



SOUTH ESSEX COLLEGE
Report and Financial Statements
for the year ended 31 July 2015

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

CONTENTS

	Page number
Operating and Financial Review	3
Statement of Corporate Governance and Internal Control	17
Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding	24
Statement of Responsibilities of the Members of the Corporation	25
Independent Auditor's Report to the Corporation of South Essex College	27
Independent Auditor's Report on Regularity to the Corporation of South Essex College	29
Consolidated Income and Expenditure Account	31
Consolidated Statement of Historical Cost Surpluses and Deficits	32
Consolidated Statement of Total Recognised Gains and Losses	32
Balance Sheets as at 31 July	33
Consolidated Cash Flow Statement	34
Notes to the Accounts	31-61

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Operating and financial review

NATURE, OBJECTIVES AND STRATEGIES:

The Members present their report and the audited financial statements for the year ended 31 July 2015. These statements also include the results of the College's wholly owned subsidiary businesses, South Essex Commercial Ltd and Nova Sec Ltd and include the 50% share of the assets and liabilities of Essex Shared Services Ltd.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting South Essex College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

Mission and Core Values

Governors reviewed the College's mission during 2012/13 and in May 2013 adopted a revised mission statement as follows:

'The first choice for achieving success through quality learning'

Core Values

Partnership
Respect
Outstanding
Unique
Dynamic

Public Benefit

South Essex College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 19 to 21.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

Operating and financial review (continued)

Implementation of strategic plan

In May 2013 the College adopted a strategic plan for the period 1 August 2013 to 31 July 2016. This strategic plan includes property and financial plans. The Corporation monitors performance of the College against these plans. The plans are reviewed and updated each year.

The Governors adopted seven Strategic Aims underpinned by strategic objectives and challenging targets.

1. Deliver high quality teaching, learning and assessment across the whole College

- Support the delivery of high quality, innovative and inspiring teaching and learning which is celebrated and promoted.
- Continually improve student performance to ensure high quality outcomes.
- Raise the aspirations and ambitions of all our students.
- Provide fair and transparent procedures for recognising, assessing, recording and accrediting all learning.
- Increase the vocational relevance of our teaching, learning and assessment to better meet the needs of employers.
- Embed the use of technology to promote innovative learning.

2. Provide relevant, accessible, supportive opportunities for all students

- Provide a curriculum offer which is responsive to local and regional priorities and needs.
- Develop citizenship, enterprise and a sense of community for all our students.
- Raise the basic skills levels of all of our students
- Provide bespoke, effective and timely support for all our students
- Ensure all students have the opportunity to develop the skills that will allow them to progress onto the appropriate next step.

3. Develop and grow a sustainable, viable, innovative and responsive College

- Maintain financial stability of the College to enable reinvestment.
- Enhance our curriculum offer.
- Respond to the learning and skills market as a flexible, vibrant, dynamic organisation.
- Develop new national and international markets.
- Explore new opportunities to develop, including new ways of working (Federations, Shared Services), as well as closer working with local schools.

4. Attract, develop and maintain a highly skilled, innovative flexible workforce

- Provide a supportive environment in which all staff can flourish and take pride.
- Make use of new technologies to establish integrated systems which reduce workload.
- Develop a more flexible employment base to help meet the changing needs of the organisation.
- Agree and achieve clear quality service standards for all areas of the College.
- Improve the professional practice of our staff through structured professional development.

Operating and financial review (continued)

5. Respect, Promote and Celebrate Diversity

- Actively challenge discrimination to foster a culture of social cohesion.
- Foster relationships between individuals who share protected characteristics and those who do not.
- Promote equality and diversity in our teaching and learning and foster tolerance and understanding through a range of College activities.

6. Develop our work with stakeholders to improve the economic prosperity of the Eastern and South East Regions

- Continue to maintain and develop partnerships with Sector Skills Councils, National Skills Academies, business and industry.
- Maintain effective relationships with appropriate funding and regulatory bodies.
- Develop relationships with the LEP Board, County Councils and Unitary Authorities and new Employment and Skills Boards to inform our curriculum offer.
- Maintain and develop our partnership arrangements for Higher Education provision.
- Enable our students and stakeholders to contribute and inform College decision making.

7. To provide high quality, fit for purpose, accommodation and resources

- Develop new buildings at Thurrock and Basildon, alongside redesign of Southend Campus, to provide modern, high quality, state of the art facilities.
- Provide high quality resources and equipment to support learning.
- Continue to develop the College IT infrastructure to meet the emerging and demanding needs of new technologies.
- Continually review College Services to produce ongoing efficiency savings while improving standards.
- Ensure a safe and secure environment for all.

Financial objectives

The financial strategy that underpins the strategic plan is as follows:

- Aspire to achieve outstanding financial health as graded by the Skills Funding Agency (SFA) Financial model after taking account of the impact of our property strategy. Continued borrowing is important to develop our estate but scores negatively for financial health. We expect to constantly achieve a “Good” rating.
- Generate at least 1% surplus.
- Pay not to exceed 62.5% of turnover.
- To generate a positive cash flow
- Continue to grow ‘other’ income. The College must maintain a target to generate funding from sources other than the main bodies of EFA, SFA and Local Authorities.

A series of performance indicators have been agreed to monitor the successful implementation of the policies. These include

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Operating and financial review (continued)

- Success, retention and attendance
- Achievement and destination
- Equality and Diversity
- Learner and staff satisfaction
- Financial Health

FINANCIAL POSITION

Financial results

The Group generated an “operating deficit” in the year of £0.6m (2013/14 surplus of £0.4m). The College returned a management accounting surplus of £0.4m and the deficit was a result of the impact of FRS17 Local Government Pension Scheme Pension adjustments of £0.8m and taxation.

The Group has accumulated reserves of £64m (2013/14 £66.5m) including £1m (2013/14 £5.5m) in cash. The Group wishes to continue to accumulate reserves and cash balances in order to provide sufficient working capital to meet the Group’s obligations as and when they fall due. Where there are cash funds in excess of this working capital requirement these will be used to invest in infrastructure improvements and associated capital equipment for the benefit of teaching, learning and assessment in accordance with the strategic plan.

Tangible fixed asset additions during the year amounted to £6.8m including the finalisation of the works to the new Thurrock campus which opened in September 2014. There were no major disposals of capital assets in the year.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2014/15 the funding bodies provided 75.4% of the College’s total income.

The Group has two subsidiary companies, South Essex Commercial Services Limited and NOVA, Skills Education and Careers Ltd. The principal activity of South Essex Commercial Services Limited is the operation of the car park, retail, catering and conferencing facilities. Any surplus generated by the subsidiary is transferred to the College under deed of covenant. In the current year a deficit was generated £0.2m (2013/14 surplus £0.1m) after taxation.

The College will wind up NOVA, Skills Education and Careers Ltd. A 15 month set of accounts will be prepared up to 31st October 2015. The Group accounts include 12 months transactions. The remaining staff of this Company have been transferred into South Essex College under TUPE arrangements.

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Operating and financial review (continued)

Essex Shared Services Ltd is a joint venture, it was established as a cost sharing entity to deliver a back office finance, payroll and procurement services to both South Essex College and Chelmsford College. The finance teams from both Colleges TUPE'd into the joint venture from 1st August 2014. The joint venture returned a deficit of £37k due to the impact of the FRS17 pension accrual and pension interest cost. This is applied 50/50 to each venture partner. The opening pension liabilities have been applied on an actual basis for each venture partner.

Treasury Policies and Objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Cash Flows

Cash inflow from operating activities was £4.4m (2013/14 £7.3m).

Liquidity

During the year the College continued to repay a secured loan of £12.3 million. The original loan was in order to help finance a new building on its main site in Southend. The building cost was £52m and the balance was met by College reserves (2014: £14.4 million), Learning and Skills Council (£14.2 million), the disposal proceeds from the sale of property and land (£6.1 million), contribution from University of Essex (£2 million) the Higher Education Funding Council (£2 million) and an ERDF grant (£1 million).

The outstanding loan is £3.7m payable by September 2018.

A further loan to facilitate the building of the new campus at Thurrock was drawn down and the value of this loan is currently £26m. A payment of £6m will be made in October 2015, the remainder of the loan will be repayable in full by 2041. A capital repayment schedule is in place.

The size of the College's total borrowing and its approach to interest rate has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow. During the year this margin was maintained at all times.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2014/15 the College has delivered activity that has produced £32m (including £0.8m Discretionary Learner Support) in funding body main allocation funding (2013/14 – £36.0m).

Student achievements

The following table follows the new Qualification Success Rate methodology introduced in December 2014. This new methodology, termed "Classroom Learning" replaces the previous

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Operating and financial review (continued)

“Learner Responsive” methodology. Under the new QSR methodology success is calculated as a percentage of achievers over leavers.

In addition Functional Skills for Maths & English are now included within the College’s success rates, previously these had been reported separately. National Average benchmarks are now based upon All Providers and not the national average for General and Further Education Colleges as reported in previous years.

Overall College headline FE Learner Responsive funded success rates have decreased by 4.6 percentage points over the performance in 2013/14 from 79.9% to 75.3%; the national average stands at 77.8%. Overall retention has remained relatively constant at 89.2%.

Table 1: Classroom Learning Student Achievements

%	Overall		16-18		19+		National Average
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	
Success	79.9	75.3	78.9	71.9	81.9	83.2	77.8
Retention	89.9	89.2	90.6	88.9	88.5	90.0	89.6
Achievement	88.3	84.4	86.2	80.8	92.5	92.5	88.2

Table 2: Success Rates for Learners on Employer Responsive Programmes

%	16-18			19-23			24+		
	Intermediate	Advanced	Overall	Intermediate	Advanced	Overall	Intermediate	Advanced	Overall
Success	64.8	69.4	66.1	75.1	76.2	75.5	79.6	84.7	78.6

Curriculum developments and action on teaching and learning

OFSTED

During 2014/15 the College was subject to a full OFSTED inspection. The full report can be found on the OFSTED website here <http://reports.ofsted.gov.uk/inspection-reports/find-inspection-report/provider/ELS/130672>.

The overall effectiveness grade disappointingly remained at 3, requires improvement, however the effectiveness of leadership and management was improved on the previous inspection to a 2 and recognised as good. Also it is important to note that of the 8 subject areas graded, 4 were graded as 2 and 4 were graded as 3. Proportionately significantly more students were in the areas graded good.

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Operating and financial review (continued)

The College remains strong in apprenticeship delivery and within the report Apprenticeships were graded as a 2 for overall effectiveness and all sub grades were also a grade 2. Therefore in their own right the apprenticeship provision in the College is graded as good.

There continues to be a significant focus on improving the quality of teaching, learning and assessment in College with a view to being graded as good overall at the next inspection. The College continues to use the learning cycle and has a relentless approach to improving quality rapidly.

English and Maths

English and Maths is a critical component of the study programme and as such the College has further moved to strengthen the quality of delivery from previous years. It was recognised that a central co-ordination role was required but that the delivery best sat within the academic departments. As such the delivery staff have been moved from a centrally managed team to a distributed model within College.

Other developments

The College has amended its learning observation process to a more holistic quality approach. Individual lessons are not subject to a grade in line with the new inspection framework. Instead the whole of the provision is reviewed and starts with a desktop assessment of data including retention, success, achievement and attendance. The actual observation of teaching practice forms part of the overall action and improvement plan with individual teaching staff. Where there is room for improvement, a member of staff will work with an advanced practitioner on a 6 week improvement programme.

Recognising the recommendations of the FELTAG report, the College has included blended learning as part of individualised study programmes. Students are able to access a variety of IT resources to assist with study and some of this is self-directed or available in open plan learning centres.

Higher Education

The College continues to grow and strengthen its Higher Education offer and links to employment. An example of this collaboration during 2014/15 was the unique offer that has been developed with the Royal Opera House and University of the Arts London. South Essex College and Royal Opera House have built and opened a costume store in Thurrock to house all of the stock for the Opera House. There are also two costume workshops and students have begun a degree in costume design and management which has been developed with the University and the employer and delivered by the College

Post-balance sheet events

The winding up of NOVA, Skills Education and Careers Ltd will be actioned post balance sheet with the Group accounts including 12 months activity.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Operating and financial review (continued)

Payment Performance

The College agrees the terms and conditions under which business transactions are conducted with its suppliers. The College endeavours to comply with those terms, provided they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The College does not follow any code or standard on payment practice, but in 2014/15 achieved an average payment of creditors within 30 days of invoice. This was unable to be reported before 1st August 2014.

NOVA Partnership

South Essex College is the contract holder for the NOVA Partnership for Apprenticeships and Skills. Overall success is the percentage of learners who start their programme and successfully complete the apprenticeship by the later of their planned or actual end date.

Timely success is the percentage of learners who complete their programme by their planned end date. Successful completion of an Apprenticeship framework is also contingent upon the learner being employed at the end of their course. The tables below show the current position for 2014/15, as at September 30th, 2015. Table 3 shows the three year trend for overall success, timely success and retention. Please note that the drop in success rates from 2013/14 was predicted and is for the main part due to the withdrawal of more than 200 hairdressing learners (mainly 16-18) as a result of the Skills Funding Agency's Employer Ownership Pilot initiative which allowed employers to obtain a direct contract and take with them existing learners already enrolled with our subcontractors. The final year end data will be available in early November, once R15 has closed (October 31st, 2015).

Table 3: Three Year Trend for Success and Retention for 2014-15

	Overall Success			Timely Success			Retention		
	12/13	13/14	14/15	12/13	13/14	14/15	12/13	13/14	14/15
Overall Total	72%	76%	72%	61%	63%	64%	78%	79%	74%
Adv. App	68%	75%	76%	55%	60%	68%	74%	79%	77%
App	74%	77%	71%	64%	66%	64%	77%	79%	72%

Future developments

Southend

The College is reviewing options to purchase property for student accommodation in Southend to support Higher Education and increasing International Students. In addition we are appealing against the refusal of planning to build a Sports Facility which is essential for curriculum delivery.

Operating and financial review (continued)

Thurrock

The new campus in Grays town centre opened in September 2014. The previous site at Woodview closed during the summer of 2014. The £45million investment into the new campus was funded from additional borrowing together with the receipt from the sale of the campus at Woodview. More information is available at our website <http://www.southessex.ac.uk/thurrock>

Basildon

The College is continuing with its strategy to relocate the main campuses into the town centres of Southend, Basildon and Grays. The Basildon scheme has full planning permission and it is anticipated that it could open for the 2018/19 academic year.

In order to fund the move to the town centre the College has worked with the Homes and Communities Agency and Basildon Borough Council to dispose of the current site at Nethermayne for residential development. This scheme also has full planning permission and is due to commence in 2016. The College will be fully operational throughout the development of the new campus.

The final element is the relocation of the town centre market as part of the Borough's ambitious regeneration plan for the town centre. This will see construction of a purpose built market at the top of the High Street, vacating the current Market Square for the building of the new College. This will ensure excellent transport links as it is next door to a train station and a bus station.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives.

Financial

The College has £64m of net assets after the provision of £17.3m pension liability and long term debt of £29.6m.

People

The College employs 796 people (expressed as full time equivalents), of whom 312 are teaching staff.

Reputation

The College has a good reputation locally, regionally and nationally. Maintaining a quality brand is essential for the College's success at attracting learners and external relationships.

Capacity has been enhanced by the new town centre campuses at Thurrock and Southend and the college looks to build on this by increasing the number of students taking courses at the College.

The College aims to increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the FE Funding Bodies and is seeking opportunities particularly in the areas where the College currently performs well such as HEFCE and European Commission grants.

Operating and financial review (continued)

PRINCIPAL RISKS AND UNCERTAINTIES:

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

As part of an on-going programme, managers are expected to:

- Define and identify risks that might affect their department's ability and capacity to achieve its set objectives.
- Assess the risks based on likelihood and impact.
- Manage the risks and suggest action plans like Terminating, Tolerating, Treating, Transferring or Taking opportunities arising from it.
- Understand, monitor and update the departmental risk registers.
- Recognise when to refer the risks to the Risk Champion or their line manager.

The summary College risk register is reviewed at every Audit and Risk Committee meeting. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

Outlined below are the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

Failure to raise the importance of Maths & English

A new manager has been appointed who will raise the profile of Maths & English across the College. All students without a grade D GCSE in both subjects will be placed on an appropriate programme.

Failure to focus on support and tracking of students' progress and attendance

Regular reviews with learners and apprentices will take place and we have invested in learner 'coaches' and 'subject specialists' to help teachers manage this risk.

Failure to provide appropriate work experience/work related learning for students

A new work placement/work experience plan has been developed and shared with all staff. A team dedicated to work placement has been put in place which will be resource hungry in the early stages.

Failure to raise the proportion of good and better lessons will affect student performance

A number of measures have put in place including a) regular use of initial assessment to plan and support learning b) ensure learners receive sufficient challenge where appropriate c) routinely

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Operating and financial review (continued)

develop English & Maths and d) continued use of the learning cycle to improve teaching and learning.

Lack of appropriate staffing for contract allocation whilst maintaining staff costs within 62.5% of total costs

The College needs to ensure that it has appropriate staffing with the right skills and that payroll costs are moved towards the target of 62.5% of total costs.

Failure of capital projects

There are various risks associated with the Basildon capital project. Although it has now received planning permission, community objections have delayed the project.

A comprehensive risk assessment of the project has been carried out separately with key risks identified and mitigating factors put in place. Project process is reported at each Policy & Resources Committee and at Corporation meetings.

Franchising and partnership activities are appropriately monitored

The two major contracts (the Partnership for Higher Education with The University of Essex and Work Based Learning for the SFA delivered through The NOVA Partnership) remain significant and would have an impact if they had problems over delivery or were lost. The College has a good, well-established reputation for the quality and compliance of its partnership/franchised activity. The College endeavours to follow the funding agencies best practice where this exists and partnership/franchising activity has been subject to internal audit and found to be operating correctly.

Diversification into new or expanding markets (HE, new ways of working, International)

It is our intention to grow and develop our international work at the College. We plan to further develop partnerships in the Far East offering in country provision at Advanced and Higher levels and opportunities to progress to top-up degrees in the UK.

Area reviews

The College is preparing for an Area Review with discussions taking place with other Colleges regarding hard federation models / mergers. Data gathering and market intelligence will be ready for discussions with the review plan.

Comprehensive spending review

Scenario planning is underway for 2016/17 and beyond in anticipation of Further Education Funding reductions. Costs will be reduced as required in line with funding cuts.

Operating and financial review (continued)

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, South Essex College has many stakeholders. These include:

- Learners;
- Funding Councils;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices/ Regional Development Agencies;
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies;
- International partners.

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

Equal opportunities and employment of disabled persons

South Essex College is committed to the promotion of equality of opportunity for all learners, employees and all other users of the College.

Our ethos is to create and maintain the conditions whereby learners and staff are treated solely on the basis of their merits, abilities and potential, regardless of ethnic or national origin, disability, gender, age, religion or belief, sexual orientation, social class and background, or other distinction.

The College's Equality and Diversity Policy is published on the College's Internet site. The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. An Equality and Diversity plan is published each year and monitored by managers and governors.

The College actively promotes a culture of celebrating diversity and will take reasonable steps to prevent discrimination occurring. This includes promoting the significance of the Equality and Diversity Policy and what is expected of learners and staff while they study or work at the College.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Operating and financial review (continued)

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010:

- a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2007/08, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access.
- b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for learners with disabilities.
- c) There is a list of specialist equipment which the College can make available for use by learners and a range of assistive technology is widely available.
- d) The admissions policy for all learners is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist lecturers to support learners with learning difficulties and/or disabilities. There are a number of Learning Support Assistants who can provide a variety of support for access to learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for learners who have learning difficulties and/or disabilities.
- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling, welfare and support services are described in the Student Diary, which is issued to learners together with other relevant policies and procedures (including the Compliments & Complaints and Disciplinary Procedure) via C_Space (Student Intranet).

Disclosure of information to auditors

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the Members of the Corporation on 7 December 2015 and signed on its behalf by:



**Mr D O'Halloran
Chairman**

Professional advisers

Financial statement and regularity auditors:

KPMG LLP
6, Lower Brook Street
Ipswich
IP4 1AP

Internal auditors:

Scrutton Bland
Sanderson House
Museum Street
Ipswich
Suffolk
IP1 1HE

Bankers:

Barclays Bank
1 Churchill Place
London
E14 5HP

Solicitors (Property):

Thomas Eggar
76 Shoe Lane
London
EC4A 3JB

Solicitors (Employment):

Bates Wells & Braithwaite London LLP
2-6 Cannon Street
London
EC4M 6YH

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the AOC Code of Good Governance for English Colleges which the College adopted in July 2015 and the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Its purpose is to assist understanding of the application of the principles.

In the opinion of the Governors, the College complies with all the provisions of these Codes and it has complied throughout the year ended 31 July 2015. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

The Corporation

The Members who served on the Corporation during the year and up to the date of signature of this report were as listed in Table 2.

Table 2: Governors serving on the College Board during 2014/15

Name	Date of appointments	Term of office	Date of resignation	Status of appointment	Committees served	Attendance
Mr R Launder	First Appointed 01/01/2010 Reappointed 01/01/2014	4 years		Clause 3 of the Instrument	Chair: Corporation until 31/07/2015, Policy & Resources; Remuneration; Search & Governance	100%
Ms A O'Donoghue CBE	13-Aug-12			Principal and Chief Executive	Curriculum & Quality; Policy & Resources; Search & Governance	100%
Mr M Allars	First Appointed 19/1/2015	6 months	15/03/2015	Student	Curriculum & Quality	100%
Ms S Bridle	First Appointed 06/07/15	1 year		Student	Curriculum & Quality	100%
Mr B Brooks	First Appointed 08/12/2014	2 years		Staff	Curriculum & Quality	75%
Ms O Buck	First Appointed 01/08/2012 Appointed 26/03/2013	4 years 4 years		External Member(Co-opted) Clause 3 of the Instrument	Policy & Resources	100%
Mr S Burrell	First Appointed 01/01/2014	4 years		Clause 3 of the Instrument	Policy & Resources	100%
Mrs S Carr	First Appointed 01/04/2001 Reappointed 01/04/2003;01/04/2005; 01/04/2007;01/04/2011; 01/04/2015	2 years and then 4 years		Clause 3 of the Instrument	Curriculum & Quality	100%
Ms A Clarke	First Appointed 06/07/2015	1 year		Student	Curriculum & Quality	100%
Dr R Gray	First Appointed 01/03/1998 Reappointed 15/07/1999;15/07/2003; 15/07/2007;15/07/2011; 15/07/2015	2 years then 4 years		Clause 3 of the Instrument	Chair of Policy & Resources; Chair of Search & Governance; Remuneration	100%
Ms R Hawkrigde	First Appointed 07/07/2014	1 year	06/07/2015	Student	Curriculum & Quality	50%
Mr R Hughes	First Appointed 10/12/2012	2 years	08/12/2014	Staff	Curriculum & Quality; Policy & Resources;	100%
Mr T Knight	First Appointed 01/08/2012	4 years		Clause 3 of the Instrument	Curriculum & Quality; Policy & Resources; Search & Governance; Remuneration	100%

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Statement of Corporate Governance and Internal Control (continued)

Table 2 continued

Ms E Mead	First appointed 17/03/2014	4 years	11/06/2015	Clause 3 of the Instrument	Curriculum & Quality	50%
Mr B Morris	First Appointed 01/08/2013	4 years		Clause 3 of the Instrument	Audit & Risk	60%
Mr B Neagus	First Appointed 06/12/2010 Reappointed 10/12/2012	2 years	08/12/2014	Staff	Audit & Risk	100%
Mr D O'Halloran	First appointed 15/07/1999 Reappointed 15/07/2003; 15/07/2007; 15/07/2011; 15/07/2015	4 years		Clause 3 of the Instrument	Vice Chair: Corporation until 31/07/2015, Chair: Corporation wef 1/8/15, Chair of Curriculum & Quality; Remuneration; Policy & Resources	100%
Mr Y Goolamali	First Appointed 15/07/2003 Reappointed 15/07/05 15/07/2007; 15/07/2011	2 years then 4 years	31/12/2014	Clause 3 of the Instrument	Audit & Risk	50%
Mr G Ocen	First Appointed 05/10/2015	4 years		Clause 3 of the Instrument	Audit & Risk	N/A
Mr B Patterson	First Appointed 01/08/2012	4 years		Clause 3 of the Instrument	Chair: Audit & Risk; Search & Governance	80%
Ms E Reeve	First Appointed 07/07/2014	1 year	12/11/2014	Student	Curriculum & Quality	100%
Ms L Rieffel	First Appointed 08/12/2014	2 years		Staff	Audit & Risk	75%
Mr P Singh Narang	First Appointed 21/03/2011 Appointed 01/01/2014	4 years 4 years		External Member (Co-opted) Clause 3 of the Instrument	Audit & Risk	80%
Mr T Thompson	First Appointed 01/08/2012 Appointed 26/03/2013	4 years		External Member (Co-optee) Clause 3 of the Instrument	Audit & Risk	100%
Ms M West	First appointed 01/01/2014	4 years		Clause 3 of the Instrument	Policy & Resources	40%
Mrs G Williams	First Appointed 01/08/2012	4 years		Clause 3 of the Instrument	Vice Chair: Corporation wef 1/8/15, Curriculum & Quality; Search & Governance; Chair: Remuneration	100%
Mr P Little	First Appointed 21/03/2011 Reappointed 21/03/2015	4 years then 1 year		External Member (Co-opted)	Audit & Risk	n/a
Mr N Kelleway	First Appointed 09/12/2013	4 years		External Member (Co-opted)	Policy & Resources	n/a
Mr R Millea FCA is the Clerk to the Corporation						

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, curriculum and quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets four times per year.

Statement of Corporate Governance and Internal Control (continued)

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Policy & Resources, Remuneration, Search & Governance, Curriculum & Quality and Audit & Risk. Full minutes of all Corporation meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

South Essex College
Luker Road, Southend on Sea
Essex SS1 1ND

The Clerk to the Corporation maintains a register of financial and personal interests of the Governors. The register is available for inspection at the above address.

All Governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole, on the advice of the Remuneration Committee.

Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board and Committee meetings. Briefings are also provided on an ad hoc basis.

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Corporation considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chairman and Principal and Chief Executive are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search & Governance Committee, consisting of six members of the Corporation, which is responsible for the selection and nomination of any potential new member for the Corporation's consideration. The Clerk is responsible for ensuring that appropriate induction and on-going training is provided as required to both new and existing Board Members.

Members of the Corporation are appointed for a term of office not exceeding four years.

Remuneration Committee

Throughout the year ending 31 July 2015, the College's Remuneration Committee comprised five members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and Chief Executive, other senior post-

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Statement of Corporate Governance and Internal Control (continued)

holders and other members of the Senior Leadership Team and to appraise their performance. It also appraises the Clerk's performance.

Details of remuneration for the year ended 31 July 2015 are set out in note 7 to the financial statements.

Audit & Risk Committee

The Audit & Risk Committee comprises six members of the Corporation (excluding the Principal and Chief Executive and the Chair of the Corporation) including up to two external members (currently one). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit & Risk Committee meets four times per year and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The College's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented. This is monitored and scrutinised by the Committee.

The Audit & Risk Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and other assurance providers and their remuneration for both audit and non-audit work.

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal and Chief Executive as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between South Essex College and the funding bodies. She is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

Statement of Corporate Governance and Internal Control (continued)

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in South Essex College for the year ended 31 July 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2015 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

South Essex College has an internal audit service. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At a minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Statement of Corporate Governance and Internal Control (continued)

Review of effectiveness

As Accounting Officer, the Principal and Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by;

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements auditors, the regularity auditors, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

The Principal and Chief Executive has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit & Risk Committee, which oversees the work of the internal auditor and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Leadership Team and the Audit & Risk Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit & Risk Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Leadership Team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2015 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the Senior Leadership Team and internal audit, and taking account of events since 31 July 2015.

Going concern

South Essex College has reported 'good' financial health for the past few years and this expected to continue for the foreseeable future. However, there are significant factors that will impact on the financial stability of the College over the next two years. The main risks to the College are:

1. The financial impact of changes to Further and Higher Education Funding post the Comprehensive Spending Review. The College has modelled 2% reduction in EFA income and 10% on SFA income and reductions to operating expenditure will be progressed to ensure surplus targets are met.
2. The impact of the outcome once Area Reviews are complete. The Further Education landscape may change following the review. However the College is being proactive in engaging with other Colleges in the area.
3. The apprenticeship levy which could lead to a different model other than the NOVA partnership currently in place.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

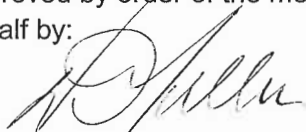
Statement of Corporate Governance and Internal Control (continued)

In addition the Basildon project is being finalised and it is highly likely that funds (approx. £3m) to cover expenditure to date will be released in early 2016.

The College secured a £32 million loan facility from its bankers used in connection with financing its new building in Grays Town Centre. The building has been operational for one year and the loan at the end of October 2015 is £19.5m. Since the building has opened learner numbers in Thurrock have increased significantly and are forecast to do so again in 2016/17 adding confidence to the cash flow and surplus forecasts. An additional loan with Lloyds bank that was used as part of the funding package for the Southend building has £3m remaining which will be repaid by 2018. Additionally the College has in place a £1m overdraft facility for the period January to April annually to cover unexpected cash flow issues during the period when the funding agencies reduce their cash flow profile to colleges.

A cash flow forecast has been prepared for the period to December 2016 and therefore the College has reasonable expectation that it has adequate resources to continue in operational existence for a period of 12 months from the date of approval of these Financial Statements and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Approved by order of the members of the Corporation on 7th December 2015 and signed on its behalf by:



Mr D O'Halloran

Chair



Ms A O'Donoghue CBE

Principal and Chief Executive

Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with the Skills Funding Agency terms and conditions of funding under the Financial memorandum in place between the College and the Skills Funding Agency. As part of our consideration we have had due regard to the requirements of the financial memorandum.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the Skills Funding Agency.

Approved by order of the members of the Corporation on 7th December 2015 and signed on its behalf by:



Mr D O'Halloran

Chair



Ms A O'Donoghue CBE

Principal and Chief Executive

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Statement of Responsibilities of the Members of the Corporation

The Members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education and with the Accounts Direction for 2014-15 financial statements issued jointly by the Skills Funding Agency and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements, the Corporation is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

The Corporation is also required to prepare an Operating and Financial Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the Corporation of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Statement of Responsibilities of the Members of the Corporation (continued)

other funds and to ensure they are used properly. In addition, Members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 7th December 2015 and signed on its behalf by:



Mr D O'Halloran
Chair

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Independent auditor's report to the Corporation of South Essex College

We have audited the Group and College financial statements ("the financial statements") of South Essex College for the year ended 31 July 2015 set out on pages 31 to 61. The financial reporting framework that has been applied in their preparation is applicable law and UK Generally Accepted Accounting Practice.

This report is made solely to the Corporation, as a body, in accordance with the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required to state to them in an auditor's 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 Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of South Essex College and Auditor

As explained more fully in the Statement of the Corporation's responsibilities set out on pages 25 and 26, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2015 and of the Group's deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Independent auditor's report to the Corporation of South Essex College (continued)

**Opinion on other matters prescribed by the Joint Audit Code of Practice issued jointly by the
Skills Funding Agency and the Education Funding Agency**

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.

S Beavis

Stephanie Beavis
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
6 Lower Brook Street, Ipswich, IP4 1AP

18 December 2015

South Essex College of Further and Higher Education Consolidated Financial Statements for the year ending 31 July 2015

Reporting Accountant's Report on Regularity to the Corporation of South Essex College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency and the Secretary of State for Education acting through the Education Funding Agency

In accordance with the terms of our engagement letter and further to the requirements of the financial memorandum with Skills Funding Agency and funding agreement with Education Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by South Essex College during the period 1 August 2014 to 31 July 2015 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency and Education Funding Agency has other assurance arrangements in place.

This report is made solely to the corporation of South Essex College and the Skills Funding Agency and Education Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of South Essex College and Skills Funding Agency and Education Funding Agency those matters we are required to state in a 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 corporation of South Essex College and Skills Funding Agency and Education Funding Agency for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of South Essex College and the reporting accountant

The corporation of South Essex College is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Reporting Accountant's Report on Regularity to the Corporation of South Essex College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency and the Secretary of State for Education acting through the Education Funding Agency (continued)

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the college's income and expenditure.

The work undertaken to draw our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a negative conclusion on regularity consistent with the requirements of the Joint Audit Code of Practice.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

S Beavis

Stephanie Beavis

For and on behalf of KPMG LLP, Reporting Accountant

6 Lower Brook Street, Ipswich, IP4 1AP

18 December 2015

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Consolidated Income and Expenditure Account

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2		37,044		39,481
Tuition fees and education contracts	3		8,509		8,280
Research grants and contracts	4		-		715
Other income	5		3,899		2,739
Endowment and investment income	6		5		106
Total Income			<u>49,457</u>		<u>51,321</u>
Less share of income from joint venture			<u>(467)</u>		<u>-</u>
Net Income			48,990		51,321
EXPENDITURE					
Staff costs	7	27,754		26,469	
Other operating expenses	8	16,419		20,101	
Depreciation	12	4,195		3,212	
Interest and other finance cost	9	<u>1,084</u>		<u>667</u>	
Total expenditure			<u>49,452</u>		<u>50,449</u>
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax					
			(462)		872
Exceptional restructuring costs	7		(165)		(381)
Other exceptional items	11		<u>-</u>		<u>(121)</u>
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation, exceptional items and disposal of assets assets but before tax					
			(627)		370
Share of operating loss on joint venture	30		(18)		-
Taxation	10		(69)		-
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax					
			(714)		370
(Deficit)/surplus for the year retained within general reserves					
			<u>(714)</u>		<u>370</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

**Consolidated Statement of Historical Cost
Surpluses and Deficits**

	Notes	2015 £'000	2014 £'000
(Deficit)/surplus on continuing operations before taxation		(645)	370
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	21	180	181
Historical cost surplus/(deficit) for the year before taxation		<u>(465)</u>	<u>551</u>
Historical cost surplus/(deficit) for the year after taxation		<u>(534)</u>	<u>551</u>

**Consolidated Statement of Total Recognised Gains
and Losses**

	Notes	2015 £'000	2014 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax		(714)	370
Actuarial loss in respect of pension scheme	27	(1,020)	(1,856)
Actuarial loss in respect of joint venture pension scheme		(70)	-
Write down of investment in subsidiary company at fair value		(59)	-
Historical cost surplus/(deficit) for the year before taxation		<u>(1,863)</u>	<u>(1,486)</u>

Reconciliation

Opening Reserves and endowments	48,202	49,688
Total recognised gains/(losses) for the year	<u>(1,863)</u>	<u>(1,486)</u>
Closing reserves and endowments	<u>46,339</u>	<u>48,202</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Balance Sheet as at 31st July

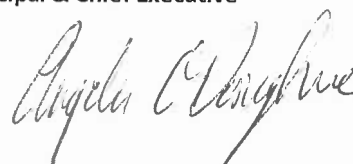
	Notes	Group 2015 £'000	College 2015 £'000	Restated Group 2014 £'000	Restated College 2014 £'000
Fixed assets					
Tangible Fixed Assets	12	110,005	109,966	107,354	107,308
Investments	13	-	-	60	-
Total fixed assets		110,005	109,966	107,414	107,308
Current Assets					
Stock		58	49	60	52
Debtors	15	8,045	7,968	8,062	8,359
Debtors due after more than one year	15	-	-	6,008	6,008
Cash at bank and in hand		1,036	906	5,537	4,980
Total current assets		9,139	8,923	19,667	19,399
Less: Creditors amounts fall due within one year	16	(13,230)	(13,242)	(13,548)	(13,483)
Net current (liabilities) / assets		(4,091)	(4,319)	6,119	5,916
Total assets less current liabilities		105,914	105,647	113,533	113,224
Less Creditors amounts falling due after more than one year	17	(24,552)	(24,547)	(31,281)	(31,281)
Provision for joint venture deficit	30	(88)	-	-	-
Net assets excluding pension liability		81,274	81,100	82,252	81,943
Net Pension liability	27	(17,320)	(17,320)	(15,760)	(15,760)
NET ASSETS INCLUDING PENSION LIABILITY		63,954	63,780	66,492	66,183
Deferred capital grants	19	17,615	17,615	18,290	18,290
Reserves					
Income and expenditure account excluding pension reserve	21	59,653	59,479	59,776	59,467
Pension reserve	27	(17,320)	(17,320)	(15,760)	(15,760)
Income and expenditure account including pension reserve	21	42,333	42,159	44,016	43,707
Revaluation reserve	20	4,006	4,006	4,186	4,186
Total reserves		46,339	46,165	48,202	47,893
TOTAL FUNDS		63,954	63,780	66,492	66,183

These financial statements on pages 31 to 61 were approved by the Corporation on 7th December 2015 and were signed on its behalf by:

Mr D O'Halloran
Chair



Ms A O'Donoghue
Principal & Chief Executive



**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Consolidated Cash Flow Statement

	Notes	2015 £'000	2014 £'000
Cash inflow from operating activities	22	4,360	7,264
Returns on investments and servicing of finance	23	(856)	(205)
Capital expenditure and financial investment	24	(820)	(27,008)
Financing	25	(7,185)	16,673
Decrease in cash for the year	26	(4,501)	(3,276)

**Reconciliation of net funds flow to movements
in net funds**

Decrease in cash in the period	26	(4,501)	(3,276)
Cash outflow from loan movements (increase) / decrease	25	<u>7,185</u>	<u>(16,673)</u>
Movement in net funds in the period		2,684	(19,949)
Net funds at 1 August	26	<u>(31,211)</u>	<u>(11,262)</u>
Net funds at 31 July	26	<u>(28,527)</u>	<u>(31,211)</u>

Notes to the Accounts

1 Accounting policies

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP), the *Accounts Direction for 2014-15 financial statements* and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, South Essex Commercial Services Limited and Nova Skills Education and Careers Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are made up to 31 July 2015.

Recognition of income

The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account.

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the adult learner responsive funding element is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account.

The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end. Employer responsive grant income is recognised based on a year-end reconciliation of income claimed and actual delivery. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Notes to the Accounts (continued)

1 Accounting policies (continued)

Recognition of income (continued)

Non-recurrent grants from the LSC and its successor organisations or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by learners or their sponsors, for example the National Health Service.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Post-retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS).

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 27, the TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

Notes to the Accounts (continued)

1 Accounting policies (continued)

Post-retirement benefits (continued)

Enhanced Pensions

The actual cost of any enhanced on-going pension to a former member of staff is paid by the College annually. An estimate of the expected future cost of any enhancement to the on-going pension of a former member of staff is charged in full to the College's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the LSC and its successor organisations.

Tangible fixed assets

Land and buildings

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Notes to the Accounts (continued)

1 Accounting policies (continued)

Tangible fixed assets (continued)

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

Market value of the fixed asset has subsequently improved.

Asset capacity increases

Substantial improvement in the quality of output or reduction in operating costs

Significant extension of the asset's life beyond that conferred by repairs and maintenance

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party, for example a charitable trust, they are only capitalised if the College has rights or access to ongoing future economic benefit.

These assets are then depreciated over their expected useful economic life.

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- Building improvements – 10 years on a straight-line basis
- Motor vehicles and general equipment – 5 years on a straight-line basis
- Computer equipment – 3 years on a straight-line basis
- Furniture and fittings – 10 years on a straight-line basis

Notes to the Accounts (continued)

1 Accounting policies (continued)

Tangible fixed assets (continued)

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Investments

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Notes to the Accounts (continued)

1 Accounting policies (continued)

Liquid resources

Taxation

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 as amended by the Charities Act 2006 and as such is a charity within the meaning of part 11 Corporation Tax Act 2010 (CTA 2010). Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by CTA 2010 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. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

The College's trading subsidiary company (South Essex Commercial Services Ltd) is subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of Learner Support Funds and as the Recipient College for Work Based Learning, and unemployed training contracts for South Essex. Related payments received from the LSC or its successor organisations and subsequent disbursements to learners are excluded from the Income and Expenditure account and are shown separately in Note 33, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Notes to the Accounts (continued)

1 Accounting policies (continued)

Joint Ventures

The College accounts for joint ventures using the equity method with its share of profits or losses included in the operating surplus and an adjustment made against the carrying value to reflect this.

Going concern

South Essex College has reported 'good' financial health for the past few years and this is expected to continue for the foreseeable future. However, there are significant factors that will impact on the financial stability of the College over the next two years. The main risks to the College are:

1. The financial impact of changes to Further and Higher Education Funding post the Comprehensive Spending Review. The College has modelled 2% reduction in EFA income and 10% on SFA income and reductions to operating expenditure will be progressed to ensure surplus targets are met.
2. The impact of the outcome once Area Reviews are complete. The Further Education landscape may change following the review. However the College is being proactive in engaging with other Colleges in the area.
3. The apprenticeship levy which could lead to a different model other than the NOVA partnership currently in place

In addition the Basildon project is being finalised and it is highly likely that funds (approx. £3m) to cover expenditure to date will be released in early 2016.

The College secured a £32 million loan facility from its bankers used in connection with financing its new building in Grays Town Centre. The building has been operational for one year and the loan at the end of October 2015 is £19.5m. Since the building has opened learner numbers in Thurrock have increased significantly and are forecast to do so again in 2016/17 adding confidence to the cash flow and surplus forecasts. An additional loan with Lloyds bank that was used as part of the funding package for the Southend building has £3m remaining which will be repaid by 2018. Additionally the College has in place a £1m overdraft facility for the period January to April annually to cover unexpected cash flow issues during the period when the funding agencies reduce their cash flow profile to Colleges.

A cash flow forecast has been prepared for the period to December 2016 and therefore the College has reasonable expectation that it has adequate resources to continue in operational existence for a period of 12 months from the date of approval of these Financial Statements and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

2 Funding council grants

	2015	2014
	£'000	£'000
Recurrent grant - EFA, SFA and LA	31,901	35,951
Work based learning	1,811	925
Access funds	2,333	1,816
Free meals in FE	299	-
Release of deferred capital grants (note 19)	436	372
Release of HEFCE capital grants	264	176
Train to Gain	-	241
Total	37,044	39,481

The College is the lead partner in a consortium to deliver Apprenticeships in the Essex Region. The income shown above includes that earned by the College in its capacity both as a provider and as the consortium lead. All other income claimed from the main funding body and payable to consortium partners has been excluded from these accounts. Total income claimed in the year under this arrangement and the related payments to partners were as follows:

	2015	2014
	£'000	£'000
Train to Gain income	-	241

	2015	2014
	£'000	£'000
Work based learning income	6,658	6,554
Payments to non College partners	(4,847)	(5,629)
Net income	1,811	925

3 Tuition fees and education contracts

	2015	2014
	£'000	£'000
Tuition fees	8,082	7,185
Education contracts	427	1,095
Total	8,509	8,280

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

4 Research grants and contracts

	2015 £'000	2014 £'000
Other grants and contracts	<u>-</u>	<u>715</u>

5 Other Income

	2015 £'000	2014 £'000
Commercial activities	1,630	1,391
Education Training Foundation	680	670
Nursery income	370	278
Other	752	400
Cost sharing	467	-
	<u>3,899</u>	<u>2,739</u>

6 Endowment and investment income

	2015 £'000	2014 £'000
Other interest receivable	<u>5</u>	<u>106</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

7 Staff Costs

	2015	2014
	No.	No.
Teaching staff	312	311
Non teaching staff	484	426
	<u>796</u>	<u>737</u>

Staff Costs for the above persons

	2015	2014
	£'000	£'000
Wages and Salaries	21,518	20,473
Social security costs	1,469	1,412
Other pension costs (including FRS17 adjustments of £506,000 (2014 : £235,000))	<u>3,204</u>	<u>2,701</u>
Payroll sub total	26,191	24,586
Contracted out staffing services	<u>1,563</u>	<u>1,883</u>
	27,754	26,469
Exceptional restructuring costs	<u>165</u>	<u>381</u>
	<u>27,919</u>	<u>26,850</u>

The number of senior post-holders and other staff who received emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	Senior post holders		Other Staff	
	2015	2014	2015	2014
	No.	No.	No.	No.
£50,001 to £60,000	-	-	14	17
£60,001 to £70,000	-	-	-	-
£70,001 to £80,000	-	1	-	1
£80,001 to £90,000	1	1	-	-
£90,001 to £100,000	3	2	-	-
£100,001 to £110,000	-	-	-	-
£160,001 to £170,000	-	1	-	-
£170,001 to £180,000	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>5</u>	<u>5</u>	<u>14</u>	<u>18</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

8 Other operating expenses

	2015	2014
	£'000	£'000
Teaching costs	4,435	4,773
Non teaching costs	8,852	12,413
Premises costs	3,132	2,915
Total	16,419	20,101

Other operating expenses include:

	2015	2014
	£'000	£'000
Auditors' remuneration		
Financial statements audit*	24	25
Internal audit**	14	29
Other services provided by the financial statement auditors	-	5
Other services provided by the internal auditors	7	-
Losses on disposals of tangible fixed assets (where material)	-	1

* includes £22,000 in respect of the College (2014 £23,000)

**all relating to the College

9 Interest payable

	2015	2014
	£'000	£'000
On bank loans, overdrafts and other loans		
Repayable within 5 years, not by instalments	-	-
Repayable within 5 years by instalments	253	-
Repayable wholly or partly in more than five years	572	311
	825	311
On finance leases	27	-
On taxation	9	-
Pension finance costs (note 27)	223	356
Total	1,084	667

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

10 Taxation

	2015	2014
	£'000	£'000
United Kingdom corporation tax	-	-
Provision for corporation tax in the accounts of subsidiary company	69	-
	<u>69</u>	<u>-</u>
	<u>69</u>	<u>-</u>

11 Deficit on continuing operations for the period

The (deficit) / surplus on continuing operations for the year is made up as follows:

	2015	2014
	£'000	£'000
College's (deficit)/surplus for the period	(478)	251
(Deficit)/surplus generated by subsidiary undertakings	(236)	119
Total	<u>(714)</u>	<u>370</u>

Exceptional items

	2015	2014
	£'000	£'000
Release of restoration provision not required	-	65
Capital grant released on asset disposal in prior period	-	822
Restoration of asset previously recorded as being disposed	-	449
Financial impact of fraudulent activity by third party	-	(1,457)
	<u>-</u>	<u>(121)</u>
	<u>-</u>	<u>(121)</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

12 Tangible fixed assets

	Group				
	Assets under construction £'000	Freehold land and buildings £'000	Furniture £'000	Equipment £'000	Restated Total £'000
Cost or valuation					
At 1 August 2014	44,794	82,755	1,601	7,201	136,351
Additions	394	4,423	590	1,439	6,846
Transfers	(42,733)	42,733	-	-	-
At 31 July 2015	<u>2,455</u>	<u>129,911</u>	<u>2,191</u>	<u>8,640</u>	<u>143,197</u>
Depreciation					
At 1 August 2014	-	22,678	995	5,324	28,997
Charge for the year	-	2,834	162	1,199	4,195
At 31 July 2015	<u>-</u>	<u>25,512</u>	<u>1,157</u>	<u>6,523</u>	<u>33,192</u>
Net book value at 31 July 2015	<u>2,455</u>	<u>104,399</u>	<u>1,034</u>	<u>2,117</u>	<u>110,005</u>
Net book value at 31 July 2014	<u>44,794</u>	<u>60,077</u>	<u>606</u>	<u>1,877</u>	<u>107,354</u>

The tangible fixed assets as at 31 July 2014 have been restated by £1.2 million to account for a capital accrual that had not previously been recognised.

South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015

Notes to the accounts (continued)

12 Tangible fixed assets

	College only				
	Assets under construction £'000	Freehold land and buildings £'000	Furniture £'000	Equipment £'000	Restated Total £'000
Cost or valuation					
At 1 August 2014	44,794	82,709	1,572	7,113	136,188
Additions	394	4,423	590	1,439	6,846
Transfers	(42,733)	42,733	-	-	-
At 31 July 2015	2,455	129,865	2,162	8,552	143,034
Depreciation					
At 1 August 2014	-	22,670	970	5,240	28,880
Charge for the year	-	2,833	159	1,196	4,188
At 31 July 2015	-	25,503	1,129	6,436	33,068
Net book value at 31 July 2015	2,455	104,362	1,033	2,116	109,966
Net book value at 31 July 2014	44,794	60,039	602	1,873	107,308

The tangible fixed assets as at 31 July 2014 have been restated by £1.2 million to account for a capital accrual that had not previously been recognised.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

13 Investments

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Investment in subsidiary companies	-	-	-	-
Investment in associate companies	-	-	60	-
	<u>-</u>	<u>-</u>	<u>60</u>	<u>-</u>
	-	-	60	-
	<u>-</u>	<u>-</u>	<u>60</u>	<u>-</u>

The College owns 100 per cent of the issued ordinary £1 shares of South Essex Commercial Services Limited, a company incorporated in England and Wales. The principal business activity of South Essex Commercial Services Limited is the operation of the car park, retail and conferencing activities. The interest in South Essex Commercial Services Ltd was acquired on 22 July 2003 on its incorporation.

The College owns 100 per cent of the ordinary shares of Nova Skills Education and Careers Limited. The company is incorporated in England and Wales and its primary activity is the provision of training and education to adults and other learners. This company was an associate company at 31 July 2014 owned 50% by the College. It became a subsidiary on 1 August 2014 when the balance of the shares were acquired for no consideration.

The College owns 50% of the ordinary shares of Essex Shared Services Limited. The company is incorporated in England and Wales and its primary activity is to provide administrative support to educational institutions.

14 Endowment assets

The College does not have any endowment assets.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

15 Debtors

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Amounts falling due within one year				
Trade Debtors	977	901	1,147	1,116
Amounts owed by Subsidiary undertakings	-	22	-	357
Prepayments and accrued income	1,064	1,041	803	774
Other debtors	6,004	6,004	6,112	6,112
Total	8,045	7,968	8,062	8,359
Other debtors due after more than one year	-	-	6,008	6,008
Total	8,045	7,968	14,070	14,367

16 Creditors: amounts falling due within one year

	Group 2015 £'000	College 2015 £'000	Restated Group 2014 £'000	Restated College 2014 £'000
Bank loans and overdrafts	7,400	7,400	7,185	7,185
Payments received in advance	1,410	1,410	1,666	1,666
Trade creditors	835	828	866	866
Amounts owed by Subsidiary undertakings	-	124	-	-
VAT	(5)	(17)	1	-
Other taxation and social security	862	793	780	780
Accruals	2,377	2,374	2,114	2,088
Other creditors	351	330	936	898
Total	13,230	13,242	13,548	13,483

17 Creditors: amounts falling due after one year

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Bank loans	22,163	22,163	29,563	29,563
Pension liability to joint venture	207	207	-	-
Other creditors - Lennartz	1,529	1,529	1,718	1,718
Other creditors - Salix	83	78	-	-
Other creditors - Finance leases	570	570	-	-
Total	24,552	24,547	31,281	31,281

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

18 Borrowings

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
In one year or less	7,400	7,400	7,185	7,185
Between one year and two years	1,465	1,465	7,400	7,400
Between two and five years	3,378	3,378	3,000	3,000
In five years or more	17,320	17,320	19,163	19,163
	29,563	29,563	36,748	36,748

The bank loan of £3,713,000 with Lloyds TSB is secured on the Luker Road campus and is fully repayable by 30 September 2018.

The bank loan of £19,850,000 with Barclays Bank is secured on the new Thurrock campus and is fully repayable by 30 September 2041.

A promissory note of £6,000,000 in connection with the new Thurrock campus is fully repayable by 31 October 2015.

19 Deferred capital grants

	Group and College		
	Funding body grants £'000	Other grants £'000	Total £'000
At 1 August 2014	15,351	2,939	18,290
Cash Received	-	26	26
Released to income and expenditure account	(408)	(293)	(701)
At 31 July 2015	14,943	2,672	17,615

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

20 Revaluation reserve

	Group	College	Group	College
	2015	2015	2014	2014
	£'000	£'000	£'000	£'000
At 1 August	4,186	4,186	4,367	4,367
Transfer from revaluation reserve to general reserve				
Depreciation on revalued assets	(180)	(180)	(181)	(181)
At 31 July	4,006	4,006	4,186	4,186

21 Movement on general reserves

	Group	College	Group	College
	2015	2015	2014	2014
	£'000	£'000	£'000	£'000
Income and expenditure account reserve	44,016	43,707	45,321	45,192
At 1 August				
(Deficit)/Surplus for the year	(714)	(708)	370	190
Transfer from revaluation reserve	180	180	181	181
Actuarial loss in respect of pension scheme	(1,020)	(1,020)	(1,856)	(1,856)
Actuarial loss in respect of joint venture pension scheme	(70)	-	-	-
Write down of investment in subsidiary company at fair value	(59)	-	-	-
	42,333	42,159	44,016	43,707
Balance represented by:				
Pension reserve	(17,320)	(17,320)	(15,760)	(15,760)
Transfer pension deficit to joint venture	(207)	(207)	-	-
Income and expenditure account reserve excluding pension reserve	59,860	59,686	59,776	59,467
At 31 July	42,333	42,159	44,016	43,707

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

**22 Reconciliation of consolidated operating surplus
to net cash flow from operating activities**

	2015	2014
	£'000	£'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation	(714)	370
Depreciation (notes 1 and 12)	4,195	3,212
Deferred capital grants released to income (note 19)	(701)	(1,458)
Loss on disposal of tangible fixed assets	-	1
Interest payable (note 9)	1,084	667
Interest receivable (note 5)	(5)	(106)
FRS 17 pension cost less contributions payable (note 6 and 29)	506	235
Decrease in stocks	2	9
(Increase)/decrease in debtors	(13)	4,835
Decrease in creditors	(688)	(441)
Share of associate surplus	-	(60)
Loss on joint venture	70	-
Write down of investment in subsidiary company to fair value	59	-
Actuarial loss transferred to joint venture company	(207)	-
Pension curtailment	18	-
Finance leases less repayments	754	-
Net cash inflow from operating activities	<u>4,360</u>	<u>7,264</u>

23 Returns on investment and servicing of finance

	Notes	2015	2014
		£'000	£'000
Other interest received	6	5	106
Interest paid	9	<u>(861)</u>	<u>(311)</u>
Net cash inflow from returns on investment and servicing of finance		<u>(856)</u>	<u>(205)</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

24 Capital expenditure and financial investment

	2015	2014
	£'000	£'000
Purchase of tangible fixed assets	(6,846)	(33,008)
Amounts in relation to promissory notes	6,000	6,000
Deferred capital grants received	26	-
	<u>(820)</u>	<u>(27,008)</u>
Net cash outflow from capital expenditure and financial investment	<u>(820)</u>	<u>(27,008)</u>

25 Financing

	2015	2014
	£'000	£'000
Debt due beyond a year:		
Unsecured loan repayable by 2041	-	23,709
Repayments of amounts borrowed	<u>(7,185)</u>	<u>(7,036)</u>
	<u>(7,185)</u>	<u>16,673</u>

26 Analysis of Changes in net funds

	At 1	Cash	At 31
	August	flows	July
	2014		2015
	£'000	£'000	£'000
Cash in hand and at bank	5,537	(4,501)	1,036
Debt due within 1 year	(1,185)	(6,215)	(7,400)
Debt due after 1 year	<u>(35,563)</u>	<u>13,400</u>	<u>(22,163)</u>
	<u>(31,211)</u>	<u>2,684</u>	<u>(28,527)</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

27 Pension and similar obligations

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Essex County Council. Both are defined-benefit schemes.

Total pension cost for the year	2015 £'000	2014 £'000
Teachers' Pension Scheme: contributions paid	1,385	1,260
Local Government Pension Scheme:		
Contributions paid	1,292	1,206
FRS 17 charge	<u>506</u>	<u>235</u>
Charge to the Income and Expenditure Account (staff costs)	1,798	1,441
Enhanced pension charge to Income and Expenditure Account (staff costs)		-
Total Pension Cost for Year	<u>3,183</u>	<u>2,701</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013.

Teachers' Pension Scheme

The Teachers' Pension Scheme is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. Individuals employed by colleges incorporated under the Further and Higher Education Act 1992 are eligible to join TPS. Teachers and lecturers are able to opt out of the TPS.

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Essex County Council. The total contribution made for the year ended 31 July 2014 was £1,543,262, of which employer's contributions totalled £1,129,077 and employees' contributions totalled £414,185. The agreed contribution rates for future years are 13% for employers and range from 5.5% to 7.5% cent for employees.

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

27 Pension and similar obligations (continued)

FRS 17

Principal Actuarial Assumptions	At 31 July 2015	At 31 July 2014
Rate of increase in salaries	4.40%	4.50%
Rate of increase for pensions in payment / inflation	2.60%	2.70%
Discount rate for scheme liabilities	3.80%	4.20%
Inflation assumption (CPI)	2.60%	2.70%
Commutation of pensions to lump sums	60%	50%

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

	At 31 July 2015	At 31 July 2014
<i>Retiring today</i>		
Males	22.80	22.70
Females	25.20	25.10
<i>Retiring in 20 years</i>		
Males	25.10	24.90
Females	27.60	27.40

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

**27 Pension and similar obligations
(continued)**

The college's estimated share of the assets and liabilities in the scheme and the expected rates of return were:

	Value at 31 July 2015	Long- term rate of return expected at 31 July 2014	Value at 31 July 2014
	£'000		£'000
Equities	21,480	6.50%	18,920
Bonds	3,206	4.00%	3,147
Property	3,822	5.50%	3,399
Gilts	1,338	3.40%	1,814
Cash	816	3.20%	837
Alternative Assets	2,379	4.00%	1,128
Total market value of assets	33,041		29,245
Present value of scheme liabilities			
- Funded	(50,336)		(44,980)
- Unfunded	(25)		(25)
Deficit in the scheme	(17,320)		(15,760)

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

27 Pension and similar obligations (continued)

	2015	2014
	£'000	£'000
Analysis of pension finance income / (costs)		
Expected return on pension scheme assets	1,666	1,568
Interest on pension liabilities	<u>(1,889)</u>	<u>(1,924)</u>
	<u>(223)</u>	<u>(356)</u>

Amount recognised in the statement of total recognised gains and losses (STRGL)

	2015	2014
	£'000	£'000
Actuarial gains on pension scheme assets	1,791	341
Experience gains and losses	-	558
Actuarial losses on scheme liabilities	<u>(2,811)</u>	<u>(2,755)</u>
	<u>(1,020)</u>	<u>(1,856)</u>

	2015	2014
	£'000	£'000
Deficit in scheme at 1 August	(15,760)	(13,313)
Movement in year		
Employer service cost (net of employee contributions)	(1,800)	(1,441)
Employer contributions	1,292	1,205
Transfer pension deficit to joint venture	207	-
Unfunded pension payments	2	1
Net interest / return on assets	(223)	(356)
Curtailments and settlements	(18)	-
Actuarial gain / (loss)	<u>(1,020)</u>	<u>(1,856)</u>
Deficit in scheme at 31 July	<u>(17,320)</u>	<u>(15,760)</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

**27 Pension and similar obligations
(continued)**

Local Government Pension Scheme (continued)

Asset and Liability Reconciliation

	2015	2014
	£'000	£'000
Reconciliation of Liabilities		
Liabilities at start of period	45,005	40,441
Service cost	1,800	1,441
Interest cost	1,889	1,924
Employee contributions	509	467
Actuarial loss/(gain)	2,811	1,629
Benefits paid	(988)	(897)
Curtailments and settlements	(665)	-
Liabilities at end of period	50,361	45,005

Reconciliation of Assets

Assets at start of period	29,245	27,128
Expected return on assets	1,666	1,568
Actuarial (loss)/gain	1,791	(227)
Employer contributions	1,294	1,206
Employee contributions	511	468
Benefits paid	(990)	(898)
Settlement prices received/ (paid)	(476)	(898)
Assets at end of period	33,041	29,245

The estimate value of employer contributions for the year ended 31 July 2016 is £1,250,000.

History of experience gains and losses

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on assets:	1,791	341	(3,223)	1,158	688
Experience gains and losses on scheme liabilities:	(2,811)	(2,197)	(798)	3,165	875
Total amount recognised in STRGL:	(1,020)	(1,856)	(4,021)	4,323	1,563

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

28 Financial Commitments

At 31st July the College has annual commitments under non-cancellable operating leases as follows:

	Group and College	
	2015	2014
	£'000	£'000
Land and buildings		
Expiring within one year	159	50
Expiring withing two and five years	299	537
Expiring over five years	80	
	<u>538</u>	<u>587</u>

29 Contingent liability

There is one contingent liability due to a property lease previously held by the college. The matter is currently subject to legal action. The claim is estimated at £500,000 but is not considered to be justified and therefore no provision is necessary.

30 Provision for joint venture deficit

	Group	Group
	2015	2014
	£'000	£'000
Share of gross assets	634	-
Share of gross liabilities	<u>(810)</u>	<u>-</u>
	<u>(176)</u>	<u>-</u>

31 Capital Commitments

	Group and College	
	2015	2014
	£'000	£'000
Commitments contracted for at 31 July	-	-
Authorised but not contracted at 31 July	-	1,435
	<u>-</u>	<u>1,435</u>

**South Essex College of Further and Higher Education
Consolidated Financial Statements for the year ending 31 July 2015**

Notes to the accounts (continued)

32 Related party transactions

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

33 Learner support funds

	2015	2014
	£'000	£'000
Discretionary support funds - SFA	299	271
24+ loans bursary - SFA	271	79
Childcare support fund - SFA	98	105
	<u>668</u>	<u>455</u>
Disbursed to students	(524)	(433)
Administration costs	(28)	(22)
Balance unspent at 31 July included in creditors	<u><u>116</u></u>	<u><u>-</u></u>

Learner support funds provided by the SFA are made available solely for the benefit of students. The administration costs are deducted in accordance with the SFA regulations and represent a contribution towards the costs incurred by the College in disbursing these funds.