ANNUAL REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2016

Scottish Charity Number SCO21213

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Performance Report

Overview

The College, in terms of the Further and Higher Education (Scotland) Act 1992, was established as a free-standing corporate body on 1 April 1993 and is recognised as a charity for the purposes of Section 505 of the Income and Corporation Taxes Act 1988 with Scottish Charity Number SCO21213. Edinburgh's Telford College was the host College to merge with Stevenson College Edinburgh and Jewel & Esk College in 2012 to create Edinburgh's Telford College. The Post-16 Education Act 2013 designated Edinburgh College as a Regional College in March 2014.

The College Board presents its annual report and the audited financial statements for the year ended 31 July 2016.

Performance Report

Overview

Message from the Chair of the Board of Management

The Auditor General for Scotland published a report this summer entitled Scotland's Colleges 2016. The report outlined a series of changes to policy, funding methodology and the configuration of the sector in recent years against a backdrop of reduced spending, altered public sector status for incorporated colleges, and fundamental changes in the regulatory framework within which colleges operate. Unsurprisingly, perhaps, the report found that colleges are still adjusting to the various challenges of their new environment.

As one of the largest colleges in the sector, and having merged ahead of the wider regionalisation process, Edinburgh College is well acquainted with challenge and with operating in uncharted territory.

Challenge always offers opportunity and our Board and Executive are committed to grasping the opportunity for renewal and transformation in our institution for the benefit of our students and all our stakeholders.

Under the executive leadership of our new Principal, Annette Bruton, and in our first full year since the Board was appointed in March 2015, Edinburgh College has embarked on a Business Transformation Plan.

The Transformation Plan builds on the work of the previous year's development plan. It brings into much clearer focus how we will achieve financial sustainability by reshaping the College's curriculum to meet the needs of our students and the Edinburgh and Lothian region, how we will reconfigure our management and overall workforce to support the delivery of that curriculum, and how we will improve student recruitment and retention.

Since December, the College has set the business transformation plan in motion which is overseen by The Board, and underpinned by financial support from the Scottish Funding Council. In the year to 31 July 2016, the Scottish Funding Council provided £2.5 million in transformation support. In addition, the Scottish Funding Council has provided a commitment of funding of up to £2.9 million to support the implementation of the transformation plan, repayable at some point in the future which will be determined at a later date, and subject to the availability of funds and compliance of conditions of grant, up to £2.4 million to meet the costs of making voluntary severances. The College is grateful for the level of commitment and support provided by the SFC.

Significant headway has been made towards achieving many of the objectives set out in the plan. Encouragingly, the number of students who enrolled at the start of 2016-17 showed an increase of over 5% on last year's figure. This is evidence, were any needed, of the effectiveness of our planning and of the professionalism and adaptability of our staff in engaging in new systems and approaches and making them work for our students and the College.

Our environment continues to change, with significant reforms to the enterprise and skills agencies serving further and higher education promised in 2016-17. I look forward, with my colleagues on the Board, to working within the new bodies that emerge from the review, and to supporting the Principal and her team in the College's continued transformation. Most of all we look forward to a renewed and improved service to our learners.

Ian McKay

Ian McKay
Chair of Edinburgh College Board of Management

Principal and Chief Executive's statement

The end of 2015/16 marked my first full year as principal of Edinburgh College and the progress we've made during this time has been significant. The groundwork laid by the excellent efforts from staff gives us a support structure on which everything the college should be and will become is based.

I believe this is a turning point for us as a college. It's a point in time in which we are able to review and understand how the merged college has formed over the last four years and make some considered assessments about what next. Now is the time for us to crystallise our ambitions about what we want to be and how we do it, so our college has a sustainable future mapped out for the years to come. Our Transformation Plan is established and already delivering some of the changes we need so we certainly know the direction of travel.

We now have a new senior management team in place to lead our development, with a blend of expertise that gives me great confidence in the security of our future. There have been changes too in staffing across the college with the introduction of new roles to establish more leadership at the front line. However, we also have enough stability in our experienced and expert staff body to ensure that we move forward quickly and in a sure-footed way.

One of the most crucial areas for the senior team to get right is curriculum development as, once that's the correct shape, everything else should fall naturally into place – finances, for example. One innovation that I hope everyone can get behind is the extra capacity that will come from the new role of curriculum leaders and how they complement the reconfigured curriculum manager role. Delivering changes to the curriculum wouldn't be possible without these changes; the extra support at this level will mean a suitably strong focus on learning and teaching.

There are a number of external strategic drivers that determine how we must operate within the college. We don't exist in a vacuum and we must always keep in mind the need to meet national objectives. Initiatives such as DYW and STEM work are crucial for the success of the country and work taking place at the ground level of the college is supporting this. Projects such as the new East Lothian Construction Academy, for example, are meeting the strategic needs of the region, filling skills gaps, creating opportunities and exemplifying partnership working.

This theme of partnership working is integral to our success. Internally, improving collaboration and engagement with staff and students, including the students' association, is a key platform of the Transformation Plan. As part of our whole-college, single-community approach, we're being creative and doing things like giving projects under the Transformation Plan to our students' association to lead on.

We also consider our stakeholders to be part of our college community and will expand our stakeholder engagement programmes over the next year and beyond. A series of briefings for MPs and MSPs over the last year has been successful in bringing them into the college and increasing their understanding of how we work and what we do.

Our students continue to astound and achieve the everyday miracles that make working in education so satisfying. From the apparently routine yet magical learning breakthroughs that happen all the time through to the students and alumni who are winning BAFTAs and Olympic medals, we will continue supporting and celebrating their achievements. We know that 99% of our successful full-time students go on to work or further studies within six months of leaving us. All of us know as individuals and teams what we achieve in the course of a year. Now we need to make sure that our communities and partners get behind us and help us move forward in our improvement, and celebrate our achievements.

Annette Bruton

Annette Bruton
Principal and Chief Executive

Purpose and Activities of the Organisation

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

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

The core purpose of the College is the provision of further and higher education in the Edinburgh and Lothian regions. It delivers education programmes on a full-time and part-time basis to in excess of 18,850 students annually.

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

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

The College's objectives in relation to the public funding it receives are set out annually in its Regional Outcome Agreement with the Scottish Funding Council. In 2015/16, 74% of the College's income was from public funds. Other sources of income included tuition fees, education and employability contracts, and general operating income

Key Issues and Risks affecting Edinburgh College

The Scottish Government set out a number of key policy objectives for Colleges, including its Developing the Young Workforce strategy, the Commission on Widening Access, the prioritisation of STEM subjects, and the enhancement of gender balance on certain courses.

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

Financial Sustainability

In 2015/16 the College agreed a business transformation plan with the Scottish Funding Council following an agreed reduction in its activity level due to lower student numbers, and challenges with student retention. This transformation plan encapsulates the strategic context in which the College will reduce its cost base, and identify sustainable growth by £3.8m over the next three years.

During the financial year, the Scottish Funding Council provided £2.5 million in transformation support of which £1.9 million was a claw-back of funds received against which credits were not delivered. However, this funding was subsequently provided to the College to support progress of its business transformation plan. The £0.6m was in relation to financial support of its voluntary severance scheme, which has enabled the College to reduce its cost base in a measured and controlled way.

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

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

Reputation

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

Staff and Culture

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

Going Concern

The College meets its day to day, and medium to long term funding requirements through a combination of cash draw-down from the SFC, and a term loan provided by its bankers. Under the terms of the loan agreement the college must meet certain financial covenants. These were met during 2015/16 and are forecast to be met in the 12 months from the date of these financial statements.

As previously explained, the college faces a number of financial challenges as a result of reduced activity; a transformation plan is in place which is designed to deal with these challenges and put the College on a sustainable financial footing. However completion of this plan will take time and place an immediate demand on resources, in particular to fund the costs of voluntary severance programmes.

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

During this period, and until the transformation plan is fully implemented, the college will require the support of its funding body, the Scottish Funding Council, in order to meet its liabilities as they fall due. Specifically the Scottish Funding Council has provided a commitment of funding of up to £2.9 million to support the implementation of the transformation plan, repayable at some point in the future which will be determined at a later date, and subject to the availability of funds and compliance of conditions of grant, up to £2.4 million to meet the costs of making voluntary severances. Additionally, given the lack of headroom on available cash facilities in the forecasts, the Scottish Funding Council has provided written assurances that it will support the College during the period through to 2018/19, by which point the transformation plan will be fully implemented and, provided the College can demonstrate satisfactory progress against its transformation plan, provide such funding as is required to enable it to remain a viable organisation.

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

Performance Summary and Overview

2015/16 was a challenging year for Edinburgh College in terms of meeting its student activity targets and financial objectives.

The annual students credit target of 200,258 credits was under-achieved by over 19,000 credits mainly due to low student recruitment and retention. Teaching and Fee Waiver grant funding was subsequently reduced by £2.9m, which, compounded by an £0.8m national pay increase, contributed to an operating deficit of £4.9m (excluding pension actuarial revaluations of £2.1m). The total operating deficit is £7m.

As a direct result of this funding reduction plus the transfer of 2,230 credits to Scotland's Rural College (SRUC), equating to £0.8m, the College agreed a transformation plan with the Scottish Funding Council. This plan is underpinned by four strategic programmes which incorporates the following:

- Curriculum Planning;
- Student recruitment and retention;
- Workforce development;
- Financial sustainability.

These strategic programmes are mutually inclusive, and are designed to deliver a robust curriculum for the future aligned to the regional outcome agreement. The success of this plan will improve the College's key performance statistics, and associated financial position by 2018/19.

Performance Analysis

Operational Review

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

During the year Edinburgh College implemented its transformation plan, and started to roll out Priority Based Budgeting which will provide greater focus on future service provision aligned to economic and community needs. The strategic plan is being updated accordingly.

The College will continue reviewing operational processes to improve the learner journey, as more efficiency is required to address the financial constraints associated with becoming a central government department under ONS reclassification. However, these challenges will not alter Edinburgh College's vision and it will continue to exert financial rigour and realise future sustainable benefits. It will continue to manage its key strategic and operational risks in a structured and coherent manner for the benefit of its staff and students.

Financial Review

The Statement of Comprehensive Income shows a deficit of £7.0m for the year compared to a 2015 restated 16 month deficit of £5.6m. This deficit has been impacted by voluntary severance costs of £1.1m (2015: £1.9m), FRS 102 pension adjustments of £1.9m (2015 - £2.5m) and grant clawback income included in 2015 then reversed in 2016 of £0.8m (2015: (0.8m)).

Consistent with the previous period, the year to 31 July 2016 was filled with many financial challenges. Despite these, the College continued to provide high quality education to its students in an appropriate learning environment.

The income and expenditure position is summarised below:

	2016 £m	2015 (16 months) As restated £m
Income	63.0	90.0
Expenditure	(67.9)	92.1
	(4.9)	(2.1)
Grant accrued in 2015 reversed in 2016	0.8	(0.8)
Funding for Exceptional staff costs	0.6	0.9
Exceptional staff costs	(1.1)	(1.9)
Annual leave provision movement	(0.2)	1.3
FRS 102 Pension costs (actuarial revaluation)	(1.9)	(2.5)
Early Retirement revaluation	(0.3)	(0.5)
(Deficit) for the year	**(7.0)**	**(5.6)**

Income

2016 income of £63.0m is down 7% on a pro-rata comparison to 2015. The reason for this was primarily as a result of the College not achieving student numbers and associated credit reduction, with the result that £2.9m of net Teaching and Fee Waiver grant income was withdrawn by the Scottish Funding Council. In addition, lower year on year (£0.8m) specific grants were released to support business re-alignment costs, whilst 2015 income was bolstered by non-recurring additional capital maintenance grants deferred from prior years (£0.4m) together with a release of deferred capital grants associated with the campus redevelopment (£0.4m).

The College did not achieve its credit targets for 2014/15 or 2015/16. The Scottish Funding Council have confirmed that £0.8m and £1.1m respectively of Teaching and Fee Waiver grant will be clawed back and replaced with the same amount of Transformation Grant, this funding being used to support the College's Business Transformation Plan.

Expenditure

Expenditure at £67.9m is down by 2% on a pro-rata comparison to 2015. This was largely the result of reductions in other operating costs offset by an increase in staff costs (£1m) mainly due to increases in national insurance, pensions, and national pay bargaining costs. The reduction in operating costs occurred in all areas as a result of close cost control of spending and cost reductions.

Balance Sheet

The layout of the balance sheet has been affected by the transition to FRS 102 as outlined in note 28. Fixed assets at the yearend totalled £150.2m, a net decrease of £5.3m compared to the prior year, the movement reflecting the annual depreciation charge offset by additions of £0.7m.

Net current liabilities increased by £3.8m related to a decrease in cash and increased creditors largely caused by unspent student support grant income, as well as increased annual leave provision at year-end.

At 31 July 2015, the College had an accumulated surplus of £40.1m on its Income and Expenditure Account, and in complying with FRS102 s28 (Retirement Benefits) the pension liability increased by £2.1m to £25.3m.

Cash Flow

There was a net cash outflow of £1.1m (2015: net cash outflow £1.8m) mainly as a result the effects of the financial deficit on net working capital and capital expenditure. The College held cash and deposits of £2.0m (2015: £3.1m) primarily related to student support funds, and these are managed in accordance with the College's Treasury Management policy. The College held long-term debt of £11.0m (2015: £11.4m) which is attributable to the Milton Road and Midlothian campuses redevelopment.

The College Estate and Capital Resources

The College has capital assets of £150m (£143m related to the estate), and in 2015/16 received capital funds of £1.2m to maintain its estate, and to improve its ICT infrastructure and associated systems. The College has underpinned this capital investment with net recurring expenditure of circa. £5m to cover the operating costs of the estate.

Review of Resource outturn for year ended 31 March 2016

Following the reclassification of colleges as public bodies on 1 April 2014, the college has complied with government accounting and budgeting rules on a financial year basis (to 31 March). The college is given a revenue resource budget (RDEL) and a capital resource budget (CDEL) and must account for these budgets on a financial year basis. The resource budgets and final outturn for 2015/16 are outlined below:

	RDEL £'k	CDEL £'k
Resource budget for year ended 31 March 2016	54,092	1,192
Expenditure against resource budget	54,467	1,190
Net (overspend) /underspend against budget	(375)	2

The RDEL overspend outturn is caused by reduced Scottish Funding Council grants partly offset by reduced expenditure. In addition, the college received a non-cash budget from the government to cover depreciation costs.

Deficit resulting from use of depreciation cash

A consequence of college reclassification as a central government body is that, from 1 April 2014, while colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, the College is also required to comply with Scottish Government's Financial Reporting Manual. This affects, amongst other things, the way in which non-cash net depreciation charges are treated and how Colleges spend the cash previously earmarked for depreciation. There is therefore potential for this spend to move the college's Statement of Comprehensive Income into a deficit position.

The impact of reclassification shows cash of £2.9m being available for the 2015/16 accounting year. The cash utilisation is detailed in the table below.

Table of net depreciation spend	
	£'000
Capital loan, Lennartz and provision payments	1,518
Pay award	*874
Operating deficit	*470
Total Cash Utilisation	**2,862**
Impact on Statement of Comprehensive Income	***1,344**

***Impact made up of the Pay Award and Operating deficit.**

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 2016 was 27 days (2015 – 34 days). There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Key Financial Performance Indicators

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

KPI	Purpose	2016	2016	2015
		Actual (at 31 July)	Budget	Actual (at 31 July)
Non SFC income as a % of income	Measures non SFC income as a % of total income	25.6%	26.7%	24.2%
Staffing costs (excluding exceptional items) as a % of total income	Measures staff costs excluding exceptional staff costs as a % of total income	72.8%	66.7%	66.5%
Current assets: current liabilities (excluding deferred capital grants)	Measures the colleges ability to pay its current liabilities	1:1.9 -	1:1.1	1:1.5
Gearing	The ratio of creditors > 1 year to the sum of total reserves	1:1.6	1:1.5	1:1.5

Student Activity Performance Highlights

Developing the Young Workforce

The college provision to meet the requirements of Curriculum for Excellence Senior Phase has grown in line with agreed policy to 3.5% (2015: 1.7%) of the College's total credit delivery.

Delivery of widening access and progression targets.

- Gender balance of learners: 50.2% male (2015: 52.1%), 49.8% female (2015: 47.9%).
- Disability: 15.5% of students reported having a disability (2015: 14.9%).
- Ethnic minority student percentages (home students): 10% (2015: 10%).
- 10.4% of credits delivered to learners in the most deprived of postcodes (2015: 10.5%).

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

The College's self-evaluation model has been significantly changed to incorporate stakeholder engagement (from industry) within the evaluation and planning of the 2016/17 course provision. This approach has also been incorporated in the review of the college's future curriculum through the Business Transformation Plan. As a result, the college is now repositioning itself as a STEM centre of excellence which was recently recognised through receiving STEM Assured Status.

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

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

- The college delivered 98.3% of credits as NRQs (2015: 97.3%).

Retention and Achievement:

- NRQs Student retention rate: FE 74.4% (2015: 75.2%), and HE 83.5% (2015: 85.8%).
- NRQs Student achievement rate: 71.6%. (2015: 72.5%).
- Full-time FE 65.2%. (2015: 59.5% Target 62%)
- Full-time HE 73.4% (2015: 73.7% Target 75%)
- Part-time HE 76.5% (2015: 67.2% Target 70%))
- Part-time FE 76.5% (2015: 81.2% Target 79%)

Curriculum development to align to regional economic need.

The first steps to redesign/rebalance curriculum to meet needs of local industry have been taken with the appointment of a new senior management team, charged with developing an attractive curricular offer and extending links into schools, through the Curriculum for Excellence. Active steps to reshape our offer, as part of the college's challenging three-year transformation plan, have begun with a new curricular structure, to meet these external needs and provide growth.

Employment of Disabled Individuals.

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

Sustainability Report 2015-16

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

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

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

The college community shall ensure sustainability is considered in any strategic and operational activity, and that the best sustainable option practicable is chosen. To enable this the college will develop and deliver a climate change and sustainability strategy. This strategy will be overseen by the sustainability steering group who will provide governance and leadership in this area. Our carbon management plan will reduce carbon emissions in line with Scottish Government targets through a range of activities including energy, waste and water, as well as green travel behaviours.

The college will seek to develop staff and students who are aware of, and take action on sustainability throughout their lives enabling them to be global citizens. We will promote the principles of 'Education for Sustainable Development' through teaching, research and knowledge transfer activities. We will support social responsibility across the college and in our communities and encourage the use of Fairtrade products and achieve Fairtrade status.

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

Annette Bruton

Annette Bruton
Principal and Chief Executive
13 December 2016

<u>Accountability Report</u>

Corporate Governance Statement

Introduction

The College is committed to exhibiting best practice in all aspects of corporate governance. This statement summarises how the College has complied with the principles and guidance that apply to its governance as an incorporated college in Scotland.

Compliance with the Code of Good Governance

In the opinion of the Principal and Chief Executive as Accountable Officer and the Board of Management, the College has complied with the principles set out in the Code of Good Governance for Scotland's Colleges (the Code) for the year to 31 July 2016.

Statement of the Board of Managements' Responsibilities

The Board of Management

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

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

The Board comprises a Chair appointed by Scottish Ministers, the Principal, twelve Non-Executive Members whose appointments are made in accordance with the relevant guidance and approved by both the Chair and Scottish Ministers, two Staff Members elected respectively by the academic and support staff of the College, and two Student Members nominated by the Students' Association of the College. Details of membership during the year to 31 July 2016 are provided at page 18.

The Board has in place a Board Secretary whose duties are consistent with those set out in the Code and who is supported by a secretariat team.

A register of Board Members' interests is maintained and published on the College website.

The Board has adopted and operates under the model Code of Conduct developed by the Standards Commission.

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

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

The Board met five times in the period between 1 August 2015 and 31 July 2016, with an overall attendance rate of 90% of Members at meetings of the full Board. It conducted its business further through six committees:

	Attendance
Audit & Risk Assurance Committee	100%
Remuneration Committee	89%
Nominations Committee	75%
Academic Council	77%
External Engagement Committee	91%
Policy & Resources Committee	83%

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

The **Audit & Risk Assurance Committee** met four times during the year. The Committee comprises three Non-Executive Members and one Co-opted Member. Three members have recent relevant financial experience. The College's internal and external auditors were represented at all meetings. The Chair of the Board and Principal attend meetings regularly but are not members of the Committee. Committee Members meet with Auditors without members of the College Executive present for part of a meeting at least once per year.

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

The **Remuneration Committee** meets as required and not less than once per year. In 2015-16 it met three times. The Committee comprises three Non-Executive Members. The Chair of the Board is not a member. The Committee has delegated authority in relation to determining the remuneration package and terms and conditions of the College Principal and Executive, and oversees voluntary severance arrangements in accordance with the Financial Memorandum and relevant guidance including the revised Scottish Funding Council guidance issued in February 2016.

The **Nominations Committee** meets as required and not less than once per year. In 2015-16 it met three times. The Committee is chaired by the Chair of the Board. It oversees recruitment of Non-Executive Members to the Board in compliance with education legislation and the College Sector Board Appointments: 2014 Ministerial Guidance. It reviews membership of the Board and its Committees, skills balance and attendance and undertakes succession planning.

In all such activities, the Nominations Committee, on behalf of the Board, seeks to uphold the Equality and Diversity Policy of Edinburgh College, which reflects equality legislation and best practice. While recommendations for appointment are made wholly on the basis of merit, the Board's guiding principle is to advance equality of opportunity, and vacancies are advertised widely to encourage applications from under-represented groups. With regard to gender balance, at 31 July 2016 the Board comprised 50% women and 50% men.

The Board is satisfied that election of student sabbatical officers and subsequent nominations to the Board during the period of this report were conducted properly.

No Staff Member elections were held in 2015-16.

The **Academic Council** met four times during 2015-16. The committee includes Academic Staff and Student Board Members alongside three Non-Executive Members, and an extended co-opted membership of staff and students. It retains oversight learning and teaching, the student experience and engagement, curriculum management, continuing professional development, and quality enhancement and assurance. Within that remit, Academic Council reviews both Education Scotland reports and student surveys and monitors the implementation of relevant action plans.

The **External Engagement Committee** met four times during 2015-16. The Committee comprises three Non-Executive Members, the Non-teaching Staff Member and a Student Member. Its remit is to oversee commercial and international development, communications, marketing and external engagement, and to foster constructive relationships with external stakeholders including community planning partners. The Committee has established a Commercial and International Sub-Group and Board Engagement Sub-Group to advance the Committee's work in those areas in a more flexible and responsive way. Both sub-groups are chaired by Non-Executive Members.

The **Policy & Resources Committee** met six times during 2015-16. The Committee is chaired by the Vice Chair of the Board. Its terms of reference require its membership to include representation of all other committees to enable it to fulfil a broad strategic remit which includes College policy, public funding and financial management, human resources and organisational development, and estates and infrastructure. The Committee scrutinises and recommends the College's annual budget to the Board for approval, and retains strategic oversight of matters of corporate social responsibility.

The Committee oversees and reports to the Board on the implementation of the Business Transformation Plan. For agenda items relating to that and the previous Development Plan, representatives of the Scottish Funding Council were invited to attend meetings throughout 2015-16. A Business Transformation Working Group which reported to the Committee met three times between January and March 2016.

Induction and Development

All new Members receive a formal induction provided by the College. A majority of Board Members participated in new induction training facilitated by the College Development Network, in March and May 2016. Other development sessions during the year focused on Health & Safety, Freedom of Information/Data Protection and College Finances.

Evaluation

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

In April 2016 the Board approved a proposal for external validation of the evaluation procedure in 2016 in accordance with the Code and taking account of the recommendations of the Scottish Government's Good Governance Task Group in March 2016.

Corporate strategy

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

Board's statement on internal control

Scope of responsibility

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

The Board of Management has delegated the day-to-day responsibility to the Principal and Chief Executive, 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 and Chief Executive is personally responsible, in accordance with the Financial Memorandum between the College and the Scottish Funding Council (SFC). The Principal and Chief Executive is also responsible for reporting to the Board of Management any material weaknesses or break-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 2016 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 provides the Board of Management with a report on internal audit activity in the College annually. 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 and Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The Principal and Chief Executive's review of the effectiveness of the system of internal control is informed by:

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

The Principal and Chief Executive has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Audit 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. The Board met on the 8 December and approved the year-end financial statements and auditors report, taking account of Audit Committee recommendations.

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 2016, 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.

Estates Strategy

The College's Estates Strategy is aligned to the Colleges Transformation Plan to address emerging and future needs of students, and associated curriculum provision. The Estates strategy which is undergoing a review will articulate its vision of Edinburgh College through the clustering of curricula in order to maximise the return from specialist estate, staff, and equipment.

Approved by order of the members of the Board of Management on 13 December 2016 and signed on its behalf by:

Ian McKay | Annette Bruton

Ian McKay
Chair of Board of Management

Annette Bruton
Principal and Chief Executive

Membership of the Board of Management

BOARD OF MANAGEMENT

The College's Board of Management is drawn from industry and the professions. The wide experience of the Board ensures the strategic direction of the College is set in conjunction with industry's needs and that due attention is paid to maintaining a financially 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, up to the date of signing of Accounts	Month of departure from the Board during the year and subsequently, up to the date of signing of the Accounts
Ian McKay	Industry, Commerce or Public Sector Representative		
Annette Bruton	Principal and Chief Executive		
Robin Stimpson	Industry, Commerce or Public Sector Representative		
Ian Young	Industry, Commerce or Public Sector Representative		
Colin Arthur	Staff Representative		
Alan Johnston	Industry, Commerce or Public Sector Representative		
Nigel Paul	Industry, Commerce or Public Sector Representative		
Sandra Cairncross	Industry, Commerce or Public Sector Representative		Oct 2016
Janice Cutting	Industry, Commerce or Public Sector Representative		Feb 2016
Kellie Bradford	Staff Representative		Sep 2016
Jeroen Van Herk	President of Edinburgh College Students' Association		June 2016
Jenni Behan	Vice President of Edinburgh College Students' Association		June 2016
Elaine Lee	Industry, Commerce or Public Sector Representative		
Nicola McKenzie	Industry, Commerce or Public Sector Representative		
Guy Hughes	Industry, Commerce or Public Sector Representative		Sep 2015
Bob Downie	Industry, Commerce or Public Sector Representative	Feb 2016	

Board Member	Status of Appointment	New Appointment during the year and subsequently, up to the date of signing of Accounts	Month of departure from the Board during the year and subsequently, up to the date of signing of the Accounts
Stephen Dunn	Industry, Commerce or Public Sector Representative	Feb 2016	
Ann Landels	Industry, Commerce or Public Sector Representative	Feb 2016	
Fiona Riddoch	Industry, Commerce or Public Sector Representative	Nov 2015	
Azra Sharif-Qayyum	Industry, Commerce or Public Sector Representative	Feb 2016	
Neal Black	President of Edinburgh College Students' Association	July 2016	
Amanda Clark	Vice President of Edinburgh College Student's Association	July 2016	

Professional Advisors

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

Committees

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

	Academic Council	Audit & Risk Assurance	External Engagement	Nominations	Policy & Resources	Remuneration
Members from 2015 to September 2015						
Guy Hughes						✓
Member from 2015 to February 2016						
Janice Cutting			✓		✓	
Member from 2015 to September 2016						
Kellie Bradford			✓	✓		
Member from 2015 to October 2016						
Sandra Cairncross	✓				✓	
Member from 2015 to Present						
Colin Arthur	✓			✓		
Annette Bruton	✓					
Alan Johnston			✓		✓	✓
Elaine Lee	✓					
Ian McKay				✓	✓	
Niki McKenzie		✓				
Nigel Paul		✓			✓	
Robin Stimpson					✓	✓
Student President*	✓		✓			
Student Vice President**	✓			✓		
Ian Young			✓	✓	✓	
Member from November 2015 to present						
Fiona Riddoch		✓		✓		
Members from February 2016 to present						
Bob Downie			✓			
Stephen Dunn					✓	✓
Ann Landels	✓					
Azra Sharif-Qayyum			✓			

*Includes membership of Jeroen Van Herk (left June 2016) and Neal Black
** Includes membership of Jenni Behan (left June 2016) and Amanda Clark

The non-Board members of the Academic Council are: Juliet Harkin, Jakki Jeffrey, Justin Sales, David Tait and Adam Wilson.

Ian Doig is a co-opted member of the Audit & Risk Assurance Committee.

Remuneration and Staff Report

Staff Report

Note 7 to the accounts provides information on staff numbers and costs

Accrued Pension Benefits

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

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

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

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

Remuneration Report

Remuneration Policy

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

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

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

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

Remuneration of Senior Management including salary and pension entitlements
Salary entitlements – audited

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

	year ended 31 July 2016			16 months ended 31 July 2015		
Name	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ian McKay, Chair of the Board of Management	30 - 35	-	30 - 35	40 - 45	-	40 - 45
Annette Bruton, Principal and Chief Executive	140 - 145	725-730**	870 - 875	30 - 35	-	30 – 35
Craig Wilson, Deputy Principal/VP People, Performance and Planning	85 - 90	45-50	135 - 140	110 - 115	75 - 80	185 – 190
Alan Williamson, Chief Operating Officer	75 - 80	30-35	105 - 110	105 - 110	50 - 55	155 - 160
Ray McCowan, VP Curriculum & Quality	60 - 65	-	60 - 65	105 - 110	-	105 – 110
Jonathan Pearson, Assistant Principal	60 – 65	115 - 120	170 – 175	-	-	-
Jonathan Buglass, Assistant Principal	60 – 65	30 - 25	90 – 95	-	-	-
Michael Jeffrey, Assistant Principal	55 - 60	10 - 15	70 - 75	-	-	-
Julie McCran, Director of Strategic Projects (Curriculum)	25 – 30	*	*	105 - 110	30 - 35	135 – 140
Su Breadner, Director of Strategic Projects (Culture)	-	-	-	105 - 110	10 - 15	115 – 120
Simon Earp, VP Corporate Development	-	-	-	55 - 60	15 - 20	70 – 75
Mandy Exley, Principal and Chief Executive	-	-	-	150 - 155	*	*

Annual Equivalent:

	Year ended 31 July 2016			16 months ended 31 July 2015		
Name	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ian McKay	30 - 35	-	30 - 35	25 - 30	-	25 - 30
Annette Bruton	140 - 145	725 - 730	870 - 875	145 - 150	-	145 - 150
Craig Wilson	85 - 90	45 - 50	135 - 140	85 - 90	55 - 60	140 - 145
Alan Williamson	75 - 80	30 - 35	105 - 110	75 - 80	35 - 40	110 - 115
Ray McCowan	75 - 80	-	75 - 80	75 - 80	-	75 - 80
Jonathan Pearson	60 - 65	105 - 110	170 – 175			
Jonathan Buglass	60 - 65	30 - 35	90 – 95			
Michael Jeffrey	55 - 60	10 - 15	70 - 75			
Julie McCran	75 - 80	*	*	75 - 80	20 - 25	95 - 100
Su Breadner	-	-	-	75 - 80	5 - 10	80 - 85
Simon Earp	-	-	-	65 - 70	10 - 15	75 - 80
Mandy Exley	-	-	-	140 - 145	*	*

* Pension figures for Julie McCran (who left Edinburgh College on 30 November 2015) and prior year figures for Mandy Exley are not disclosed as the relevant information from the pension fund was unobtainable under data protection.

** The pension benefit figure for Annette Bruton includes the effect of transferring in benefits from a separate pension -provider in the year.

Median Remuneration

Based on the 12 month equivalent figures above, the remuneration of the highest paid official in the organisation in the financial year 2015-16 was £145,000 (2014-15: £145,000) This was 4.3 times (2015:4.4 times) the median remuneration of the workforce which was £34,083 (2015: £33,300).

Senior Officials Pension - audited

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

Name	Accrued pension and related lump sum at pension age at 31 July 2016	Real increase in pension and related lump sum 1 August 2015 to 31 July 2016	Cash equivalent transfer value at 31 July 2016	Cash equivalent transfer value at 31 July 2015	Real increase in cash equivalent transfer value
	£'000	£'000	£'000	£'000	£'000
Annette Bruton*					
Pension	95 – 100	95 – 100			
Related lump sum	-	-			
Transfer value			1,597	9	1,588
Craig Wilson					
Pension	35 - 40	2.5 - 5			
Related lump sum	80 - 85	0 – 2.5			
Transfer value			847	783	59
Alan Williamson					
Pension	30 - 35	0 – 2.5			
Related lump sum	60 - 65	0 – 2.5			
Transfer value			641	585	52
Jonathan Pearson					
Pension	10 – 15	5 – 7.5			
Related lump sum	30 – 35	10 – 15			
Transfer value			221	132	89
Jonathan Buglass					
Pension	10 - 15	0 – 2.5			
Related lump sum	40 - 45	0 – 2.5			
Transfer value			256	225	31
Michael Jeffrey					
Pension	5 – 7.5	0 – 2.5			
Related lump sum	10 - 15	0 – 2.5			
Transfer value			56	46	10

*Pension values for Annette Bruton includes an amount from a different pension provider in the year.

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

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

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

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

(ii) The accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

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

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

Compensation for loss of office
One senior employee left under voluntary severance terms during the year, and received combined total payments of £87k.

Annette Bruton

Annette Bruton
Principal and Chief Executive
13 December 2016

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 Edinburgh College for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Board of Management's Responsibilities, 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. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

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 college'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. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, 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 in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

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 prescribed matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report 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 are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited 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 Governance Report does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Hugh Harvie, for and on behalf of KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
Hugh Harvie is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

16 December 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2016

	Notes	2016 £000	2015 (16months) £000
Income			
Scottish Funding Council Grants	2	47,922	68,349
Tuition Fees and Education Contracts	3	10,838	14,522
Other Grant Income	4	1,493	1,953
Other Operating Income	5	4,180	5,270
Endowment and Investment Income	6	11	27
Total Income		**64,444**	**90,121**
Expenditure			
Staff Costs – Recurring	7	46,890	59,936
Other Staff Costs – Exceptional	7	1,141	1,915
Other Operating Expenses	9	15,906	24,850
Depreciation	12	5,997	7,685
Interest and other Finance Costs	10	1,545	1,937
(Gain) on revaluation of assets			(576)
Total Expenditure		**71,479**	**95,747**
(Deficit) for the year		(7,035)	(5,626)
Unrealised surplus on revaluation of land and buildings		-	738
Actuarial (loss) in respect of pension schemes		(249)	(5,504)
Total Comprehensive income for the year		**(7,284)**	**(10,392)**

[redacted]

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 JULY 2016

[redacted]

	Income and expenditure reserve	Pension Reserve	Revaluation reserve	Total
	£000	£000	£000	£000
Balance at 1 April 2014	47,354	(15,344)	28,631	60,641
(Deficit) from the income and expenditure statement	(5,626)	-	-	(5,626)
Other comprehensive income		(5,504)	738	(4,766)
Transfers between revaluation and income and expenditure reserves	605		(605)	-
Transfers between pension and income and expenditure reserves	2,368	(2,368)	-	-
Total comprehensive income for the year	(2,653)	(7,872)	133	(10,392)
Balance at 31st July 2015	**44,701**	**(23,216)**	**28,764**	**50,249**
(Deficit) from the income and expenditure statement	(7,035)	-	-	(7,035)
Other comprehensive income	-	(249)	-	(249)
Transfers between revaluation and income and expenditure reserves	623	-	(623)	-
Transfers between pension and income and expenditure reserves	1,829	(1,829)	-	-
Total comprehensive income for the year	**(4,583)**	**(2,078)**	**(623)**	**(7,284)**
Balance at 31 July 2016	**40,118**	**(25,294)**	**28,141**	**42,965**

BALANCE SHEET
AS AT 31 JULY 2016

	Notes	2016	2015
		£000	£000
Fixed Assets			
Tangible Fixed Assets	12	150,179	155,436
		150,179	**155,436**
Current Assets			
Stock		122	137
Debtors	13	2,645	3,853
Cash at Bank and In Hand		1,991	3,111
		4,758	**7,101**
Current Liabilities			
Less: Creditors – amounts falling due within one year	14	(12,097)	(10,649)
Net Current (Liabilities) / Assets		**(7,339)**	**(3,548)**
Total Assets less current liabilities		**142,840**	**151,888**
Less: Creditors – amounts falling due after more than one year	15	(69,507)	(73,383)
Less: Provisions for liabilities and charges	17	(5,074)	(5,040)
Net assets excluding pension liability		**68,259**	**73,465**
Net Pension Asset Liability	22	(25,294)	(23,216)
Net Assets including pension liability		**42,965**	**50,249**
Reserves			
Income and Expenditure Account excluding pension reserve		40,118	44,701
Pension Reserve		(25,294)	(23,216)
Income and Expenditure Account including pension reserve		14,824	21,485
Revaluation Reserve	19	28,141	28,764
Total Reserves		**42,965**	**50,249**

The Financial Statements on pages 27 to 55 were approved by the Board of Management on 13 December 2016 and were signed on its behalf by:

Ian McKay

Ian McKay
Chairman of Board of Management

Annette Bruton

Annette Bruton
Principal and Chief Executive

[redacted]

CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 JULY 2016

[redacted]

	Notes	2016 £000	2015 (16 months) £000
Cash Flow from operating activities			
Deficit for the year		(7,035)	(5,626)
Adjustment for non-cash items			
Depreciation		5,997	7,685
Deferred capital grants released to income	2	(3,135)	(4,095)
Decrease / (increase) in Stock		15	(30)
Decrease in debtors	13	1,208	2,105
Increase / (decrease) in creditors	14	663	(2,624)
Increase / (decrease) in provisions	17	34	(426)
Pension costs less contributions payable	22	975	1,441
(Gain) on revaluation of assets		-	(576)
Adjustment for investing or financing activities			
Investment income	6	(11)	(27)
Interest payable	10	1,545	1,937
Net Cash inflow from operating activities		**256**	**(236)**
Cash flows from investing activities			
Investment income	6	11	27
Payments made to acquire fixed assets	12	(740)	(5,284)
Deferred capital grant received	18	429	5,187
		(300)	**(70)**
Cash flows from financing activities			
Interest paid	10	(691)	(1,010)
Repayments of amounts borrowed	16	(385)	(510)
		(1,076)	**(1,520)**
(Decrease)/ increase in cash and cash equivalents in the year		**(1,120)**	**(1,826)**
Cash and cash equivalents at beginning of the year		3,111	4,937
Cash and cash equivalents at end of the year		**1,991**	**3,111**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: *Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP)*, the 2015-16 Government Financial Reporting Manual (FReM) issued by the Scottish Government 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.

These financial statements are the first to be prepared under the SORP updated for compliance with FRS102. As a result of this change in accounting standard, the opening balance sheet as at 31 July 2015 has been restated. Details of this restatement, and a reconciliation to previously published financial statements is included at Note 28.

The College meets its day to day, and medium to long term funding requirements through a combination of cash draw-down from the SFC, and a term loan provided by its bankers. Under the terms of the loan agreement the college must meet certain financial covenants. These were met during 2015/16 and are forecast to be met in the 12 months from the date of these financial statements.

As previously explained, the college faces a number of financial challenges as a result of reduced activity; a transformation plan is in place which is designed to deal with these challenges and put the College on a sustainable financial footing. However completion of this plan will take time and place an immediate demand on resources, in particular to fund the costs of voluntary severance programmes.

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

During this period, and until the transformation plan is fully implemented, the college will require the support of its funding body, the Scottish Funding Council, in order to meet its liabilities as they fall due. Specifically the Scottish Funding Council has provided a commitment of funding of up to £2.9 million to support the implementation of the transformation plan, repayable at some point in the future which will be determined at a later date, and subject to the availability of funds and compliance of conditions of grant, up to £2.4 million to meet the costs of making voluntary severances. Additionally, given the lack of headroom on available cash facilities in the forecasts, the Scottish Funding Council has provided written assurances that it will support the College during the period through to 2018/19, by which point the transformation plan will be fully implemented and, provided the College can demonstrate satisfactory progress against its transformation plan, provide such funding as is required to enable it to remain a viable organisation.

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

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of Accounting

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

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

Continuing Activities

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

Group Accounts

The financial statements include the College only, its subsidiary Thomas Telford Trust (dissolved during the current year) is not consolidated on grounds of materiality. In accordance with FRS 102 section 9, the activities of the Students' Association and Edinburgh College Development Trust have not been consolidated because the College does not control those activities.

Recognition of Income

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

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

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

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

Foreign Currency Translation

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

Post Retirement Benefits

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

The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a projected benefit method such that contributions to the STSS scheme are charged to the statement of comprehensive income to spread the cost of pensions over employees' working lives with the

College, in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll.

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

FRS 102 Section 28

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 102 Section 28 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.

Tangible Fixed Assets

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

a. Land and Buildings

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

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

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

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

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

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

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Equipment

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

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

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the Capitalisation Policy. Related government grants are released to the statement of comprehensive income over the expected useful economic life of the related equipment. Related non-government grants are recognised in the statement of comprehensive income when performance-related conditions are met.

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

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

Leased Assets

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

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

Taxation

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

Cash

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

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Provisions

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

Maintenance of Premises

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

Agency Arrangements

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

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

2 FUNDING COUNCIL GRANTS

	2016 £000	2015 (16 months) £000
SFC Recurrent Grant	38,245	57,321
FE childcare funds	1,493	1,793
Release of Deferred Capital Grants	3,135	4,095
Voluntary Severance Scheme Grants	650	857
Business Transformation Plan Grants	1,923	-
Other SFC Grants	2,476	4,283
	47,922	**68,349**

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

During the year, £1.1m of Scottish Funding Council Grants were used to support business realignment costs (2015: £1.9m). This is shown in note 7 as voluntary severance costs.

3 TUITION FEES AND EDUCATION CONTRACTS

	2016	2015 (16 months)
	£000	£000
FE Fees – UK	761	1,699
FE Fees – non EU	1,069	2,061
HE Fees	5,739	7,183
SDS Contracts	599	892
Education Contracts	1,629	1,861
Other Contracts	1,041	826
	10,838	**14,522**

4 OTHER GRANT INCOME

	2016	2015 (16 months)
	£000	£000
European Funds	23	159
Employability Contracts	1,362	1,764
Other Grants	108	30
	1,493	**1,953**

5 OTHER OPERATING INCOME

	2016	2015 (16 months)
	£000	£000
Residences and Catering	2,271	2,741
Nursery Income	996	1,277
Other Income	913	1,252
	4,180	**5,270**

6 ENDOWMENT AND INVESTMENT INCOME

	2016	2015 (16 months)
	£000	£000
Bank Interest Receivable	11	27
	11	**27**

7 STAFF COSTS

Staff Numbers

	2016 Number	2015 (16 months) Number
The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:		
Senior Management	6	7
Teaching Staff	538	538
Teaching Support	33	26
Administration and Central Services	465	503
Premises	31	36
Catering and Residences	45	34
Other Income Generating Activities	46	39
Total	**1,164**	**1,183**

The increase in catering and residences is largely due to the transfer of staff previously outsourced under TUPE part way through the previous period

The increase in Other Income Generating Activities is due to a move away from reliance on agency staff in the nursery, along with a higher number of staff on maternity leave requiring fixed term cover.

	2016 £000	2015 £000
Recurring Staff Costs:		
Salaries	36,344	48,536
Pensions	6,086	7,334
Social Security Costs	2,945	3,494
Revaluation of Early Retirement Provision	306	453
FRS 102 s28 Adjustments	975	1,441
Movement in Employee Leave Accrual	234	(1,322)
Total Staff Costs - Recurring	**46,890**	**59,936**

7 STAFF COSTS (*Continued)*

Exceptional Staff Costs

Voluntary Severance	966	1,761
Pension Strain Costs	175	154
	1,141	1,915
	48,031	**61,851**

	2016	2015 (16 months) restated
	£000	£000
Senior management	809	1,070
Teaching staff	24,493	32,585
Teaching Support	964	1,175
Administration and central services	17,187	22,388
Premises	932	1,484
Catering and residencies	895	1,101
Revaluation of Early Retirement Provision	306	453
FRS102 s28 Adjustments	975	1,441
Other income generating activities	1,236	1,476
Movement in Employee Leave Accrual	234	(1,322)
Total	**48,031**	**61,851**

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

	2016 Senior Post Holders	2016 Other Staff	2015 Senior Post Holders	2015 Other Staff
£60,001 - 70,000	1	4	1	5
£70,001 - 80,000	1		4	
£80,001 - 90,000	1		1	
£90,001 - 100,000				
£100,001 - 110,000				
£110,001 - 120,000				
£120,001- £150,000	1		1	
	4	**4**	**7**	**5**

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:

	2016	2015 (16 months)
	£	£
Salaries as Board Members	32,697	42,185
Allowances, travel and subsistence paid to Board Members	3,661	5,535
	36,358	**47,720**

The Salary as Board Member relates to the chairman of the Regional Board, who was appointed by the Scottish Ministers and receives remuneration in line with rates specified by the Scottish Government.

Emoluments of Senior Post-holders

	2016	2015 (16 months)
	Number	Number
The number of Senior post-holders including the Principal was:	6	7

The emoluments of Senior post-holders (excluding NI), including the Principal was:

	2016	2015
	£000	£000
Salaries	493	778
Employers' Pension Contribution	75	105
Interim Principal's fees	-	96
	568	**979**

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

	2016	2015 (16 months)
	£000	£000
Salary	145	182
Employers' Pension Contribution	25	28
Interim Principal's fees	-	96
	170	**306**

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

The above 2015 salary includes 13 months pay to a former Principal, and fees paid to an Interim Principal, who was working on a self-employed basis.

8 SENIOR POST-HOLDERS' EMOLUMENTS (Continued)

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

	2016	2015 (16 months)
	£000	£000
Compensation payable to former senior post holders:	**87**	**187**

The above 2015 figure includes £70k paid to a former principal.

9 OTHER OPERATING EXPENSES

	2016	2015 (16 months)
	£000	£000
Teaching	2,761	5,312
Administration	5,050	8,460
Premises	4,826	6,995
Planned Maintenance	92	151
Other income generating activities	1,213	1,730
Other employee related costs	195	408
Childcare	1,493	1,793
Agency Staff	276	543
Transfer to Arms Length Foundation	-	-
Student Accommodation provision release	-	(542)
	15,906	**24,850**

	2016	2015
	£000	£000
Other expenses include:		
Auditor's Remuneration (including irrecoverable VAT):		
- External Auditor's Remuneration – Audit	29	34
- Internal Audit (including Student Support Funds Audit)	24	29
Hire of equipment – operating leases	284	267

10 INTEREST PAYABLE

	2016	2015 (16 months)
	£000	£000
Pension Finance Cost – interest on early retirement provision	50	128
Pension Finance Cost – FRS102 s28 Net interest cost	854	927
On bank loans, overdrafts and other loans: Repayable wholly or partly in more than 5 years	641	882
	1,545	**1,937**

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 2015	147,844	5,804	298	10,195	12,236	42	176,419
Additions	101	28		389	264	(42)	740
Disposals				(39)			(39)
At 31 July 2016	**147,945**	**5,832**	**298**	**10,545**	**12,500**	**-**	**177,120**
DEPRECIATION							
At 1 August 2015	2,114	4,058	298	6,266	8,247	-	20,983
Charge for Year	3,286	504	-	1,070	1,137		5,997
Disposals	-	-	-	(39)	-	-	(39)
At 31 July 2016	**5,400**	**4,562**	**298**	**7,297**	**9,384**	**-**	**26,941**
NET BOOK VALUE							
At 31 July 2016	**142,545**	**1,270**	**-**	**3,248**	**3,116**	**-**	**150,179**
At 31 July 2015	**145,730**	**1,746**	**-**	**3,929**	**3,989**	**42**	**155,436**
Represented by: Inherited	8,284	-	-	-	-	-	8,284
Financed by: Capital Grant	54,608	1,116	-	2,959	2,448	-	61,131
Other	79,653	154	-	289	668	-	80,764
At 31 July 2016	**142,545**	**1,270**	**-**	**3,248**	**3,116**	**-**	**150,179**

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

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

Land and buildings with a net book value of £142,545k (2015: £145,730k) 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:	2016 £000	2015 £000
Trade Debtors	867	1,211
Other Debtors	334	349
Debts due from Students	11	28
Prepayment and Accrued Income	1,433	2,265
	2,645	**3,853**

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £000	2015 £000
Trade Creditors	1,198	1,761
Payments received in advance	241	281
Other Taxation and Social Security	898	779
VAT	243	245
Lennartz VAT repayable	889	889
Bank Loans (note 17)	408	386
Funding Council Grants	75	834
Accruals, Deferred Income and Other Creditors	5,081	2,339
Deferred capital grants - government	3,065	3,135
	12,097	**10,649**

15 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £000	2015 £000
Bank loan (note 16)	10,575	10,982
Lennartz VAT	866	1,699
Deferred Capital Grants - Government	58,066	60,702
	69,507	**73,383**

The Lennartz repayment is due payable over an outstanding period of up to 3 years, a repayment of £889k is due in 2016/17, which is included in note 14.

16 BORROWINGS

	2016 £000	2015 £000
Bank Loan Repayable:		
In one year or less	408	386
Between one and two years	429	407
Between two and five years	1,431	1,354
In five years or more	8,715	9,221
	10,983	**11,368**

The Bank Loan is due payable by instalments up to February 2034, with a capital repayment of £408k due in 2016/17. The average interest rate for the duration of the loan is expected to be 5.7%.

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement Pension Costs £000	Others £000	Total £000
At 1 August 2015	4,975	65	5,040
Payments in the year	(294)	(28)	(322)
Additional in year provision	306	-	306
Interest applied	50	-	50
Release to Income and Expenditure in the year			
At 31 July 2016	**5,037**	**37**	**5,074**

The pension provision relates to unfunded liabilities as a result of the early retirement of former teaching staff in advance of the normal retirement age. The pension provision has been revalued using a net interest rate of 0.5% (2015 – 1.0%)

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 FRS102 s21 Provisions and Contingencies and the College has therefore made a provision for the full estimated costs to the end of the contract in 2025, included in "Others" above.

18 DEFERRED CAPITAL GRANTS

	Funding Council Grants £000	Other Government Grants £000	Total £000
At 1 August 2015	63,273	564	63,837
Received during year			
Land and Buildings	-	-	-
Fixtures, Fittings & Equipment	429	-	429
Release to Income and Expenditure Account			
Land and Buildings	(1,368)	(12)	(1,380)
Fixtures, Fittings & Equipment	(1,730)	(25)	(1,755)
At 31 July 2016	**60,604**	**527**	**61,131**

19 REVALUATION RESERVE

Revaluation Reserve	2016 £000	2015 £000
At 1 August 2015	28,764	28,631
Release of revaluation reserve in respect of depreciation on land and buildings	(623)	(605)
Revaluation of land and buildings in year	-	738
At 31 July 2016	**28,141**	**28,764**

20 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2015 £000	Cash Flows £000	Other Non Cash Flows £000	At 31 July 2016 £000
Cash	3,111	(1,120)		1,991
Debt due within one year	(386)	385	(407)	(408)
Debt due after one year	(10,982)	-	407	(10,575)
	(8,257)	**(735)**	**-**	**(8,992)**

21 FINANCIAL COMMITMENTS

At 31 July 2016 the College had annual commitments under non-cancellable operating leases for Plant and Equipment as follows:

	2016 £000	2015 £000
Expiring within one year	305	334
Expiring between two and five years	29	288
	334	**622**

22 PENSION AND SIMILAR OBLIGATIONS

Retirement Benefits

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

Total pension cost for the year

		2016 £000	2015 £000
STSS:	Contributions paid	3,143	3,563
LGPS:	Contribution paid	2,943	3,771
	S28 Movement	975	1,441
	Total pension cost	7,061	8,775
LGPS Pension Strain Cost		175	154
Total Pension cost for year		**7,236**	**8,929**

Local Government Pension Scheme ("LGPS")

The LGPS is a pension scheme providing benefits based on final pensionable pay until 31 March 2015 and on career average revalued earning from 1 April 2015. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

22 PENSION AND SIMILAR OBLIGATIONS *(Continued)*

The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the statement of comprehensive income. The expected return on the schemes assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in other comprehensive income.

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

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

The total contributions made for the year were £3,869k of which employer's contributions totalled £2,943 and employees' contributions totalled £926k.

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

FRS102 Section 28

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

	2016	2015
Rate of increase in salaries	4.4%	4.5%
Rate of increase for pensions / inflation	1.9%	2.6%
Discount rate for liabilities	2.4%	3.6%

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

	Males	**Females**
Current pensioners	22.1 years	23.7 years
Future pensioners	24.2 years	26.3 years

22 PENSION AND SIMILAR OBLIGATIONS *(Continued)*

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

ASSETS (WHOLE FUND)	Long term rate of return at 31 July 2016	Value at 31 July 2016 £000	Long term rate of return at 31 July 2015	Value at 31 July 2015 £000
Equities	2.4%	70,994	3.6%	55,068
Bonds	2.4%	21,925	3.6%	15,018
Property	2.4%	8,352	3.6%	7,509
Cash	2.4%	3,132	3.6%	5,840
Total market value of assets		**104,403**		**83,435**
		Value at 31 July 2016 £000		Value at 31 July 2015 £000
Present value of scheme liabilities				
Funded		128,929		105,831
Unfunded		768		820
Deficit in the scheme		**(25,294)**		**(23,216)**

Analysis of the amount charged to income and expenditure account

	2016 £000	2015 £000
Current service cost	4,026	5,233
Past service cost	3	48
Total operating charge	**4,029**	**5,281**
Analysis of net return on pension scheme		
Interest Income on Plan Assets	(3,042)	(4,282)
Interest cost	3,896	5,209
Total	**854**	**927**

22 PENSION AND SIMILAR OBLIGATIONS (*Continued)*

Movement in deficit during year	2016 £000	2015 £000
At 1 August 2015	(23,216)	(15,344)
Movement in year:		
Current service cost	(4,026)	(5,233)
Employer contributions	3,004	3,771
Contributions in respect of unfunded benefits	50	69
Past service cost	(3)	(48)
Net finance costs	(854)	(927)
Actuarial loss	(249)	(5,504)
Deficit in scheme at 31 July 2016	**(25,294)**	**(23,216)**

Reconciliation of defined benefit obligation	2016 £000	2015 £000
Liabilities at start of year	106,651	87,418
Current service cost	4,026	5,233
Interest cost	3,896	5,209
Contributions by members	926	1,229
Actuarial loss	16,002	8,348
Past Service cost	3	48
Estimated Unfunded benefits paid	(50)	(69)
Estimated Benefits paid	(1,757)	(765)
Liabilities at end of year	**129,697**	**106,651**

Reconciliation of fair value of employer assets	2016 £000	2015 £000
Opening fair value of employer assets	83,435	72,074
Interest income on plan assets	3,042	4,282
Contributions by members	926	1,229
Contributions by the employer	3,004	3,771
Contributions in respect of unfunded benefits	50	69
Actuarial gains / (losses)	15,753	2,844
Estimated Unfunded benefits paid	(50)	(69)
Estimated Benefits paid	(1,757)	(765)
Closing fair value of employer assets	**104,403**	**83,435**

22 PENSION AND SIMILAR OBLIGATIONS (*Continued*)

Amounts for the current and previous accounting periods

	2016 £000	2015 £000
Fair value of employer assets	104,403	83,435
Present value of defined benefit obligation	(129,697)	(106,651)
Deficit	(25,294)	(23,216)
Experience Gains / (Losses) on assets		1,035
Experience Gains on liabilities	1,557	2,980

Scottish Teachers' Superannuation Scheme ("STSS")

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

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

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

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

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

Principal financial assumptions as at 31 March 2012:

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

The College paid a contribution rate of 14.9% from 1 August 2015 to 31 August 2015 and 17.2% from 1 September 2015 to 31 July 2016. The pension charge recorded by the College during the accounting period was equal to the contributions payable.

FRS 102 Section 28

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

23 RELATED PARTY TRANSACTIONS

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

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

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

Member	**Organisation**	**Position**	**Sales £000**	**Purchases £000**
Janice Cutting Ian Young Elaine Lee	Edinburgh College Development Trust	Trustee Deputy Chair Trustee	49	2
Alan Johnston	Edinburgh University	Trustee and Court member	28	10
Sandra Cairncross	Edinburgh Napier University	Assistant Principal Student Experience	552	49
Ian Young	The Business Partnership	Director	9	20
	Dalkeith Townscape Heritage Initiative	Member	17	-
Jenni Behan / Amanda Clark Jeroen Van Herk / Neal Black	Edinburgh College Students' Association	Vice President President	139	160 (grants awarded)

24 BURSARY FUND AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £000	EMA £000	Other £000	Total for 2016 £000	Total for 2015 £000
Balance brought forward	7	96	96	199	(382)
Allocation received in the year	8,834	739	939	10,512	13,127
Expenditure	(7,385)	(797)	(617)	(8,799)	(12,239)
Repaid to Funding Council as Clawback	-	-	(86)	(86)	-
College contribution to funds (4 months of 13/14 Academic year)	-	-	-	-	78
Virements	-	-	(31)	(31)	(385)
Balance c/fwd	**1,456**	**38**	**301**	**1,795**	**199**
Represented by:					
Repayable to Scottish Funding Council	1,456	-	301	1,757	103
Payments due from SFC	-	-	-	-	-
Retained by college for students	-	38	-	38	96
	1,456	**38**	**301**	**1,795**	**199**

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.

25 FE AND HE CHILDCARE FUNDS

	2016 £000	2015 £000
Balance b/fwd	3	-
Allocation received in year	1,665	1,884
Expenditure	(1,524)	(2,266)
Virements	31	385
Balance c/fwd	**175**	**3**
Represented by:		
Repayable to Scottish Funding Council	**175**	**3**

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

26 CONTINGENT LIABILITIES

There were no contingent liabilities at the balance sheet date.

27 POST BALANCE SHEET DATE EVENTS

No events occurred between 1 August 2016 and the time these Financial Statements were signed that would materially affect the information provided.

28 TRANSITION TO FRS102 AND THE 2015 FE HE SORP

The year ended 31 July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the period ended 31 July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1 April 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

Financial Position	**Note**	**1 April 2014** £'000	**31 July 2015** £'000
Total reserves under previous SORP		125,038	114,419
Reclassification of deferred capital grants (government)	(a)	(62,742)	(63,837)
Employee Leave Accrual	(b)	(1,655)	(333)
Total effect of transition to FRS 102 and the 2015 FE HE SORP		(64,397)	(64,170)
Total Reserves under the 2015 FE HE SORP		**60,641**	**50,249**

28 TRANSITION TO FRS102 AND THE 2015 FE HE SORP (continued)

Financial Performance	Note	Year Ended 31 July 2015
Deficit for the year under previous SORP		(5,139)
Movement in Employee Leave Accrual	(b)	1,322
Pension provision – actuarial loss	(c)	(5,504)
Changes to measurement of net finance cost on defined benefit plans	(d)	(1,809)
Unrealised surplus on revaluation of land and buildings	(e)	738
Total effect of transition to FRS 102 and 2051 FE HE SORP		(5,253)
Total comprehensive income for the year under 2015 FE HE SORP		**(10,392)**

a) Reclassification of deferred capital grants

Under the previous UK GAAP, deferred capital grants from government sources were held in a separate reserve on the balance sheet. FRS 102 and the 2015 FE HE SORP require such grants to be held on the balance sheet in creditors, allocated between creditors due within one year and due after more than one year. As a result, the deferred capital grant reserve of £63,837k at 1 August 2015 has been transferred to creditors, allocated as £3,135k due within one year, and £60,702k due after more than one year.

b) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31 August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 5 days unused leave for teaching staff and 3 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £1,655k was recognised at 1 April 2014, and £333k at 31 July 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £234k has been charged to Comprehensive Income in the year ended 31 July 2016.

c) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

28 TRANSITION TO FRS102 AND THE 2015 FE HE SORP (continued)

d) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the period ended 31 July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

e) Presentation of unrealised gains and losses on revaluation of assets.

Unrealised gains and losses on the revaluation of assets were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.