 Low risk exposure
Data Protection	Limited	6 Moderate risk exposure; 3 Low risk exposure
Staff Recruitment	Moderate	2 Moderate risk exposure; 3 Low risk exposure

## 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 monthly, 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;
- appropriate reassurance through a 'Three Lines of Defence' Framework aligned to top risks; 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 and Risk Assurance Committee.

The Chair of the Audit and 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 and Risk Assurance Committee's independent opinion on the adequacy and effectiveness of the College's system of risk management, internal controls and governance processes.

## REVIEW OF EFFECTIVENESS

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

- the work of the internal auditor. The conclusion in their annual report was that Edinburgh College has a framework of controls in place that provides reasonable

assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks;

- the work of the Executive team and managers within the College who have responsibility for the development and maintenance of the internal control framework and annual assurance statements;
- comments and recommendations made by the College's external auditor;
- 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 and Risk Assurance Committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place. On the basis of these assurances, the Principal and Chief Executive is able to confirm that sound systems of governance, risk management and assurance and internal control are consistent with the requirements of the SPFM and the SFC's accounts direction, have operated for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts.

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 College's faculties and departments. The Executive team and Audit and Risk Assurance Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit and Risk Assurance Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board of Management's agenda includes a standing item for consideration of risk and control and receives reports thereon from the Executive team and the Audit and Risk Assurance Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The Board met on 10 December 2019 and approved the year-end financial statements and the external auditors report, taking account of Audit and Risk Assurance Committee recommendations.

### **Internal Control Statement**

The internal auditor has expressed the opinion that, except in the case of full Data Protection the Edinburgh College Board of Management does have adequate and effective risk management, control and governance processes in place. to manage its achievement of the College's objectives at the time internal audit work was undertaken and that the College has proper arrangements to promote and secure value for money. The Internal Auditors provided Limited Assurance on the Colleges arrangements for Data Protection recognising

that the College was working through a plan to fully implement its data protection structures and processes.

### **Going Concern**

The annual financial statements have been prepared on a “going concern” basis.

The College meets its day-to-day, and medium to long-term funding requirements through a combination of cash draw-down from the SFC, income generated from commercial activities 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 2018/19 and are forecast to be met in the 12 months from the date of these financial statements. In 2017 the Board of Management agreed a new Strategic Plan 2017-2022, and an accompanying transformation programme entitled the Blueprint 2017-2022. This contains financial forecasts which outline the growth in income and cost efficiencies that are required to ensure the College operates at a sustainable level and can continue to repay the balance of the Business Transformation Plan grant of £2.4m (£2.9m received in 2016/17) over future years.

Following the arrival of a new Principal/Chief Executive in September 2018, the Blueprint underwent a review. As a result of the review a new strategy, entitled ‘A Future Proofed College’, was agreed by the Policy and Resources Committee and Board in early 2019. The strategy is aligned to three new strategic themes (i) a high performing digital college, (ii) a college with a curriculum for the future, and (iii) a resilient, agile college with reach and potential to grow.

The Board of Management recognises that the most significant risk to the College relates to financial sustainability and the College’s ability to manage its activities and deliver its outcomes within the current funding environment. The uncertainties relating to the effects of withdrawal from the EU on the further education sector will also require careful management by the College.

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

The Edinburgh College Board of Management complies with all the principles of the 2016 Code of Good Governance for Scotland’s Colleges, and it has complied throughout the year ended 31 July 2019.

## **CONCLUSION**

The Board of Management are content that the arrangements in place relating to corporate governance are effective.

Based on the information above, it is the opinion of the Principal and Chief Executive and the Board of Management that the College has continued to progress positively over the financial year to 31 July 2019.

This is evidenced through the good progress shown in the implementation of Edinburgh College Strategic Plan 2017-2022, and the agreement of the Board to move into a new stage through the setting of three strategic themes – to ensure the ‘future proofing’ of the College. 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.

Approved by order of the members of the Board of Management on 10 December 2019.

## 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		30/6/2019
Annette Bruton	Principal and Chief Executive		2/9/2018
Audrey Cumberford	Principal and Chief Executive	3/9/2018	
Bruce Cassidy	Staff Representative (Support)		
Mike Cowley*	Staff Representative (Academic)		

<b>Ian Diamond</b>	Regional Chair		31/10/2019
<b>Bob Downie</b>	Industry, Commerce or Public Sector Representative		2/11/2018
<b>Stephen Dunn</b>	Industry, Commerce or Public Sector Representative		16/8/2018
<b>Lesley Drummond</b>	Industry, Commerce or Public Sector Representative		
<b>Carla Ford</b>	President of Edinburgh College Students' Association	1/7/2019	
<b>Sarah Hay</b>	President of Edinburgh College Students' Association		30/6/2019
<b>Seoras Hearton</b>	Vice President of Edinburgh College Students' Association	1/7/2019	
<b>Sam Hogrefe</b>	Industry, Commerce or Public Sector Representative		
<b>Ross Laird</b>	Industry, Commerce or Public Sector Representative	8/3/2019	
<b>Ann Landels</b>	Interim Regional Chair**		
<b>Nicola McKenzie</b>	Industry, Commerce or Public Sector Representative		
<b>Nigel Paul</b>	Industry, Commerce or Public Sector Representative		
<b>Gwen Raez</b>	Industry, Commerce or Public Sector Representative	8/3/2019	
<b>Fiona Riddoch</b>	Industry, Commerce or Public Sector Representative		

<b>Azra Sharif-Qayyum</b>	Industry, Commerce or Public Sector Representative		
<b>Judith Sischy</b>	Industry, Commerce or Public Sector Representative		
<b>Jeanette Stevenson</b>	Industry, Commerce or Public Sector Representative		

<b>Ian Young</b>	<b>Industry, Commerce or Public Sector Representative</b>		<b>1/3/2019</b>
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*\* In the prior year it was noted that Mike Cowley had resigned. It was reaffirmed at the December 2017 board meeting that Mike would stay on the board and it is our view that Mr. Cowley's service as a board member is continuous.*

*\*\* Ann Landels has taken up the position of Interim Regional chair from 1 November 2019*

## PROFESSIONAL ADVISORS

<b>Internal Auditor:</b>	BDO, Edinburgh
<b>Bankers:</b>	Royal Bank of Scotland, Edinburgh
<b>Solicitors:</b>	Anderson Strathern LLP, Edinburgh
<b>External Auditor:</b>	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.

## COMMITTEES

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

	Academic Council	Audit and Risk Assurance	Corporate Development	Nominations	Policy and Resources	Remuneration
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#### Member from start of period to August 2018

Stephen Dunn					✓	✓
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#### Member from start of period to September 2018

Annette Bruton	✓					
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#### Member from start of period to November 2018

Bob Downie		✓				
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#### Member from start of period to March 2019

Ian Young			✓	✓	✓	
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#### Member from start of period to Present

Bruce Cassidy			✓	✓		
Ian Diamond				✓	✓	
Lesley Drummond*		✓	✓		✓	
Sam Hogrefe			✓		✓	✓
Ann Landels	✓		✓		✓	
Nicola McKenzie					✓	✓
Nigel Paul		✓			✓	
Student President**	✓		✓			
Student Vice President**	✓			✓		
Fiona Riddoch	✓			✓	✓	
Azra Sharif-Qayyum			✓			
Judith Sischy	✓	✓				

Jeanette Stevenson	✓			✓		
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### Member from September 2018 to present

Audrey Cumberford	✓					
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### Members from March 2019 to present

Ross Laird		✓				
Gwen Raez			✓			✓

\* Lesley Drummond became a member of the Audit and Risk Assurance Committee in June 2019

\*\* Includes membership of Sarah Hay and Beth Anderson, who left the Board on 31 June 2019

The non-Board membership of the Academic Council for the four Academic Council meetings held in 2018/19 was as follows: Iris Aitchison; Beth Anderson; Laura Craig; Debbie Dow; Julian Henderson; Ethelinda Lashley-Scott; Kevin Maloney; Neil Manning; Sandra Morrison; Ryan Quinn; Shannon Young.

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

## REMUNERATION AND STAFF REPORT

### Remuneration Policy

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

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

The Remuneration Committee comprises three independent non-executive board members, one of whom is appointed Chair. The Chair of the Board may not be Chairman of the Remuneration Committee.

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

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

### Remuneration (salary, benefits in kind and pensions) – audited

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

Name	Year ended 31 July 2019			Year ended 31 July 2018		
	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ian McKay, Chair of the Board of Management (Leaving date 2 March 2018) *	-	-	-	20 – 25	-	20 – 25
Sir Ian Diamond, Chair of the Board of Management	-	-	-	-	-	-
Annette Bruton, Principal and Chief Executive (Leaving date 2 September 2018) **	10 - 15	-	10 - 15	140 – 145	10 – 15	155 – 160
Audrey Cumberland, Principal and Chief Executive (Start date 3 September 2018)***	145 - 150	65 – 70	210 - 215	-	-	-
Alan Williamson, Chief Operating Officer	90 - 95	55 -60	150 - 155	85 – 90	30 – 35	120 – 125
Jonathan Pearson, Vice Principal	70 -75	10 – 15	85 - 90	70 – 75	15 – 20	85 – 90
Jonathan Buglass, Vice Principal	70 -75	10 – 15	85 - 90	70 – 75	15 – 20	85 – 90
Michael Jeffrey, Vice Principal	70 -75	15 – 20	85 – 90	70 – 75	15 – 20	85 – 90
Alex Craig, Depute Principal (Leaving date 31 July 2018)	-	-	-	105 – 110	5 – 10	110 – 115

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

\*\* The salary for Annette Bruton for the year ended 31 July 2019 is pro-rata after taking into account her leaving date of 02 September 2018. Her full year equivalent would have fallen into the £140k – £145k band.

\*\*\* The salary for Audrey Cumberland for the year ended 31 July 2019 is pro-rata after taking into account her starting date of 03 September 2018. Her full year equivalent would have fallen into the £155k – £160k band.

There were no performance related payments or bonuses paid in the year (2018: £nil).

There were no benefits in kind or non-cash benefits paid in the year (2018: £nil).

Board members not listed above received no remuneration.

The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

## **Board Member Remuneration**

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

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

## **Accrued Pension Benefits**

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

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

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

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

## **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 2019	Real increase in pension and related lump sum 1 August 2018 to 31 July 2019	Cash equivalent transfer value at 31 July 2019	Cash equivalent transfer value at 31 July 2018	Real increase in cash equivalent transfer value
	£'000	£'000	£'000	£'000	£'000
<b>Audrey Cumberford MBE FRSE (Start date 3 September 2018)</b>					
Pension	45 – 50	0 – 2.5			
Related lump sum	105 – 110	(2.5 – 5)			
Transfer value			893	795	80
<b>Annette Bruton (Leaving date 2 September 2018)*</b>					
Pension	85 – 90	-			
Related lump sum	-	-			
Transfer value			-	1,729	-
<b>Alan Williamson</b>					
Pension	40 – 45	2.5 – 5			
Related lump sum	70 – 75	2.5 – 5			
Transfer value			967	825	59
<b>Jonathan Pearson</b>					
Pension	20 – 25	0 – 2.5			
Related lump sum	40 – 45	(0 – 2.5)			
Transfer value			362	326	21
<b>Jonathan Buglass</b>					
Pension	20 – 25	0 – 2.5			
Related lump sum	50 – 55	(0 – 2.5)			
Transfer value			424	373	22
<b>Michael Jeffrey</b>					
Pension	10 – 15	0 – 2.5			
Related lump sum	-	-			
Transfer value			117	98	12
<b>Alex Craig (Leaving date 31 July 2018)</b>					
Pension	-	-			
Related lump sum	-	-			
Transfer value			-	608	-

\* Annette Bruton retired on 2 September 2018, the figure above for the 2019 pension is the standard benefits offered to the member up to and including 31 August 2018. Lothian Pension Fund have not provided a transfer value as the member is now in receipt of benefits

### **Cash Equivalent Transfer Value**

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:

- The figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.
- The accrued benefits figures 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**

No employees left the College under voluntary severance arrangements during the year. However, payments of £6k were made during the year to those receiving voluntary severance in 2017/18 due to a backdated pay increase for support staff. These employees are not included in the table below.

Eight people were made redundant in the year due to an external employability contract the College had in place not being renewed past 31 March 2019. The total redundancy payments received were £50k. The cost to the College of strain costs in pension (as required under the scheme rules) was £39k. One additional employee was given redundancy totaling £3k.

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	8	-	8
£10,000 - £25,000	1	-	1
£25,000 - £50,000	-	-	-
£50,000 - £100,000	-	-	-
£100,000 - £150,000	-	-	-
£150,000 - £200,000	-	-	-
Total number of exit packages	9	-	9
<b>Total Cost (£'000)</b>	<b>53</b>	<b>-</b>	<b>53</b>

#### Median Remuneration - audited

Based on 12 month equivalent figures, the remuneration of the highest paid official in the organisation in the financial year 2018/19 was £150,000 (2017/18: £145,000). This was 3.6 times (2017/18: 3.9 times) the median remuneration of the workforce which was £41,526 (2017/18: £37,105). The range of staff full-time equivalent salaries at 31 July 2019 was from £17,290 to £150,000 (2016/17: £15,990 to £145,000).

## Staff Report - audited

Staff Numbers	2019 Number	2018 Number
<b>The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:</b>		
Senior Management	5	6
Teaching Staff	490	500
Teaching Support	30	30
Administration and Central Services	425	409
Premises	39	27
Catering and Residences	20	44
Other Income Generating Activities	40	37
<b>Total</b>	<b>1,049</b>	<b>1,053</b>

Staff Costs	2019 £000	2018 £000
Senior Management	608	821
Teaching Staff	24,857	24,681
Teaching Support	881	838
Administration and Central Services	16,820	15,760
Premises	1,204	845
Catering and Residences	608	1,174
Other expenditure:		
- Revaluation of Early Retirement Provision	276	40
- FRS102 s28 Pensions Adjustments	3,611	1,542
- Other income generating activities	1,257	1,142
- Job Evaluation Cost Estimate	1,033	-
- Movement in Employee Leave Accrual	(98)	86
<b>Total</b>	<b>51,057</b>	<b>46,929</b>

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

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

	2019 Senior Post Holders	2019 Other Staff	2018 Senior Post Holders	2018 Other Staff
£60,001 - £70,000	-	10	-	9
£70,001 - £80,000	3	-	3	-
£80,001 - £90,000	-	-	1	-
£90,001 - £100,000	1	-	-	-
£100,001 - £110,000	-	-	1	-
£110,001 - £120,000	-	-	-	-
£120,001 - £150,000	1	-	1	-
	5	10	6	9

### Staff Profile

At 31 July the College employed 518 male members of staff and 703 female members of staff.

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

The proportion of staff sickness absence during 2018/19 was 4.1% (2017/18 4.3%).

### Salaries and Related costs – audited

	2019 Directly employed staff on permanent UK contracts £'000	2019 Other staff including short term contract, seconded and agency staff £'000	2019 Total £'000	2018 Total £'000
Wages and salaries	36,117	356	36,473	35,234
Social security costs	3,553	2	3,555	3,442
Other pension costs	6,194	3	6,197	6,046
<b>Total</b>	<b>45,864</b>	<b>361</b>	<b>46,225</b>	<b>44,722</b>
Average number of FTE	1,047	12	1,059	1,063

The split of directly employed staff is 56% female and 44% male and other staff is 52% female and 48% male.

### Facility time

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, the College provided the following support through paid facility time for union officials working at the College for the Government reporting period from 1 April 2018 to 31 March 2019.

Relevant union officials	
Number of employees who were relevant union officials during the relevant period:	Full-time equivalent employee number:
23	20.9

Percentage of time spent on facility time	
Percentage:	Number of employees:
0%	-
1%-50%	23
51%-99%	-
100%	-

Percentage of pay bill spent on facility time	
Total cost of facility time:	£0.1m
Total pay bill:	£46m
Percentage of the total pay bill spent on facility time:	0.2%

Paid trade union activities	
Time spent on trade union activities as a percentage of total paid facility time hours is not available	

### Off-Payroll working through an intermediary (IR35) – workers engaged through a company

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

## **Health and Safety**

The Edinburgh College Board of Management is fully committed to compliance with all relevant health, safety and fire legislation. The health and safety policy outlines how all foreseeable hazards and risks are identified and assessed in order to reduce or eliminate the likelihood of accidents, incidents and cases of occupational ill health.

## **Monitoring**

Performance reports relating to health and safety, staff turnover, sickness, and absence, are regularly monitored.

## **Equality and Diversity Policy**

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

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

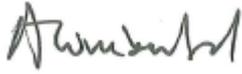
We aim to help remove barriers and advance equality for groups who experience disadvantage in our society, such as disabled people, carers or those from other vulnerable groups. Our Equality and Diversity Policy statement sets out our key principles and duties relating to equality, while further policies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

As part of our Public Sector Equality Duty, every two years we report on our progress in achieving our equality aims, and every four years we develop a new set of Equality Outcomes. Our most recent report was in April 2019, when we published an Equality Report covering:

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

## Employee Participation and Development

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



**Audrey Cumberland MBE FRSE**  
Principal and Chief Executive

10 December 2019



**Ann Landels**  
Interim Chair of Board of Management

10 December 2019

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

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Edinburgh College for the year ended 31 July 2019 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

#### In 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 affairs of the college as at 31 July 2019 and of the 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 (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. 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 was appointed by the Auditor General on 17 June 2019. This is the first year of my appointment. 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. Non-audit services prohibited by the Ethical Standard were not provided to the board. 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 basis of accounting**

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.

### **Risks of material misstatement**

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

### **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 obtain 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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

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

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my independent auditor's report. 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, 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 matters prescribed by the Auditor General for Scotland**

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

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

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

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

I am required by the Auditor General for Scotland 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.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

### **Use of my report**

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



### **Gordon Smail**

Audit Director, Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

12 December 2019

**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 2019

	Notes	2019 £000	2018 £000
<b>INCOME</b>			
Scottish Funding Council Grants	2	53,404	50,763
Tuition Fees and Education Contracts	3	10,450	10,632
Other Grant Income	4	659	1,074
Other Operating Income	5	3,390	3,763
Investment Income	6	13	20
<b>Total Income</b>		<b>67,916</b>	<b>66,252</b>

<b>EXPENDITURE</b>			
Staff Costs – Recurring	7	50,959	46,332
Other Staff Costs – Exceptional	7	98	597
Other Operating Expenses	9	16,223	14,964
Depreciation	12	5,941	5,450
Interest and other Finance Costs	10	922	1,208
<b>Total Expenditure</b>		<b>74,143</b>	<b>68,551</b>

<b>Surplus/(deficit) for the year before other gains and losses</b>		<b>(6,227)</b>	<b>(2,299)</b>
Gain/(loss) on disposal of fixed assets		(115)	-
Gain/(loss) on revaluation of assets	12	-	2,461

<b>Surplus /(deficit) for the year</b>		<b>(6,342)</b>	<b>162</b>
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Actuarial gain /(loss) in respect of pension schemes	22	(11,751)	14,270
Unrealised surplus/(deficit) on revaluation	12	-	16,063
<b>Total Comprehensive income for the year</b>		<b>(18,093)</b>	<b>30,495</b>

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

## STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 July 2019

	Income and expenditure reserve £000	Revaluation reserve £000	Total £000
Balance at 1 August 2017	18,441	27,518	45,959
Surplus/(deficit) from the income and expenditure statement	162	-	162
Other comprehensive income	14,270	16,063	30,333
Transfers between revaluation and income and expenditure reserves	623	(623)	-
<b>Total comprehensive income for the year</b>	<b>15,055</b>	<b>15,440</b>	<b>30,495</b>
<b>Balance at 31 July 2018</b>	<b>33,496</b>	<b>42,958</b>	<b>76,454</b>
Surplus/(deficit) from the income and expenditure statement	(6,342)	-	(6,342)
Other comprehensive income	(11,751)	-	(11,751)
Transfers between revaluation and income and expenditure reserves	1,049	(1,049)	-
<b>Total comprehensive income for the year</b>	<b>(17,044)</b>	<b>(1,049)</b>	<b>(18,093)</b>
<b>Balance at 31 July 2019</b>	<b>16,452</b>	<b>41,909</b>	<b>58,361</b>

There are no endowment or restricted reserves.

Included within the income and expenditure reserve is a negative balance of £25,594k which relates to the pension liability.

## BALANCE SHEET AS AT 31 July 2019

	Notes	2019 £000	2018 £000
<b>Fixed Assets</b>			
Tangible Fixed Assets	12	159,652	162,607
		<b>159,652</b>	<b>162,607</b>
<b>Current Assets</b>			
Stock		54	89
Debtors	13	3,699	2,244
Cash and cash equivalents		936	945
		<b>4,689</b>	<b>3,278</b>
<b>Current Liabilities</b>			
Less: Creditors – amounts falling due within one year	14	(9,646)	(9,242)
<b>Net Current Assets/(Liabilities)</b>		<b>(4,957)</b>	<b>(5,964)</b>
<b>Total Assets less Current Liabilities</b>		154,695	156,643
Less: Creditors – amounts falling due after more than one year	15	(65,268)	(65,704)
Less: Provisions for liabilities and charges	17	(5,472)	(4,580)
<b>Net assets excluding pension liability</b>		83,955	86,359
Net Pension Asset/(Liability)	22	(25,594)	(9,905)
<b>Net Assets/(Liabilities) including pension liability</b>		<b>58,361</b>	<b>76,454</b>
<b>Reserves</b>			
Income and Expenditure Account		16,452	33,496
Revaluation Reserve	19	41,909	42,958
<b>Total Reserves</b>		<b>58,361</b>	<b>76,454</b>

The financial statements on pages 56 to 87 were approved and authorised for issue by the Board of Management on 10 December 2019 and signed on its behalf by



**Ann Landels**  
Interim Chairman of Board of Management



**Audrey Cumberland MBE FRSE**  
Principal and Chief Executive

## STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 July 2019

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 July 2019			
	Notes	2019 £000	2018 £000
<b>Cash Flow from operating activities</b>			
(Deficit)/ Surplus for the year		(6,342)	162
<b>Adjustment for non-cash items</b>			
Depreciation		5,941	5,450
Deferred capital grants released to income	2	(3,495)	(3,390)
(Gain)/ loss on revaluation of assets		-	(2,461)
(Increase)/ decrease in stock		35	47
(Increase)/ decrease in debtors	13	(1,455)	(103)
Increase/ (decrease) in creditors	14	540	(5,146)
Increase/ (decrease) in provisions	17	892	(274)
Pension costs less contributions payable	22	3,611	1,542
(Gain)/ loss on sale of assets		115	-
<b>Adjustment for investing or financing activities</b>			
Investment income	6	(13)	(20)
Interest payable	10	922	1,208
<b>Net Cash (Outflow)/ inflow from operating activities</b>		<b>751</b>	<b>(2,985)</b>
<b>Cash flows from investing activities</b>			
Investment income	6	13	20
Proceeds from sale of fixed assets	12	-	-
Payments made to acquire fixed assets	12	(2,822)	(2,938)
Deferred capital grant received	18	3,101	3,071
		<b>292</b>	<b>153</b>
<b>Cash flows from financing activities</b>			
Interest paid	10	(595)	(594)
Repayments of amounts borrowed	16	(457)	(428)
		<b>(1,052)</b>	<b>(1,022)</b>
(Decrease)/ increase in cash and cash equivalents in the year		<b>(9)</b>	<b>(3,854)</b>
Cash and cash equivalents at beginning of the year		945	4,799
<b>Cash and cash equivalents at end of the year</b>		<b>936</b>	<b>945</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2019

### 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 2018/19 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 the Accounts Direction and other guidance published by the Scottish Funding Council.

The annual financial statements have been prepared on a “going concern” basis. For further information refer to the Going Concern section in the Accountability Report on page 34.

#### **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.

#### **Significant judgements and estimates**

In the application of the Group’s accounting policies, the Board of Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Board of Management rely on external professionals for certain assumptions;

- Independent Actuarial services for pension assumptions
- Independent Chartered Surveyors for Non-Current Asset valuations

### 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. 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.

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### Post-Retirement Benefits

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

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

The assets of the LGPS are measured using closing market values. The LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employees' service in the period, is charged to the statement of comprehensive income. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in other comprehensive income.

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

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

### 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.

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### **Tangible Fixed Assets**

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

#### **a. Land and Buildings**

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

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

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

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

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

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

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

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### b. Equipment

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

<b>Plant, Equipment, Furnishings and Fittings</b>	up to 10 years
<b>Computer Equipment</b>	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.

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

### Taxation

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

### Cash and cash equivalents

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

### Provisions

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

### Agency Arrangements

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

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

### Accounting standards issued not yet adopted

#### IFRS 16 Leases

The standard will come into effect for accounting periods beginning after 1 January 2019, when the distinction between finance and operating leases is removed and all leases become “on balance sheet”. The FReM interprets and adapts IFRS 16 for the public context in several ways. Information is currently being gathered to identify all right of use and leased assets not currently capitalized. The full impact has not yet been determined. These assets

## 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

will be included on the statement of financial position from 1 August 2019, in accordance with the transition arrangements set out in IFRS 16 application guidance issued by HM Treasury in April 2019.

## 2. FUNDING COUNCIL GRANTS

	2019 £000	2018 £000
SFC Recurrent Grant	43,152	41,878
FE childcare funds	1,786	1,620
Release of Deferred Capital Grants	3,495	3,390
Voluntary Severance Scheme Grants	-	576
Job Evaluation Grant	1,033	-
Business Transformation Plan Grants	(500)	-
Other SFC Grants	4,438	3,299
	<b>53,404</b>	<b>50,763</b>

## 3. TUITION FEES AND EDUCATION CONTRACTS

	2019 £000	2018 £000
FE Fees - UK	496	599
FE Fees - non EU	1,335	1,262
HE Fees	5,429	5,529
SDS Contracts	613	728
Education Contracts	1,739	1,650
Other Contracts	838	864
	<b>10,450</b>	<b>10,632</b>

#### 4. OTHER GRANT INCOME

	2019 £000	2018 £000
Employability Contracts	588	1,013
Other Grants	71	61
	<b>659</b>	<b>1,074</b>

#### 5. OTHER OPERATING INCOME

	2019 £000	2018 £000
Residences and Catering	1,273	1,924
Nursery Income	868	800
Other Income	1,249	1,039
	<b>3,390</b>	<b>3,763</b>

#### 6. INVESTMENT INCOME

	2019 £000	2018 £000
Bank Interest Receivable	13	20
	<b>13</b>	<b>20</b>

## 7. STAFF COSTS

Information on the staff numbers and related staff costs are included in the annual report under 'Staff Report – audited' in the Remuneration and Staff Report.

	2019 £000	2018 £000
<b>Recurring Staff Cost</b>		
Salaries	36,219	35,017
Pensions	6,197	6,046
Social Security Costs	3,554	3,442
Apprenticeship Levy	167	159
Revaluation of Early Retirement Provision	276	40
FRS 102 s28 Pensions Adjustments	3,611	1,542
Estimated Job Evaluation Cost	1,033	-
Movement in Employee Leave Accrual	(98)	86
<b>Total Staff Costs - Recurring</b>	<b>50,959</b>	<b>46,332</b>
<b>Exceptional Staff Costs</b>		
Redundancy	53	5
Voluntary Severance	6	576
Pension Strain Costs	39	16
<b>Total Staff Costs - Exceptional</b>	<b>98</b>	<b>597</b>
	<b>51,057</b>	<b>46,929</b>

## 8. SENIOR POST-HOLDERS' EMOLUMENTS

### Emoluments of the Board of Management

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

	2019 £	2018 £
Salaries as Board Members	-	20,020
Allowances, travel and subsistence paid to Board Members	3,558	6,671
	<b>3,558</b>	<b>26,691</b>

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

### Emoluments of Senior Post-holders

	2019 Number	2018 Number
The number of Senior post-holders including the Principal was	5	6
The emoluments of Senior post-holders (excluding NI), including the Principal was:	2019 £000	2018 £000
- Salaries	464	555
- Voluntary severance	-	95
- Employers' Pension Contribution	80	96
	<b>544</b>	<b>746</b>

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

	2019 £000	2018 £000
Salary	150	145
Employers' Pension Contribution	26	26
	<b>176</b>	<b>171</b>

## 8. SENIOR POSTS HOLDERS EMOLUMENTS *(continued)*

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.

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

	2019 £000	2018 £000
Compensation payable to former senior post holders	-	95

## 9. OTHER OPERATING EXPENSES

	2019 £000	2018 £000
Teaching	3,035	2,927
Administration	4,510	4,518
Premises	5,627	4,417
Planned Maintenance	63	50
Other income generating activities	834	1,045
Other employee related costs	133	171
Childcare	1,786	1,620
Agency Staff	235	216
	<b>16,223</b>	<b>14,964</b>

Other expenses include:

	2019 £000	2018 £000
<b>Auditor's Remuneration (including irrecoverable VAT):</b>		
- External Auditor's Remuneration – Audit	30	29
- Internal Audit (including Student Support Funds Audit)	35	31
Operating lease payments	353	361

## 10. INTEREST COSTS

	2019 £000	2018 £000
Pension Finance Cost – interest on early retirement provision	23	-
Pension Finance Cost – FRS102 s28 Net interest cost	327	614
<b>On bank loans, overdrafts and other loans:</b>		
Repayable wholly or partly in more than 5 years	572	594
	<b>922</b>	<b>1,208</b>

## 11. TAXATION

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

## 12. TANGIBLE FIXED ASSETS

	Land & Buildings £000	Plant & Equipment (Owned) £000	Computers £000	Fixtures & Fittings £000	Total £000
<b>COST OR VALUATION</b>					
At 1 August 2018	156,662	6,036	11,556	15,650	189,904
Additions	544	740	64	1,753	3,101
Disposals	-	(885)	(1,781)	(1,603)	(4,269)
<b>At 31 July 2019</b>	<b>157,206</b>	<b>5,891</b>	<b>9,839</b>	<b>15,800</b>	<b>188,736</b>
<b>DEPRECIATION</b>					
At 1 August 2018	2,151	5,078	9,428	10,640	27,297
Charge for Year	3,787	224	1,189	741	5,941
Disposals	-	(820)	(1,781)	(1,553)	(4,154)
<b>At 31 July 2019</b>	<b>5,938</b>	<b>4,482</b>	<b>8,836</b>	<b>9,828</b>	<b>29,084</b>
<b>NET BOOK VALUE</b>					
<b>At 31 July 2019</b>	<b>151,268</b>	<b>1,409</b>	<b>1,003</b>	<b>5,972</b>	<b>159,652</b>
<b>At 31 July 2018</b>	<b>154,511</b>	<b>958</b>	<b>2,128</b>	<b>5,010</b>	<b>162,607</b>
Represented by: Inherited	7,794	-	-	-	7,794
Financed by: Capital Grant	50,995	1,353	973	5,625	58,946
Other	92,479	56	30	347	92,912
<b>At 31 July 2019</b>	<b>151,268</b>	<b>1,409</b>	<b>1,003</b>	<b>5,972</b>	<b>159,652</b>

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

The Government financial reporting manual (FRoM) sets out guidance for the College to consider how best to apply the valuation requirements to ensure that the Balance Sheet

## 12. TANGIBLE FIXED ASSETS (continued)

gives a true and fair view of the value of the assets. The value of assets will be monitored annually and valuation undertaken when deemed necessary.

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

If land and buildings were reported on a cost basis, the carrying value would be £116.9m (2018: £119.6m).

Land and buildings with a net book value of £151m (2018: £155m) have been funded from Exchequer Funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council to surrender the proceeds.

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

## 13. DEBTORS

	2019 £000	2018 £000
<b>Amounts falling due within one year:</b>		
Trade Debtors	737	569
Other Debtors	82	64
Debts due from Students	39	41
Prepayment and Accrued Income	2,841	1,570
	<b>3,699</b>	<b>2,244</b>

## 14. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2019 £000	2018 £000
Trade Creditors		1,909	1,259
Payments received in advance		199	234
Other Taxation and Social Security		1,094	910
VAT		128	268
Lennartz VAT repayable		-	262
Bank Loans	16	470	449
Funding Council Grants		19	260
Accruals, Deferred Income and Other Creditors		2,926	2,262
Deferred capital grants - government	18	2,901	3,338
		9,646	9,242

## 15. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2019 £000	2018 £000
Bank loan	16	9,222	9,700
Deferred Capital Grants - Government	18	56,046	56,004
		65,268	65,704

## 16. BORROWINGS

	2019 £000	2018 £000
<b>Bank Loan Repayable:</b>		
In one year or less	470	449
Between one and two years	496	474
Between two and five years	1,661	1,581
In five years or more	7,065	7,645
	<b>9,692</b>	<b>10,149</b>

The Bank Loan is due payable by instalments up to February 2034, with a capital repayment of £470k due in 2019/20. The average interest rate for the duration of the loan is expected to be 5.8%.

## 17. PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement Pension Costs £000	Others £000	Total £000
At 1 August 2018	4,580	-	4,580
Payments in the year	(278)	-	(278)
Additional in year provision	276	871	1,147
Interest applied	23	-	23
<b>At 31 July 2019</b>	<b>4,601</b>	<b>871</b>	<b>5,472</b>

The pension provision relates to unfunded liabilities as a result of the early retirement of former teaching staff in advance of the normal retirement age. The pension provision has been revalued using a net interest rate of 0.0% (2018 – 0.5%).

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. There is uncertainty as to the timing and amounts of any payments required. The College has therefore made a provision for the full estimated costs to 2025, included in “Others” above.

## 18. DEFERRED CAPITAL GRANTS

	Funding Council Grants £000	Other Government Grants £000	Total £000
At 1 August 2018	58,934	407	59,341
<b>Received during year</b>			
Land and Buildings	544	-	544
Fixtures, Fittings & Equipment	2,557	-	2,557
<b>Release to Income and Expenditure Account</b>			
Land and Buildings	(1,385)	(12)	(1,397)
Fixtures, Fittings & Equipment	(2,097)	(1)	(2,098)
<b>At 31 July 2019</b>	<b>58,553</b>	<b>394</b>	<b>58,947</b>

## 19. REVALUATION RESERVE

	2019 £000	2018 £000
At 1 August 2018	42,958	27,518
Release of revaluation reserve in respect of depreciation on land and buildings	(1,049)	(623)
Revaluation of land and buildings in year	-	16,063
<b>At 31 July 2019</b>	<b>41,909</b>	<b>42,958</b>

## 20. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2018 £000	Cash Flows £000	Other Non-Cash Flows £000	At 31 July 2019 £000
Cash	945	(9)	-	936
Debt due within one year	(449)	457	(478)	(470)
Debt due after one year	(9,700)	-	478	(9,222)
	<b>(9,204)</b>	<b>448</b>	<b>-</b>	<b>(8,756)</b>

## 21. FINANCIAL COMMITMENTS

	2019 £000	2018 £000
<b>At 31 July 2019 the College had total commitments under non-cancellable operating leases for Plant and Equipment and vehicles as follows:</b>		
Payable within one year	208	209
Payable between two and five years	208	307
Payable over five years	82	90
	<b>498</b>	<b>606</b>

## 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.

<b>TOTAL PENSION COST FOR THE YEAR</b>	2019 £000	2018 £000
<b>STSS:</b> Contributions paid	3,470	3,790
<b>LGPS:</b> Contribution paid	2,727	2,256
S28 Pensions Movement	3,611	1,542
<b>Total pension cost</b>	<b>9,808</b>	<b>7,588</b>
LGPS Pension Strain Cost	39	16
<b>Total Pension cost for year</b>	<b>9,847</b>	<b>7,604</b>

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

The LGPS is a pension scheme providing benefits based on final pensionable pay until 31 March 2015 and on career average revalued earning from 1 April 2015. The assets and

## 22. PENSION AND SIMILAR OBLIGATIONS (continued)

liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the statement of comprehensive income. The expected return on the 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.

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 £3,581k of which employer's contributions totalled £2,727k and employees' contributions totalled £854k.

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

### **FRS102 Section 28**

Formal LPF actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The most recent formal valuation was 31 March 2017.

Hymans Robertson LLP carried out an Actuarial valuation as at 31 July 2019 for Accounting Purposes. The actuary projected the valuation results of the latest formal valuation date forward to 31 July 2019 using approximate methods. The roll-forward allows for changes in financial assumptions, additional benefit accrual and estimated cash flows over the period.

## 22. PENSION AND SIMILAR OBLIGATIONS (continued)

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

	2019	2018
Rate of increase in salaries	4.1%	4.1%
Rate of increase for pensions / inflation	2.4%	2.4%
Discount rate for liabilities	2.2%	2.8%

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

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

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

ASSETS (WHOLE FUND)	Long term rate of return at 31 July 2019	Value at 31 July 2019 £000	Long term rate of return at 31 July 2018	Value at 31 July 2018 £000
Equities	2.4%	100,776	2.8%	94,050
Bonds	2.4%	16,342	2.8%	12,214
Property	2.4%	9,533	2.8%	8,550
Cash	2.4%	9,533	2.8%	7,329
<b>Total market value of assets</b>		<b>136,185</b>		<b>122,143</b>

<b>Present value of scheme liabilities</b>				
Funded		161,137		131,389
Unfunded		642		659
<b>Deficit in the scheme</b>		<b>(25,594)</b>		<b>(9,905)</b>

## 22. PENSION AND SIMILAR OBLIGATIONS (continued)

Analysis of the amount charged to the Statement of Comprehensive Income (SOCl)	2019 £000	2018 £000
Current service cost	(4,900)	(3,755)
Past service cost	(1,443)	(8)
<b>Total operating charge</b>	<b>(6,343)</b>	<b>(3,763)</b>
<b>Analysis of net return on pension scheme</b>		
Interest Income on Plan Assets	3,456	3,244
Interest cost	(3,783)	(3,858)
<b>Total</b>	<b>(327)</b>	<b>(614)</b>
<b>Credit/charge to other comprehensive income:</b>		
Return on assets	7,840	(2,354)
Other experience	5	9,006
Gains and losses arising on changes in financial assumptions	(19,596)	7,107
Gains and losses arising on changes in demographic assumptions	-	511
<b>Actuarial (loss)/gain</b>	<b>(11,751)</b>	<b>14,270</b>
<b>Total charge to the SOCl</b>	<b>(18,421)</b>	<b>9,893</b>
<b>Movement in deficit during year</b>	<b>2019 £000</b>	<b>2018 £000</b>
At 1 August 2018	(9,905)	(22,019)
<b>Movement in year:</b>		
Current service cost	(4,900)	(3,755)
Employer contributions	2,689	2,176
Contributions in respect of unfunded benefits	43	45
Past service cost	(1,443)	(8)
Net finance costs	(327)	(614)
Actuarial gain / (loss)	(11,751)	14,270
<b>Deficit in scheme at 31 July 2019</b>	<b>(25,594)</b>	<b>(9,905)</b>

The past service cost includes £1.4m for the estimated impact of the recent McCloud ruling. This follows the hearing of the UK Government's appeal against the ruling that the transitional protections built into new pension schemes post Hutton Review of Fair Pay in the public sector, such as LGPS, are age discriminatory.

## 22. PENSION AND SIMILAR OBLIGATIONS (continued)

Reconciliation of defined benefit obligation	2019 £000	2018 £000
<b>Liabilities at start of year</b>	132,048	<b>141,212</b>
Current service cost	4,900	3,755
Interest cost	3,783	3,858
Contributions by members	854	674
Actuarial loss/(gain)	19,591	(16,624)
Past Service cost	1,443	8
Estimated Unfunded benefits paid	(43)	(45)
Estimated Benefits paid	(797)	(790)
<b>Liabilities at end of year</b>	<b>161,779</b>	<b>132,048</b>

Reconciliation of fair value of employer assets	2019 £000	2018 £000
<b>Opening fair value of employer assets</b>	122,143	119,193
Interest income on plan assets	3,456	3,244
Contributions by members	854	674
Contributions by the employer	2,689	2,176
Contributions in respect of unfunded benefits	43	45
Actuarial gain/(loss)	7,840	(2,354)
Estimated Unfunded benefits paid	(43)	(45)
Estimated Benefits paid	(797)	(790)
<b>Closing fair value of employer assets</b>	<b>136,185</b>	<b>122,143</b>

Amounts for the current and previous accounting periods	2019 £000	2018 £000
Fair value of employer assets	136,185	122,143
Present value of defined benefit obligation	(161,779)	(132,048)
Deficit	(25,594)	(9,905)
Experience Gains on liabilities	5	9,006

## 22. PENSION AND SIMILAR OBLIGATIONS (continued)

### 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 2016. 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	<b>31 March 2016</b>
Valuation method	<b>Prospective benefits</b>
Value of notional assets	<b>£21.5 billion</b>

#### ***Principal financial assumptions as at 31 March 2016:***

Rate of return (discount rate)	<b>2.8%</b>
Salary scale increases per annum	<b>CPI inflation plus 2.2%</b>
Pension increases per annum	<b>2.0%</b>

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. From 1 September 2019 to 31 March 2023 the College will pay a contribution rate of 23% per the 2016 valuation.

## 22. PENSION AND SIMILAR OBLIGATIONS *(continued)*

### FRS 102 Section 28

Under the definitions set out in Financial Reporting Standard (FRS) 102 Section 28, Retirement Benefits, the STSS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contribution to the scheme as if it were a defined contribution scheme. The College has set above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

## 23. RELATED PARTY TRANSACTIONS

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

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

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

## 23. RELATED PARTY TRANSACTIONS (Continued)

Member	Organisation	Position	Sales £000	Purchases £000
Ian Young Ann Landals	Edinburgh College Development Trust	Trustee Trustee	73	-
Beth Anderson Sarah Hay Carla Ford Seoras Hearton	Edinburgh College Students' Association	Vice President President	330	270 (grants awarded)
Azra Sharif-Qayyum	NHS Lothian	Biomedical Scientist	47	40
Ian Diamond	Colleges Scotland	Board Member	-	69
Lesley Drummond	Capital Theatres	Non-Executive Director	8	-
Annette Bruton Alan Williamson	Hibernian Community Foundation	Director Board member	-	44
Alan Williamson	Lothian Pension Fund	Committee & Board member	-	3,528 (pension payments)
Michael Jeffrey	Energy Skills Partnership	Committee member	6	-

## 24. BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	EMA £000	Other £000	Total for 2018/19 £000	Total for 2017/18 £000
<b>Balance brought forward</b>	235	3	39	277	1,549
Allocation received in the year	8,264	701	803	9,768	9,755
Expenditure	(8,139)	(705)	(749)	(9,593)	(9,497)
Repaid to Funding Council as Clawback	(201)	-	(30)	(231)	(1,530)
College contribution to funds	-	-	-	-	-
Virements	(27)	-	-	(27)	-
<b>Balance carried forward</b>	<b>132</b>	<b>(1)</b>	<b>63</b>	<b>194</b>	<b>277</b>
<b>Represented by:</b>					
Repayable to/(due from) Scottish Funding Council	132	(1)	50	181	274
Repayable to Scottish Government	-	-	13	13	
Retained by college for students	-	-	-	-	3
	<b>132</b>	<b>(1)</b>	<b>63</b>	<b>194</b>	<b>277</b>

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

## 25. FE AND HE CHILDCARE FUNDS

	2019 £000	2018 £000
Balance brought forward	79	20
Allocation received in year	1,762	1,699
Expenditure	(1,787)	(1,620)
Repaid to funding council as clawback	(79)	(20)
Virements	27	-
<b>Balance carried forward</b>	<b>2</b>	<b>79</b>
<b>Represented by:</b>		
Repayable to Scottish Funding Council	2	79

## **25. FE AND HE CHILDCARE FUNDS (continued)**

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

## **26. CONTINGENT LIABILITIES**

The valuation of defined benefit and unfunded liabilities at 31 July 2019, as disclosed in Note 22, does not include an allowance for a potential 'past service cost' in light of the Lloyds judgement on Guaranteed Minimum Pension (GMP) equalisation. The ruling requires pension schemes, such as LGPS, to equalise the effect of unequal GMPs accrued between May 1990 and April 1997 by virtue of them having been paid to scheme members at different ages (65 for men, 60 for women). In acknowledging no definitive method for equalisation has been set, and actuarial advice that the trigger for recognition of the past service cost did not exist in the LGPS at 31 July 2019, the directors are unable to reliably quantify an associated contingent liability.

The College has an ongoing legal case relating to an employee tribunal. Legal advice obtained suggests it is extremely unlikely that the College will have to pay any additional compensation. However, if the case was found in favour of the employees the maximum amount the College would be required to pay would be £126k and this case should be finalised within 2019/20.

## **27. POST BALANCE SHEET DATE EVENTS**

No events occurred between 1 August 2019 and the date these Financial Statements were signed that would materially affect the information provided.

## 28. ADJUSTED OPERATING POSITION ON CENTRAL GOVERNMENT ACCOUNTING BASIS

	2019 £000	2018 £000
Deficit before other gains and losses (FE / HE SORP basis) for academic year	(6,227)	(2,299)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,446	2,060
<b>Operating surplus/ (deficit) on Central Government accounting basis for academic year</b>	<b>(3,781)</b>	<b>(239)</b>

Following reclassification, colleges receive 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 before other gains and losses of £6.227m for the year ended 31 July 2019. After taking account of the Government non-cash budget, the College shows an “adjusted” deficit of £3.781m on a Central Government accounting basis.

The deficit is attributable to other factors reflected in the adjusted operating table and the college is therefore operating sustainably within its funding allocation.

## 29. CAPITAL COMMITMENTS

Capital commitments contracted for but not provided in the financial statements to £nil (2018: £nil).

## APPENDIX 1

### 2018-19 Accounts direction for Scotland's colleges and Glasgow Colleges' Regional Board

1. It is the Scottish Funding Council's direction that institutions<sup>1</sup> comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts<sup>2</sup>.
2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.
3. Institutions 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 (RSB) (for assigned colleges).
4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018-19 (FReM) where applicable.
5. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2019.
6. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
7. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council

5 July 2019

<sup>1</sup> The term "institutions" includes colleges and Glasgow Colleges' Regional Board.

<sup>2</sup> Glasgow Colleges' Regional Board's accounts are prepared on a consolidated basis, incorporating the results of City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College. New College Lanarkshire's accounts are also prepared on a consolidated basis, incorporating the results of South Lanarkshire College.





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# ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2019

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