



**ANNUAL REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 JULY 2013

Scottish Charity Number SCO21213

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

The College Board presents its annual report and the audited financial statements for the year ended 31 July 2013.

MESSAGE FROM THE CHAIR OF THE BOARD OF MANAGEMENT

I am delighted to welcome you to Edinburgh College's first Annual Report.

A year has passed since Edinburgh College came into existence. The College has developed during a period of major sectoral reform and funding restructure, and the changes have inevitably made our first year a challenging one.

Despite government funding cuts of 10.4 per cent, however, equivalent to £5.1m for the College, we have managed to negotiate the financial pressures successfully and within budget, and continued to provide high-quality education to more than 29,000 students.

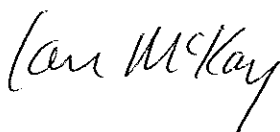
The reductions in government funding, specific-funding council grants, course fee income and commercial and international contracts meant our income was down nearly 14 per cent to £68.7million in 2012/13. During the same period, however, our expenditure was also down by 15 per cent to £68million.

Managing our budget effectively has meant we are able to continue investing in our resources, such as the redevelopment of our Sighthill Campus, which will ultimately be to the benefit of all our staff and students.

We have continued to strengthen links with the higher education and business sectors, creating more opportunities for our students to find the education and career paths that suit them best. This collaborative approach allows us to produce graduates who form a highly skilled and motivated workforce, and who also become the college's best ambassadors when they leave us.

We have also developed a reputation for innovation and a commitment to sustainability, which we must continue to pursue. Initiatives such as our solar meadow and electric vehicle research project combine these two priorities and are excellent examples of how we can pioneer in these areas.

Personally, it has been a privilege to have chaired the Board of Management in the new College's earliest days. Watching it forge its own identity and pursue its aims with integrity and conviction has been very rewarding. I have been delighted to discover how committed our staff are to ensuring we never lose sight of our goals, providing the best opportunities for students and meeting the needs of national industry. Edinburgh College is building on the traditions and strengths of its predecessors, to develop in its own right as a distinctive, innovative and valuable presence in further education.



Ian McKay
Chair of the Board of Management

PRINCIPAL'S STATEMENT

Edinburgh College has made great strides forwards since it launched under its new title in October 2012. Creating a new college from three separate institutions was always going to be a challenge, but one we knew was vitally important to continue delivering the brightest futures possible for students and staff.

In the space of 10 short months the college has launched, found its feet and continued developing at a rapid pace. New projects such as the Creative Exchange and our solar meadow have cemented our dedication to innovation and sustainability. The £5million redevelopment of our Sighthill campus, which was delivered on time and on budget, has given our students a modern new learning and socialising space. We have recruited more students than in the previous year, including an increase in 16-19 year olds. And we have become the largest single provider of undergraduate students to the University of Edinburgh.

Students and staff are certainly excelling, with 169 students winning prizes for excellence and achievement at our Further Education Awards and 60 winning local, national and international prizes. Forty five staff members achieved learning and teaching qualifications this year and three have embarked on PhD programmes.

It's an exciting time to be part of the college but we must keep looking forward to ensure we continue delivering a high-quality education experience and providing our staff with somewhere they can be proud and happy to come to work at every day.

We work closely with our Students' Association and its input will be increasingly valuable in determining how our aspirations for student experience actually translate into reality. As an organisation, we must continue listening to our students and be flexible enough to adapt to their needs, whether in course provision, teaching methods or facilities.

The same goes for staff, whose retention and commitment is essential in offering a consistently top-class experience for our students. Our Staff Association has been crucial in building up the Edinburgh College community and will continue to be an important presence on all our campuses.

We must also capitalise on our growing reputation for innovation. I'm confident that we are fit for purpose as a 21st century organisation, not only able to adapt to changing times but also willing to be a leader in how we find creative solutions for education and industry. The solar meadow is a superb example of this and provides a model of how we can innovate and create.

One major external change we will have to negotiate as a college is the Office for National Statistics' decision to reclassify UK colleges as 'central government bodies' for financial budgeting and reporting purposes. When this takes effect on 1 April 2014, it could mean colleges have less control over annual spending because this will be considered part of government expenditure. Edinburgh College has been discussing the impact of these changes with the cabinet secretary for education and lifelong learning, government officials and other colleges, and is preparing itself to ensure it remains in as strong a position as possible under the reclassification.

In all our activities, collaboration will continue to be crucial and I'm sure we will continue to be dynamic and forward-looking in seeking out new partners locally, nationally and internationally to work with. Projects such as our associate students programmes offered in collaboration with partner universities demonstrate how we can find new ways to give students more options to shape their own success.

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I would like to thank all our students and staff for making our first year so memorable. I'd also like to offer my warmest congratulations to all 1,985 students who have recently graduated, the first cohort to do so under the Edinburgh College name. Each of these graduates now has the opportunity to go on to great things, whether in higher education or in the workplace. We should be very proud of these students' achievements and use them as inspiration for the next year and beyond. I look forward to the success of many more graduates.

I believe more strongly than ever in the power of further education to give people the knowledge, practical expertise, confidence, people skills and initiative to make the most of their lives. In its first year, Edinburgh College has proven it is built on solid foundations and now, with our Strategic Plan in place, we are ready to achieve even more.

A handwritten signature in black ink that reads "Mandy Exley". The signature is written in a cursive style with a period at the end.

Mandy Exley
Principal of Edinburgh College

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

During 2012/13, the merger of Jewel & Esk, Edinburgh's Telford, and Stevenson Colleges on 1 October 2012 to form Edinburgh College proceeded successfully.

The operating year was filled with financial challenges as the College faced further government funding cuts of 10.4%, equivalent to £5.1m for Edinburgh College, and it merged three discrete financial operations. Despite these significant financial pressures, the College weathered the storm and continued to provide high quality education to over 29,000 students and purposely managed its financial resources within budget.

The income and expenditure position is summarised below:

	2013 £m	2012 £m
Income	68.7	79.9
Expenditure	67.4	79.6
Exceptional Item – Merger expenditure	0.6	0.5
Operating Surplus/(Deficit) retained within general reserves	0.6	(0.2)
Revaluation release for the year	0.3	0.3
Historical cost surplus for the year	1.0	0.1

Income

Income was down nearly 14% to £68.7m affected by government funding cuts, reduced specific funding council grants, and a decrease in course fee income, commercial and international contracts in comparison to 2011/12 figures.

Expenditure

Expenditure was down by 15% to £67.4m prior to the exceptional charge of £0.6m for merger related costs. However, overall expenditure was positively influenced by non-cash related provision movements of £1.2m, whilst staff and exceptional one-off items accounted for an £11.0m movement as operational costs decreased by £1.1m compared to the previous year.

Balance Sheet

Fixed assets at the year end totalled £141.8m, broadly unchanged on the prior year. Net current assets were down by £9.6m to £6.0m following the repayment of the Granton campus loan and payment of the new Sighthill development.

At 31 July 2013, the College had an accumulated surplus of £56.2m on its Income and Expenditure Account, and in complying with FRS17 (Retirement Benefits) our pension liability decreased by £2m to £8.7m.

Cash Flow

There was a net cash outflow of £13.6m (2012: net cash inflow £5.2m) mainly as a result of our bank loan repayment and capital expenditure. The College held cash and deposits of £16.2m (2012: £29.8m) and these are managed in accordance with the College's Treasury Management policy. The College held long-term debt of £12.1m which is attributable to the Milton Road and Midlothian campuses redevelopment. The further development of robust cash-flow information will be necessary to ensure more regular accurate cash management reporting under ONS reclassification in 2014.

Operating Review

The College achieved 244,873 Wsums which includes additional funded activity of 3,551 Wsums related to ESF funding. The College's target figure for the year was 249,017 Wsums (3,759 ESF) following a reduction of 2,814 efficiency Wsums set by the Scottish Funding Council.

Achieving the combined Wsums targets has been exceptionally challenging due to the range of complexities in combining three colleges' curriculum delivery plans in conjunction with attaining a high level of performance during a year of major structural change.

However, the College as a combined institution 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 has implemented an institution-wide risk management process, monitored by the risk management group, which reports to the Board. Although at its early stages of implementation, the key risks reported on the risk register have been under close review since merger, and emerging risks promptly managed and mitigated accordingly. The Risk Management Group will continue to raise awareness of risk across the College and increase the profile of risk management accordingly.

Looking forward to 2014, Edinburgh College has in place its first strategic plan, and seeks to improve its credentials as it enters its first full operating year as Edinburgh College. The challenging economic conditions are unlikely to change, but the College continues to seek innovation and growth, despite its imminent change in status as it becomes a central government department in April 2014.

However, this change 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.

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	2013	2012
		Actual	Actual
Weighted Student Units of Measurement (WSUMs)	Core Wsums (Target 245,258) ESF Wsums (Target 3,759)	241,322 3,551	260,484 5,738
Operating surplus / (deficit) before exceptional items as a % of income	Measures the surplus on continuing operations as a % of total income	6.19%	8.06%
Non SFC income as a % of income	Measures non SFC income as a % of total income	24.0%	24.1%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	57.8%	55.7%
Current assets: current liabilities	Measures the colleges ability to pay its current liabilities	1.5	1.8
Gearing	The ratio of creditors > 1 year to the sum of total reserves	0.4	0.6
Days cash	Cash divided by total expenditure less depreciation expressed in days	96	141

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 2013 was 23 days (2012 – 20 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:	Wylie Bisset, 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		
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	Industry, Commerce or Public Sector Representative		
Karen McPhillips	Industry, Commerce or Public Sector Representative		June 2013
Alan Johnston	Industry, Commerce or Public Sector Representative	February 2013	
Jane Richardson	Industry, Commerce or Public Sector Representative	December 2012	
Nigel Paul	Industry, Commerce or Public Sector Representative	March 2013	
David Rutherford	Industry, Commerce or Public Sector Representative		
Sandra Cairncross	Industry, Commerce or Public Sector Representative	June 2013	
Kelly-Marie Perry	President of Edinburgh College Student's Association		
Janice Cutting	Industry, Commerce or Public Sector Representative	June 2013	
Charles Bryden	Industry, Commerce or Public Sector Representative		December 2012
Jenny Rees	Industry, Commerce or Public Sector Representative		December 2012
Jim Donaldson	Industry, Commerce or Public Sector Representative		March 2013
Kellie Bradford		September 2013	

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*
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	
Karen McPhillips		Yes *			
Alan Johnston		Yes			Yes
Jane Richardson			Yes		
Nigel Paul	Yes		Chair		
David Rutherford	Chair				
Sandra Cairncross					
Kelly-Marie Perry		Yes	Yes	Yes	

*Karen McPhillips left the Board since year end and will be replaced in the upcoming support staff member elections.

**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

***The non-Board members of the Capital & Infrastructure Committee is Craig Wilson

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. 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 July 2013.

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 eight times in the year and conducts its business through a number of committees, supported by a Clerk to the Board. Each committee has constituted terms of reference. These committees include: Audit Committee (which includes Finance related items), Remuneration Committee, Nominations Committee, Academic Council and Capital & Infrastructure 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 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. This Committee also makes recommendations to the Board of Management and determines the remuneration and benefits of the most senior staff, including the Principal. Details of the remuneration of senior post-holders for the year ended 31 July 2013 are set out in note 7 to the financial statements.

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.

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 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.

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,

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self-evaluation by Committees, evaluation of the Chair led by the vice Chair and a full Board discussion of the results of these three processes. In 2012/13 the Board evaluation discussion was externally facilitated and a report and action plan was produced.

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 July 2013 it is 50/50.

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. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

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 July 2013 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 regular 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 19 November 2013 meeting, the Board of Management carried out the annual assessment for the year ended 31 July 2013 by considering documentation from the Executive Team and internal audit, and taking account of events since 31 July 2013.

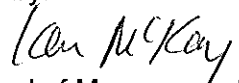
Capacity to handle risk

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 2013, 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 19 November 2013 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;

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- 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

19 November 2013

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 year ended 31 July 2013 set out on pages 19 to 50. 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 15 to 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 July 2013 and of its surplus for the year 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 YEAR ENDED 31 JULY 2013

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

- 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 year 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 I require for my 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

13 December 2013

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 JULY 2013**

	Notes	2013 £000	2012 £000
Income			
Scottish Funding Council Grants	2	52,209	60,496
Tuition Fees and Education Contracts	3	10,977	12,572
Other Grant Income	4	1,949	1,741
Other Operating Income	5	3,326	4,384
Endowment and Investment Income	6	205	671
Total Income		68,666	79,864
Expenditure			
Staff Costs	7	39,717	45,008
Exceptional Staff Costs	7	3,076	6,216
Other Operating Expenses	9	18,838	20,181
Exceptional Operating (Income)/ Expenditure	9	(603)	1,725
Depreciation	12	5,612	5,683
Interest and other Finance Costs	10	791	816
Exceptional Item-Merger expenditure	2	561	452
Total Expenditure		67,992	80,081
Surplus on Continuing Operations after Depreciation of Assets at Valuation and before Transfers from Reserves		674	(217)
Loss on disposal of assets		(52)	(1)
Surplus / (deficit) on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Item		622	(218)

**STATEMENT OF HISTORICAL COST
SURPLUSES AND DEFICITS
FOR THE YEAR ENDED 31 JULY 2013**

	Notes	2013 £000	2012 £000
Surplus on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Item		622	(218)
Difference between Historical Cost Depreciation and the Actual Charge for the Period calculated on the Revalued Amount.	20	313	313
Historical Cost Surplus for the Period		935	95

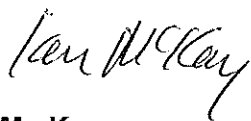
**STATEMENT OF TOTAL
RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2013**

	Notes	2013 £000	2012 £000
Surplus / (Deficit) on Continuing Operations after Depreciation of Assets at Valuation and Exceptional Items		622	(218)
Actuarial Gains/ (Losses) in respect of pension scheme	28	1,807	(3,068)
Total Recognised Gains/ (Losses) since last financial statements		2,429	(3,286)
Reconciliation			
Opening Reserves		51,826	55,112
Total Recognised Gains/ (Losses) relating to the year		2,429	(3,286)
Closing Reserves		54,255	51,826

BALANCE SHEET AS AT 31 JULY 2013			
Notes			
		2013 £000	2012 £000
Fixed Assets			
Tangible Fixed Assets	12	141,750	141,866
		141,750	141,866
Current Assets			
Stock		73	37
Debtors	14	2,156	3,816
Cash at Bank and In Hand		16,192	29,800
		18,421	33,653
Current Liabilities			
Less: Creditors - amounts falling due within one year	15	(12,392)	(18,013)
		6,029	15,640
Total Assets less current liabilities		147,779	157,506
Less: Creditors – amounts falling due after more than one year	16	(15,260)	(23,051)
Less: Provisions for liabilities and charges	18	(5,952)	(6,955)
Net assets excluding pension liability		126,567	127,500
Net Pension Asset Liability	28	(8,722)	(10,707)
Net Assets including pension liability		117,845	116,793
Represented by:			
Deferred Capital Grants	19	63,590	64,967
Reserves			
Income and Expenditure Account excluding pension reserve	21	56,174	55,417
Pension Reserve	21	<u>(8,722)</u>	<u>(10,707)</u>
Income and Expenditure Account including pension reserve		47,452	44,710
Revaluation Reserve	20	6,803	7,116
Total Reserves		54,255	51,826
Total		117,845	116,793

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2013

The Financial Statements on pages 19 to 50 were approved by the Board of Management on 19 November 2013 and were signed on its behalf by:



Ian Mc Kay
Chairman of Board of Management



Mandy Exley
Principal

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2013**

	Notes	2013 £000	2012 £000
Net Cash (Outflow) / Inflow from Operating Activities	22	(1,852)	5,820
Returns on Investments and Servicing of Finance	23	(565)	(411)
Capital Expenditure and Financial Investment	24	(4,137)	(35)
Management of Liquid Resources		-	500
Financing	25	(7,054)	(693)
(Decrease) / Increase in Cash in Year		(13,608)	5,181
Reconciliation of net cash flow to movement in net funds			
(Decrease) / Increase in Cash in Year	26	(13,608)	5,181
Change in Net Debt Resulting From Cash Flows		7,054	693
Cash Outflow from Fixed Term Deposit		-	(500)
Change in Net Funds Resulting from Cash Flows	26	(6,554)	5,374
Movement in Net Funds in Period		(6,554)	5,374
Net Funds at 1 August		10,663	5,289
Net Funds at 31 July	26	4,109	10,663

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 July 2013**

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.

The combination of Jewel & Esk College, Edinburgh's Telford College and Stevenson College has met the merger accounting criteria under FRS 6 and the accounting principles therein have been applied (refer to note 32).

The carrying values of the assets and liabilities of the parties to the merger are not required to be adjusted to fair value, although appropriate adjustments are made to achieve uniformity of accounting policies where necessary.

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.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (*Continued*)

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.

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.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (*Continued*)

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.

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.

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (*Continued*)

Leased Assets

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

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

Taxation

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

Cash

Cash for the purposes of the 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.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2013

2 FUNDING COUNCIL GRANTS	2013 £000	2012 £000
SFC Recurrent Grant (including fee waiver)	43,009	48,545
FE childcare funds	1,366	1,303
Release of Deferred Capital Grants	2,829	2,971
Voluntary Severance Scheme Grant	2,493	4,353
Other SFC Grants	2,512	3,324
	52,209	60,496

£561k of Scottish Funding Council Grants has been used to support priority merger expenditure (2012: £452k). This is shown separately on the income and expenditure account as an exceptional item.

3 TUITION FEES AND EDUCATION CONTRACTS	2013 £000	2012 £000
FE Fees – UK	1,742	2,091
FE Fees – non EU	1,708	3,024
HE Fees	4,244	4,224
Training and Consultancy	839	604
Total Fees paid by or on behalf of Individual Students	8,533	9,943
Education Contracts	2,444	2,629
	10,977	12,572

4 OTHER GRANT INCOME	2013 £000	2012 £000
European Funds	196	314
Release of Deferred Capital Grants	-	16
Employability Contracts	1,556	1,145
Other Grants	197	266
	1,949	1,741

5 OTHER OPERATING INCOME	2013 £000	2012 £000
Residences and Catering	1,007	1,321
Nursery Income	1,006	913
Other Income Generating Activities	163	208
Other Income	1,150	1,942
	3,326	4,384

6 ENDOWMENT AND INVESTMENT INCOME

	2013 £000	2012 £000
Bank Interest Receivable	136	153
Other Interest Receivable	<u>52</u>	<u>226</u>
	188	379
Pension Finance Income	17	91
Net Return on Pension Liabilities	-	201
	205	671

7 STAFF COSTS

Staff Numbers	2013 Number	2012 Number
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The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:

Senior Management	20	20
Teaching Staff	495	560
Teaching Support	213	215
Administration and Central Services	243	334
Premises	47	44
Catering and Residencies	62	84

Total	1,080	1,258
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	2013 £000	2012 £000
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Recurring Staff Costs:

Salaries	32,915	36,847
Social Security Costs	2,462	2,841
Other Pension Costs	4,496	4,806
FRS 17 Adjustments	(161)	(53)

	39,712	44,441
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Retirement Costs:

Revaluation of Early Retirement Benefits	5	567
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Total Staff Costs	39,717	45,008
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Exceptional Restructuring Costs:

Exceptional Restructuring Costs	3,076	6,216
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	42,793	51,224
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The exceptional restructuring costs are incurred on a non-recurring basis.

7 STAFF COSTS (Continued)

	2013 £000	2012 £000
Senior management	1,316	1,413
Teaching staff	26,432	29,679
Administration and central services	12,152	17,042
Premises	1,348	1,251
Catering and residencies	630	843
Revaluation of Early Retirement Provision	38	62
FRS17 Adjustments	(161)	(53)
Other income generating activities	1,038	987
Total (including Exceptional Restructuring Costs)	42,793	51,224

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:

	2013 Senior Post Holders	2013 Other Staff	2012 Senior Post Holders	2012 Other Staff
£50,001 - 60,000		6	9	4
£60,001 - 70,000	1	1	7	1
£70,001 - 80,000	4		1	
£80,001 - 90,000	1			
£90,001 - 100,000				
£100,001 - 110,000			2	
£110,001 - 120,000				
£120,001- £140,000	1		1	
	7	7	20	5

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:

	2013 £	2012 £
Fees as Board Members	-	-
Allowances, travel and subsistence paid to Board Members	2,725	70
	2,725	70

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

	2013 Number	2012 Number
The number of Senior post-holders including the Principal was:	7	20
The emoluments of Senior post-holders (excluding NI), including the Principal was:		
	2013 £000	2012 £000
Salaries	634	1,325
Employers' Pension Contribution	85	202
	719	1,527

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

	2013 £000	2012 £000
Salary	191	363
Employers' Pension Contribution	28	54
	219	417

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

	2013 £000	2012 £000
Compensation payable to former senior post holders due to the Merger:	538	653

In 2012/13 all severance payments to higher paid employees were paid in accordance with the agreed severance policy and associated formula, based on salary and length of service.

During 2012/13 a total of 28 staff were paid more than £50,000, as a result of voluntary severance payments in addition to their annual emoluments.

9 OTHER OPERATING EXPENSES

	2013 £000	2012 £000
Teaching	3,565	3,557
Administration	7,444	8,642
Premises	4,796	4,960
Planned Maintenance	105	101
Residences & Refectories	125	424
Other income generating Activities	532	525
Other employee related costs	220	235
Childcare	1,366	1,303
Agency Staff	685	434
	18,838	20,181

	2013 £000	2012 £000
Other and Exceptional Operating Expenses include:		
Auditor's Remuneration (including irrecoverable VAT):		
- External Auditor's Remuneration - Audit	48	61
- Internal Audit (including Student Support Funds Audit)	32	120
Hire of equipment - operating leases	871	903
Student Accommodation	(603)	1,725

Following an upturn in accommodation bookings for 2013/14 at the Granton campus (current occupancy levels are at 92% compared to prior year bookings of 62%) £0.6m has been released from the accommodation provision.

10 INTEREST PAYABLE

	2013 £000	2012 £000
Pension Finance Cost	38	26
Enhanced pension provision	43	14
On bank loans, overdrafts and other loans: Repayable wholly or partly in more than 5 years	710	776
	791	816

11 TAXATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2013

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 2012	156,882	5,028	298	6,003	9,637	856	178,704
Additions	707	575	-	431	216	3,619	5,548
Disposals	-	(51)	-	(626)	(110)	-	(787)
Reclassifications	(348)	-	-	-	-	348	-
Transfers	427	6	-	-	151	(584)	-
At 31 July 2013	157,668	5,558	298	5,808	9,894	4,239	183,465
DEPRECIATION							
At 1 August 2012	24,001	3,211	298	4,659	4,669	-	36,838
Charge for Year	3,556	456	-	642	958	-	5,612
Disposals	-	(47)	-	(619)	(69)	-	(735)
At 31 July 2013	27,557	3,620	298	4,682	5,558	-	41,715
NET BOOK VALUE							
At 31 July 2013	130,111	1,938	-	1,126	4,336	4,239	141,750
At 31 July 2012	132,881	1,817	-	1,344	4,968	856	141,866
Represented by:-							
Inherited	8,657	-	-	-	-	-	8,657
Financed by:-							
Capital Grant	59,587	1,174	-	962	2,406	368	64,497
Capital Receipts	7,011	-	-	-	-	-	7,011
Other	54,856	764	-	165	1,930	3,871	61,585
At 31 July 2013	130,111	1,938	-	1,127	4,336	4,239	141,750

12 TANGIBLE FIXED ASSETS (Continued)

Land and buildings with a net book value of £130,111k (2012: £141,837k) 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 INVESTMENTS

	£	£
Investment in subsidiary company at cost	102	102

Jewel and Esk Valley Commercial Enterprises Ltd did not trade during 2011/12 and 2012/13 and was dissolved during the year ended 31 July 2013.

14 DEBTORS

Amounts falling due within one year:	2013	2012
	£000	£000
Trade Debtors	1,085	854
Other Debtors	130	433
Debts due from Students	12	5
European Funding	107	633
Prepayment and Accrued Income	822	1,891
	2,156	3,816

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013	2012
	£000	£000
Trade Creditors	203	1,361
Payments received in advance	632	853
Other Taxation and Social Security	1,144	1,189
VAT	220	417
Lennartz VAT repayable	852	909
Bank Loans (note 17)	325	612
Funding Council Grants	5,463	4,092
Accruals, Deferred Income and Other Creditors	3,553	8,580
	12,392	18,013

16 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 £000	2012 £000
Bank Loan (note 17)	11,758	12,105
Lennartz VAT	3,502	4,419
Term Loans	-	6,420
Deferred Income	-	107
	15,260	23,051

The Lennartz repayment is due payable over an outstanding period of 6 years, a repayment of £852k is due in 2013/14, which is included in note 15.

17 BORROWINGS

	2013 £000	2012 £000
Bank Loan Repayable:		
In one year or less	325	612
Between one and two years	342	631
Between two and five years	1,570	2,420
In five years or more	9,846	15,474
	12,083	19,137

The Bank Loan is due payable over an outstanding period of 21 years with a capital repayment of £325k due in 2013/14. The average interest rate for the duration of the loan is expected to be 5.6%.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement Pension Costs £000	Others £000	2013 £000
At 1 August 2012	5,171	1,784	6,955
Expenditure in the period	(295)	(233)	(528)
Additional in year provision	118	-	118
Interest applied	68	-	68
Release from Income and Expenditure in the year	(58)	(603)	(661)
At 31 July 2013	5,004	948	5,952

18 PROVISIONS FOR LIABILITIES AND CHARGES (Continued)

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 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 2012/13 has reduced following an increase in room bookings for 2013/14.

19 DEFERRED CAPITAL GRANTS

	Funding Council Grants	Other Grants	Total
	£000	£000	£000
At 1 August 2012	64,488	478	64,966
Received during year			
Land and Buildings	546	-	546
Fixtures, Fittings & Equipment	737	128	865
Release to Income and Expenditure Account			
Land and Buildings	(1,708)	(12)	(1,720)
Fixtures, Fittings & Equipment	(1,067)	-	(1,067)
At 31 July 2013	62,996	594	63,590

20 REVALUATION RESERVE

	2013 £000	2012 £000
Revaluation Reserve		
At 1 August 2012	7,116	7,429
Release of revaluation reserve in respect of depreciation on inherited land and buildings	(313)	(313)
At 31 July 2013	6,803	7,116

21 MOVEMENT IN GENERAL RESERVES

	Note	2013 £000	2012 £000
At 1 August 2012		44,710	47,683
Surplus / (Deficit) for the year		622	(218)
Actuarial gain / (loss) in respect of the pension scheme		1,807	(3,068)
Transfer from revaluation reserve		313	313
At 31 July 2013		47,452	44,710
Represented by:			
		2013	2012
Income and expenditure account		£000	£000
At 1 August 2012		55,417	55,545
Surplus / (Deficit) for the year		622	(218)
Transfer from revaluation reserve		313	313
Transfer to pension reserve		(178)	(223)
At 31 July 2013		56,174	55,417
Pension reserve:			
		£000	£000
At 1 August 2012		(10,707)	(8,055)
Current service cost		(2,511)	(2,216)
Employer contributions		2,610	2,410
Contributions in respect of unfunded benefits		62	52
Losses on curtailments		-	(76)
Net Finance income		17	246
Actuarial gain/ (loss)		1,807	(3,068)
At 31 July 2013		(8,722)	(10,707)

21 MOVEMENT IN GENERAL RESERVES *(Continued)*

Reconciliation:

	£000	£000
Income and expenditure account	56,174	55,417
Pension Reserve	(8,722)	(10,707)
At 31 July 2013	47,452	44,710

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

	2013 £000	2012 £000
Surplus / (deficit) on Continuing Operations after depreciation of Assets at Valuation and Exceptional Items	622	(218)
Depreciation	5,612	5,683
Deferred Capital Grants Released to Income	(2,787)	(2,934)
Interest Receivable	(205)	(671)
Interest Payable	791	790
Decrease / (Increase) in Debtors	1,623	(215)
(Increase) / Decrease in Stock	(35)	9
(Decrease) / Increase in Creditors	(6,361)	2,030
Pension cost less contributions payable (note 28)	(161)	(124)
Loss on disposals of assets	52	17
(Decrease) / Increase in Provisions	(1,003)	1,453
Net Cash (Outflow) / Inflow from Operating Activities	(1,852)	5,820

23 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2013 £000	2012 £000
Interest received	188	379
Interest paid on enhanced pension provision	(43)	(14)
Interest paid on bank loan	(710)	(776)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(565)	(411)

24 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2013 £000	2012 £000
Tangible Fixed Assets acquired including Assets Under Construction (note 12)	(5,548)	(1,718)
Deferred Capital Grant received (note 19)	1,283	1,676
Other Grants	128	-
Proceeds from sale of Tangible Fixed Assets	-	7
Net Cash Outflow from Capital Expenditure and Financial Investment	(4,137)	(35)

25 FINANCING

	2013 £000	2012 £000
Cash Outflow from Repayment of Debt	(7,054)	(693)
Net Cash (Outflow) from Financing	(7,054)	(693)

26 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2012 £000	Cash Flows £000	Other Non Cash Flows £000	At 31 July 2013 £000
Cash	29,800	(13,608)	-	16,192
Debt due within one year	(612)	612	(325)	(325)
Debt due after one year	(18,525)	6,442	325	(11,758)
	10,663	(6,554)	-	4,109

27 FINANCIAL COMMITMENTS

At 31 July 2013 the College had annual commitments under non-cancellable operating leases for Plant and Equipment as follows:

	2013 £000	2012 £000
Expiring within one year	316	421
Expiring between two and five years	610	992
Expiring over five years	186	186
	1,112	1,599

There is a contractual commitment of £1,155,127 relating to the Sighthill campus redevelopment, which has not been provided for in the accounts to 31 July 2013.

28 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

	2013 £000	2012 £000
STSS: Contributions Paid	2,258	3,116
LGPS: Contribution to LGPS	2,220	2,220
FRS 17 Movement	<u>(161)</u>	<u>(35)</u>
Total pension cost	4,317	5,301
LGPS Pension Strain Cost	23	19
Total Pension cost for year	4,340	5,320

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 £2,220k and employees' contributions totalled £716k.

28 PENSION AND SIMILAR OBLIGATIONS (Continued)

From 1 April 2012, the contribution rate payable by the College was 15.9% of pensionable salaries plus a lump sum of £34,575 per month as recommended by the LGPS actuary. 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:

	2013	2012
Rate of increase in salaries	1.0%	1.0%
Rate of increase for pensions / inflation	2.8%	2.2%
Discount rate for liabilities	4.6%	4.4%
Expected return on assets	5.9%	5.0%

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

28 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

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

ASSETS (WHOLE FUND)	Long term rate of return at 31 July 2013	Value at 31 July 2013 £000	Long term rate of return at 31 July 2012	Value at 31 July 2012 £000
Equities	6.4%	56,177	5.5%	44,523
Bonds	3.8%	4,916	2.9%	5,204
Property	4.6%	5,618	3.7%	6,360
Cash	3.4%	3,511	2.8%	1,734
Total market value of assets		70,222		57,821
		Value at 31 July 2013 £000		Value at 31 July 2012 £000
Present value of scheme liabilities				
Funded		78,133		67,732
Unfunded		811		796
Deficit in the scheme		(8,722)		(10,707)

Analysis of the amount charged to income and expenditure account

	2013 £000	2012 £000
Current service cost	2,153	2,216
Past service cost	358	-
Gain on curtailments and settlements	-	76
Total operating charge	2,511	2,292
Analysis of net return on pension scheme		
Expected return on employer assets	(2,994)	(3,876)
Interest cost	2,977	3,584
Total	2,494	2,000
Actual Return on Plan Assets	11,101	1,469

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2013

	2013 £000	2012 £000
Movement in deficit during year		
At 1 August 2012	(10,707)	(8,055)
Movement in year:		
Current service cost	(2,153)	(2,216)
Employer contributions	2,610	2,410
Contributions in respect of unfunded benefits	62	52
Past service cost	(358)	-
Losses on curtailments	-	(76)
Net finance income	17	246
Actuarial gain / (loss)	1,807	(3,068)
Deficit in scheme at 31 July	(8,722)	(10,707)
	2013 £000	2012 £000
Reconciliation of defined benefit obligation		
Liabilities at start of period	68,528	67,069
Current service cost	2,153	2,216
Interest cost	2,977	3,584
Contributions by members	685	750
Actuarial loss / (gain)	6,285	(3,233)
Past Service cost	358	-
Losses /(Gains) on Curtailments	-	76
Estimated Unfunded benefits paid	(62)	(52)
Estimated Benefits paid	(1,980)	(1,882)
Liabilities at end of period	78,944	68,528
	2013 £000	2012 £000
Reconciliation of fair value of employer assets		
Opening fair value of employer assets	57,821	59,014
Expected return on assets	2,994	3,876
Contributions by members	685	750
Contributions by the employer	2,610	2,410
Contributions in respect of unfunded benefits	62	52
Actuarial gains / (losses)	8,092	(6,347)
Unfunded benefits paid	(62)	(52)
Benefits paid	(1,980)	(1,882)
Closing fair value of employer assets	70,222	57,821

28 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

Amounts for the current and previous accounting periods

	2013 £000	2012 £000
Fair value of employer assets	70,222	57,821
Present value of defined benefit obligation	(78,944)	(68,528)
Deficit	(8,722)	(10,707)
Experience Gains / (Losses) on assets	7,529	(6,347)
Experience Gains on liabilities	131	5,406

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 £23.6 billion at 31 March 2012. As the scheme is unfunded there can be no surplus or shortfall. Employer contribution rates are reviewed every 5 years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and they reflect past experience of the scheme.

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

Valuation date	31 March 2012
Valuation method	Prospective benefits
Value of notional assets	£23.6 billion

Principal financial assumptions as at 31 March 2012:

Rate of return (discount rate)	4.85%
Rate of return in excess of:	
Earnings increases	0.6%
Price increases	2.8%

The College paid a contribution rate of 14.9% from 1 April 2012 to July 2013. 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 information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

29 RELATED PARTY TRANSACTIONS

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

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

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

Member	Organisation	Position	Sales £000	Purchases £000
Ian McKay	Lothian Buses	Member of board of Lothian Buses	-	13
Maidie Cahill	SQA	Employee of SQA	-	964
Nigel Paul	APUC Limited	Chairman	-	10
Sandra Cairncross	Edinburgh Napier University	Dean Faculty of Engineering Computing and Creative Industries	118	14
Robin Stimpson	Anderson Strathern	Salaried part-time Consultant	-	231

30 BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	FE Hardship £000	EMA £000	Other £000	Total for 2013 £000	Total for 2012 £000
Balance brought forward	1,476	162	(19)	109	1,728	1,620
Allocation received in the year	8,494	823	1,136	552	11,005	10,451
Expenditure	(7,064)	(696)	(1,084)	(354)	(9,198)	(9,507)
Repaid to Funding Council as Clawback	(1,271)	(37)	(32)	(54)	(1,394)	(641)
College contribution to funds / underspend	(13)	-	-	-	(13)	-
In year allocation adjustment for year end	-	-	-	-	-	(32)
Administration Fees	-	-	-	-	-	(3)
Virements	-	-	-	-	-	(160)
Balance c/fwd	1,622	252	1	253	2,128	1,728
Represented by:						
Repayable to Scottish Funding Council	756	166	(25)	117	1,014	1,154
Payments due from SFC	-	-	-	-	-	(30)
Scottish Funding Council/SAAS as clawback	936	28	-	141	1,105	593
Retained by college for students	(70)	58	26	(5)	9	11
	1,622	252	1	253	2,128	1,728

FE Bursary, FE Hardship, Educational Maintenance Allowances, HE Hardship and Childcare 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.

31 FE CHILDCARE FUNDS

	2013 £000	2012 £000
Balance b/fwd	201	184
Allocation received in year	1,557	1,284
Expenditure	(1,366)	(1,317)
Repayable to SFC/ funding body (claw-back)	(129)	(111)
Virements	(11)	161
Balance c/fwd	252	201

Further 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.

32 MERGER**NET ASSETS**

The net assets below for 2012/13 are as at 30 September 2012 for each College and as at 31 July 2013 for Edinburgh College. To ensure consistency within the financial statements accounting policies of the College have been aligned.

	As at 30 September 2012			As at 31 July 2013	As at 31 July 2012
	Jewel and Esk College	Edinburgh's Telford College	Stevenson College	College	College
	£000	£000	£000	£000	£000
Net Assets	40,458	50,068	34,236	117,845	116,794

A unified historical cost approach to the measurement of land and buildings across all three campuses has been applied. This created a deficit to reserves of £1.8m, being the difference between the decrease in the net book value of £9m and a decrease in the revaluation reserve of £7.2m.

The FRS 17 post retirement benefit assumptions across the three colleges were not consistent as at 31 July 2012. The assumptions for Jewel and Esk College have been aligned and the impact for the year ended 31 July 2012 and at that date is:

- Balance Sheet: the pension liability decreased by £1,243k
- Statement of Total Recognised Gains and Losses: the actuarial loss for the pension scheme decreased by £1,197k

The assumptions were consistent as at 31 July 2011.

SUMMARY INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 JULY 2013

	2 Months to 30 September 2012			10 months to 31 July 2013	Full Year to 31 July 2013
	Jewel & Esk College	Edinburgh's Telford College	Stevenson College	Edinburgh College	Total
	£000	£000	£000	£000	£000
Income					
Scottish Funding Council Grants Tuition Fees and Education Contracts	2,104	3,336	2,703	44,066	52,209
Other Grant Income	178	91	378	10,330	10,977
Other Operating Income	360	518	686	385	1,949
Endowment and Investment Income	17	120	113	3,076	3,326
	(2)	11	(3)	199	205
Total Income	2,657	4,076	3,877	58,056	68,666
Expenditure					
Staff Costs	1,624	2,709	2,670	32,714	39,717
Exceptional Staff Costs	-	-	-	3,076	3,076
Other Operating Expenses	662	1,186	934	16,056	18,838
Exceptional Operating Expenses	-	-	-	(603)	(603)
Depreciation	268	423	217	4,704	5,612
Interest and other Finance Costs	126	6	-	659	791
Exceptional Item – Merger	-	-	-	561	561
Total Expenditure	2,680	4,324	3,821	57,167	67,992
(Deficit) /Surplus on Continuing Operations after Depreciation of Assets at Valuations and before Transfers from Reserves	(23)	(248)	56	889	674
Loss on disposal of assets	-	-	-	(52)	(52)
(Deficit)/Surplus on Continuing Operations after Depreciation of Assets at Valuations and before Transfers from Reserves	(23)	(248)	56	837	622

SUMMARY INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 JULY 2012

	For Year Ended 31 July 2012			For Year ended 31 July 2012
	Jewel & Esk College	Edinburgh's Telford College	Stevenson College	Total
	£000	£000	£000	£000
Income				
Scottish Funding Council Grants	15,148	24,291	21,057	60,496
Tuition Fees and Education Contracts	2,384	5,223	4,965	12,572
Other Grant Income	-	180	1,561	1,741
Other Operating Income	1,874	1,886	624	4,384
Endowment and Investment Income	130	297	244	671
Total Income	19,536	31,877	28,451	79,864
Expenditure				
Staff Costs	10,190	16,936	18,140	45,266
Exceptional Staff Costs	1,051	2,521	2,644	6,216
Other Operating Expenses	5,127	9,041	5,755	19,923
Exceptional Operating Expenses	-	1,725	-	1,725
Depreciation	1,684	2,549	1,450	5,683
Interest and other Finance Costs	736	54	26	816
Exceptional item-merger expenditure	171	98	183	452
Total Expenditure	18,959	32,924	28,198	80,081
Surplus / (Deficit) on Continuing Operations after Depreciation of assets at valuation and before transfer from reserves	577	(1,047)	253	(217)
Gain / (Loss) on disposal of assets	16	(17)	-	(1)
Surplus / (Deficit) on continuing operations after depreciation of assets at valuation and before transfer from reserves	593	(1,064)	253	(218)

33 CONTINGENT LIABILITIES

There were no contingent liabilities at the balance sheet date.

34 POST BALANCE SHEET DATE EVENTS

No events occurred between 1 August 2013 and the time these Financial Statements were signed that would materially affect the information provided.

