

Edinburgh College

Annual Report and Financial Statements

For the year ended 31 March 2014

Working together with students and
staff to deliver a prosperous economy





**ANNUAL REPORT
AND FINANCIAL STATEMENTS**

FOR THE PERIOD ENDED 31 MARCH 2014

Scottish Charity Number SCO21213

CONTENTS

	Pages
Message from the Chair of the Board of Management	3-4
Principal's Statement	5-6
Financial Review	7-9
Professional Advisers	9
Membership of the Board of Management	10
Committees	11
Corporate Governance Statement	12-15
Statement of the Board of Managements' Responsibilities	16-17
Report of the Independent Auditors	18-19
Income and Expenditure Account	20
Statement of Historical Cost Surpluses and Deficits	20
Statement of Total Recognised Gains and Losses	21
Balance Sheet	22
Cash Flow Statement	24
Notes to the Financial Statements	25

The College, in terms of the Further and Higher Education (Scotland) Act 1992, was established as a free-standing corporate body on 1 April 1993 and is recognised as a charity for the purposes of Section 505 of the Income and Corporation Taxes Act 1988 with Scottish Charity Number SCO21213.

The College Board presents its annual report and the audited financial statements for the year ended 31 March 2014.

MESSAGE FROM THE CHAIR OF THE BOARD OF MANAGEMENT

As Edinburgh College reaches the end of its second full year of operation, we have successfully managed to negotiate the difficult post-merger period whilst also ensuring that the college is able to flourish in the years to come. Over the next year and beyond we aim to build upon the achievements already made under our ambitious Strategic Plan, while continuing to maintain financial rigour. In short, we intend to keep delivering a learning environment that allows our students and staff to excel.

This last year has been characterised by continued investment in resources while ensuring we operate effectively under a sector-wide decrease in public funding. Maintaining this level of performance will be crucial from 2014/15 onwards as external changes will continue to present new challenges. An efficient and effective college provides our 26,000 students with the platform upon which they can build their own individual success stories and for the Edinburgh and Lothian community to benefit from that success.

We have taken important decisions for the future of the college over the last period and sought to understand how we can chart the best course forward, learning from the financial lessons of the last year.

It has been a challenging year. Our total income for 2013/14, which covers an eight-month accounting period due to the change in the college's accounting year end from 31 July to 31 March, is down to £44.4m from a pro-rata comparison figure of £45.8m for the previous year. This reflects a funding cut of 1% in the wake of the sector-wide reduction seen over the last couple of years. Additionally, there have been significant challenges in achieving our commercial and international income targets. At the same time, our expenditure is up to £45.3m from the pro-rata comparison figure of £44.9m. The overall expenditure was mainly affected by higher-than-budgeted pay awards related to post-merger pay harmonisation.

Agreements with all staff on the harmonisation of pay and conditions was a major achievement. It lays the foundation not only for a fair and equitable reward scheme for staff at Edinburgh College but sets the clear ambition that Edinburgh will become a sector leader in this area. More importantly, the crucial role our staff play can be seen in the development and improvement of our services to both our students and the local community. It will, we hope, put us in a position to deliver on our Strategic Aims together as a single cohesive organisation.

Of particular note in the last year has been the growth and presence of our Students' Association. It has been the source of pride for all of us in its award-winning efforts and in helping to build a new model of student involvement in the life of the college. These achievements go hand in hand with their most important role – their day to day activities on behalf of students.

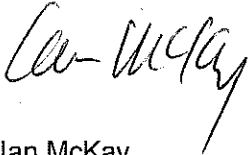
New challenges and opportunities will present themselves in the coming year. The Wood Report offers the best chance in a generation to place vocational education and study at the centre of our educational communities. It will allow us to forge new relationships between education and training providers, the business community and learners. With colleges now reclassified within the public sector we must find imaginative and creative ways to continue and build our commercial activities within what are likely to be growing restraints on public expenditure as a whole.

However, the benefits of regionalisation locally and for the FE sector as a whole offer much optimism for the future. Other positive signs include the rejuvenation of Colleges Scotland and other Scottish-wide organisations working on behalf of FE and the renewed emphasis on training and building skills across all of the workforce. We know that our Strategic Plan will allow us to

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

continue delivering the best-quality education in a sustainable environment and, along with financial diligence, will allow us to adhere to the highest standards of corporate governance.

I'd like to thank all the students and staff who have contributed to the college's journey so far. With every week that passes, I have seen many impressive examples of dedication, innovation and development. As we look forward to next year, I am confident that our strategy and resolve will lead to many more opportunities for students and staff. That, ultimately, is what we are all here to achieve.

A handwritten signature in black ink, appearing to read 'Ian McKay', written in a cursive style.

Ian McKay
Chair of Edinburgh College Board of Management

PRINCIPAL'S STATEMENT

Over the last year Edinburgh College has firmly established itself in the national further education landscape, joined by our fellow merged colleges. We're now two years on from merger and when I look around the college I'm very encouraged by the progress we have made.

The last year has been at once challenging and exhilarating, and we should reflect and acknowledge our significant achievements. Edinburgh College was one of the first of the merged colleges to undergo a review by Education Scotland, and it is an important recognition of the progress we have made that we were awarded the top rating of "effective" for the quality of our provision and outcomes for students and other stakeholders.

I want to congratulate our students for their efforts over the year. As well as all the hard work that they put in to achieve their qualifications, more than 160 students received awards last year, many receiving recognition nationally for their achievements. I'm consistently amazed at our students' talent and determination, and would like to give credit to the vital support from college staff that helps them achieve their potential. Ninety four per cent of our graduates achieve positive destinations – either into employment or on to further study – within six months of graduating, so we should be confident in our ability to deliver great education and training to our students.

In a wider context, I'm delighted to see that the ways in which we're supporting our students to succeed chime with the national further education agenda outlined by the recent Commission for Developing Scotland's Young Workforce report. In his report, Sir Ian Wood makes recommendations as to how education and industry can be integrated better to deliver a world-class vocational training system that delivers employment opportunities relevant to the economic needs of Edinburgh and Scotland.

This ethos is one that we already embrace at Edinburgh College, and will develop further, as we work closely with our industry partners to understand their requirements and deliver the workforce they need. One of our aims is to ensure most full-time students have a practical work experience embedded in their course and we're working towards extending our provision to cover all appropriate full-time courses.

Work experience such as this helps smooth the transition between education and employment, but we've also been working with students at an earlier stage, providing better support between school and further and higher education.

One excellent example of this is the pioneering South East Scotland Academies Partnership, led by Edinburgh College and Queen Margaret University and run in partnership with local authorities and employers across Edinburgh, Midlothian and East Lothian. The four academies – three of which launched at the start of 2013/14, maximise educational opportunities and develop transferable skills, providing a coherent route between school, college, university and employment. Crucially, the academies support the development of Scotland's key growth industries and have been developed in partnership with businesses. The academies provide them with well-qualified, enthusiastic and committed new staff, many of whom may not have considered careers in these areas previously.

These successes would not have been possible without dedicated and experienced staff across the college. We value our people, ensuring a varied and relevant programme of personal and professional development for all staff. The academic year culminated with a well-attended staff conference, praised for its varied programme. We have made good progress in harmonising terms and conditions for teaching and support staff, with the final elements due to be completed in 2014-15.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

An important element of our success comes from involving students in decision making at all levels, a process formalised this year with a partnership agreement between the college and Edinburgh College Students' Association (ECSA). ECSA went on to win the UK NUS Students' Association of the Year 2014 award, the first time a Scottish college has received this accolade.

Internationally, we've made some excellent progress this year, including: the launch of a project to deliver training in green practices and customer care to the Egyptian tourism industry; the growth of our international teacher training programmes, which most recently saw 24 teachers from China come to Edinburgh to study on our six-week ESOL course; the continuing delivery of international placements for our students; and a new agreement to allow our hospitality students to continue their studies in Canada.

This work is vital in expanding opportunities for our students and our international partners, as well as generating income for the college.

One particularly satisfying development this year was the launch of our R&D Fund, which was designed to give our staff and students the opportunity to turn their innovative ideas into reality for the benefit of the college and their own progress. Already we've funded a number of great projects and I'm looking forward to seeing them come to fruition.

This Annual Report helps provide an understanding of where we are as a college, but it's the stories behind the figures that give the true context of how we're progressing. There is always work to be done to ensure we're in the best possible position to meet and exceed our target, but I'm delighted at our solid performance and our many successes and achievements over the last year.



Mandy Exley
Principal

FINANCIAL REVIEW**Summary of Results for the Year**

Following the reclassification of Colleges there is a requirement to change the College's accounting year-end from 31 July to 31 March. Therefore the current financial year to 31 March 2014 covers an 8 months accounting period.

The operating year to 31 March followed a similar pattern to last year with many financial challenges. The College faced a further funding cut of 1%, equivalent to £0.4m, following a request to transfer activity to another College under the auspices of "Needs based Funding". Also during the year there were significant challenges for the College in achieving its commercial and international income targets which necessitated a drive to reduce operating expenditure budgets by £1.2m. Despite these financial pressures, the College adapted well to the challenges continuing to operate within its £1.7m deficit budget for the academic year to 31 July 2014, whilst continuing to provide high quality education to over 26,000 students.

The income and expenditure position is summarised below:

	2014 £m	2013 £m
Income	44.4	68.7
Expenditure	45.3	67.4
Exceptional Item – Merger expenditure	0.1	0.6
Operating Surplus/(Deficit) retained within general reserves	(1.0)	0.6
Revaluation release for the year	0.2	0.3
Historical Cost Surplus/(Deficit) for the year	(0.8)	1.0

Income

Income at £44.4m is down nearly 3% on a pro-rata comparison (2013 -£45.8m) affected by the 1% funding cut, and decrease in commercial and international contracts in comparison to prior years.

Expenditure

Expenditure is up by 1% to £45.3m prior to the exceptional charge of £0.1m for merger related costs, the increase reflects the pro-rata comparison to 2013 (£44.9m). The overall expenditure was adversely affected by higher than budgeted pay awards related to pay harmonisation following the merger, and additional staff requirements during the year.

Balance Sheet

Fixed assets at the year end totalled £140.7m, a net reduction of £1m compared to the prior year. Net current assets were down by £2.2m to £3.8m following cash expenditure related to the Sighthill campus development, the capital loan and lennartz VAT payment.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

At 31 March 2014, the College had an accumulated surplus of £55.3m on its Income and Expenditure Account, and in complying with FRS17 (Retirement Benefits) our pension liability increased by £6.6m to £15.3m.

Cash Flow

There was a net cash outflow of £11.3m (2013: net cash outflow £13.6m) mainly as a result of our movement in net working capital and capital expenditure. The College held cash and deposits of £4.9m (2013: £16.2m) and these are managed in accordance with the College's Treasury Management policy. The College held long-term debt of £11.8m which is attributable to the Milton Road and Midlothian campuses redevelopment.

Operating Review

The College has achieved its Wsums target (254,760 Wsums). This follows a reduction of 2,500 Wsums through the Scottish Funding Council's needs based activity alignment.

There continued to be a high level of performance during a year of further merger related change, including harmonisation of staff pay and conditions.

However, the College continued to invest in resources appropriate to the size and complexity of its business; and managed its key organisational risks whilst committing to satisfactory standards of corporate governance.

The College maintained its institution-wide risk management process, monitored by the risk management group, which reports to the Board. The key risks reported on the risk register continue to be under close review, and emerging risks promptly managed and mitigated accordingly. The Risk Management Group continues to raise awareness of risk across the College and increase the profile of risk management accordingly. During the year the College refreshed its risk management policy, completed its business continuity plans, and reviewed its key potential risk areas. There was improved communication and working with teams towards raising risk awareness across the College, supplemented by training sessions and an increased number of appointed risk champions. A college-wide risk appetite statement will be published in the new academic year.

Looking forward to 2015, although Edinburgh College has in place an ambitious strategic plan, the financial constraints associated with becoming a central government department under ONS reclassification will require robust financial management to ensure that the college grows and engages more people in further education.

However, this challenge will not alter Edinburgh College's vision as it continues to exert financial rigour and sustainable benefits. It will continue to manage its key strategic and operational risks in a structured and coherent manner for the benefit of its current and future students.

Key Performance Indicators

In accordance with Scottish Funding Council guidance, the College is required to publish and report progress against targets for national priorities. These indicators monitor performance against the Colleges financial objectives.

KPI	Purpose	2014	2013
		Actual (at 31 March)	Actual (at 31 July)
Weighted Student Units of Measurement (WSUMs)	Core Wsums (2014 - Target 254,760)	249,991	241,322
Operating surplus / (deficit) before exceptional items as a % of income	Measures the surplus on continuing operations as a % of total income	(2.5%)	6.19%
Non SFC income as a % of income	Measures non SFC income as a % of total income	25.3%	24.0%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	61.6%	57.8%
Current assets: current liabilities	Measures the colleges ability to pay its current liabilities	1.5	1.5
Gearing	The ratio of creditors > 1 year to the sum of total reserves	0.4	0.4

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 2014 was 15 days (2013 – 23 days). There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Employment of Disabled Individuals

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

Professional Advisors

External Auditor:	KPMG LLP
Internal Auditor:	Scott Moncrieff, Edinburgh
Bankers:	Lloyds Bank, Edinburgh
Solicitors:	Anderson Strathern LLP, Edinburgh

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 sound 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 to signing of Accounts	Month of Retiral during the year and subsequently to signing of the Accounts
Ian McKay	Industry, Commerce or Public Sector Representative	March 2014	
Mandy Exley	Principal and Chief Executive		
Moira Frizzell	Industry, Commerce or Public Sector Representative		
Robin Stimpson	Industry, Commerce or Public Sector Representative		
Ian Young	Industry, Commerce or Public Sector Representative		
Martin Crewe	Industry, Commerce or Public Sector Representative		
Maidie Cahill	Industry, Commerce or Public Sector Representative		
Colin Arthur	Staff Representative		
Alan Johnston	Industry, Commerce or Public Sector Representative		
Jane Richardson	Industry, Commerce or Public Sector Representative		
Nigel Paul	Industry, Commerce or Public Sector Representative		
David Rutherford	Industry, Commerce or Public Sector Representative		
Sandra Cairncross	Industry, Commerce or Public Sector Representative		
Kelly-Marie Perry	President of Edinburgh College Student's Association		
Janice Cutting	Industry, Commerce or Public Sector Representative		
Kellie Bradford	Staff Representative		

COMMITTEES

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

Board of Management	Audit Committee	Nominations Committee	Academic Council *	Capital & Infrastructure Committee	Membership and Remuneration Committee	Commercial and International
Ian McKay				Yes		
Mandy Exley			Yes	Yes		
Moira Frizzell	Yes		Yes			
Robin Stimpson	Yes			Chair		
Ian Young		Chair				
Martin Crewe					Chair	
Maidie Cahill		Yes			Yes	
Colin Arthur			Yes	Yes		
Alan Johnston		Yes			Yes	Chair
Jane Richardson			Yes			
Nigel Paul	Yes		Chair			
David Rutherford	Chair					
Sandra Cairncross				Yes		Yes
Kelly-Marie Perry		Yes	Yes	Yes		
Kellie Bradford		Yes				
Janice Cutting			Yes			Yes

*The non-Board members of the Academic Council are: Graham Skirving; Carole Paterson; Raphael Lehmann; James Moohan; Debbie Meharg; Julie McCran; Ray McCowan; Tracey Joyce; Katy Nixon; Fiona Candlish

CORPORATE GOVERNANCE STATEMENT

Introduction

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council and applicable from June 2010 and the Guide for College Board Members 2012. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

Statement of full Code compliance

In the opinion of the Board of Management, the College complies with all the provisions of the Code in so far as they apply to the further education sector as well as internal control guidance published by the Turnbull Committee, and it has complied throughout the year ended 31 March 2014.

The Board of Management

It is the Board's responsibility to bring judgment to bear on issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the College, together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related items such as health and safety.

The College's Board of Management met six times in the year and conducts its business through a number of committees, supported by a Board secretariat. Each committee has constituted terms of reference. These committees include: Audit Committee (which includes Finance related items), Remuneration Committee, Nominations Committee, Academic Council, Capital & Infrastructure Committee and Commercial & International Committee. Full minutes of all meetings, except those deemed to be commercially confidential by the Board, are available from the Clerk to the Board.

The Remuneration Committee considers and makes recommendations to the Board regarding the remuneration package, terms and conditions (including the annual reviews of such) and, where appropriate, severance payments of the College Principal and Executive Team. Details of the remuneration of senior post-holders for the year ended 31 March 2014 are set out in note 7 to the financial statements.

The Nominations Committee identifies and recommends suitable candidates for membership to the Board of Management, and keeps under review procedures for search, nomination, appointment, induction, development and evaluation of Board Members. The College has a responsibility to ensure that a process is in place to ensure that appropriate training is given to the Board of Management members as required.

Performance evaluation of the Board is overseen by the Nominations Committee and carried out annually in May/June, through individual meetings between Members and the Chair of the Board, self-evaluation by Committees, evaluation of the Chair led by the Vice Chair and an externally facilitated full Board evaluation session. A report on the evaluation process undertaken in May/June 2013 was presented to the 24 September 2013 Board meeting.

The Capital & Infrastructure Committee reviews the activity and management of the operational infrastructure of the College including: estate management; IT management and capital investment proposals and development activity including environmental sustainability.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

The Commercial & International Committee promotes and retains oversight of commercial and international development at the College.

The Academic Council, while a Committee of the Board with a core membership of five, has an innovative structure built on a wider co-opted membership drawn from Staff and Students of the College. Its broad educational remit includes Learning and Teaching, Student Experience and Engagement, Curriculum Management, Continuing Professional Development, and Quality Enhancement and Assurance.

The Audit Committee met three times in the year and operates in accordance with written terms of reference approved by the Board. Its purpose is to advise the Board on the adequacy and effectiveness of the College's system of internal control, and its arrangements for risk management controls, and governance process. The Audit Committee advises the College on the appointment of the internal auditor and the auditor's remuneration.

The Audit Committee receives notification from Audit Scotland on the appointment of its external auditor for a period of 5 years. The Committee provides feedback to Audit Scotland on the effectiveness of the external audit process.

The College's internal auditor monitors the systems of internal control, risk management, and governance processes in accordance with an agreed plan of action, and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and internal auditors undertake follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business and monitors adherence to the regulatory requirements.

The Clerk to the Board maintains a register of financial and personal interests of Board members. The register is available for inspection from Edinburgh College, Granton Campus, 350 West Granton Road, Edinburgh EH5 1QE and is published on the College website.

Corporate strategy

In respect of its strategic and development responsibilities, the Board of Management receives recommendations and advice from the Audit, Remuneration, Nominations, Capital and Infrastructure Committees and Academic Council.

Statement on Diversity

In advertising vacancies and in recommending appointments to the Board of Management, the Nominations Committee seeks to uphold the Equality and Diversity Policy of Edinburgh College, in compliance with equality legislation and best practice.

The Committee's membership, as defined by terms of reference approved by the Board, includes the Student Member and one Staff Member in addition to three Non-Executive Members, to ensure a breadth of perspective.

While recommendations for appointment are made wholly on the basis of merit, the Board's guiding principle is to advance equality of opportunity. To that end, the Committee has advertised the majority of vacancies arising since Edinburgh College was formed on 1 October 2012 in the national press. Where it has considered it would benefit the Board in terms of skills and gender balance, the Committee has also sought to encourage applications from those with expertise in a particular field and from women.

With respect to gender balance, as at 31 March 2014 it is 53% female: 47% male.

Board's statement on internal control

Scope of responsibility

The Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness.

The Board of Management has delegated the day-to-day responsibility to the Principal, as Accountable Officer, 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 is personally responsible, in accordance with the responsibilities assigned to the Principal in the Financial Memorandum between the College and the Scottish Funding Council (SFC). The Principal and Chief Executive is also responsible for reporting to the Board of Management any material weaknesses or break-downs in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the College for the year ended 31 March 2014 and up to the date of approval of the annual report and financial statements.

The risk and control framework

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

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

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

The Chair of the Audit Committee annually provides the Board of Management with a report on internal audit activity in the College. The report includes the Chair of the Audit 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

As Accountable Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. The Principal's review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditor;
- the work of the Executive and Managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments and recommendations made by the College's external auditor.

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

The Executive Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the Centres and Departments. The Executive Team and Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The 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 Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 2 September 2014 meeting, the Board of Management carried out the annual assessment for the year ended 31 March 2014 by considering documentation from the Executive Team and internal audit, and taking account of events since 31 March 2014.

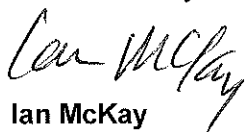
Capacity to handle risk

The Board of Management has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board of Management is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that have been in place for the period ending 31 July 2014, and up to the date of approval of the annual report and financial statements which accords with the Turnbull Committee guidance. This process is regularly reviewed by the Board of Management.

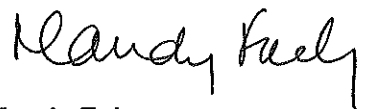
Going Concern

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

Approved by order of the members of the Board of Management on 2 September 2014 and signed on its behalf by:



Ian McKay
Chair of Board of Management



Mandy Exley
Principal

STATEMENT OF THE BOARD OF MANAGEMENT RESPONSIBILITIES

In accordance with the College's Constitution, the Board of Management of Edinburgh College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the Statement of Recommended Practice: Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, 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.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the college will continue in operation.

The Board of Management has a responsibility to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the College's operations.

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

- clear definitions of the responsibilities of, and the authority delegated to, Heads of academic centres and administrative departments;

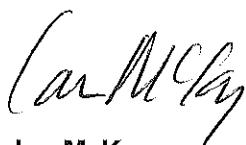
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose Chairman provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

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

Statement of disclosure to Auditor

- so far as the Board of Management are aware, there is no relevant audit information of which the College's auditor is unaware, and
- it has taken all the steps that it ought to have taken as a Board of Management to make itself aware of any relevant audit information and to establish that the college's auditor is aware of that information.



Ian McKay
Chair of Board of Management

2 September 2014

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

We have audited the financial statements of the Board of Management of Edinburgh College for the eight month period ended 31 March 2014 set out on pages 20 to 48. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board of Management of Edinburgh College and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Management of Edinburgh College and the Auditor General for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities on page 16, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 March 2014 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education; and

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

- have been prepared in accordance with 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).

Opinion on regularity prescribed by the Public Finance and Accountability (Scotland) Act 2000

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

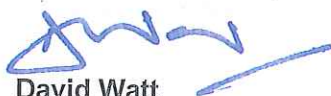
Opinion on other matters prescribed by the Public Finance and Accountability (Scotland) Act 2000

In our opinion the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Public Finance and Accountability (Scotland) Act 2000 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.



David Watt

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

25 September 2014

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

**INCOME AND EXPENDITURE ACCOUNT
FOR THE PERIOD ENDED 31 MARCH 2014**

	Notes	2014 £000	2013 £000
Income			
Scottish Funding Council Grants	2	33,163	52,209
Tuition Fees and Education Contracts	3	7,083	10,977
Other Grant Income	4	1,529	1,949
Other Operating Income	5	2,273	3,326
Endowment and Investment Income	6	357	205
Total Income		44,405	68,666
Expenditure			
Staff Costs	7	27,346	39,717
Exceptional Staff Costs	7	40	3,076
Other Operating Expenses	9	13,984	18,796
Depreciation	12	3,493	5,612
Interest and other Finance Costs	10	528	791
Total Expenditure		45,391	67,992
Surplus on Continuing Operations after Depreciation of Assets at Valuation and before Transfers from Reserves		(986)	674
Loss on disposal of assets		-	(52)
Surplus / (Deficit) on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Item		(986)	622

**STATEMENT OF HISTORICAL COST
SURPLUSES AND DEFICITS
FOR THE PERIOD ENDED 31 MARCH 2014**

	Notes	2014 £000	2013 £000
Surplus on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Item		(986)	622
Difference between Historical Cost Depreciation and the Actual Charge for the Period calculated on the Revalued Amount.	19	208	313
Historical Cost Surplus/ (deficit) for the Period		(778)	935

**STATEMENT OF TOTAL
RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 31 MARCH 2014**

	Notes	2014 £000	2013 £000
Surplus / (Deficit) on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Items		(986)	622
Actuarial Gains/ (Losses) in respect of pension scheme	27	(6,741)	1,807
Total Recognised Gains/ (Losses) since last financial statements		(7,727)	2,429
Reconciliation			
Opening Reserves		54,255	51,826
Total Recognised Gains/ (Losses) relating to the year		(7,727)	2,429
Closing Reserves		46,528	54,255

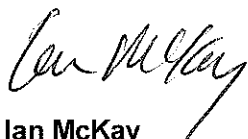
BALANCE SHEET
AS AT 31 MARCH 2014

Notes

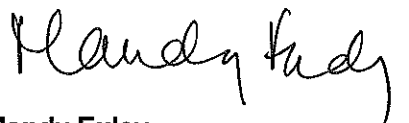
		2014 £000	2013 £000
Fixed Assets			
Tangible Fixed Assets	12	140,754	141,750
		140,754	141,750
Current Assets			
Stock		107	73
Debtors	13	5,958	2,156
Cash at Bank and In Hand		4,937	16,192
		11,002	18,421
Current Liabilities			
Less: Creditors - amounts falling due within one year	14	(7,233)	(12,392)
Net Current Assets		3,769	6,029
Total Assets less current liabilities		144,523	147,779
Less: Creditors – amounts falling due after more than one year	15	(14,443)	(15,260)
Less: Provisions for liabilities and charges	17	(5,466)	(5,952)
Net assets excluding pension liability		124,614	126,567
Net Pension Asset Liability	27	(15,344)	(8,722)
Net Assets including pension liability		109,270	117,845
Represented by:			
Deferred Capital Grants	18	62,742	63,590
Reserves			
Income and Expenditure Account excluding pension reserve	20	55,277	56,174
Pension Reserve	20	(15,344)	(8,722)
Income and Expenditure Account including pension reserve		39,933	47,452
Revaluation Reserve	19	6,595	6,803
Total Reserves		46,528	54,255
Total		109,270	117,845

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

The Financial Statements on pages 20 to 48 were approved by the Board of Management on 2 September 2014 and were signed on its behalf by:



Ian McKay
Chairman of Board of Management



Mandy Exley
Principal

**CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 MARCH 2014**

	Notes	2014 £000	2013 £000
Net Cash (Outflow) / Inflow from Operating Activities	21	(9,006)	(1,852)
Returns on Investments and Servicing of Finance	22	(503)	(565)
Capital Expenditure and Financial Investment	23	(1,541)	(4,137)
Management of Liquid Resources		-	-
Financing	24	(205)	(7,054)
(Decrease) / Increase in Cash in Year		(11,255)	(13,608)
Reconciliation of net cash flow to movement in net funds			
(Decrease) / Increase in Cash in Year	25	(11,255)	(13,608)
Change in Net Debt Resulting From Cash Flows		205	7,054
Cash Outflow from Fixed Term Deposit		-	-
Change in Net Funds Resulting from Cash Flows	25	(11,050)	(6,554)
Movement in Net Funds in Period		(11,050)	(6,554)
Net Funds at 1 August		4,109	10,663
Net Funds at 31 March	25	(6,941)	4,109

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2014

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education* and in accordance with applicable Accounting Standards. They have been prepared in a form prescribed by Scottish Ministers and in accordance with paragraph 28 of Schedule 2 of the Further and Higher Education (Scotland) Act 1992, the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) and in accordance with guidance published by the Scottish Funding Council.

Basis of Accounting

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

Continuing Activities

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

Group Accounts

The financial statements include the College only, its subsidiary Thomas Telford Trust is not consolidated on grounds of materiality. In accordance with FRS 2, the activities of the Students' Association have not been consolidated because the College does not control those activities.

Recognition of Income

The recurrent grant from the Scottish Funding Council represents the funding allocation attributable to the current financial year and is credited to the Income and Expenditure account in the period in which it is receivable.

Income from tuition fees is recognised in the period for which it is received, and includes all fees chargeable to students or their sponsors. In the unlikely event that the costs of any fees are waived by the College, these are included as expenditure in note 9.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from donations is included to the extent of the relevant expenditure incurred during the year, together with any related contribution towards overhead costs.

Non-recurrent grants from the Scottish Funding Council or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets. Non-recurrent revenue grants are deferred and released to match expenditure as incurred.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (*Continued*)

Foreign Currency Translation

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

Post Retirement Benefits

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

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

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

The 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.

Tangible Fixed Assets

Fixed assets are capitalised at their cost of acquisition and/or installation.

a. Land and Buildings

Land and buildings inherited from the Local Authority are stated in the balance sheet at valuation on the basis of open market value of the heritable interest on the property on an existing use basis as valued on initial inheritance.

Heritable land is not depreciated. Heritable buildings are depreciated over the expected useful economic life of between 10 to 50 years.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are released to the income and expenditure account over their useful economic life of the related asset on a basis consistent with the depreciation policy.

Where land and buildings are acquired from other income, they are capitalised and depreciated over their useful economic life of between 10 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, based on the value of architects' certificates and certified fee accounts to 31 July. These assets are not depreciated until they are brought into use

b. Equipment

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

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

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the Capitalisation Policy. The related grant is released to the income and expenditure account over the expected useful economic life of the related equipment.

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

Leased Assets

Leasing agreements that transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The relevant assets are included under fixed assets and the capital element of leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets. Assets held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

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

Taxation

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

Cash

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

Provisions

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

Maintenance of Premises

The cost of routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

Agency Arrangements

The College acts as an agent in the collection and payment of student support funds including bursary funds, discretionary funds and educational maintenance allowances. Related payments received are not included in the income and expenditure account and are shown separately in note 30, except for a small notional sum of the grant received which is available to the College to cover administration costs relating to the grant.

Childcare student support funds receivable and payable are shown in the income and expenditure account, and are shown separately in note 31.

2 FUNDING COUNCIL GRANTS

	2014 £000	2013 £000
SFC Recurrent Grant (including fee waiver)	28,016	43,009
FE childcare funds	1,432	1,366
Release of Deferred Capital Grants	1,804	2,829
Voluntary Severance Scheme Grant	-	2,493
Other SFC Grants	1,910	2,512
	33,163	52,209

£115k of Scottish Funding Council Grants has been used to support priority merger expenditure (2013: £561k). This is shown in note 9 as an exceptional item.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

3 TUITION FEES AND EDUCATION CONTRACTS

	2014 £000	2013 £000
FE Fees – UK	1,515	1,742
FE Fees – non EU	630	1,708
HE Fees	3,076	4,244
SDS Contracts	177	472
Education Contracts	859	1,972
Other Contracts	826	839
	7,083	10,977

4 OTHER GRANT INCOME

	2014 £000	2013 £000
European Funds	200	196
Employability Contracts	1,219	1,556
Other Grants	110	197
	1,529	1,949

5 OTHER OPERATING INCOME

	2014 £000	2013 £000
Residences and Catering	703	1,007
Nursery Income	727	1,006
Other Income Generating Activities	76	163
Other Income	767	1,150
	2,273	3,326

6 ENDOWMENT AND INVESTMENT INCOME

	2014 £000	2013 £000
Bank Interest Receivable	25	136
Other Interest Receivable	-	52
	25	188
Pension Finance Income	332	17
Net Return on Pension Liabilities		-
	357	205

7 STAFF COSTS

Staff Numbers	2014 Number	2013 Number
The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:		
Senior Management	7	20
Teaching Staff	486	495
Teaching Support	220	213
Administration and Central Services	257	243
Premises	49	47
Catering and Residencies	58	62
Total	1,078	1,080

	2014 £000	2013 £000
Recurring Staff Costs:		
Salaries	22,264	32,915
Social Security Costs	1,639	2,462
Other Pension Costs	3,230	4,496
FRS 17 Adjustments	213	(161)
	27,346	39,712

Retirement Costs:		
Revaluation of Early Retirement Benefits	-	5
Total Staff Costs	27,346	39,717

Exceptional Restructuring Costs:		
Exceptional Restructuring Costs	40	3,076
	27,386	42,793

The exceptional restructuring costs are incurred on a non-recurring basis.

7 STAFF COSTS (Continued)

	2014 £000	2013 £000
Senior management	501	1,316
Teaching staff	17,808	26,432
Administration and central services	7,045	12,152
Premises	847	1,348
Catering and residencies	405	630
Revaluation of Early Retirement Provision	(78)	38
FRS17 Adjustments	213	(161)
Other income generating activities	645	1,038
Total (including Exceptional Restructuring Costs)	27,386	42,793

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

	2014 Senior Post Holders	2014 Other Staff	2013 Senior Post Holders	2013 Other Staff
£50,001 - 60,000		13		6
£60,001 - 70,000		5	1	1
£70,001 - 80,000	5		4	
£80,001 - 90,000	1		1	
£90,001 - 100,000				
£100,001 - 110,000				
£110,001 - 120,000				
£120,001- £140,000	1		1	
	7	18	7	7

The seven senior post holders above reflect the new management structure of Edinburgh College.

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:

	2014 £	2013 £
Fees as Board Members		-
Allowances, travel and subsistence paid to Board Members	3,222	2,725
	3,222	2,725

8 SENIOR POST-HOLDERS' EMOLUMENTS (Continued)**Emoluments of Senior Post-holders**

	2014 Number	2013 Number
The number of Senior post-holders including the Principal was:	7	7
The emoluments of Senior post-holders (excluding NI), including the Principal was:		
	2014 £000	2013 £000
Salaries	402	634
Employers' Pension Contribution	53	85
	455	719

The above emoluments include amounts paid to the Principal and former Principals. The Principal's emoluments for the year totalled:

	2014 £000	2013 £000
Salary	93	191
Employers' Pension Contribution	14	28
	107	219

The Principal and senior post-holders are ordinary members of their appropriate pension scheme and contributions are paid at the same rates as for other scheme members. The above 2013 salary includes 5 months pay to a former Principal.

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

	2014 £000	2013 £000
Compensation payable to former senior post holders due to the Merger:	-	538

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

9 OTHER OPERATING EXPENSES

	2014 £000	2013 £000
Teaching	2,388	3,565
Administration	5,223	7,444
Premises	3,405	4,796
Planned Maintenance	96	105
Other income generating Activities	501	657
Other employee related costs	186	220
Childcare	1,432	1,366
Agency Staff	727	685
Transfer to Arms Length Foundation	150	-
Student Accommodation	(239)	(603)
Exceptional Merger Expenditure	115	561
	13,984	18,796

	2014 £000	2013 £000
Other and Exceptional Operating Expenses include:		
Auditor's Remuneration (including irrecoverable VAT):		
- External Auditor's Remuneration - Audit	34	48
- Internal Audit (including Student Support Funds Audit)	24	32
Hire of equipment - operating leases	439	871
Student Accommodation provision release	(239)	(603)

Following an upturn in accommodation bookings for 2013/14 at the Granton campus (current occupancy levels are at 100% compared to prior year bookings of 62%) £0.2m has been released from the accommodation provision.

10 INTEREST PAYABLE

	2014 £000	2013 £000
Pension Finance Cost	67	81
On bank loans, overdrafts and other loans: Repayable wholly or partly in more than 5 years	461	710
	528	791

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

11 TAXATION

The board does not consider that the College was liable for any corporation tax arising out of its activities during the year

12 TANGIBLE FIXED ASSETS

	Land & Buildings	Plant & Equipment (Owned)	Plant & Equipment (Leased)	Computers	Fixtures & Fittings	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
COST OR VALUATION							
At 1 August 2013	157,668	5,558	298	5,808	9,894	4,239	183,465
Additions	681	478	-	238	821	279	2,497
Disposals							
Reclassifications	4,226	(615)	-	177	726	(4,514)	-
Transfers							
At 31 March 2014	162,575	5,421	298	6,223	11,441	4	185,962
DEPRECIATION							
At 1 August 2013	27,557	3,620	298	4,682	5,558	-	41,715
Charge for Year	2,098	326	-	394	675	-	3,493
Reclassifications	-	(569)	-	-	569	-	-
At 31 March 2014	29,655	3,377	298	5,076	6,802	-	45,208
NET BOOK VALUE							
At 31 March 2014	132,920	2,044	-	1,147	4,639	4	140,754
At 31 July 2013	130,111	1,938	-	1,126	4,336	4,239	141,750
Represented by:-							
Inherited	6,595	-	-	-	-	-	6,595
Financed by:-							
Capital Grant	58,019	1,424	-	847	2,452	-	62,742
Other	68,306	620	-	300	2,187	4	71,417
At 31 March 2014	132,920	2,044	-	1,147	4,639	4	140,754

12 TANGIBLE FIXED ASSETS (Continued)

Land and buildings with a net book value of £132,920k (2013: £130,111k) have been funded from Exchequer Funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council to surrender the proceeds.

There is a standard security with Grange Estates over the Hardengreen land (Midlothian campus) which expires in 2026.

13 DEBTORS

Amounts falling due within one year:	2014 £000	2013 £000
Trade Debtors	1,947	1,085
Other Debtors	559	130
Debts due from Students	260	12
European Funding	97	107
Prepayment and Accrued Income	3,095	822
	5,958	2,156

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000	2013 £000
Trade Creditors	895	203
Payments received in advance	113	632
Other Taxation and Social Security	901	1,144
VAT	393	220
Lennartz VAT repayable	854	852
Bank Loans (note 17)	357	325
Funding Council Grants	0	5,463
Accruals, Deferred Income and Other Creditors	3,720	3,553
	7,233	12,392

15 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £000	2013 £000
Bank loan (note 16)	11,521	11,758
Lennartz VAT	2,922	3,502
	14,443	15,260

The Lennartz repayment is due payable over an outstanding period of 6 years, a repayment of £854k is due in 2014/15, which is included in note 14.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

16 **BORROWINGS**

	2014 £000	2013 £000
Bank Loan Repayable:		
In one year or less	357	325
Between one and two years	375	342
Between two and five years	1,248	1,570
In five years or more	9,898	9,846
	11,878	12,083

The Bank Loan is due payable over an outstanding period of 20 years with a capital repayment of £357k due in 2014/15. The average interest rate for the duration of the loan is expected to be 5.6%.

17 **PROVISIONS FOR LIABILITIES AND CHARGES**

	Early Retirement Pension Costs £000	Others £000	2014 £000
At 1 August 2013	5,004	948	5,952
Expenditure in the period	(198)	(38)	(236)
Additional in year provision			
Interest applied	67	-	67
Release to Income and Expenditure in the year	(78)	(239)	(317)
At 31 March 2014	4,795	671	5,466

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 2.0% (2013 – 1.5%)

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. The contract is onerous in accordance with FRS12 Provisions and Contingencies and the College has therefore made a provision for the full estimated costs to the end of the contract in 2025. The provision in 2013/14 has reduced following an increase in occupancy for 2013/14.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

18 DEFERRED CAPITAL GRANTS

	Funding Council Grants	Other Grants	Total
	£000	£000	£000
At 1 August 2013	62,996	594	63,590
Received during year			
Land and Buildings	-	-	-
Fixtures, Fittings & Equipment	956	-	956
Release to Income and Expenditure Account			
Land and Buildings	(1,094)	(2)	(1,096)
Fixtures, Fittings & Equipment	(708)	-	(708)
At 31 March 2014	62,150	592	62,742

19 REVALUATION RESERVE

	2014 £000	2013 £000
Revaluation Reserve		
At 1 August 2013	6,803	7,116
Release of revaluation reserve in respect of depreciation on inherited land and buildings	(208)	(313)
At 31 March 2014	6,595	6,803

20 MOVEMENT IN GENERAL RESERVES

	Note	2014 £000	2013 £000
At 1 August 2013		47,452	44,710
Surplus / (Deficit) for the year		(986)	622
Actuarial gain / (loss) in respect of the pension scheme		(6,741)	1,807
Transfer from revaluation reserve		208	313
At 31 March 2014		39,933	47,452
Represented by:			
		2014 £000	2013 £000
Income and expenditure account			
At 1 August 2013		56,174	55,417
Surplus / (Deficit) for the year		(986)	622
Transfer from revaluation reserve		208	313
Transfer to pension reserve		(119)	(178)
At 31 March 2014		55,277	56,174
Pension reserve:			
		£000	£000
At 1 August 2013		(8,722)	(10,707)
Current service cost		(1,957)	(2,511)
Employer contributions		1,690	2,610
Contributions in respect of unfunded benefits		54	62
Net Finance income		332	17
Actuarial gain/ (loss)		(6,741)	1,807
At 31 March 2014		(15,344)	(8,722)
Reconciliation:			
		£000	£000
Income and expenditure account		55,277	56,174
Pension Reserve		(15,344)	(8,722)
At 31 March 2014		39,933	47,452

21 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2014 £000	2013 £000
Surplus / (deficit) on Continuing Operations after depreciation of Assets at Valuation and Exceptional Items	(986)	622
Depreciation	3,493	5,612
Deferred Capital Grants Released to Income	(1,804)	(2,787)
Interest Receivable	(357)	(205)
Interest Payable	528	791
Decrease / (Increase) in Debtors	(3,802)	1,623
(Increase) / Decrease in Stock	(34)	(35)
(Decrease) / Increase in Creditors	(5,771)	(6,361)
Pension cost less contributions payable (note 27)	213	(161)
Loss on disposals of assets	-	52
(Decrease) / Increase in Provisions	(486)	(1,003)
Net Cash (Outflow)/ Inflow from Operating Activities	(9,006)	(1,852)

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2014 £000	2013 £000
Interest received	25	188
Interest paid on enhanced pension provision	(67)	(43)
Interest paid on bank loan	(461)	(710)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(503)	(565)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2014 £000	2013 £000
Tangible Fixed Assets acquired including Assets Under Construction (note 12)	(2,497)	(5,548)
Deferred Capital Grant received (note 18)	956	1,283
Other Grants	-	128
Net Cash Outflow from Capital Expenditure and Financial Investment	(1,541)	(4,137)

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

24 FINANCING

	2014 £000	2013 £000
Cash Outflow from Repayment of Debt	(205)	(7,054)
Net Cash (Outflow) from Financing	(205)	(7,054)

25 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2013 £000	Cash Flows £000	Other Non Cash Flows £000	At 31 March 2014 £000
Cash	16,192	(11,255)	-	4,937
Debt due within one year	(325)	325	(357)	(357)
Debt due after one year	(11,758)	(120)	357	(11,521)
	4,109	(11,050)	-	(6,941)

26 FINANCIAL COMMITMENTS

At 31 July 2014 the College had annual commitments under non-cancellable operating leases for Plant and Equipment as follows:

	2014 £000	2013 £000
Expiring within one year	156	316
Expiring between two and five years	794	610
Expiring over five years	-	186
	950	1,112

27 PENSION AND SIMILAR OBLIGATIONS

Retirement Benefits

The College operates 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 provides benefits based on final pensionable salary for teaching staff; the LGPS provides similar benefits for other staff of the College.

Total pension cost for the year	2014 £000	2013 £000
STSS: Contributions Paid	1,487	2,258
LGPS: Contribution to LGPS	1,743	2,220
FRS 17 Movement	<u>213</u>	<u>(161)</u>
Total pension cost	3,443	4,317
LGPS Pension Strain Cost	-	23
Total Pension cost for year	3,443	4,340

Local Government Pension Scheme ("LGPS")

The LGPS is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using a projected unit 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 income and expenditure account. The expected return on the schemes assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

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

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

The total contributions made for the year were £2,936k of which employer's contributions totalled £1,743k and employees' contributions totalled £716k.

27 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

From 1 April 2013 the employers' contribution rate was 15.8% plus a lump sum payment of £34,575 per month. The employees' contribution rate did not change. Surpluses and deficits are spread over employees' future service lives.

FRS 17

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

	2014	2013
Rate of increase in salaries	5.1%	1.0%
Rate of increase for pensions / inflation	2.8%	2.8%
Discount rate for liabilities	4.3%	4.6%
Expected return on assets	6.1%	5.9%

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	20.4 years	22.8 years
Future pensioners	22.6 years	25.4 years

27 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

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

ASSETS (WHOLE FUND)	Long term rate of return at 31 March 2014	Value at 31 March 2014 £000	Long term rate of return at 31 July 2013	Value at 31 July 2013 £000
Equities	6.6%	55,497	6.4%	56,177
Bonds	3.9%	6,487	3.8%	4,916
Property	4.8%	5,766	4.6%	5,618
Cash	3.7%	4,324	3.4%	3,511
Total market value of assets		72,074		70,222
		Value at 31 March 2014 £000		Value at 31 July 2013 £000
Present value of scheme liabilities				
Funded		86,590		78,133
Unfunded		828		811
Deficit in the scheme		(15,344)		(8,722)

Analysis of the amount charged to income and expenditure account

	2014 £000	2013 £000
Current service cost	1,814	2,153
Past service cost	143	358
Gain on curtailments and settlements	-	-
Total operating charge	1,957	2,511

Analysis of net return on pension scheme

Expected return on employer assets	(2,743)	(2,994)
Interest cost	2,411	2,977
Total	1,625	2,494

Actual Return on Plan Assets	1,190	11,101
------------------------------	-------	--------

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

27 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

	2014	2013
	£000	£000
Movement in deficit during year		
At 1 August 2013	(8,722)	(10,707)
Movement in year:		
Current service cost	(1,814)	(2,153)
Employer contributions	1,690	2,610
Contributions in respect of unfunded benefits	54	62
Past service cost	(143)	(358)
Losses on curtailments	-	-
Net finance income	332	17
Actuarial gain / (loss)	(6,741)	1,807
Deficit in scheme at 31 March	(15,344)	(8,722)

	2014	2013
	£000	£000
Reconciliation of defined benefit obligation		
Liabilities at start of period	78,944	68,528
Current service cost	1,814	2,153
Interest cost	2,411	2,977
Contributions by members	484	685
Actuarial loss / (gain)	5,188	6,285
Past Service cost	143	358
Losses /(Gains) on Curtailments	-	-
Estimated Unfunded benefits paid	(54)	(62)
Estimated Benefits paid	(1,512)	(1,980)
Liabilities at end of period	87,418	78,944

	2014	2013
	£000	£000
Reconciliation of fair value of employer assets		
Opening fair value of employer assets	70,222	57,821
Expected return on assets	2,743	2,994
Contributions by members	484	685
Contributions by the employer	1,690	2,610
Contributions in respect of unfunded benefits	54	62
Actuarial gains / (losses)	(1,553)	8,092
Unfunded benefits paid	(54)	(62)
Benefits paid	(1,512)	(1,980)
Closing fair value of employer assets	72,074	70,222

27 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

Amounts for the current and previous accounting periods

	2014 £000	2013 £000
Fair value of employer assets	72,074	70,222
Present value of defined benefit obligation	(87,418)	(78,944)
Deficit	(15,344)	(8,722)
Experience Gains / (Losses) on assets	(1,553)	7,529
Experience Gains on liabilities	1	131

Scottish Teachers' Superannuation Scheme ("STSS")

The College participates in the Scottish Teachers' Superannuation Scheme pension scheme which is an unfunded multi-employer defined benefit scheme providing benefits based on final pensionable pay. 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 2009. The results of this valuation were rolled forward to give a liability of £24.0 billion at 31 March 2013. As the scheme is unfunded there can be no surplus or shortfall. Employer contribution rates are reviewed every 5 years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and they reflect past experience of the scheme.

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

Valuation date	31 March 2013
Valuation method	Prospective benefits
Value of notional assets	£24.0 billion

Principal financial assumptions as at 31 March 2013:

Rate of return (discount rate)	4.10%
Rate of return in excess of:	
Earnings increases	0.15%
Price increases	2.35%

The College paid a contribution rate of 14.9% from 1 April 2012 to 31 March 2014. The pension charge recorded by the College during the accounting period was equal to the contributions payable.

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS) 17, 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 17 and has accounted for its contribution to the scheme as if it were a defined contribution scheme. The College has set above the

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

28 RELATED PARTY TRANSACTIONS

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

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

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

Member	Organisation	Position	Sales £000	Purchases £000
Maidie Cahill	SQA	Employee of SQA	-	593
Nigel Paul	APUC Limited	Chairman	-	52
	Edinburgh University	Vice Principal and Director of Corporate Services	28	10
Sandra Cairncross	Edinburgh Napier University	Dean Faculty of Engineering Computing and Creative Industries	438	3

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

Member	Organisation	Position	Sales £000	Purchases £000
Robin Stimpson	Anderson Strathern	Salaried part-time Consultant	-	43

29 BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	EMA £000	Other £000	Total for 2014 £000	Total for 2013 £000
Balance brought forward	1,693	8	366	2,067	1,728
Allocation received in the year	5,551	644	790	6,985	11,005
Expenditure	(6,443)	(587)	(450)	(7,480)	(9,259)
Repaid to Funding Council as Clawback	(1,693)	-	(364)	(2,057)	(1,394)
Underspend repaid to Funding Council	-	-	(91)	(91)	-
College contribution to funds	-	-	-	-	(13)
Virements	210	-	(16)	194	-
Balance c/fwd	(682)	65	235	(382)	2,067
Represented by:					
Repayable to Scottish Funding Council	-	-	-	-	2,058
Payments due from SFC	(682)			(682)	-
Retained by college for students		65	235	300	9
	(682)	65	235	(382)	2,067

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

30 FE AND HE CHILDCARE FUNDS

	2014 £000	2013 £000
Balance b/fwd	338	201
Allocation received in year	1,626	1,643
Expenditure	(1,432)	(1,366)
Repayable to SFC as (claw-back)	(338)	(129)
Virements	(194)	(11)
Balance c/fwd	-	338

Represented by:

Repayable to Scottish Funding Council	-	338
--	---	------------

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

31 CONTINGENT LIABILITIES

There were no contingent liabilities at the balance sheet date.

32 POST BALANCE SHEET DATE EVENTS

No events occurred between 1 April 2014 and the time these Financial Statements were signed that would materially affect the information provided.