

edinburgh college of art

annual report and accounts 2002/03

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director of finance's report

Scope of Financial Statements

The Financial Statements reflect the results of the College for the year to 31 July 2003.

Results for the year

The College's Income and Expenditure Account is summarised as follows:-

	2003	2002
	£'000	£'000
Total Operating Income	12,446	13,131
Total Operating Expenditure	12,260	13,017
	<hr/>	
Surplus for the year	186	114
	<hr/>	

The accounts show a continuing trend of operating surpluses. This position is achieved with the continued support of the Scottish Higher Education Funding Council in funding the College as a Small Specialist Institution.

On 1st August 2002, the School of Planning and Housing transferred to Heriot-Watt University and the Funding Council granted transitional funding for one year of £200,000 which has been included in the accounts. The transfer has been a success but the loss of income from these students mean that further economies must be made.

Fixed Assets

Purchases are in respect of the renewal and improvement of existing equipment and buildings, and the increase in provision of computer equipment. The recent increased investment in technology now places an increased strain on the Income and Expenditure Account with the depreciation charge rising 75% over the last four years. In light of this the College will be investigating the possibility of students providing their own laptop computers in future.

Other Operating Expenses

Spend on non-pay budgets is monitored throughout the year with variances requiring explanation, and action is taken where there is a likelihood of any overspend in the year. The College makes best use of discounts available and consortium deals to ensure value for money in its non-pay expenditure.

director of finance's report (cont)

Student Tuition Fees and Debt

The College continues to be concerned about the debt incurred by students in the course of their studies which is exceptional in the case of Art and Design students because of their need to purchase materials. The level of debt is increasing year on year but we experience few instances of bad debt due to effective control procedures. We have, however, made a non-specific provision against student debt this year.

Cash Flows

The cash flow of the College throughout the year is dependant upon the profile of the grant allocation from the Funding Council and the receipt of student fees at the start of the session and the second and third terms. The College's cash flow this year has shown a healthy positive increase of over £700,000 which includes the final installment of £300,000 from AMA on the sale of the Lady Lawson Street land.

The College has an overdraft facility with its principal bankers and makes use of this as necessary to manage its financial affairs.

Investments

The College's investments in respect of Endowments, Awards and Bequests, and Pension Provision, are managed by Baillie Gifford Investment Managers Limited. These funds are invested through a separate "Edinburgh College of Art Fund" within Baillie Gifford. This fund is split in two, one for the investment of Endowments, Awards and Bequests which is required to produce a yield sufficient to provide the funding for prizes and awards, and the other is for Pension Provision, which is invested for capital growth. The performance of these funds is closely and regularly monitored by the Finance Committee, ensuring both an adequate return and capital appreciation against appropriate benchmarks.

Suppliers' Payments

The College follows a policy of timely payment to suppliers, such that all invoices are settled in the month following the invoice date. This helps the College maintain good relations with its suppliers and complies with the CBI Prompt Payment Code with regard to payments to creditors. The creditors' balance at 31 July 2003 represented 10% of invoiced purchases during the year.

Employment of People with Disabilities

The College has taken steps to ensure appropriate compliance with The Disability Discrimination Act. Applications for employment by people with disabilities are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the College continues and that appropriate training is arranged. It is the policy of the College to promote equality of opportunity for disabled staff and students in respect of recruitment, induction training and educational/career development.

Employee Involvement

The College places considerable value on the involvement of its employees and on good communication with them. There is a staff forum held at the start of each term chaired by the Principal. Staff are encouraged to participate in formal and informal consultations at the

College, sometimes through the medium of formal committees. The College has formal mechanisms for staff review and development and has implemented a system of needs assessment for the provision of training for all categories and levels of staff.

Auditors

These accounts are audited by Ernst & Young LLP who were appointed by the Board of Governors in June 2001 after a tendering process, and on the recommendation of the Audit Committee.

Conclusion

The College has improved its financial and cash flow position during the year showing an operating surplus for the second consecutive year. This has been achieved whilst continuing to invest in the development of the provision of teaching, research and support systems. There has been considerable effort shown by Governors and staff to achieve this result and we expect this trend to continue in the coming year.

Finally, I wish to record my thanks to my colleagues for their support throughout the year and to the Governors for their advice.

Kenneth J Mill
Director of Finance

corporate governance

Statement of Governance Procedures applied by the Board of Governors

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the Governance procedures applied by the College's Governing Body (hereinafter referred to as "the Board"). The College is committed to exhibiting best practice in all aspects of Corporate Governance. The College has charitable status and does not fall within the regulations of the London Stock Exchange, however, the College has applied where relevant the principles of Section 1 of the Combined Code of Corporate Governance. This statement summarises the significant principles applied during the year ended 31 July 2003.

The Board has also adopted the core recommendations of the Nolan Committee with regard to Standards in Public Life and these standards of conduct have been included within the Governors' Handbook.

Summary of the College's Structure of Corporate Governance

The College's Board comprises lay and academic persons appointed under the College's Order of Council (1995), the majority of whom are non-executive. The Board is responsible for the College's strategic direction, reputation, financial well-being, the well-being of the staff and students and for establishing and maintaining high standards of academic conduct and probity.

The role of Chairman of the Board is separated from the role of the College's Chief Executive and designated officer, the Principal.

The matters specially reserved to the Board for decision are set out in the Statutes of the College, by custom and under the Financial Memorandum with the Scottish Higher Education Funding Council (SHEFC). The Board holds to itself the responsibilities for the on-going strategic direction of the College, approval of major developments and the receipt of regular reports from executive officers on the day-to-day operation of its activities.

The College's Board is responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

From December 2002, when the Board adopted a risk management strategy for the College, significant risks have been kept under regular review through the Annual Needs Assessment Report prepared by Internal Audit and approved by the Board. Through this process, the Board aims to embed a culture of risk management throughout the institution, to encourage staff to take ownership of risks and to control the risk management programme through monitoring techniques in accordance with the internal control guidance for directors on the Combined Code as amended by the British Universities' Finance Directors' Group.

The Board has considered its current practices and has compared them with those advocated by the Scottish Higher Education Funding Council in its Guide for Members of Governing Bodies of Scottish Higher Education Institutions and Good Practice Benchmarks. The Board has embraced this Guide and has adapted its practices to meet the benchmarks of good governing practice as far as its Statutes so permit.

corporate governance (cont)

The Board discharges its responsibilities as follows:

- The Board meets five times a year, one meeting being for the specific purpose of approving the College's Strategic Plan. The Board considers strategic plans, annual budgets, monitors staffing, student, estates and finance issues, sets and approves performance measures and ensures that there is a clear definition of delegated powers and lines of accountability.
- The Board has the following Committees: Policy & Resources, Finance, Audit, Health and Safety and Chairman's (which acts also as the Remuneration and Nomination Committees). All of these Committees have been formally constituted with terms of reference and comprise mainly lay Governors. In addition to the Board and Chairman's Committee, the Chairman also chairs the Policy & Resources, Remuneration and Nominations Committees.
- The Audit Committee is responsible for meeting four times annually with the external and internal auditors to discuss audit findings and to consider detailed audit reports and recommendations for the improvement of the College's systems of internal control, together with management's responses and implementation plans. The Audit Committee also receives and considers reports from SHEFC as they affect the College's activities and monitors adherence with regulatory requirements. The Committee reviews the College's annual financial statements together with the accounting policies. Whilst senior management attend meetings of the Audit Committee, as necessary, they are not members of the Committee and the Committee does meet with the external and internal auditors on their own for independent discussions.
- The Policy and Resources Committee reviews and approves College policies and procedures, monitors staffing and receives reports from the Colleges' Finance and Health and Safety Sub-Committees.
- The Finance Sub-Committee inter-alia recommends to the Board the College's Financial Plans and Annual Budgets and monitors performance in relation to the approved budgets. The Awards & Bequest Sub-Committee reports to the Finance Committee.
- The College Secretary is Secretary to the Board of Governors.

responsibilities of the board of governors

Requirement to Present Audited Financial Statements

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Edinburgh College of Art (Scotland) Order of Council 1995, the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Higher Education Funding Council and the Board, the Board, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit and cash flows for that year.

Preparation of the Financial Statements

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the 'going concern' basis unless it is inappropriate to presume that the College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

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

responsibilities of the board of governors (cont)

Internal Financial Control

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cashflow budgets;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Board;
- a professional internal audit provision whose annual programme is approved by the Audit Committee.

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

auditors' report

We have audited the Financial Statements for the year ended 31 July 2003 which comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 25. These Financial Statements have been prepared on the basis of the accounting policies set out in the Statement of Principal Accounting Policies.

This report is made solely to the Board of Governors of Edinburgh College of Art, as a body, in accordance with its Charter. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board of Governors and Auditors

As described in the Statement of Responsibilities of the Board of Governors, the Board is responsible for the preparation of the financial statements in accordance with the College's Charter, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other applicable United Kingdom law and accounting standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been applied for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Scottish Higher Education Funding Council.

We also report to you if, in our opinion, the Report by the Director of Finance is not consistent with the financial statements, if the College has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Report by the Director of Finance and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board and the Code of Audit Practice issued by the Scottish Higher Education Funding Council. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

auditors' report (cont)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- (i) the Financial Statements give a true and fair view of the state of affairs of the College as at 31 July 2003, and of the surplus of the College for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions;
- (ii) income from the Scottish Higher Education Funding Council, grants and income for specific purposes and from other restricted funds administered by the College have been applied for the purposes for which they were received; and
- (iii) income has been applied in accordance with the Further and Higher Education (Scotland) Act 1992 governing the College and , where appropriate, with the Financial Memorandum dated 1 August 1996 (incorporating 1998 revisions) with the Scottish Higher Education Funding Council.

Ernst & Young LLP
Registered Auditor
10 George Street
Edinburgh, EH2 2DZ

statement of principal accounting policies

Basis of Accounting

The financial statements are prepared under the historical cost convention in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable accounting standards, except that investments and assets held for resale subject to a legal contract for sale are stated at market valuation in excess of cost and revenue expenditure is accounted for on a commitment basis.

Recognition of Income

Income from specific endowments and donations, research grants, research contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short term deposits and General Endowment Asset Investments is credited to the Income and Expenditure Account on a receivable basis.

Taxation Status

The College has been granted charitable status by HM Inland Revenue (Reference No SC0009201), and accordingly the College is potentially exempt from taxation in respect of income or capital gains tax received within the categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Land and Buildings

Freehold land and buildings are stated at cost. Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings have been depreciated with effect from 1 August 1993 in order to write-off the cost over their expected useful lives on a straight-line basis. Leasehold Buildings are stated at cost and depreciated in order to write-off the cost over the period of the lease. Details of depreciation rates are given in the accounting policy for depreciation.

Land and buildings acquired with the aid of specific grants from the Scottish Office Education Department (SOED) and the Scottish Higher Education Funding Council (SHEFC) are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings on a straight-line basis.

The portfolio of land and buildings is appraised regularly as part of the College estate strategy. Where assets with no future long-term operational use are identified, disposal is considered. Where the College resolves to dispose of an asset it is stated at the lower of its written down value or net realisable value and transferred to current assets.

statement of principal accounting policies (cont)

Maintenance of Premises

The College has a rolling maintenance plan which is reviewed on an annual basis. The cost of routine corrective maintenance, refurbishment, and any building work not of a capital nature is charged to the income and expenditure account as incurred.

Equipment

Equipment costing less than £1,000 per individual item or group of related items and computers and software, costing less than £500, is written off in the year of acquisition. All other equipment is capitalised, stated at cost and depreciated over its expected useful life. Details of depreciation rates are given in the accounting policy for depreciation.

Equipment acquired with the aid of specific grants from the SOED and the SHEFC is capitalised and depreciated as above. The related grants are treated as deferred equipment grants and released to income over the expected useful life of the equipment.

Depreciation

Depreciation is provided on all tangible fixed assets excluding land, which is not depreciated, on a straight line basis in order to write-off assets over their expected useful lives. Expected useful lives for each asset category are as follows:

Freehold Buildings	100 years
Leasehold Buildings	Lease Period
Plant & Machinery	10 years
Fixtures, Fittings & Furniture	7 years
Teaching & Research Equipment	5 years
Computer Equipment	3 years

Operating Leases

Operating lease rental costs are charged to expenditure in equal annual amounts over the periods of the leases.

Fixed Asset Investments

Listed Investments are stated at market value. Unrealised gains or losses representing the difference between investment book cost and market value are taken to the revaluation reserve. Realised gains or losses on the sale of investments are reflected in the income and expenditure account in the year of disposal.

Endowment Asset Investments

Endowment Asset Investments are stated at market value. Unrealised gains or losses representing the difference between investment book cost and market value are taken to the endowment reserve. Realised gains or losses on the sale of investments are reflected in the income and expenditure account in the year of disposal.

statement of principal accounting policies (cont)

Stock and Work in Progress

Stock held for resale has been valued at the lower of cost or net realisable value. Work in progress represents amounts recoverable on contracts. It is valued at the lower of production cost or net realisable value. Production costs include an appropriate portion of overheads.

Assets Held for Resale

Assets held for resale subject to a legal contract for sale are stated at market valuation in excess of cost. Where no legal contract for sale exists at the balance sheet date, the respective assets held for resale are stated at the lower of written down book value or net realisable value.

Consolidation of Students Representative Council

As the College's Board of Governors has no controlling influence over the operation of the SRC, the results of the Students Representative Council (SRC) are no longer consolidated within the College financial statements. This is in keeping with other institutions within the higher education sector.

Pension and Other Retirement Benefit Schemes

The College charges the expected cost, based on actuarial advice, of providing pensions under defined benefit schemes and other retirement benefit schemes against income over the service lives of the employees in the schemes. Variations from regular cost are similarly spread over the expected remaining service lives. The difference between the amounts included in the income and expenditure account and payments made are accounted for in the Balance Sheet. Details of the pension schemes are disclosed in note 6c.

Provisions

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

statement of principal accounting policies (cont)

Review of Accounting Policies

The Finance Sub-Committee reviewed the College's Principal Accounting Policies at its meeting on 3 November 2003 and agreed that they were appropriate to the financial management of the College.

statement of total recognised gains & losses

for the year ended 31 July 2003

	Notes	2003 £000	2002 £000
Surplus on continuing operations		186	114
Appreciation/(Depreciation) of Endowment Asset Investments	14	10	(298)
Appreciation/(Depreciation) of Fixed Asset Investments	13	0	(146)
Net Deferred capital grants released	18	4	(102)
Net Endowment (Expenditure)/Income for the Year	21	(66)	0
Endowments Received	21	0	207
		<hr/>	<hr/>
Total Recognised Gains relating to the year		134	(225)
Opening Net Assets		12,493	12,718
		<hr/>	<hr/>
Closing Net Assets		12,627	12,493
		<hr/> <hr/>	<hr/> <hr/>

Note of Historical Cost Surpluses and Deficits

Reported Surplus		186	114
Realisation of Property Revaluation Gains of Previous Years		0	0
		<hr/>	<hr/>
Historical Cost Surplus		186	114
		<hr/> <hr/>	<hr/> <hr/>

college balance sheet

as at 31 July 2003

	Notes	2003 £000	2002 £000
FIXED ASSETS			
Tangible Fixed Assets	12	11,078	11,110
Investments	13	1,001	1,126
		<hr/>	<hr/>
Total Fixed Assets		12,079	12,236
ENDOWMENT ASSETS			
	14	3,161	3,218
CURRENT ASSETS			
Stocks & Stores in Hand		45	38
Debtors : Amounts falling due within one year	15	914	1,119
Cash at Bank and in Hand		219	0
		<hr/>	<hr/>
Total Current Assets		1,178	1,157
Creditors : Amounts falling due within one year	16	(1,252)	(1,412)
		<hr/>	<hr/>
Net current assets		(74)	(255)
Total assets less current liabilities		15,165	15,199
Provisions for liabilities and charges	17	(2,538)	(2,706)
		<hr/>	<hr/>
NET ASSETS		12,627	12,493
		<hr/>	<hr/>
DEFERRED CAPITAL GRANTS	18	8,424	8,420
RESERVES			
Revaluation Reserve	21	0	0
(Restricted) Endowment Reserve	21	3,161	3,218
Income & Expenditure Account (General Reserve)	21	1,041	855
		<hr/>	<hr/>
TOTAL RESERVES		12,627	12,493
		<hr/>	<hr/>

The Financial Statements on pages 14-26 were approved by the Board of Governors on 8 December 2003 and signed on its behalf by:

Graham Duncan
Chairman

Professor Ian G Howard
Principal

college cash flow statement

for the year ended 31 July 2003

	Notes	2003 £000	2002 £000
Cash Flow from Operating Activities	22	811	187
Returns on Investments and Servicing of Finance	23	52	242
Capital Expenditure and Financial Investment	24	(113)	(566)
		<hr/>	<hr/>
(Decrease)/Increase in cash in the period		750	(137)
		<hr/>	<hr/>
Reconciliation of Net Cash Flow to Movement in Net Funds			
Increase in cash in the period	25	750	(137)
Net funds at start of period	25	(524)	(387)
		<hr/>	<hr/>
Net funds at end of period		226	(524)
		<hr/>	<hr/>

notes to the accounts

for the year ended 31 July 2003

	Notes	2003 £000	2002 £000
1 Funding Council Grants - SHEFC			
Recurrent Grants		6,517	6,248
Specific Grants			
Strategic Initiatives		997	1,067
Staff Restructuring/Development Initiatives		0	77
Releases of Deferred Capital Grants			
Building Grants	18	92	92
Equipment Grants	18	42	10
		7,648	7,494
<p>Grants received from the Funding Council in respect of Hardship etc Funds for students in financial difficulties, and payments to students from this fund, are excluded from the Accounts</p>			
2 Tuition Fees and Education Contracts			
Full Time UK and EU Students		1,670	1,868
Full Time non-EU Students Charged Overseas Fees		1,154	1,018
Part Time Fees		31	80
Other Fees		298	350
		3,153	3,316
3 Research Grants & Contracts			
Research Contracts		57	854
4 Other Income			
Residences, Catering & Conferences		215	195
Income generated by Schools		49	34
Trading Income		1066	994
		1,330	1,223
5 Endowment and Investment Income			
Interest from Fixed Asset Investments		31	23
Other Interest Receivable		24	16
Endowment Income		0	205
		55	244

notes to the accounts (continued)

for the year ended 31 July 2003

	Notes	2003	2002
6 Staff Costs			
6a Average Staff Numbers by Major Category		Number of Employees	
Academic		116	137
Technical		25	25
Administrative		85	85
Clerical, Manual and Other		54	55
		280	302

Part time employees are included in the above on the basis of their full time equivalents.

6b Staff Costs for the above persons		£000	£000
Wages and Salaries		6,888	7,345
Social Security Costs		467	502
Pension Costs		601	614
Revaluation of unfunded pension liability		0	(4)
Exceptional restructuring costs		42	214
Total		8,000	8,671
Teaching Departments		4,029	4,351
Teaching Support Services		718	674
Research		200	514
Administration and central services		1,991	1,977
Premises		1,019	941
Sub-total		7,957	8,457
Exceptional restructuring costs		42	214
Total		8,000	8,671

6c Pension Obligations			
Contribution to STSS		203	220
Contribution to LGPS		398	394
Contributions for Serving Employees		600	614
Contribution to LGPS for Former Employees	17	15	16
Contributions to Pension Schemes		615	630
Direct Payment of Enhanced pensions to Former Employees	17	153	149
Total Pension Payments		769	779

notes to the accounts (continued)

for the year ended 31 July 2003

6d Pension Schemes

The College provides pensions for the majority of its employees by means of membership of external pension schemes. The principal schemes are the Scottish Teachers' Superannuation Scheme (STSS), administered by the Scottish Office Pension Agency and the Local Government Pension Scheme (LGPS), administered by Lothian Pension Fund.

The Scottish Teachers' Superannuation Scheme (STSS)

The STSS is a defined benefit scheme, which is notionally funded; the Government Actuary using the aggregate method holds scheme assets in a notional fund that is valued every five years. The rate of contribution payable to the scheme is determined by the Secretary of State on the advice of the Government Actuary. Under the scheme, benefits are based on final pensionable salary for academic and related employees. During the financial year the level of contribution to the scheme was £204,000 (£220,000 - 2002).

The Local Government Pension Scheme (LGPS)

The LGPS is a defined contribution scheme that is externally funded and is valued every three years by independent actuaries using the projected unit method. Lothian Pension Fund on the advice of the actuaries determine the rate of contributions payable. Lothian Pension Fund holds its LGPS assets in a separate fund. Under the scheme, benefits are based on a final pensionable salary for non-academic and other employees. A full actuarial valuation was carried out at 31 March 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 July 2003	31 July 2002
Rate of increase in salaries	4.1%	3.9%
Rate of increase in pensions payments	2.6%	2.4%
Discount rate	5.5%	6.0%
Inflation assumption	2.6%	2.4%

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

	Long term rate of return expected at 31 July 2003	Value at 30 June 2003 £000
Equities	7.0%	1,290,500
Bonds	5.5%	115,700
Property	6.0%	152,000
Cash	4.0%	52,700
		<hr/>
		1,610,900
		<hr/>

Last year, estimates were provided by the actuary in accordance with the requirements of FRS 17, however, the College management is of the opinion that the College's share of the assets and liabilities of the LGPS cannot be accurately identified and therefore should not be included

The College has been required to increase its level of employers' contribution to the LGPS scheme to make good its share of the actuarial deficiency relating to current and former employees. The difference in the regular pension cost for current employees is considered immaterial and the additional contributions treated as part of the regular pension cost. During the financial year the level of contribution to the scheme for current employees was £398,000 (£394,000 - 2002) and for former employees is was £15,000 (£16,000 - 2002). The pension provision has been used to offset the cost of these contributions on behalf of former employees, contributions on behalf of current employees are charged to the income and expenditure account. The College also makes pension payments to former employees who have taken early retirement.

Under the transitional FRS 17 reporting arrangements the College continues to account for pension costs under SSAP 24.

notes to the accounts (continued)

for the year ended 31 July 2003

7 Emoluments of the Principal and Higher Paid Employees	Number of Employees	
	2003	2002
£30,000 - £39,999	43	56
£40,000 - £49,999	12	13
£50,000 - £59,999	3	1
£60,000 +	1	1

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	2003	2002
	£	£
Salary	82,563	80,000
Pension Contributions	5,952	5,587

The estimated value of other benefits has been calculated in accordance the Statement of Standard Accounting Practice 24.

	Notes	2003	2002
		£000	£000
8 Other Operating Expenditure			
Residences Catering and Conferences		160	164
Consumable and Workshop Expenditure		820	841
Books and Periodicals		197	154
Heat Light Water and Power		223	209
Repairs and General Maintenance		473	290
Auditors' Remuneration		62	22
Auditors' Remuneration in respect of non audit services		0	1
Professional Fees		226	237
Equipment operating lease rentals		70	67
Research Contract Expenditure		103	385
Devaluation of Fixed Asset Investments		0	100
Other Expenses		1,192	1,370
		3,526	3,840

notes to the accounts (continued)

for the year ended 31 July 2003

	Notes	2003 £000	2002 £000
9 Depreciation			
Funded by Deferred Capital Grants	18	134	102
Funded by General Income		395	402
Charge for the year		529	504
10 Interest Payable			
Bank interest		3	2

11 Taxation

The College has been granted Charitable Status by HM Inland Revenue and accordingly the College is potentially exempt from taxation in respect of income or capital gains to the extent that such income or gains are applied exclusively for charitable purposes.

12 Tangible Fixed Assets	Notes	Freehold Land £000	Freehold Buildings £000	Owned Equipment £000	Total £000
Gross Cost at 1 August 2002		1,750	9,176	2,022	12,948
Additions at Cost		0	0	497	497
Disposals in year		0	0	0	0
Gross Cost at 30 July 2003		1,750	9,176	2,519	13,445
Accumulated Depreciation					
Accumulated Depreciation at 1 August 2002		0	(814)	(1,024)	(1,838)
Charge for the Year	9	0	(92)	(437)	(529)
Charge on disposals		0	0	0	0
Accumulated Depreciation at 31 July 2003		0	(906)	(1,461)	(2,367)
Net Book Value at 31 July 2003		1,750	8,269	1,058	11,078
Net Book Value at 1 August 2002		1,750	8,362	998	11,110

Freehold land and buildings with a net book value of £8,509,000 have been funded from Treasury sources. Should the particular property be sold, the College is obliged to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum issued by SHEFC.

notes to the accounts (continued)

for the year ended 31 July 2003

	Notes	2003 £000	2002 £000
13 Fixed Asset Investments			
As at 1 August 2002		1,126	1,388
Additions	24	26	150
Disposals	24	(168)	(166)
Unrealised loss in year	21	17	(146)
Devaluation of Fixed Asset Investments	8	0	(100)
		1,001	1,126

The College established a separate staff enhanced pension fund with the objective of investing resources in order to fund the liabilities arising from the grant of enhanced pensions to former employees who elected to take early retirement. A professional fund manager manages the pension fund. The management performance is subject to the review of the Governing Body. Income arising on investments and realised gains or losses on the sale of fixed asset investments are disclosed at Note 5 to the Accounts.

The Pension provision (Note 17) is not yet matched by the assets established to fund it, namely staff enhanced pension fund cash held for pension fund. This shortfall will be funded from revenue income over future years until the liability is fully covered by the investments.

The College hold 100% of the Share Capital of College Promotions Limited, a company registered in Scotland. The Company has not traded in the financial year and is dormant. The investment in the Company amounted to £369 as at 31 July 2003 (£369 - 2002).

14 Endowment Asset Movements

Asset Movement

As at 1 August 2002		3,218	3,309
Additions	24	0	200
Disposals	24	(104)	0
Unrealised loss in year	21	10	(298)
Decrease in endowment asset debtors	22	0	(38)
Increase/(Decrease) in cash equivalents	25	37	45
		3,161	3,218

All income from Endowment Assets is spent by way of prizes awarded to students by the Awards & Bequests Sub-committee.

Investment Holdings Classification - at Market Value

Unit Trust Investments		3,192	3,248
Bank Balances	25	(31)	(30)
		3,161	3,218
Investment Book Value			
Unit Trust investments at Cost		3,650	3,453

notes to the accounts (continued)

for the year ended 31 July 2003

	2003	2002
	£000	£000
15 Debtors		
Debtors - amounts falling due within one year	373	1,040
Pre-payments and accrued income	541	79
	<hr/>	<hr/>
	914	1,119
	<hr/> <hr/>	<hr/> <hr/>
 16 Creditors - Amounts falling due within one Year		
Creditors	683	390
Social Security and Taxation Payable	254	285
Accruals and Deferred Income	316	243
	<hr/>	<hr/>
Sub-total	1,253	918
Bank Overdrafts	0	494
	<hr/>	<hr/>
	1,253	1,412
	<hr/> <hr/>	<hr/> <hr/>
 17 Provisions for Liabilities and Charges		
Opening Balance as at 1 August 2002	2,706	2,749
Revaluation of unfunded pension liability	0	(4)
Provided under Early Retirement Scheme	0	126
Utilised to pay LGPS scheme for former employees	(15)	(16)
Utilised to pay enhanced pensions for former employees	(153)	(149)
Provision for Bad and Doubtful Debts	0	0
	<hr/>	<hr/>
Closing Balance at 31 July 2003	2,538	2,706
	<hr/> <hr/>	<hr/> <hr/>

As part of an early retirement initiative, the College has granted enhancements to the pension rights of employees accepting early retirement. These enhanced pensions extend beyond the normal pension rights arising from the funded pension schemes which have been detailed in Note 6c. With the exception of enhancements which have been granted under the 'New Blood' Initiative promulgated by SHEFC which are funded jointly by the College and SHEFC, enhanced pensions are not supported by invested assets.

The Pension provision includes a provision for 'New Blood' Initiative enhanced pensions, provision for unfunded enhanced pensions and provision for under-funding in the Local Government Pension Scheme (LGPS) arising from contributions for former employees. Payments of £153,000 (£149,000 - 2002) for enhanced pensions made directly to former employees and payments of £15,000 (£16,000 - 2002) made to the LGPS on behalf of former employees during the year have been set against the provision.

notes to the accounts (continued)

for the year ended 31 July 2003

18 Deferred Capital Grants	Notes	SHEFC		TOTAL £000
		Grants £000	Other Grants £000	
Buildings Grants		8,188	183	8,371
Equipment Grants		49	0	49
As at 1 August 2002 (Restated)		8,237	183	8,420
Building Grants received during year		138	0	138
Released to Income & Expenditure				
Buildings Grants	1	92	0	92
Equipment Grants	1	42	0	42
Released to Income & Expenditure during year		134	0	134
Closing Balances				
Buildings Grants		8096	183	8,279
Equipment Grants		145	0	145
As at 31 July 2003		8,241	183	8,424

19 Operating Leases

	2003 £000	2002 £000
Operating lease commitments for current financial year on leases expiring:		
Within one year	3	4
between two and five years	171	158
	174	162

20 Capital Commitments

Year-end Capital Expenditure - Committed, Contracted and Authorised	74	58
Capital Expenditure - Committed and Contracted	0	0
Capital Expenditure - Authorised but not Contracted	0	0
	74	58

21 Reserve Reconciliation

	Endowment Reserve £000	Revaluation Reserve £000	Income Reserve £000	TOTAL RESERVE £000
As at 1 August 2002	3,218	0	855	4,073
Appreciation of Endowment Investments	10			10
Appreciation of Fixed Asset Investments				0
New Endowments	(67)			(67)
Historical Cost Surplus after Taxation			186	186
As at 31 July 2003	3,161	0	1,041	4,202

notes to the accounts (continued)

for the year ended 31 July 2003

**22 Reconciliation of Consolidated Operating Surplus to
Net Cash Flow from Operating Activities**

	Notes	2003 £000	2002 £000
Surplus after exceptional items and taxation		186	114
Depreciation	9	529	504
Deferred Capital Grants released to Income	18	(134)	(102)
Unrealised (gain)/loss charged to I&E	8	(17)	100
Interest Receivable	5	(55)	(244)
Interest Payable	10	3	2
Net Endowment Income	21	(66)	0
(Increase)/Decrease in Stocks		(7)	0
(Increase)/Decrease in Endowment Investment Debtors	14	0	38
(Increase)/Decrease in Debtors	15	205	(341)
Increase/(Decrease) in Creditors	16	335	159
Increase/(Decrease) in Provisions	17	(168)	(43)
(Increase)/Decrease in Assets held for Resale		0	0
Net Cash Flow from Operating Activities		811	187

23 Returns on Investments and Servicing of Finance

Income from Endowments	5	0	205
Other Interest Received	5	55	39
Interest Paid	10	(3)	(2)
Net Cash Flow from Returns on Investment and Servicing of Finance		52	242

24 Capital Expenditure and Financial Investment

Purchase of Tangible Fixed Assets	12	(496)	(589)
Purchase of Fixed Asset Investments	13	(26)	(150)
Purchase of Endowment Asset Investments	14	0	(200)
Sales of Fixed Asset Investments	13	168	166
Deferred Capital Grants received		138	0
Endowments Received	21	104	207
Net Cash Flow from Capital Expenditure and Financial Investment		(113)	(566)

25 Analysis of Changes in Net Funds

	At 1 August 2002	Cashflows	Other Changes	At 31 July 2003
Endowment Assets Cash In Hand	(30)	37	0	7
Cash at Bank	(494)	713	0	219
Change in Net Funds	(524)	750	0	226

board of governors 2002/2003

Chairman

Mr G Duncan, RIBA, ARIAS, MRTPI, FRSA

Governors, ex officio

Professor Ian G Howard, MA, RSA,
Principal

Professor Brent D MacGregor, BA, MA, DPhil
Vice-Principal

Mr James W Hayton, President SRC
(from 1st August 2002 to 31st July 2003)

Appointed Members

Mr James A Clark, CA
Convener, Audit Committee

Mr. Alastair C. Dempster, FCIBS
Vice-Chairman (until 31st December 2002)

Mr Jo C Elliot, MA, MBA
Convener, Finance Sub-Committee

Lady Mathewson, DA(Edin)
Convener, Awards & Bequests Sub-Committee

Miss Margaret MacLean, MA(Hons)

Mr Donald Workman, MA(Oxon)
(Vice-Chairman from 1st January 2003)

Ms Shonaig Macpherson, LLB

Mr. Donald MacDonald, CBE, MA, LLB, CA

Professor Ian F Y Marrian, MA, CA
(from 1st September 2002)

Mr Robert B Robertson, BSc, MSc, ARICS
(from 1st January 2003)

Mr Erick Davidson
(from 1st January 2003)

Co-opted Members

Mr K Michael Bury, MA
(until 31st December 2002)

Professor Angus J Macdonald, BSc, PhD
(from 1st January 2003)

Dr Alexander Fraser, RSA, RSW
Convener, Health & Safety Sub-Committee

Professor D G Owen, MA, PhD, CEng, FICE, FSUT

Mr Alastair Mackerzie, CBE, RIBA, MRTPI
Convener, Estates Sub-Committee

Elected Members

Mr. John S Murray, BSc, BLD, MLI
Academic Council

Mr John F Mooney, DA(Edin), ARSA, RSW
Academic Staff (from 1st August 2002)

Mr. Neil K. Kempell, BA(Hons)
Non-Academic Staff

Secretary to the Board

Mr. Michael W. Wood, BA, MBA

Advisers

Auditors

Ernst and Young LLP
Chartered Accountants
10 George Street
Edinburgh EH2 2DZ

Bankers

The Bank of Scotland
38 St Andrew Square
Edinburgh EH2 2YR

Solicitors

Anderson Strathern, W.S.
48 Castle Street
Edinburgh EH2 3LX

Investment Managers

Baillie Gifford & Co.
1 Rutland Court
Edinburgh EH3 8EY

Note: as at 31st July, 2003, two Governors were over the age of 65.

constitution & terms of reference of principal board committees

POLICY AND RESOURCES COMMITTEE

Summary Terms of Reference:

The Policy and Resources Committee, through the Strategic Plan, the Operational Plan, the Estate Strategy and otherwise, considers strategic policy for the academic and general development of the College and its financial management within the context of:

- (a) Funding, policy direction and guidance from SHEFC and the Scottish Executive;
- (b) Entrepreneurial activity relating to sponsorship, fund-raising and marketing;
- (c) Advice to the Governing Body in establishing and reviewing the broad direction of College developments through its Vision and Mission Statements.

Sub-Committees: Finance; Estates; Health and Safety

Membership:

Mr Graham Duncan (Convener)
Mr Donald Workman
Miss Margaret MacLean
Mr J C Elliot
Mr Alexander Fraser
Mr Alastair Mackenzie
Professor Ian G Howard, Principal
Professor Brent D MacGregor, Vice-Principal

FINANCE SUB-COMMITTEE

Summary Terms of Reference:

The Finance Sub-Committee shall maintain and review the financial management and operational systems of the College.

Membership:

Mr J C Elliot
Mr Donald Workman
Mr Donald MacDonald
Professor Ian G Howard, Principal

constitution & terms of reference of principal board committees (cont)

AWARDS AND BEQUESTS SUB-COMMITTEE

Summary Terms of Reference:

The Awards and Bequests Sub-Committee (a sub-committee of the Finance Sub-Committee) is responsible for the administration of the Andrew Grant Bequest under the terms of the Bequest, Act, Orders and College Regulations relating thereto. The Sub-Committee also administers other bequest funds and prize money.

Membership:

Lady Mathewson (Convenor)
Mr K Michael Bury (until 31.12.02)
Professor A J Macdonald (from 01.01.03)
Mr Donald Workman
Dr Alexander Fraser (from 01.08.02)
Mr Robert B Robertson (from 01.01.03)
Mr John F Mooney (from 01.08.02)
Mr John Stuart Murray

ESTATES SUB-COMMITTEE

Summary Terms of Reference:

The Estates Sub-Committee (a sub-committee of the Policy and Resources Committee) shall monitor the management of building works in the College, approve the overall annual programmes for capital and non-capital building works, and recommend a long term estate management strategy to the Policy and Resources Committee

Membership:

Mr Alastair Mackenzie, (Convener)
Mr Graham Duncan
Mr Robert B Robertson
Professor Ian G Howard, Principal

HEALTH AND SAFETY SUB-COMMITTEE

Summary Terms of Reference:

The Health and Safety Sub-Committee (a sub-committee of the Policy and Resources Committee) shall be responsible for the general supervision of safety arrangements within the College, for advising Heads of Schools and Departments of legal requirements and responsibilities and for proposing College policy on safety. The sub-committee presents an Annual Report on Health and Safety matters to the Board.

Membership:

Dr Alexander Fraser, (Convener)
Mr Neil K Kempself
Mr John Stuart Murray
President, S.R.C.
Professor B D MacGregor, Vice-Principal

constitution & terms of reference of principal board committees (cont)

AUDIT COMMITTEE

Summary Terms of Reference:

The Audit Committee provides advice to the Board of Governors, to the Finance Sub-Committee, to College Management and to the Scottish Higher Education Funding Council's Financial, Auditing and Monitoring Service (FAMS) on the effectiveness of internal control and management systems of the College and on the appointment of internal and external auditors.

The Committee is authorised by the Board of Governors to investigate any activity within its terms of reference.

Membership:

Mr James A Clark, (Convener)
Miss Margaret MacLean
Professor D Gareth Owen
Ms Shonaig Macpherson
Professor Ian F Y Marrian (from 01.09.02 – Convener – designate)

CHAIRMAN'S COMMITTEE

Summary Terms of Reference:

The Chairman's Committee examines recommendations of Committees of the Board of Governors and of Academic Council prior to their consideration by the Board of Governors and briefs the Chairman on matters to be considered by the Board.

The Committee also acts as Remuneration and Nominations Committees (see separate entries).

The Committee acts with all the powers of the Board during vacation and emergency periods excluding specific financial, staffing and constitutional matters (see detailed terms of reference).

Membership:

Mr G Duncan, (Chairman/Convener)
Mr Donald Workman (Vice-Chairman)
Mr J C Elliot
Miss Margaret MacLean
Mr James A. Clark
Professor Ian G Howard, Principal

CHAIRMAN'S COMMITTEE ACTING AS REMUNERATION COMMITTEE

Summary Terms of Reference:

The Chairman's Committee acts as a Remuneration Committee in relation to the salaries and other remuneration of the Principal and senior central management of the College and to consider any other matter relating to remuneration referred to it by the Board of Governors, including applications for premature retirement with enhancement of pension and the terms of any severance agreements.

Membership:

Mr G Duncan, (Convener)
Mr Alastair C. Dempster
Miss Margaret MacLean
Mr J C Elliot
Professor Ian G Howard, Principal

CHAIRMAN'S COMMITTEE ACTING AS NOMINATIONS COMMITTEE

Summary Terms of Reference:

The Chairman's Committee acts as a Nominations Committee in relation to the identification and selection of new independent lay members to the Board of Governors and to make recommendations to the Board in this regard.

To consider lay Governor nominations for re-election to the Board and to make recommendations to the Board in this regard.

Membership:

Mr G
Duncan, (Convener)
Lady Mathewson
Mr J C Elliot
Professor Ian G Howard, Principal