

edinburgh college of art

annual report and accounts 2003/04

1	director of finance's report
4	corporate governance
6	responsibilities of the board of governors
8	auditor's report
10	statement of accounting policies
13	income & expenditure account
14	statement of total recognised gains & losses
15	balance sheet
16	cash flow statement
17	notes to the accounts
26	membership of the board of governors
26	advisers
27	appendix to report and accounts 2003/04

director of finance's report

Scope of Financial Statements

The Financial Statements reflect the results of the College for the year to 31 July 2004.

Results for the year

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

	2004 £'000	2003 £'000
Total Operating Income	12,734	12,446
Total Operating Expenditure	12,695	12,260
Surplus for the year	39	186

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.

Fixed Assets

Purchases are in respect of the renewal and improvement of existing equipment and buildings, and the increase in provision of computer equipment.

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.

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.

director of finance's report (cont)

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 £304,000.

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 2004 represented 5% 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. 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.

director of finance's report (cont)

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 third 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

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 2004.

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, Audit 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.

independent auditors' report to the board of governors

We have audited the Financial Statements for the year ended 31 July 2004 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.

independent auditors' report to the board of governors (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 2004, 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.

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.

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.

Review of Accounting Policies

The Finance Sub-Committee reviewed the College's Principal Accounting Policies at its meeting on 5 November 2004 and agreed that they were appropriate to the financial management of the College.

college income & expenditure account

for the year ended 31 July 2004

	Notes	2004 £000	2003 £000
INCOME			
Funding Council Grants	1	7,416	7,648
Tuition Fees and Education Contracts	2	3,574	3,153
Research Grants and Contracts	3	221	57
Other Income	4	1,291	1,330
Endowment and Investment Income	5	232	258
		<hr/>	<hr/>
Total Income		12,734	12,446
EXPENDITURE			
Staff Costs	6b	8,472	7,957
Staff Restructuring	6b	115	42
Other Operating Expenses	8	3,485	3,729
Depreciation	9	578	529
Interest Payable	10	1	3
Transfer from accumulated income within specific endowments	21	44	0
		<hr/>	<hr/>
Total Expenditure		12,695	12,260
Surplus on continuing operations		<hr/> <hr/> 39	<hr/> <hr/> 186

statement of total recognised gains & losses

for the year ended 31 July 2004

	Notes	2004 £000	2003 £000
Surplus on continuing operations		39	186
Appreciation of Endowment Asset Investments	14	66	10
Net deferred capital grants (released)/received	18	(113)	4
Net endowment income/(expenditure) for the year	21	67	(19)
		<hr/>	<hr/>
Total recognised gains relating to the year		59	181
Opening Net Assets		12,674	12,493
		<hr/>	<hr/>
Closing Net Assets		12,733	12,674
		<hr/> <hr/>	<hr/> <hr/>
 Statement of historical cost surpluses and deficits			
Surplus on continuing operations		39	186
		<hr/>	<hr/>
Historical cost surplus		39	186
		<hr/> <hr/>	<hr/> <hr/>

college balance sheet

as at 31 July 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Tangible Fixed Assets	12	10,952	11,078
Investments	13	914	1,001
Total Fixed Assets		11,866	12,079
ENDOWMENT ASSETS			
	14	3,342	3,209
CURRENT ASSETS			
Stocks		51	45
Debtors	15	733	914
Cash at Bank and in Hand		523	219
Total Current Assets		1,307	1,178
CREDITORS : Amounts falling due within one year	16	(1,380)	(1,254)
Net current liabilities		(73)	(76)
Total assets less current liabilities		15,135	15,212
Provisions for liabilities and charges	17	(2,402)	(2,538)
NET ASSETS		12,733	12,674
Deferred Capital Grants	18	8,311	8,424
ENDOWMENTS			
Specific Endowments	21	3,342	3,209
RESERVES			
General Reserve	21	1,080	1,041
TOTAL RESERVES		12,733	12,674

The Financial Statements on pages 13-25 were approved by the Board of Governors on 13 December 2004 and signed on its behalf by:

Graham Duncan
Chairman

Professor Ian G Howard
Principal

college cash flow statement

for the year ended 31 July 2004

	Notes	2004 £000	2003 £000
Cash flow from operating activities	22	358	675
Returns on investments and servicing of finance	23	231	255
Capital expenditure and financial investment	24	(285)	(217)
		<hr/>	<hr/>
Increase in cash in the period		304	713
		<hr/>	<hr/>
Reconciliation of cash flow to movement in net funds/(debt)			
Increase in cash in the period	25	304	713
Net funds/(debt) at start of period	25	189	(524)
		<hr/>	<hr/>
Net funds at end of period		493	189
		<hr/>	<hr/>

notes to the accounts

for the year ended 31 July 2004

	Notes	2004 £000	2003 £000
1 Funding Council Grants - SHEFC			
Recurrent Grants		6,706	6,517
Specific Grants			
Strategic Initiatives		597	997
Releases of Deferred Capital Grants			
Building Grants	18	92	92
Equipment Grants	18	21	42
		<u>7,416</u>	<u>7,648</u>

Grants received from the Funding Council in respect of Access Funds for students in financial difficulties, and payments to students from this fund, are excluded from the Accounts

2 Tuition Fees and Education Contracts

Full Time UK and EU Students	1,734	1,670
Full Time non-EU Students Charged Overseas Fees	1,479	1,154
Part Time Fees	42	31
Other Fees	319	298
	<u>3,574</u>	<u>3,153</u>

3 Research Grants & Contracts

Research Councils	190	11
UK Charities	15	(5)
UK Central/Local Government	10	61
EU Government	4	(17)
Other	2	7
	<u>221</u>	<u>57</u>

Credit amounts in 2003 relate to the transfer of The School of Planning & Housing Contracts to Heriot Watt University

4 Other Income

Residences, Catering & Conferences	237	215
Sales to Students	607	556
Other Income	447	559
	<u>1,291</u>	<u>1,330</u>

5 Endowment and Investment Income

Interest from Fixed Asset Investments	29	31
Other Interest Receivable	36	24
Endowment Interest	167	203
	<u>232</u>	<u>258</u>

notes to the accounts (continued)

for the year ended 31 July 2004

	Notes	2004	2003
6 Staff Costs			
		Number of employees	
6a Average Staff Numbers by Major Category			
Senior Management		4	5
Teaching Staff		103	106
Teaching Support		23	25
Research Grants & Contracts		8	8
Other Support Services			
Administration & Central Services		88	81
Premises		39	46
Other Income Generating Activities			
Catering & Residences		7	9
		272	280
		272	280
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		7,194	6,889
Social Security Costs		518	467
Pension Costs		760	601
Revaluation of unfunded pension liability		35	0
Exceptional restructuring costs		80	42
		8,587	7,999
		8,587	7,999
Teaching Departments		4,249	4,029
Teaching Support Services		684	718
Research		354	200
Administration and central services		2,299	1,991
Premises		886	1,019
		8,472	7,957
Sub-total		8,472	7,957
Exceptional restructuring costs		115	42
		8,587	7,999
		8,587	7,999
6c Pension Obligations			
Contribution to STSS		329	204
Contribution to LGPS		431	397
		760	601
Contributions for Serving Employees		760	601
Contribution to LGPS for Former Employees	17	15	15
		775	616
Contributions to Pension Schemes		775	616
Direct Payment of Enhanced pensions to Former Employees	17	156	153
		931	769
Total Pension Payments		931	769

notes to the accounts (continued)

for the year ended 31 July 2004

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 which 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 £329,000 (2003 - £204,000).

The Local Government Pension Scheme (LGPS)

The LGPS is a defined benefit scheme which 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 July 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 July 2004	31 July 2003
Rate of increase in salaries	4.4%	4.1%
Rate of increase in pensions payments	2.9%	2.6%
Discount rate	5.8%	5.5%
Inflation assumption	2.9%	2.6%

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

	Long term rate of return expected at 31 July 2004	Value at 31 July 2004 £000
Equities	7.9%	1,291,000
Bonds	5.4%	131,000
Property	6.7%	163,000
Cash	4.5%	227,000
		1,812,000

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 £429,000 (2003 - £397,000) and for former employees is was £15,000 (2003 - £15,000). 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 2004

7 Emoluments of the Principal and Higher Paid Employees	Notes	Number of employees	
		2004	2003
£30,000 - £39,999		31	43
£40,000 - £49,999		20	12
£50,000 - £59,999		4	3
£60,000 +		1	1

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

	2004	2003
	£	£
Salary	85,410	82,563
Pension Contributions	9,975	5,952

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

8 Other Operating Expenses	2004	2003
	£000	£000
Residences Catering and Conferences	169	160
Consumable and Workshop Expenditure	840	820
Books and Periodicals	152	197
Heat Light Water and Power	224	223
Repairs and General Maintenance	322	473
Auditors' Remuneration	24	21
Professional Fees	252	267
Equipment operating lease rentals	95	70
Research Contract Expenditure	139	103
(Increase)/Decrease in valuation of fixed asset investments	13 (55)	(17)
Other Expenses	1,323	1,412
	<u>3,485</u>	<u>3,729</u>

notes to the accounts (continued)

for the year ended 31 July 2004

	Notes	2004 £000	2003 £000
9 Depreciation			
Funded by Deferred Capital Grants	18	113	134
Funded by General Income		465	395
Charge for the year	12	578	529
10 Interest Payable			
Bank Interest		1	3

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
Cost					
At 1 August 2003		1,750	9,176	2,519	13,445
Additions at Cost		0	0	452	452
Disposals in year		0	0	(1)	(1)
At 31 July 2004		1,750	9,176	2,970	13,896
Depreciation					
At 1 August 2003		0	(906)	(1,461)	(2,367)
Charge for the Year	9	0	(92)	(486)	(578)
Charge on disposals		0	0	1	1
At 31 July 2004		0	(998)	(1,946)	(2,944)
Net Book Value at 31 July 2004		1,750	8,178	1,024	10,952
Net Book Value at 1 August 2003		1,750	8,270	1,058	11,078

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 2004

	Notes	2004 £000	2003 £000
13 Fixed Asset Investments			
As at 1 August 2003		1,001	1,126
Additions	24	29	26
Disposals	24	(171)	(168)
Increase in valuation of fixed asset investments	8	55	17
		<u>914</u>	<u>1,001</u>

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 2004 (2003 - £369).

The College hold 100% of the Share Capital of Re:Imagine Living Ltd, a company registered in Scotland. The Company has not traded in the financial year and is dormant. The investment in the Company amounted to £1 as at 31 July 2004.

14 Endowment Assets

As at 1 August 2003		3,209	3,218
Unrealised gain in year	21	66	10
Increase/(decrease) in endowment asset debtors	22	67	(19)
		<u>3,342</u>	<u>3,209</u>
As at 31 July 2004		3,342	3,209
Represented by:			
Unit Trust Investments		3,372	3,239
Bank Balances		(30)	(30)
		<u>3,342</u>	<u>3,209</u>
As at 31 July 2004		3,342	3,209

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

Investment Book Value

Unit Trust Investments at Cost		<u>3,650</u>	<u>3,650</u>
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notes to the accounts (continued)

for the year ended 31 July 2004

	2004 £000	2003 £000
15 Debtors		
Debtors	223	373
Pre-payments and accrued income	510	541
	<u>733</u>	<u>914</u>
16 Creditors - Amounts falling due within one year		
Creditors	537	683
Social Security and Taxation Payable	265	254
Accruals and Deferred Income	578	317
	<u>1,380</u>	<u>1,254</u>
17 Provisions for Liabilities and Charges		
Opening Balance as at 1 August 2003	2,538	2,706
Revaluation of unfunded pension liability	35	0
Utilised to pay LGPS scheme for former employees	(15)	(15)
Utilised to pay enhanced pensions for former employees	(156)	(153)
	<u>2,402</u>	<u>2,538</u>
Closing Balance as at 31 July 2004	<u>2,402</u>	<u>2,538</u>

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 £156,000 (2003 - £153,000) for enhanced pensions made directly to former employees and payments of £15,000 (2003 - £15,000) 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 2004

18 Deferred Capital Grants	Notes	SHEFC		TOTAL £000
		Grants £000	Other Grants £000	
Buildings Grants		8,203	183	8,386
Equipment Grants		38	0	38
<hr/>				
As at 1 August 2003		8,241	183	8,424
<hr/>				
Released to income & Expenditure				
Buildings Grants	1	92	0	92
Equipment Grants	1	21	0	21
<hr/>				
Released to Income & Expenditure during year		113	0	113
<hr/>				
Closing Balances				
Buildings Grants		8,111	183	8,294
Equipment Grants		17	0	17
<hr/>				
As at 31 July 2004		8,128	183	8,311
<hr/>				
19 Operating Leases				
		2004	2003	
		£000	£000	
Operating lease commitments for current financial year on leases expiring:				
Within one year		7	3	
Between two and five years		151	171	
<hr/>				
		158	174	
<hr/>				
Capital Commitments				
		2004	2003	
		£000	£000	
20 Year-end Capital Expenditure - Committed, Contracted and Authorised				
		30	74	
<hr/>				
		30	74	
<hr/>				
21 Reserve Reconciliation				
		Endowment Reserve £000	Income Reserve £000	Total Reserve £000
As at 1 August 2003		3,209	1,041	4,250
New Endowments		23	0	23
Appreciation of Endowment Investments	14	66	0	66
Endowment Income for the year		167	0	167
Endowment Expenditure for the year		(123)	0	(123)
Surplus on continuing operations		0	39	39
<hr/>				
As at 31 July 2004		3,342	1,080	4,422
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notes to the accounts (continued)

for the year ended 31 July 2004

22 Reconciliation of Consolidated Operating Surplus/(Deficit) to Net Cash Inflow/(outflow) from Operating Activities	Notes	2004 £000	2003 £000	
Surplus on continuing operations		39 ✓	186	
Depreciation	9	578 ✓	529	
Deferred Capital Grants released to Income	18	(113) ✓	(134)	
Unrealised gain on fixed asset investments	13	(55) ✓	(17)	
Interest Receivable	5	(232) ✓	(258)	
Interest Payable	10	1 ✓	3	
Net Endowment Income	21	42	(19)	
(Increase)/Decrease in Stocks		(6) ✓	(7)	
Decrease/(Increase) in Endowment Investment Debtors	14	(67) ✓	19	
Decrease/(Increase) in Debtors	15	181 ✓	205	
(Decrease)/Increase in Creditors	16	126 ✓	336	
Increase/(Decrease) in Provisions	17	(136) ✓	(168)	
Net Cash Flow from Operating Activities		358	675	
23 Returns on Investments and Servicing of Finance				
Income from Endowments	5	167	203	
Other Interest Received	5	65	55	
Interest Paid	10	(1)	(3)	
Net Cash Inflow from Returns on Investment and Servicing of Finance		231	255	
24 Capital Expenditure and Financial Investment				
Purchase of Tangible Fixed Assets	12	(452)	(497)	
Purchase of Fixed Asset Investments	13	(29)	(26)	
Sales of Fixed Asset Investments	13	171	168	
Deferred Capital Grants Received	18	0	138	
Endowments Received		25	0	
Net Cash Flow from Capital Expenditure and Financial Investment		(285)	(217)	
25 Analysis of Changes in Net Funds		At 1 August 2003	Cashflows	At 31 July 2004
Endowment Assets Cash In Hand		(30)	0	(30)
Cash at Bank		219	304	523
Change in Net Funds		189	304	493

board of governors 2003/2004

2003/2004 Membership of Board of Governors

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

Miss Ishbel Neat, President S.R.C.
(from 01.08.03 to 31.07.04)

Appointed Members

Mr. James A. Clark, CA
Convener, Audit Committee (until 31.12.03)

Mr. J.C. Elliot, MA, MBA
Convener, Finance Sub-Committee

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

Miss Margaret MacLean, MA(Hons)
(until 31.12.03)

Mr. Donald Workman, MA(Oxon)
(Vice-Chairman)

Ms Shonaig Macpherson, LLB

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

Professor Ian F.Y. Marrian, MA, CA
(Convener, Audit Committee from 01.01.04)

Mr. Robert B. Robertson, BSc, MSc, ARICS

Mr. Erick Davidson

Professor Stephen Blackmore, FRSE
(from 01.01.04)

Miss Alison Watt, DA(Glas)
(from 01.01.04)

Co-opted Members

Professor Angus J. Macdonald, BSc, PhD

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

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

Mr. Alastair Mackenzie, CBE, RIBA, MRTPI
Convener, Estates Sub-Committee

Mr. Andrew P. Doolan, DipArch, ARIBA, ARIAS
(from 01.01.04; deceased 27.04.04)

Elected Members

Mr. John S. Murray, BSc, BLD, MLI,
Academic Council (until 31.12.03)

Miss Birgitta MacDonald, DA(Edin)
Academic Council (from 01.01.04)

Mr. John F. Mooney, DA(Edin), ARSA, RSW
Academic Staff

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

Secretary to the Board

Mr. Michael W. Wood, BA, MBA

advisers

Auditors

Ernst & 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.
1 Rutland Court
Edinburgh EH3 8EY

Investment Managers

Baillie Gifford & Co.
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Note: as at 31.07.04, 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 (until 31.12.03)
Mr. J.C. Elliot
Dr. Alexander Fraser
Mr. Alastair Mackenzie (co-opted)
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 (Convener)
Mr. Donald Workman
Mr. Donald MacDonald
Professor Ian G. Howard, Principal

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, (Convener)
Professor A.J. Macdonald
Mr. Donald Workman
Dr. Alexander Fraser
Mr. Robert B. Robertson
Mr. John F. Mooney
Mr. John S. Murray (until 31.12.03)
Miss Birgitta MacDonald (from 01.01.04)

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. Andrew P. Doolan (from 01.01.04; deceased 27.04.04)
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 (until 31.12.03)
Miss Birgitta MacDonald (from 01.01.04)
President, S.R.C.
Professor B.D. MacGregor, Vice-Principal

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 Governance, Management, Appraisal Policy (GMAP) 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:

Professor Ian F.Y. Marrian (Convener from 01.01.04)
Miss Margaret MacLean (until 31.12.03)
Professor D. Gareth Owen
Ms Shonaig Macpherson
Mr. James A. Clark (Convener until 31.12.03)

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

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 (until 31.12.03)
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. Donald Workman (Vice-Chairman)
Miss Margaret MacLean (until 31.12.03)
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