BOARD OF MANAGEMENT

AGENDA

A meeting of the Board of Management will be held at 14:00 hours on Tuesday, 08 December 2015 in the Boardroom, Milton Road Campus.

		Lead Speaker	Paper
1	WELCOME & APOLOGIES	Chair	
2	DECLARATIONS OF INTEREST	Chair	
3	MINUTES OF PREVIOUS MEETING ***for approval***	Chair	**A**
4	MATTERS ARISING	Chair	**B**
5	COMMITTEE BUSINESS		
5.1	Policy & Resources		
	Minutes 26.11.15	Vice Chair	**C**
	Management Accounts to October 2015 **attached**	A Williamson	**D**
	2016/17 ROA: Priority Outcome Measures[1]	S Linton	**E**
5.2	Academic Council		
	Minutes 20.11.15	S Cairncross	**F**
	2014/15 ROA Self-Evaluation Report	S Linton	**G**
	Additional SFC Post-Merger Review ***for approval***	S Linton	**H**

The Additional SFC Post-Merger Review Report is presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 27, Information Intended for Future Publication.

		Lead Speaker	Paper
5.3	Audit & Risk Assurance		
	Minutes 30.11.15	N Paul	**I**
	Financial Accounts[2] ***for approval***	N Paul	**J**
	i. A&RA Committee Annual Report		
	ii. Annual Accounts to July 2015		
	iii. External Auditor's Annual Report		
	iv. Letter of Representation		
	Top Risk Register	A Williamson	**K**

The Top Risk Register is presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.

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[1] A refreshed version of the Edinburgh College Regional Outcome Agreement will be published online shortly.

[2] The Annual Report and Financial Statements for the period ended 31 July 2015 submitted to the SFC is available on the College website.

	5.4	External Engagement		
		Minutes 02.11.15	J Cutting	**L**
		Brand Development Report	D Robertson	**M**
	5.5	Nominations		
		Minutes 07.10.15	Chair	**N**
6	PRINCIPAL'S REPORT		A Bruton	**O**
7	EDINBURGH COLLEGE STUDENTS' ASSOCIATION		J Van Herk	
	7.1	ECSA Report		**P**
8	GOVERNANCE REPORT			
	8.1	Governance Report	P Davis	**Q**
	8.2	College Sector Governance Report **attached**	P Davis	**R**
9	NATIONAL REPORT		Chair	**Verbal**
10	DEVELOPMENT TRUST		A Colquhoun	
	10.1	Development Trust Update		**S**
	10.2	Memorandum of Agreement ***for approval*** **attached**		**T**
11	ANY OTHER COMPETENT BUSINESS			
12	DATE OF NEXT MEETING: 09 February 2015			

12.1 Upcoming Committee Dates

Remuneration Committee	14.12.15
Policy & Resources Committee	18.01.16
External Engagement Committee	19.01.16
Academic Council	22.01.16
Board Meeting	09.02.16

BOARD OF MANAGEMENT
22 SEPTEMBER 2015
PAPER D
A WILLIAMSON

MANAGEMENT ACCOUNTS TO OCTOBER 2015

Purpose of Paper

The Management Accounts to October 2015, as provided by the Chief Operating Officer, are attached for the Board's consideration.

Action Required

Board Members are asked to NOTE the Management Accounts.

Strategic Implications

Risk	Yes \ No	Details
Governance \ legal	Yes	The Board of Management shall keep under review the College's management accounts, to ensure that effective financial management is in-place.
Financial	Yes	Explicit in purpose of paper.
Executive Approval	**Yes \ No**	**Details**
Reviewed by Executive	Yes	
Other	**Yes \ No**	**Details**
Equality Impact	No	

FINANCIAL REPORT

3 MONTHS TO OCTOBER 2015

CONTENTS

Appendices:

DISTRIBUTION

Executive Team
Board of Management Audit Committee
Senior Management Group

Section 1: Financial Performance Monitoring Template

	2014/15 Annual Target	2015/16 Annual Target	Revised Annual Target	2015/16 Annual Target	2015/16 YTD Actual	YTD Variance	2014/15 Annual Out-turn	Year End Projection
Wsums	254,687	n/a	n/a	n/a	n/a	n/a	249,833	n/a
Credits	n/a	195,452		195,452	159,024	tbc	n/a	183,452
Credits ESF	n/a	4,806		4,806	tbc	tbc	n/a	4,806

	2013/14 FTE	2014/15 Average FTE	2014/15 Revised Average FTE	2015/16 Average FTE	2015/16 YTD Average FTE	YTD Variance	2014/15 Average Out-turn FTE	2015/16 Year End Projection
Staff Numbers (FTE)	1,099	1,175	1,175	1,175	1,156	19	1,099	1,175

		2014/15 Annual Budget	Annual Budget 2015/16	Revised Annual Budget	2015/16 YTD Budget	2015/16 YTD Actuals	YTD Variance	Previous YTD	Year End Projection
		£k	£k	£k	£k	£k	£k	£k	£k
Commercial & International Contracts		8,015	5,373	5,374	1,320	1,299	(20)	1,427	5,374
VS Scheme		718	0	0	0	0	0	0	0
Refer sections 2 to 5									
Income		67,898	67,730	67,710	16,552	16,538	(13)	17,418	67,260
Expenditure		69,861	68,354	68,334	16,731	16,662	69	17,891	68,202
Operating Surplus / (Deficit)		(1,963)	(624)	(624)	(179)	(123)	56	(473)	(942)
Refer sections 6 to 7									
Net Cash Inflow / (Outflow)		(3,895)	941	941	885	202	(683)	(2,187)	659
Bank Balance		4,441	4,052	4,052	3,997	3,314	(683)	6,150	3,770
Fixed Assets		155,436	150,716	150,716	155,033	154,583	(450)	141,326	150,716
Net Current assets		720	631	631	573	268	(305)	2,501	363
Creditors and Provisions		(40,937)	(39,662)	(39,662)	(40,425)	(40,521)	(96)	(34,367)	(39,662)
Net Assets		107,655	108,175	108,175	115,181	114,330	(851)	109,460	111,417
Pay costs % of Income	%	65.6	66.6	66.6	66.6	65.8	(0.8)	63.9	67.1
Current Ratio		1.1	1.1	1.1	1.04	1.03	(0.01)	1.21	1.04
Cash Days in Hand		5	4	4	2	2	0	14	2
Borrowings as % of reserves	%	9.9	10.5	10.5	9.9	9.9	0	10.6	10.1

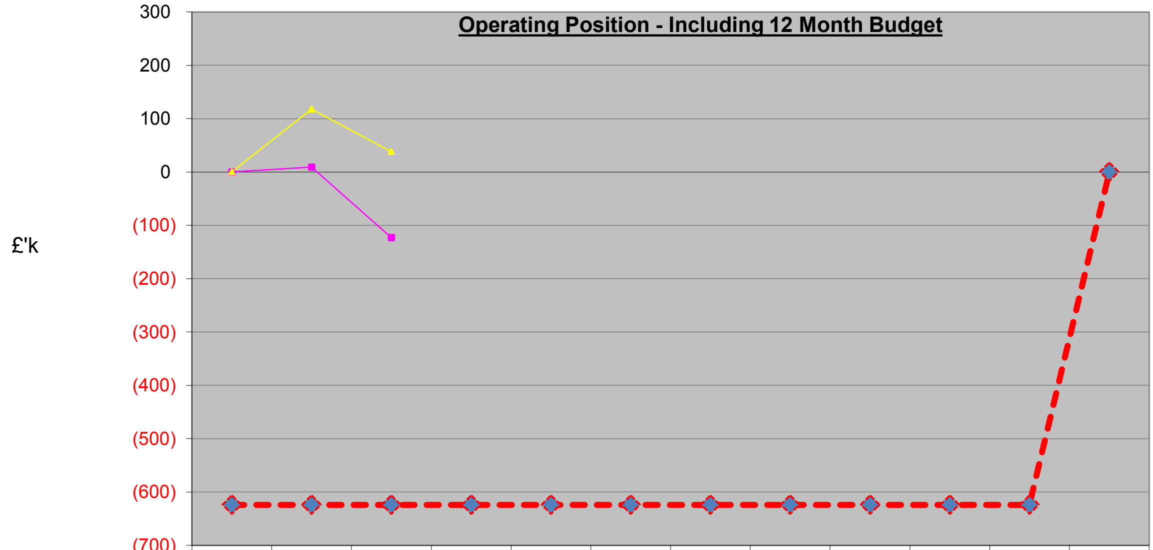
Govt Resource Accounting to 31 March 2016

Refer sections 6 to 7		Previous Year	Annual Budget	Revised Annual Budget	YTD Budget	YTD Actuals	YTD Variance	Previous YTD	Year End Projection
RDEL	£k	7	732	28	1,374	3,581	2,207	228	(637)
AME	£k	(8,185)	0	0	0	0	0	0	0
CDEL	£k	0	0	0	0	(31)	(31)	1,312	0

FINANCIAL COMMENTARY ON THE MANAGEMENT ACCOUNTS

3 MONTHS TO OCTOBER 2015

Section 2: Financial Summary



	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Operating Position 15/16	0	9	(123)									
Historical Position 15/16	0	118	38									
12 Month Budget 15/16	(624)	(624)	(624)	(624)	(624)	(624)	(624)	(624)	(624)	(624)	(624)	0

2.1 The following report provides an update on the financial position of Edinburgh College at 31st October 2015.

2.2 Our 2015/16 academic year shows a starting deficit budget of £0.6m which was approved by the College's Board of Management on the basis that we would work towards a year-end breakeven position.

A debt servicing saving of £132k has been identified which reduces the outstanding balance to £0.5m.Work continues towards identifying this balance without having a detrimental impact on either our operational capabilities or the student experience.

2.3 Disappointingly, the College has not reached its target for FT student recruitment, in part due to the removal of additionality. As a result it is forecast that the College will undershoot its target of 200,258 credits by around 12,000 credits; the YTD actual is 159,024 credits. This failure will have a significant financial impact on the College as it will equate to a total shortfall in income of approx. £2.5m, which includes lost fee income as well as SFC grant-in aid. There will aslo be an adverse funding impact on Student Support Funds, given that less credits results in less funding for student support. In relation to both issues arising from the 12,000 credits shortfall there is ongoing dialogue with the SFC accordingly.

2.4 In addition, due to low student numbers there is a forecast shortfall for the year within SAAS and tuition fee income of £450k. The year end projection has been revised downwards to show the adverse effect of starting budget deficit balance (£0.5m) plus the SAAS and tuition fees shortfall of £0.45m. The sum of these adjustments currently produces a year end projection of £942k deficit (excluding the financial impact of the projected 2015/16 shortfall in credits, which is currently being considered by the SFC).

2.5 Our October operating position shows a deficit of £123k (down from a surplus of £9k last month) against a year to date deficit budget of £179k, and a starting budget deficit of £624k. The historical position shows a surplus of £38k following a release of £161k from the revaluation reserve.

2.6 To date, total income is £16.5m showing an adverse variance of £13k. There are adverse variances within SAAS fees, HE tuition fees, amd bespoke contracts totalling £110k, which are offset by positive variances within scheduled short courses and FE tuition fees totalling £80k. However, detailed budgetary reviews are being undertaken to mitigate these shortfalls.

2.7 Total expenditure to date is £16.7m showing a favourable variance of £69k against a profiled budget, of £16.7m, which is primarily driven by favourable variances within staff costs (£128k) owing to vacancy churn, and also debt interest payments (a net £33k) owing to LIBOR forecasts remaining at historic lows. These are partly offset by adverse variances within other operating expenditure of £96k. All overspends are being investigated and resolutions will be sought from Budget Managers at the next monthly finance meeting.

2.8 The Senior Management Group have been tasked with identifying appropriate savings to mitigate the adverse financial position, with particular focus on staff budgets. Staff numbers (FTE) YTD average of 1,156 is lower than budget of 1,175 due to slower recruitment of existing vacancies. Compared to 2013/14, staffing increased by 36 catering staff following the decision to bring catering in-house from the previous out-sourced Aramark contract.

2.9 The College reviewed its forecast spend on student support funds in conjunction with the SFC's request to submit our numbers for inclusion in the In-Year submission for redistribution of student support funds. The current estimate is a £0.5m shortfall. If this materialises and is charged against "net depreciation", the College will not be able to cover this amount, and will therefore require additional funding from the SFC.

Budget Movements

<u>Income Effect</u>

	£k
Original budget last month	**67,730**
Other Income	(20)
Revised budget this month	**67,710**

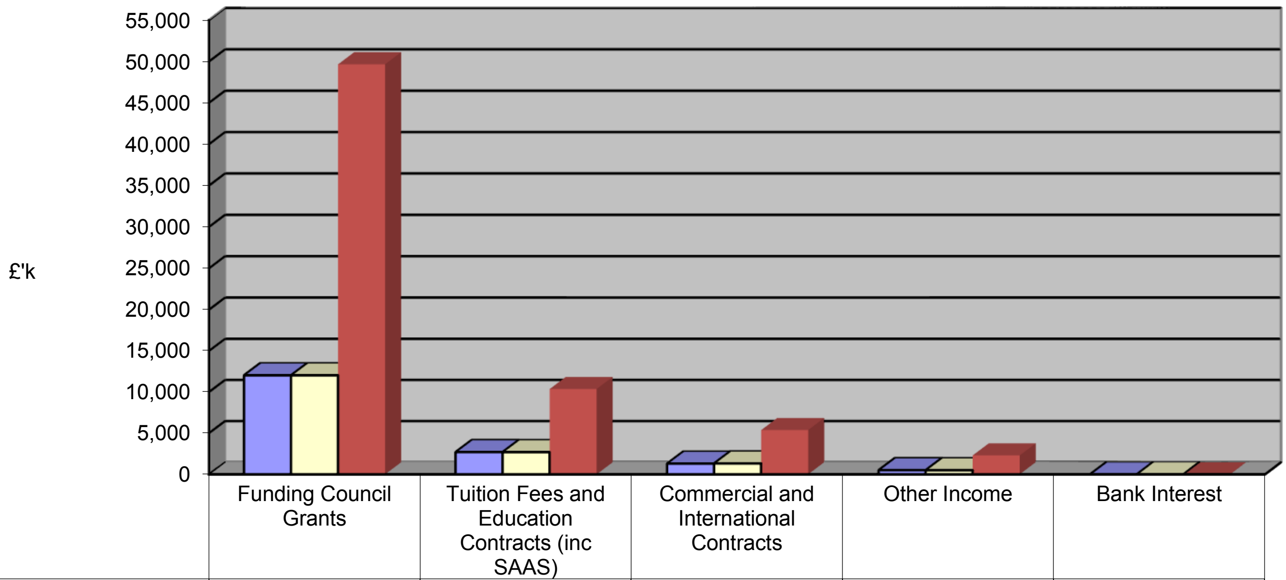
<u>Expenditure Effect</u>

Original budget last month	**68,354**
Other Operational Expenditure	(20)
Revised budget this month	**68,334**

During the month, £20k of full year reductions were made to the College's income and expenditure budget, following the reallocation of a cost recovery budget from income to expense. In addition, there have been a small number of budget virements within income and expenditure categories to eliminate timing variances and miscodings. Our opening budget deficit position of £0.6m remains unaffected by these adjustments.

Section 3: Income Analysis – Year-to-Date

<u>Income Analysis - Year to date (Including 12 Month Revised Budget)</u>



	Funding Council Grants	Tuition Fees and Education Contracts (inc SAAS)	Commercial and International Contracts	Other Income	Bank Interest
Actual for YTD	12,036	2,701	1,299	499	3
Budget YTD	12,036	2,697	1,320	495	5
12 Month Revised Budget	49,655	10,366	5,374	2,295	20

3.1 Our revised income budget for the year stands at £67.7m (previous month: £67.7m). Income to date is £16.5m with an adverse variance of £13k, at present, on the profiled budget for the first quarter of the session.

3.2 SFC grant income (excluding deferred capital releases) of £11.2m is currently in line with the year to date budget.

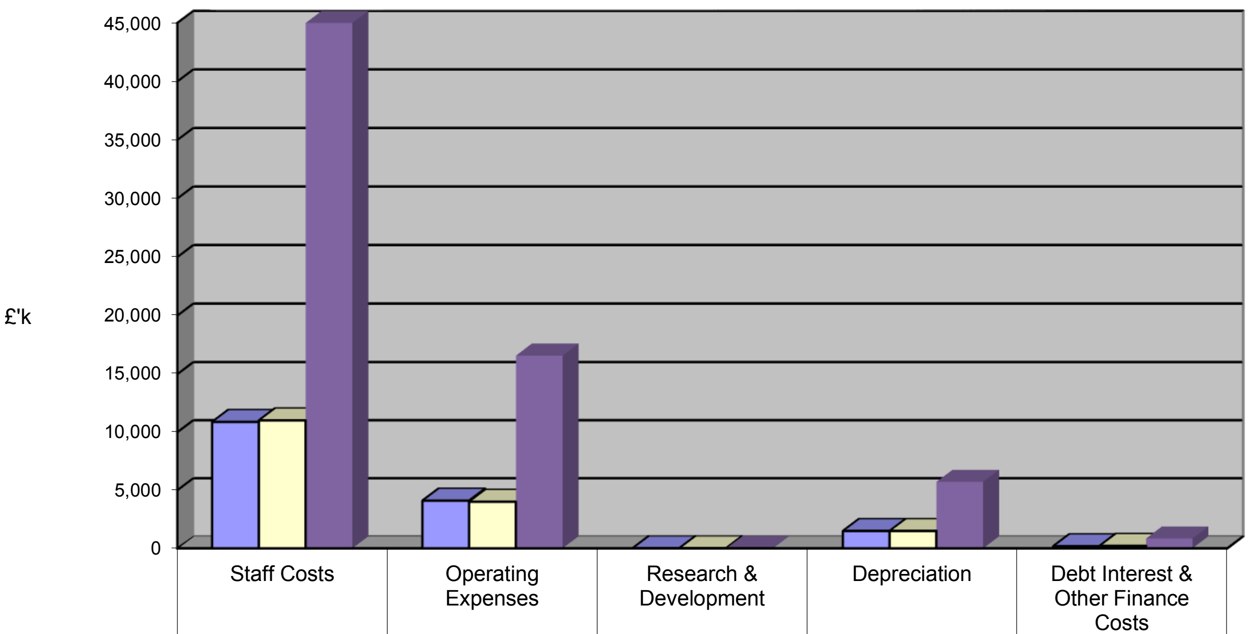
3.3 Net tuition fees & educational contracts are £4k ahead of their year to date target. Although SAAS tuition fees are currently £42k behind budget, this adverse variance is wholly offset, at present, by favourable variances of £43k within FE full time tuition and £8k within examination fees and managing agent income. A reconciliation of student enrolment data for all modes of study is in progress, to ensure that all data is accurately captured against relevant coding. However, as highlighted in the financial summary, an initial forecast shortfall for the year within SAAS and tuition fee income of £450k is now shown in the year end projection. As a result, we must therefore extract further savings (as part of the overall review by senior management to identify savings) in order to achieve a breakeven position, whilst containing expenditure within all areas and increasing income where possible.

3.4 Total Commercial & International income to date stands at £1.3m, which is currently £20k below its profiled budget. However, positive performances continue to be noted within scheduled short courses (+£37k) and other european income (+£6k), 'other bespoke' contract income remains below budget at some £50k off the pace to date, whilst core international revenue streams are currently £6k behind target. However, much work is being performed by the Business and International Development teams to generate new business and solidify contracts over the coming months to improve the position.

3.5 During the month, our deferred income release was £269k (cumulative £819k), which is in line with expectations and is matched against associated depreciation charges.

Section 4: Expenditure Analysis – Year-to-Date

Expenditure Analysis - Year to date (Including 12 Month Revised Budget)



	Staff Costs	Operating Expenses	Research & Development	Depreciation	Debt Interest & Other Finance Costs
Actual for YTD	10,889	4,103	5	1,493	172
Budget YTD	11,017	4,007	5	1,493	209
12 Month Revised Budget	45,139	16,583	50	5,720	842

4.1 Our revised expenditure budget for the year stands at £68.3m (previous month £68.4m), following net adjustments to our budget as mentioned earlier. Total expenditure to date is £16.7m, with a current positive variance of £69k on the profiled budget for the first quarter of the financial year.

4.2 The positive position to date is largely due to a net underspend of £128k within staff costs (primarily due to vacancy churn, and slow recruitment) together with a favourable variance of £33k for debt interest payments. This variance is likely to steadily accumulate as the year progresses (full year forecast variance: currently £132k favourable). These favourable variances have been partly offset by a current adverse spend, on budget, of £96k within other operating expenditure.

4.3 Within other operating expenditure, we have ended the first quarter of the year reflecting small underspends to date within premises (£35k) and travel & subsistence (£9k). However, these are currently offset by overspends of £52k within consultancy fees – (£48k of which is match funded from the SFC Development Grant), teaching activity & support - primarily advanced payments for educational visits (£40k) and administration costs (£24k).

4.4 All the above adverse variances will be reviewed at monthly finance meetings. However, with a strong emphasis on improving our financial position and identifying cost efficiencies, we expect to close in on target as the year progresses (excluding effect of current year credits shortfall), whilst overspent areas will remain under close review and mitigating actions sought.

4.5 In the year to date, depreciation charges of £1.5m (2014/15 y/e: £1.3m) have been released from our fixed assets to reflect their economic use.

Section 5: Catering and Nursery Trading Departments – Year-to-Date

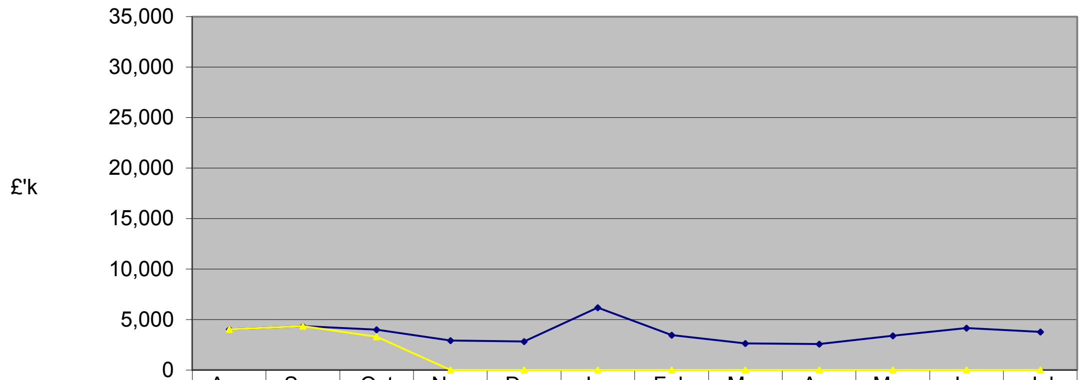
5.1 The following information provides an overview of the year to date trading positions of the catering and nursery departments.

5.2 Our cross-campus catering facilities show total revenue to date of £435k (in line with target and an improving position compared to August and September), showing a gross operating profit of £239k and a current net operating profit of £19k, once staffing and general expenditure costs of £220k are applied. Work remains on-going to maintain the upward momentum in sales and to keep associated costs under firm control.

5.3 Our Nursery function currently shows a net operating loss of £15k, which is largely due to lower income receipts to date than envisaged, coupled with the continued use of agency staff (an adverse cost to date of £9k) to cover absences who are required to maintain the requisite staffing to child ratios for this area.

Section 6: Cashflow

Cash Position - Forecast versus Actuals to October 2015



	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Net Cash (F) - £'k	4,018	4,353	3,997	2,919	2,811	6,175	3,444	2,637	2,563	3,407	4,168	3,770
Net Cash (A) - £'k	4,018	4,353	3,314	0	0	0	0	0	0	0	0	0

6.1 Our cash position sits at £3.3m, behind forecast owing to the timing of tuition fee income and staffing cost flows and is mainly constructed from SFC grant-in-aid funds (£3.0m), cash carried forward and net current year working capital.

6.2 Our net cash balance is forecast to remain low and to fluctuate within a narrow band for the foreseeable future. As a result, we have refrained from placing funds in a short or medium term fixed interest account to ensure that we have enough funds on call for our working capital needs and to avoid breakage charges for early withdrawals. We are paying an average of 5.695% on our debt borrowing (prior year 5.68%).

6.3 Our underlying interest related borrowings stand at £11.3m and our Lennartz VAT liability is £2.4m. Our latest Lennartz payment (a net £222k) was settled in August with the next quarterly payment due in December 2015.

6.4 The projected end of year bank balance of £3.8m (target £4.7m) equates to a positive cash movement for the year of £0.7m. Cash continues to be carefully managed to stabilise working capital and, where possible, maintain a steady outflow against our forecast cash inflows.

6.5 In October, £419k of our 2015/16 financial year (April 2015 to March 2016) capital allocation was drawn down to fund ICT and Estates works (£1,078k drawn down in total since April). The balance remaining from our 2015/16 allocation for capital related spends is £114k.

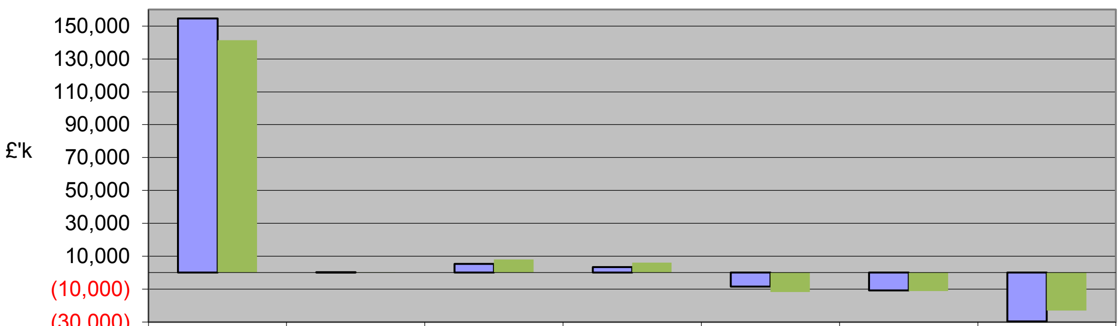
6.6 The RDEL (Resource Departmental Expenditure Limit) refers to an under or overspend for the financial year to 31 March 2016. The Financial Performance Monitoring template shows an underspend of £7k to 31 March 2015. For the year to 31 March 2016 a budgeted underspend of £732k was originally forecast at April 2015 and has since been revised to a year end projection of -£637k due to the actual financial results to 31 July 2015 and the revised projection of a deficit of £942k for the 2015/16 academic year. This position is currently being targeted for improvement in line with the removal of our current I/E forecast deficit of £942k.
The variance between the year to date budget of £1,374k and actual figures of £3,581k is mainly due to the timing of SFC grant drawdown which is recognised on a cash basis for Government resource accounting purposes.

The AME (Annually Managed Expenditure) refers to the revaluation of pension liabilities including the FRS17 deficit; as a result, no budgets or projections have been provided at this stage due to the uncertainty of future movements. The previous year figure of (£8,185k) refers to the actuarial valuation of the LPF scheme (£7,782k) and the revaluation of the early retirement provision (£403k). The figures do not currently include any impact of the revaluation of land and buildings and the restatement of prior year figures. We are currently seeking guidance from the SFC on how these figures should be incorporated.

The CDEL (Capital Departmental Expenditure Limit) refers to the difference between the Capital grant received and the expenditure on fixed assets. The year to date actuals of (£31k) refers to capital expenditure for which grant will be drawn down in November.

Section 7: Balance Sheet

Assets and Liabilities



	Fixed Assets	Stock	Debtors	Cash	Current Liabilities	Bank Loan - Repayable > 1 year	Provisions, Pension & LT Liabs
Actual Oct-15	154,583	116	5,276	3,314	(8,438)	(10,888)	(29,634)
Actual Oct-14	141,326	106	8,034	6,150	(11,789)	(11,288)	(23,079)

7.1 In the year to date our capitalised expenditure totals £0.6m, of which £0.3m was incurred on ICT unified communications, storage solutions and desktop deployments, whilst £0.2m was incurred on Estates projects and refurbishment works. The balance (£0.1m) comprises a number of smaller projects and purchases.

7.2 Our net current assets have decreased to £0.3m due to a net decrease in our cash deposits (academic y/e 2014/15: £0.7m), and equates to 2 days of working capital reserves. At the end of October, debtors include trade £0.7m and £4.6m of prepayments and accrued income (largely SAAS £3.9m due payable in January, and tuition fees mainly due payable in November / December).

7.3 Year on year provisions (excluding pension liabilities) have decreased by £0.4m to £4.9m (academic y/e £5m) following movements in relation to our student accommodation contract and enhanced pension provision scheme. Our support staff pension liability stands at £23.2m, whilst our current bank debt level is £11.3m.

7.4 The main (net) year on year movement in current liabilities is within net accruals and deferred income (£3.6m), whilst the amount held in deferred grant liabilities at the month-end (£3.6m) represents SFC funds largely in respect of grant-in-aid, ESOL, student support, capital formula grants and debt support. During the month, a further tranche (£419k) of our current capital allocation was drawn down (£1.1m drawn down in total to date) to fund new capital works. We currently show £12.3m of liabilities repayable in more than 1 year.

7.5 Deferred grants and specific reserves, less pension reserve, have decreased by 1.3% to £68.3m (academic y/e 2014/15: £69.3m), following the capitalisations detailed above, while the income and expenditure reserve is currently £46m (academic y/e 2014/15: £45.96m).

Section 8: KPIs

8.1 KPIs

• Out-turn: (£123k) deficit • Target: Breakeven • Forecast out-turn: (£942k) deficit	• Cash (burn) / generation rate at -£27k (due to lower salary costs). • Target monthly average generation rate: +£133k.
• YTD cash balance: £3.3m. • Target: £4.7m.	• Net Current Assets: £0.3m (2 days) • Target: £3.3m (7 days)
• Current Ratio: 1:1.03 • Target: 1:1.15	• Pay Costs as % of Total Income: 65.8% • Target: 66.0%
• Borrowings as % of reserves: 9.9% • Target: 9.9%.	• Current credits 159,024 • Target credits: 200,258

I&E Account for the 3 Months to 31st October 2015

	Original Annual Budget £000s	Revised Annual Budget £000s	YTD Budget £000s	YTD Actuals £000s	YTD Variance £000s	Previous YTD £000s	Year End Projection £000s
Funding Council Grants	45,786	45,786	11,017	11,017	0	12,228	45,786
Deferred Capital Grant Releases	3,069	3,069	819	819	0	709	3,069
Debt Support Grant	800	800	200	200	(0)	166	800
Tuition Fees and Education Contracts (inc SAAS)	10,366	10,366	2,697	2,701	4	2,326	9,916
Commercial and International Contracts	5,373	5,374	1,320	1,299	(20)	1,427	5,374
Other Income	2,337	2,315	500	503	3	563	2,315
Total Income	**67,730**	**67,710**	**16,552**	**16,538**	**(13)**	**17,418**	**67,260**
Staff Costs	45,139	45,139	11,017	10,889	128	11,135	45,139
Other Operating Expenses	16,603	16,583	4,007	4,103	(96)	5,195	16,583
Depreciation	5,720	5,720	1,493	1,493	0	1,312	5,720
Debt Interest & Other Finance Costs	842	842	209	172	37	183	710
Research & Development	50	50	5	5	0	65	50
Total Expenditure	**68,354**	**68,334**	**16,731**	**16,662**	**69**	**17,891**	**68,202**
Operating Surplus / (Deficit)	**(624)**	**(624)**	**(179)**	**(123)**	**56**	**(473)**	**(942)**

Statement of Historical Cost Surpluses and Deficits for the 3 Months to 31st October 2015

	Original Annual Budget £000s	Revised Annual Budget £000s	YTD Budget £000s	YTD Actuals £000s	YTD Variance £000s	Previous YTD £000s	Year End Projection £000s
Operating Surplus / (Deficit)	**(624)**	**(624)**	**(179)**	**(123)**	**56**	**(473)**	**(942)**
Difference between historical cost depreciation and actual revaluation charge for the period	313	612	161	161	0	78	612
Historical Cost Surplus / (Deficit)	**(311)**	**(12)**	**(18)**	**38**	**56**	**(395)**	**(330)**

Edinburgh College

I&E Account Detail for the 3 Months to 31st October 2015

	Original Annual Budget £000s	Revised Annual Budget £000s	YTD Budget £000s	YTD Actuals £000s	YTD Variance £000s	Previous YTD £000s
INCOME						
Funding Council Grants						
Recurrent Grant Inc Fee Waiver	41,074	41,074	9,942	9,942	0	11,507
Childcare Funds	1,545	1,545	225	225	0	301
Deferred Capital Grants	3,069	3,069	819	819	0	709
Debt Support Grants	800	800	200	200	(0)	166
Other SFC Grants	3,166	3,166	849	849	(0)	420
	49,655	49,655	12,036	12,036	0	13,103
Tuition Fees & Education Contracts						
FE - UK & EU	102	101	4	48	43	754
HE - UK & EU	996	767	261	242	(18)	94
PT Self Payers	906	1,137	400	412	12	19
Examination Fee Income	21	21	1	6	5	
SAAS	4,280	4,280	928	887	(42)	1,015
Associate Degree Fees	1,250	1,250	308	308		
Managing Agents	1,380	1,380	408	412	3	96
Edinburgh Council - Pre Emp Contract	1,430	1,430	387	387		348
	10,366	10,366	2,697	2,701	4	2,326
Commercial & International						
International	1,350	1,350	354	348	(6)	376
SDS	517	517	141	141	0	235
EH15 Restaurant	47	47	18	19	1	24
Bliss SPA and Employability Salons	148	148	31	31	(0)	45
Gym	335	315	77	77	0	62
Nursery	1,075	1,075	248	239	(9)	219
Residences	595	595	113	113	(0)	131
Access Centre Provision	130	130	15	15	0	21
Bespoke Contracts for Employers	1,175	890	267	217	(50)	287
Scheduled Short Courses		306	56	93	37	
Other European Income				6	6	27
	5,373	5,374	1,320	1,299	(20)	1,427
Other Income						
Catering	2,085	2,085	435	438	2	456
Other Income Generating Activities	232	211	60	62	2	99
	2,317	2,295	495	499	5	555
Endowment & Investment						
Bank Interest	20	20	5	3	(2)	8
	20	20	5	3	(2)	8
TOTAL INCOME	**67,730**	**67,710**	**16,552**	**16,538**	**(13)**	**17,418**
EXPENDITURE						
Staff Costs						
Senior Management	1,862	1,862	497	487	10	540
Academic Departments	23,281	23,281	5,660	5,569	91	5,706
Academic Services	4,428	4,428	1,091	1,069	22	504
Admin & Central Services	12,145	12,145	3,009	2,916	93	3,535
Premises	1,146	1,146	299	301	(2)	356
Catering & Residences	856	856	189	179	9	210
Temporary & Agency Staff Costs	754	754	161	255	(94)	141
Other Staffing Expenditure	668	668	112	112	(0)	143
	45,139	45,139	11,017	10,889	128	11,135
Other Operating Expenses						
Premises	5,094	5,094	1,409	1,374	35	1,458
Teaching Activity & Support	1,033	1,008	359	399	(40)	583
Childcare Costs	1,545	1,545	225	225	(0)	301
Transport Costs	42	42	20	29	(9)	80
IT Costs	1,427	1,427	313	312	0	454
Telecomms Costs	145	145	48	50	(2)	35
Equipment	41	41	13	13	0	18
Health & Safety	92	92	19	20	(1)	30
Travel & Subsistence	547	547	131	122	9	134
Admin Costs	295	305	41	65	(24)	99
Corporate, Consultancy, Professional	864	859	119	171	(52)	395
Staff Welfare	17	17	3	2	0	
Catering	1,401	1,401	302	300	1	328
Training & Development	183	183	20	21	(1)	59
VAT	1,546	1,546	505	511	(7)	586
Marketing & PR	243	243	113	114	(1)	50
Partnership Costs	616	616	127	127	0	241
Overseas Agents Commission	158	158	50	50	0	113
Registration & Exam Fees	1,266	1,266	192	197	(5)	207
Bad Debts	48	48	1	1	0	23
	16,603	16,583	4,007	4,103	(96)	5,195
Depreciation for the year	5,720	5,720	1,493	1,493	0	1,312
Debt Interest & Other Finance Costs						
Interest On Bank Loans	800	800	200	167	33	166
Other Finance Charges	42	42	9	5	4	17
	842	842	209	172	37	183
Research & Development	50	50	5	5	0	65
TOTAL EXPENDITURE	**68,354**	**68,334**	**16,731**	**16,662**	**69**	**17,891**
	(624)	**(624)**	**(179)**	**(123)**	**56**	**(473)**

Balance Sheet
For the 3 Months to 31st October 2015

	2015/2016 YTD Actuals £000s	2014/15 Year End £000s	2014/2015 Previous YTD £000s
Fixed Assets			
L&B	144,910	145,731	131,206
FFE	9,673	9,705	10,120
	154,583	**155,436**	**141,326**
Current Assets			
Stock	116	137	106
Debtors	5,276	3,853	8,034
Cash	3,314	3,111	6,150
	8,706	**7,101**	**14,290**
Creditors < 1yr			
Loans	(386)	(386)	(357)
Payments received in advance	(406)	(281)	(969)
Trade creditors	(151)	(1,761)	(881)
Taxes & social sec	(927)	(1,024)	(1,158)
Accruals, Def Inc & Other Creditors	(2,948)	(2,895)	(5,821)
Amounts owed to SFC	(3,619)	(34)	(2,604)
	(8,438)	**(6,381)**	**(11,789)**
Net current assets / (liabilities)	**268**	**720**	**2,501**
Total assets less current liabilities	**154,850**	**156,156**	**143,827**
Creditors > 1yr			
Bank loans	(10,888)	(10,982)	(11,288)
Lennartz VAT	(1,477)	(1,699)	(2,401)
	(12,364)	**(12,681)**	**(13,689)**
Provisions			
Early retirement	(4,902)	(4,975)	(4,719)
Other	(40)	(65)	(615)
	(4,941)	**(5,040)**	**(5,334)**
Net pension asset / (liability)	(23,216)	(23,216)	(15,344)
NET ASSETS	**114,329**	**115,219**	**109,460**
Deferred capital grants			
SFC	62,504	63,273	63,769
Other	566	564	580
	63,070	**63,837**	**64,349**
Reserves			
I&E account	45,995	45,957	54,044
Pension reserve	(23,216)	(23,216)	(15,344)
Revaluation reserve	28,480	28,641	6,412
	51,259	**51,383**	**45,112**
CAPITAL & RESERVES	**114,329**	**115,219**	**109,460**

Cumulative Cashflows (2015/16)

	Original Budget £000s Total	Revised Budget £000s Total	Aug 15 £000s Actuals	Sep 15 £000s Actuals	Oct 15 £000s Actuals	Nov 15 £000s Forecast	Dec 15 £000s Forecast	Jan 16 £000s Forecast	Feb 16 £000s Forecast	Mar 16 £000s Forecast	Apr 16 £000s Forecast	May 16 £000s Forecast	Jun 16 £000s Forecast	Jul 16 £000s Forecast	YTD Cumulative £000s Total	Annual Forecast £000s Total	Var From Budget - Fav / (Adv) £000s Total
SFC Grants - Core	41,774	41,774	4,469	5,017	3,487	3,679	3,255	3,068	643	2,765	3,429	4,196	4,494	3,272	12,973	41,774	0
SFC Grants - ESF	1,596	1,596					266	266	266	266	133	133	133	133	0	1,596	0
SFC Grants - Other	5,101	5,101	210	321	974	530	511	506	330	267	386	483	358	225	5,101	5,101	0
SAAS Funds	4,280	4,280						3,800		80					0	3,880	(400)
Tuition Fees / Education Contracts	6,085	6,085	803	273	129	654	414	350	369	450	575	575	700	743	6,035	6,035	(50)
Commercial / International	5,373	5,373	344	516	439	600	550	224	450	450	450	450	450	450	5,373	5,373	0
Other Income	2,317	2,317	86	202	301	225	225	225	225	225	225	225	100	53	589	2,317	0
Operational Income	**66,526**	**66,526**	**5,912**	**6,329**	**5,330**	**5,688**	**5,221**	**8,439**	**2,283**	**4,503**	**5,198**	**6,062**	**6,235**	**4,876**	**30,071**	**66,076**	**(450)**
Staff Costs	45,139	45,139	3,552	3,598	4,340	3,288	3,673	3,673	3,673	3,673	3,918	3,918	3,918	3,912	11,490	45,139	0
Purchase Ledger / Other Expenditure	10,256	10,256	787	810	1,501	1,613	624	648	663	714	696	625	665	774	3,098	10,124	132
Childcare Expenditure	1,545	1,545		92	133	206	234	125	135	194	93	171	134	28	1,545	1,545	0
Premises Costs	5,094	5,094	424	518	432	450	450	475	450	400	375	375	375	370	5,094	5,094	0
Development Plan	200	200	3	4	1	35	35	35	35	52					8	200	0
Staff Realignment Costs	622	622	365	127		97			33						492	622	0
Operational Expenditure	**62,856**	**62,856**	**5,131**	**5,149**	**6,407**	**5,690**	**5,017**	**4,957**	**4,990**	**5,034**	**5,083**	**5,090**	**5,093**	**5,085**	**21,727**	**62,724**	**132**
Net Income Generated From Operations	**3,670**	**3,670**	**781**	**1,180**	**(1,077)**	**(2)**	**204**	**3,482**	**(2,707)**	**(531)**	**115**	**972**	**1,142**	**(209)**	**8,344**	**3,352**	**(318)**
Capital Expenditure	1,185	1,185	87	368	121	86	69	35			105	105	105	104	576	1,185	0
Pensioners (against enhanced provision)	288	288	24	25	24	24	24	24	24	24	24	24	24	24	73	289	(1)
Capital Loan Repayments	368	368		34	60		34	60		34	60		34	60	94	376	(8)
VAT Repaid - Lennartz	888	888		222			185			218			218		222	843	45
Non-Operational Expenditure	**2,729**	**2,729**	**111**	**649**	**205**	**110**	**312**	**119**	**24**	**276**	**189**	**129**	**381**	**188**	**965**	**2,693**	**36**
Net Income Generated From Op and Non-Op Activities	**941**	**941**	**670**	**531**	**(1,282)**	**(112)**	**(108)**	**3,363**	**(2,731)**	**(807)**	**(74)**	**843**	**761**	**(397)**	**7,379**	**659**	**(282)**
Student Funds Inflow	9,640	9,640	240	489	1,092	1,288	1,321	845	877	640	990	900	821	775	1,821	10,278	638
Student Funds Outflow	9,640	9,640	4	685	849	1,571	1,321	845	877	640	990	900	821	775	1,538	10,278	(638)
	0	**0**	**236**	**(196)**	**243**	**(283)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**283**	**0**	**0**
Total Cash In	**76,166**	**76,166**	**6,152**	**6,818**	**6,422**	**6,976**	**6,542**	**9,284**	**3,160**	**5,143**	**6,188**	**6,962**	**7,056**	**5,651**	**31,892**	**76,354**	188
Total Cash Out	**75,225**	**75,225**	**5,246**	**6,483**	**7,461**	**7,371**	**6,650**	**5,921**	**5,891**	**5,950**	**6,262**	**6,119**	**6,295**	**6,048**	**24,230**	**75,695**	470
Net Inflow / (Outflow)	**941**	**941**	**906**	**335**	**(1,039)**	**(395)**	**(108)**	**3,363**	**(2,731)**	**(807)**	**(74)**	**843**	**761**	**(397)**	**7,662**	**659**	**(282)**
Opening bank balance	**3,111**	**3,111**	**3,111**	**4,018**	**4,353**	**3,314**	**2,919**	**2,811**	**6,175**	**3,444**	**2,637**	**2,563**	**3,407**	**4,168**	**3,111**	**3,111**	**0**
Closing bank balance	**4,052**	**4,052**	**4,018**	**4,353**	**3,314**	**2,919**	**2,811**	**6,175**	**3,444**	**2,637**	**2,563**	**3,407**	**4,168**	**3,770**	**3,314**	**3,770**	**(282)**
Ledger balances																	
Main accounts	3,842	3,842	3,475	4,006	3,007	2,895	2,504	5,868	3,137	2,330	2,256	3,100	3,861	3,464	3,007	3,464	(379)
Term Deposit accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Student Funds accounts	210	210	543	347	307	24	307	307	307	307	307	307	307	307	307	307	97
Subsidiary accounts																	
	4,052	**4,052**	**4,018**	**4,353**	**3,314**	**2,919**	**2,811**	**6,175**	**3,444**	**2,637**	**2,563**	**3,407**	**4,168**	**3,770**	**3,314**	**3,770**	**(282)**
Loan balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

BOARD OF MANAGEMENT
08 DECEMBEER 2015
PAPER R
P DAVIS

EXTERNAL DEVELOPMENTS IMPACTING ON COLLEGE GOVERNANCE

Purpose of Paper

This paper provides a summary of recent and current governance developments in the sector and their implications for Edinburgh College.

Action Required

Board Members are asked to NOTE the paper.

Strategic Implications

Risk	Yes \ No	Details
Governance \ legal	Yes	The Board should retain an overview of governance matters.
Financial	No	
Executive Approval	**Yes \ No**	**Details**
Reviewed by Executive	No	
Other	**Yes \ No**	**Details**
Equality Impact	No	

1. Audit Scotland Reports

A series of reports by Audit Scotland has focused Public Audit Committee attention on college governance. Since 2013, Committee has received the following Section 22[1] reports from the Auditor General.

- **Adam Smith College** (Fife)**,** September 2013: further to whistleblowing allegations of bullying and mismanagement, investigations had found financial mismanagement relating to severance payments, tendering, and EU funded projects.

- **North Glasgow College** (Kelvin), April 2014: report found a lack of transparency around severance decisions, no assessment of value for money, and miscalculation of projected costs resulting in a higher than anticipated deficit.

- **Coatbridge College** (Lanarkshire), June 2015: report found lack of transparency around severance decisions, payments exceeding terms of scheme with no value for money assessment, and conflicts of interest not managed properly.

Audit Scotland also collected comprehensive data on sector severance payments by year since 2011-12 at the end of 2014 and published its conclusions on the handling of merger-related severance in its report **Scotland's Colleges 2015** in April. The report identified significant shortcomings at two colleges (North Glasgow and Coatbridge) in the reporting and governance of severance, and lesser shortcomings at a further four colleges:

- **Banff and Buchan** (North East Scotland): gaps in documented process for considering and approving senior staff VS.

- **City of Glasgow:** no severance policy in place in 2013-14.

- **Carnegie College** (Fife): lack of appropriate consideration and approval of enhanced package for principal.

- **Cardonald College** (Clyde): cost estimates did not take account of strain on pension fund.

The matter of extant guidance has been central to Public Audit Committee debate: what was available and whether college boards were made aware of it. The change in colleges' public sector status following ONS reclassification enhanced the status of the available SFC and Audit Scotland severance guidance to regulation via the Scottish Public Finance Manual, and the Financial Memorandum.

For that reason, the majority of criticisms levelled at college boards over severance, while they have certainly identified poor practice, have not identified a breach of regulations. For the most part, boards or individuals acted in ignorance of the SFC guidance and/or chose not to act on advice that may have been provided to them by auditors, the SFC or others at the time. If similar actions were taken now, most would be a straightforward case of non-compliance with the Financial Memorandum.

2. Other Governance Issues

In addition to the severance issues outlined, this year has seen a series of events at **Glasgow Clyde College** which began with the suspension of the principal further to allegations of bullying, and led to the resignation of the chair and several members of the

[1] Refers to Section 22 of the Public Finance and Accountability (Scotland) Act 2000

Glasgow Colleges Regional Board. In October, Scottish Ministers took the decision to remove the Clyde board on the grounds of governance failures including its handling of the suspension, incurring excessive legal fees without the proper authority and allowing the board's relationship with students to break down. A new Board has been appointed and the principal reinstated.

Board Members' awareness of the law, regulation and guidance were central to problems at Clyde, too. An out-of-date clause in the college's constitution led to the exclusion of students from a meeting they were entitled to attend, and levels of delegated authority were not observed in relation to using external consultants.

3. Scottish Government Task Group

Events at Clyde College and the Coatbridge severance payments have had a particularly high profile, the latter eliciting comment from the First Minister as well as the censure of the Public Audit Committee.

In response, the Scottish Government has established a task group which will be led by the Cabinet Secretary for Education and Lifelong Learning and include stakeholder representatives from Colleges Scotland, SFC, NUS and STUC[2].

The group will assess the quality and resilience of college governance and consider what lessons may be learned from recent events and from good practice elsewhere. It will also consider current activities directed at improving standards and consistency in governance across the sector, and whether/how these might be supplemented.

The task group should complete its work by February and make recommendations early in 2016.

4. Implications of Developments for Edinburgh College

In relation to past severance arrangements, which have been the focus of most attention, the risk to Edinburgh College of challenge from Audit Scotland or SFC is low. Internal and external auditors have given appropriate assurances, and Audit Scotland reviewed all relevant data in preparing its 2015 report. All severance decisions at the College (and its legacy colleges as part of the pre-merger scheme) were consistent with approved schemes that were supported by a business plan (merger business plan; development plan).

Looking forwards, there is low risk of non-compliance in relation to severance. Robust controls are in place via the Remuneration Committee terms of reference and Financial Regulations. A revised severance policy will be brought to the Remuneration Committee for approval in early 2016.

In relation to the Government task group, it is to be hoped that this body will assess the present level of regulation (following on from the Post-16 legislation and its ancillary regulations, and ONS reclassification) as adequate, and focus instead on constructive ways to embed that regulation in practice, support the development of good governance behaviours and build governance capacity within colleges.

Several of the points that the task group is likely to make – the need for standardised induction, robust evaluation built around the principles of the Code, and model governance

[2] A draft remit was shared with the Good Governance Group for comment in October; membership and other terms of reference may have changed.

documents and procedures - are already being addressed by the work of the Good Governance Group.

Requirements could be made more stringent, for example, through mandatory induction and training activities, through sharing development and evaluation data with the SFC, or through requiring the formal adoption of model governance documents and procedures. There is no indication that this will be the task group's recommendation to Ministers, but it would not be out of line with the trend of the past few years to see further enhancement of oversight and control.

5 Good Governance Group

The Good Governance Group (GGG) will be central to implementing any recommendations emerging from the task group's work. The GGG was established to oversee the development of the new Governance Code and has continued to meet to oversee the roll-out of related publications and activities including the recent handbook to the Code and the national induction and development framework. It is a consultative and steering group that links through its Chair, Hugh Hall, to Colleges' Scotland's Corporate Affairs Committee, and includes SFC, Scottish Government, unions and governance professionals as well as principals and chairs.

If the task group makes recommendations about development and evaluation activities like those suggested above, the GGG, working with Board Chairs, the Board Secretaries Steering Group and College Development Network (CDN), will be the natural vehicle to take these forward.

The GGG has already overseen the creation of an induction and development framework for Board Members which is based around four pillars: Board Member Skills; Organisational Knowledge; External Environment Knowledge; and Teamworking. Some provision will be developed centrally (via CDN) in areas such as knowledge of the external environment, which will support stronger and more consistent awareness of key aspects of governance, and be an economical solution for colleges that would otherwise have to develop/pay for their own training.

The GGG is also already developing various model documents and procedures in addition to the development framework, including model standing orders, scheme of delegation, terms and conditions for board members, and rules for election of staff board members. It is an important distinction that, rather than extending the formal, regulatory reach of the Code, adoption of these models will be voluntary, as things stand. They are being developed by and for the sector and will be made available through a central governance portal for colleges to adapt to meet their own requirements. Having the seal of approval from Colleges Scotland, SFC, Government and other stakeholders via the GGG, the intention is that these will support stronger and more consistent governance without the imposition of further regulation.

Assurance would be provided through robust evaluation arrangements. A national evaluation framework is being developed on the foundation of the development framework, and it is anticipated that boards will be asked to undergo an externally-facilitated performance review in 2016. Such a review is required every 3-5 years by the Code, and was planned for Edinburgh College in 2016.

In short, a good deal of work is underway that will embed and operationalise the principles of the Code of Good Governance. The task group may decide that what is in train will provide enough assurance, or it may decide that further measures such as those outlined under 4 above would be beneficial.

BOARD OF MANAGEMENT
08 DECEMBER 2015
PAPER T
A COLQUHOUN

DEVELOPMENT TRUST: MEMORANDUM OF AGREEMENT

Purpose of the Report

The Board will be asked to approve the following ‘Memorandum of Agreement between the Board of Management of Edinburgh College and Edinburgh College Development Trust’.

This version of the Memorandum of Agreement has been reviewed by the College’s External Auditors.

Action Required

The Board are asked to CONSIDER and APPROVED the Memorandum of Agreement.

Strategic Implications

Risk	**Yes \ No**	**Details**
Governance \ legal	Yes	Governance of the Trust is independent of the College, however, the Board must ensure that it maintains its own clear lines of governance.
Financial	Yes	Explicit in document.
Executive Approval	**Yes \ No**	
Reviewed by Executive	No	
Other	**Yes \ No**	
Equality Impact	No	

MEMORANDUM OF AGREEMENT
BETWEEN
THE BOARD OF MANAGEMENT OF EDINBURGH COLLEGE
AND EDINBURGH COLLEGE DEVELOPMENT TRUST

1.0 BACKGROUND

1.1 Edinburgh College Development Trust (the **Trust**) was incorporated in February 2014 following a proposal by the Edinburgh College Board of Management (the **College**) that an an arms-length charitable trust should be created with educational objectives aligned to its own.

1.2 The College made a donation of funds and provided staff to enable the Trust to establish operations. The College has also donated in-kind financial and marketing support and the use of its facilities for meetings and events and facilitated the transfer of other funds, including funds from the former Thomas Telford Trust on dissolution thereof, to the Trust.

2.0 PURPOSE

2.1 The College and Trust have co-operated on a goodwill basis in the eighteen months since the Trust's incorporation but recognise that a written agreement is now essential to determine the nature of their relationship going forward and what each may expect of the other, including the terms of any particular support that may be provided to the Trust by the College.

3.0 THE PARTIES

3.1 Edinburgh College is an incorporated college under the 1992 Further and Higher Education (Scotland) Act, accountable to the Scottish Government through the Scottish Funding Council for the use of public funds to advance education in the Edinburgh region. It is a registered charity in Scotland (SC021213).

3.2 Edinburgh College Development Trust is a company limited by guarantee and a registered charity in Scotland (SC044657) whose objects are the advancement of education generally, and the support of learners at Edinburgh College, including the provision of physical buildings and facilities and improvement of the learning environment of the Edinburgh College campuses.

4.0 TIMEFRAME

4.1 It has been the intention of both the Trust and the College from the outset that the Trust should generate enough income to finance its own operation in the long term. Both recognise, however, that early fundraising efforts, while the Trust is establishing relationships and its reputation, are likely to generate funds for restricted purposes and/or in-kind support and that the accumulation of substantial unrestricted funds may take longer.

4.2 In order to facilitate the intention set out in clause 4.1, the College and Trust will review the status of arrangements and the terms of support outlined in this Agreement annually.

5.0 RELATIONSHIP BETWEEN THE PARTIES

Independence

5.1 Governance of the Trust is independent of the College.

5.2 According to the Trust's Articles of Association, up to two of six Trustees may also be members of the College Board of Management. The Trust and College agree that such members must always be in a minority in relation to decisions made by the Trust, and a Trustee who is also a Member of the College Board of Management may not be appointed as Chair of the Trust.

5.3 The College and Trust agree to make efforts to ensure that they do not engage in practices likely to lead to a dominant influence being exerted by the College over the Trust's activities or decision-making.

Co-operation

5.4 The two parties must work, nonetheless, in close co-operation to achieve their common objects, and agree to the sharing of information, where it is appropriate, helpful, and within their legal rights to do so.

5.5 The College will make available information about projects and activities which would be suitable objects of Trust support. To that end, and to facilitate beneficial communications, the College Principal will routinely attend meetings of the Trust as an observer.

5.6 The Trust will share its broad strategic intentions and keep the College informed of progress in relation to relevant fundraising and development activity. Representatives of the Trust will attend a College Board meeting annually, in an advisory capacity.

6.0 SUPPORT BY THE COLLEGE

Development Trust Officer

6.1 An Officer will be seconded from the College to work for the Trust on an annually agreed basis.

6.2 The Officer will be line managed within the College, but will report functionally to the Chair of the Trust and will work on Trust-related business during the period for which they are seconded to the Trust. The Chair of the Trust will review the Officer's performance annually and report back as necessary to the Officer's line manager.

6.3 A job description will be agreed by both parties that reflects this arrangement.

6.4 The Officer will be based on College premises and have access to appropriate college resources to fulfil the duties of their post.

Other In-kind Support

6.5 The College will provide the services of a member of the finance team to act as Company Secretary to the Trust and provide relevant financial and regulatory advice. The cost of preparation and independent examination of the accounts and any other financial or legal costs including the cost of liability insurance will be met by the Trust.

6.6 The College's events and marketing team will continue to provide advice and assistance where appropriate in relation to the Trust's fundraising and promotional activities on college premises. Other costs, including the cost of printing any associated materials, will be met by the Trust.

6.7 The College will not charge for the use of its facilities for ordinary meetings of the Trust or for the provision of catering for those meetings.

SIGNED:

On behalf of Edinburgh College Board of Management

.... Date..

On behalf of Edinburgh College Development Trust

.... Date..