



**SOUTH ESSEX COLLEGE**  
Report and Financial Statements  
for the year ended 31 July 2012

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## Operating and Financial Review

### NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2012.

### 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 the Charities Act 2011.

### Public Benefit

Under the Further and Higher Education Act 1992 a further education corporation has the powers to:

- (a) provide further and higher education; and
- (b) supply goods and services in connection with their provision of education.

As supplementary powers a further education corporation may do anything which appears to it to be necessary or expedient for the purpose of or in connection with the exercise of the above principal powers.

In setting and reviewing the objectives and activities of the College the Governors, as trustees, have had due regard to the public benefit that is expected to derive from the advancement of education and knowledge.

### Mission

Governors reviewed the College's mission during the 2010/11 academic year and in the strategic plan for 2010 to 2013 have adopted a mission statement as follows:

"To better serve the learning needs of the young people, adults, employers and communities of South Essex we aim  
    **to become an outstanding college**  
offering outstanding skills, education and careers"

### Values

The values that underpin our approach to our work are the 3 As:

- **Aspiration**

We aim to inspire and empower staff and learners to achieve their full potential

- **Access**

We aim to provide an environment that is inclusive, supportive, welcoming and safe

- **Achievement**

We focus on learners and delivering excellence in learning with high quality services and standards

**Creativity, enterprise, team and partnership working** help us achieve our vision and live our values.

### Implementation of Strategic Plan

In July 2010 the College adopted a Strategic Plan for the period 1 August 2010 to 31 July 2013. This Strategic Plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The strategic plan is to be completely reviewed during the 2012/13 academic year. The College's continuing strategic objectives and critical success factors are:

## Operating and Financial Review (continued)

### Priority 1 – Learner Success

- Improve success rates to reach outstanding by 2013 at the latest.
- Commitment to be a learner-centred organisation.
- Develop strong relationships with commissioners of funding and funding bodies.
- Promote a culture of continuous improvement.
- Ensure high levels of attendance and punctuality.
- Further improve retention and achievement rates across the merged College.
- Generate positive value added and distance travelled.
- Ensure that there is stretch and challenge for all learners.
- Provide outstanding learner support and guidance.
- Develop and embed best practice in learning and teaching.
- Actively engage positive contributions from learners in the design and development of their programmes of learning.
- Fully utilise the potential of Interactive Learning Technology (ILT) to enrich the quality of learning and teaching.
- Embed literacy and numeracy across the curriculum.
- Celebrate the success of learners and staff.

### Priority 2 – Raising Aspirations and Participation

- Grow the numbers participating in education and training across South Essex and achieve learner number targets.
- Develop the functional skills of our learners to enable them to achieve their full potential.
- Develop a responsive curriculum mapped across all levels to provide a range of entry points and coherent levels of progression, including Skills For Life and the Foundation Learning Tier.
- Develop more technician and advanced level programmes at levels 3 and 4 linked to key future employment sectors.
- Provide an innovative, exciting and vocationally relevant and current curriculum that raises the aspirations of learners and prepares them for Higher Education and employment.
- Develop close working relationships with Sector Skills Councils and achieve membership of National Skills Academies that are linked to the College's most successful curriculum areas and the key local and regional economic sectors.
- Further develop Apprenticeship opportunities for 16-18 and adult learners.
- Develop the HE curriculum to ensure that it provides timely opportunities for employers to meet their higher level skills needs, supporting workforce development strategies and widening participation.
- Develop more flexible forms of study to include more part time options and e-learning.
- Offer a curriculum that will develop Government sponsored training opportunities available to young people, adults and employers.
- Working with schools and other 14-19 partners develop a comprehensive, collaborative and coherent 14-19 curriculum across South Essex to improve staying on rates.
- Increase the number of partially funded or full cost programmes including leisure programmes that meet learner needs for non-qualification learning.
- Provide high quality information, advice and guidance.
- Provide high quality, personalised, learning support to ensure that all learners achieve to their full potential.
- Further develop Every Child Matters themes.
- Ensure well sign posted progression pathways from Entry to HE.
- Provide excellence in customer services for employers as demonstrated by obtaining the Training Quality Standard.

## Operating and Financial Review (continued)

### Priority 3 – Meeting Learner, Skill and Community Needs

- Ensure high levels of learner and staff satisfaction. Improve levels of learner satisfaction to reach outstanding by 2013.
- Respond to the national, regional and local skill needs and priorities.
- Help raise aspirations and regenerate the South Essex area.
- Provide a range of appropriate programmes, services and progression routes.
- Increased engagement with all sectors of the community.
- Effectively engage with employers and raise levels of employer satisfaction with services offered.
- Maintain outstanding partnerships to widen participation.
- Embed employability skills and encourage enterprise in the curriculum.
- Develop an awareness of the importance of environmental issues amongst our learning community.
- Assessment.

### Priority 4 – 21<sup>st</sup> Century Learning Environments

- Develop capital projects and estates in line with the Estates Strategy to provide 21st century learning and teaching environments.
- Well-resourced, high quality facilities.
- Create a safe and healthy learning environment.
- An appropriate estate in South Essex to accommodate academic, practical and vocational learning meeting the needs of learners.
- Effective investment in learning resources to assist the College in achieving the goal of being graded as outstanding.

### Priority 5 – Effective and Efficient Delivery Operation

- To be recognised for outstanding leadership and management.
- To develop a strongly entrepreneurial and commercially aware culture.
- Comprehensive staff development to drive forward quality improvement and the effective and efficient delivery of the curriculum.
- To produce high quality, accurate, data reporting through a holistic Management Information System that enables timely, effective and efficient planning and monitoring of performance.
- To have outstanding financial health and financial management.
- Generate annual surpluses and positive cash flow in order to invest in the development of the College.
- Diversify sources of income and funding.
- Reduce dependency on Government funding through increased fees and the development of commercial income.
- Attract, retain and develop professionally qualified and skilled staff with a turnover at, or below, the regional average over the period to 2013.
- Achieve re-accreditation of key quality marks.
- Effective, efficient and consistently implemented policies, procedures and systems.
- Effective procurement solutions delivering best value for the College.
- Highly effective marketing and communication strategy.
- Sound 'risk management' and robust 'disaster recovery' processes and procedures.
- Efficient and effective use of resources to maximise value for money.

### Key Targets for the 2012/13 Academic Year are

- Improvement on 11/12 success rates.
- Achieve learner number targets.
- Improve learner, employer, staff and stakeholder satisfaction rates.
- Improve the learning environment and progressing capital projects.
- Manage within our budget and improve efficiency.
- Monitor and manage curriculum and teaching staff efficiency.

## Operating and Financial Review (continued)

### Financial objectives

The financial strategy that underpins the budget is as follows:

- Aspire to outstanding financial health as graded by SFA Financial model. Allowing for impact of property strategy, borrowing is important to develop estate but scores negatively for financial health. Expect to constantly achieve "Good".
- Generate at least 1% surplus.
- Pay not to exceed 62.5% of turnover.
- To generate a positive cashflow
- Growth in "other" income – The College must still maintain a target to generate "other" funding than received from 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.

### FINANCIAL POSITION

#### Financial results

The College generated an operating surplus in the year of £1,117,000 (2010/11 – £292,000).

The College has accumulated reserves of £49,320,000 and cash balances of £10,048,000. The College wishes to continue to accumulate reserves and cash balances in order to provide sufficient working capital to meet the College's obligations as and when they fall due and, to the extent that there are cash funds in excess of this working capital requirement, to assist in the financing of the College's capital investment strategy..

Tangible fixed asset additions during the year amounted to £3,006,000. This was split between land and buildings acquired of £1,953,000 and equipment purchased of £1,053,000.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2011/12 the funding bodies provided 81% of the College's total income.

The College has one subsidiary company, South Essex Commercial Services Limited. 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, the surplus generated was £36,929 (2010/11 - £3,417).

In addition South Essex College entered into a Joint Venture agreement with Colchester Institute and Chelmsford College during 2011/12 for "Essex Education Procurement Consortium" (EEPC). Following the 2010 Comprehensive Spending Review, recurrent grant funding will be reduced dramatically for all Further Education providers over the life of the review. This will place an urgent requirement to improve the capacity of Consortium partners to manage procurement as effectively as possible to reduce expenditures and achieve better value for money.

The main aims of the Procurement joint venture are:

- Synergy within procurement for partners
- Efficiency savings
- Value for money
- Compliance with EU and UK regulations
- Quality procedures
- Ensure sustainability within the supply chain
- Equality and Diversity

## Operating and Financial Review (continued)

### 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

At £1.48 million inflow (2010/11 £1.58 million), operating cash inflow was strong.

### Liquidity

During the year the College continued to repay a secured loan of £12.3 million. The loan was in order to help finance a new building on its main site. The building cost £52 million, the balance was met by College reserves (£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 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 cashflow. During the year this margin was comfortably exceeded.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

### Learner Numbers

In 2011/12 the College has delivered activity that has produced £35,315,000 in funding body main allocation funding (2010/11 – £37,988,000).

### Learner Achievements

Tables 1 and 2 below show the latest position for FE funded student success rates as at 10<sup>th</sup> September 2012. Each table is divided by qualification level, age and duration, which is the way that Ofsted analyses data when it inspects providers. The final out turn success rate for 2010-11 is also shown.

The tables give the best case success rate still possible given the number of results still outstanding. The College is way ahead of the position last year in collecting results and is methodically completing all outstanding results.

## Operating and Financial Review (continued)

**Table 1: 16-18 FE funded Student Success Rates**

<b>16-18</b>	<b>Actual Success 2010/11</b>	<b>Starts</b>	<b>Current Success %</b>	<b>Best Case Success 2011/12</b>	<b>Result not yet Known</b>
Functional Skills	66%	7759	54%	76.4%	1715
Long Level 1	74%	1617	72%	74.8%	45
Long Level 2	82%	2024	80%	82.1%	50
Long Level 3	75%	3382	76%	76.5%	14
Short	90%	5942	80%	83.1%	210
Very Short	92%	263	82%	90.9%	24

**Table 2: 19+ FE Funded Student Success Rates**

<b>19+</b>	<b>Actual Success 2010/11</b>	<b>Starts</b>	<b>Current Success %</b>	<b>Best Case Success 2011/12</b>	<b>Result not yet Known</b>
Functional Skills	70%	686	53%	77.3%	162
Long Level 1	71%	450	74%	75.7%	7
Long Level 2	70%	793	77%	79.6%	17
Long Level 3	70%	699	77%	79.3%	14
Short	85%	1591	71%	88.2%	279
Very Short	94%	2652	67%	92.1%	662



## Operating and Financial Review (continued)

### Actions for improvement in 2012-13:

- New Teaching and Learning Strategy agreed and to be launched across the College at the next staff development day. Programme of staff training to be delivered to Academic and Student Services staff to support the implementation of the strategy.
- Action plan in place to ensure appropriate management of the delivery, assessment and recording of achievements for functional skills. A more permanent re-structure of the management of the area is being planned and implemented.
- Close monitoring of the performance of collaborative partners delivering foundation learning level programmes is in place to ensure that the structure of the curriculum is appropriate to maximise both funding and success rates. Training on curriculum development has already taken place. The Quality Assurance Manager for the NOVA Partnership will monitor progress on this provision on a monthly basis to ensure the achievement of high performance.
- The Curriculum has been developed for 2012-13 to use the 'nesting' model for qualifications, where appropriate, to improve retention and success rates.
- Curriculum development has taken place to ensure that appropriate additional qualifications are added to a student programme to maximise achievement and benefit the student.
- Monthly meetings to be held at Academy level in order to closely monitor performance and act to rectify any drop in performance that is identified.

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. The tables below show the current position for 2011-12 as at 10<sup>th</sup> September 2012. Table 3 shows the three year trend for overall success, timely success and retention. Table 4 shows the current position on 2011-12 overall success, timely success and retention with a best case scenario.

**Table 3: Three Year Trend for Success and Retention for 2011-12**

	Overall			Timely			Retention		
	09/10	10/11	11/12	09/10	10/11	11/12	09/10	10/11	11/12
<b>Overall</b>	76%	77%	72%	70%	70%	58%	78%	79%	76%
<b>Adv. App</b>	76%	78%	71%	66%	68%	52%	79%	80%	75%
<b>App</b>	76%	77%	72%	71%	70%	60%	77%	79%	76%

**Table 4: Current Success and Retention with the Best Case**

	Overall	Timely	Retention	Best Case (Overall)
<b>Framework Success Rates</b>	72%	58%	76%	75%
<b>Advanced Apprentices</b>	71%	52%	75%	76%
<b>Apprentices</b>	72%	60%	76%	74%

### Curriculum Developments

Applications for FE 16-18 programmes continue to be strong across the College and are marginally ahead of performance in 2011/12 at this stage. The College expects to meet the government funding body Learner Responsive 16-18 learner number/funding allocation/SLN for 2012/13. The curriculum for 2012/13 has been designed to meet this demand and focuses on national, regional and local priorities. The College has a reduced Adult Learner Responsive funding contract and expects to achieve the funding/SLN targets.

The College wishes to maintain its strong progression rates for learners within FE and between FE and HE programmes.

## Operating and Financial Review (continued)

The College expects to meet its funding contracts with the two HEI's: University of Essex and the University of East London.

Many of our learners do have low levels of prior educational achievement and the College is developing the range of programmes aimed at these learners. We will continue to develop functional skills delivery across the curriculum in 2012/13. An Academy Manager for Functional Skills and Foundation Learning manages and co-ordinates all Foundation Learning provision across the College. Work is on-going to ensure that there are progression pathways in all areas.

The College will continue to develop the curriculum for delivery across all campuses including Southend, Basildon, and Thurrock, to ensure that it is exciting, innovative and meets the needs of local people.

The College is increasing the range and scope of apprenticeship delivery in order to meet the skills needs of learners. As Adult Learner Responsive Funding is decreasing the college is working to increase its provision of full cost courses to match local demand. The College is also looking to increase its income from fees.

### Post-balance sheet events

The College has entered into a new Joint Venture, establishing a company limited by guarantee for the delivery of foundation learning and level one learning in Thurrock. The two partners are South Essex College and Crown College on a 50/50 partnership basis. The company is called NOVA, Skills Education and Careers Ltd. The Company was formed with effect from 1<sup>st</sup> August for 2012/13 delivery.

### Future Developments

The College is working with partners to progress three major capital projects in Southend, Basildon and Thurrock.

#### *Southend*

With the University of Essex and Southend on Sea Borough Council, the College is in partnership to develop the town centre campus. The next phase of development is planned to open in autumn 2013 and will see a truly innovative joint municipal and academic library for the public and further and higher education learners. This facility will also provide additional teaching space for both the College and the University. Construction is underway and is currently on time and on budget.

#### *Basildon*

With the Homes and Communities Agency (HCA) and Basildon Borough Council (BBC), the College is looking to relocate from its current campus at Nethermayne to a suitable site in Basildon Town Centre. The HCA owns a site adjacent to Nethermayne and has agreed we use the Accelerated delivery programme to bring this site forward for development. The College and HCA are currently marketing Nethermayne as one plot for development. The College submitted a planning application for a town centre site - in October 2012. However, at this stage legal agreements have not yet been signed between the College and BBC in connection with the town centre proposal. Further progress is dependent and expediting the legal position. It is hoped to open the new site for the 2015/16 academic year.

#### *Thurrock*

The College was granted planning permission in March 2012 to build a new campus in Grays town centre. Negotiations with contractors and developers have been concluded and the College started work on the town Centre site in October 2012. The new campus is being funded from additional borrowing together with the receipt from the sale of the current campus at Woodview, which is now being leased back from the developer on a temporary basis whilst the new campus is constructed. The new campus should be operational for the 2014/15 academic year.

## Operating and Financial Review (continued)

### RESOURCES

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

#### *Financial*

The College has £49.3 million of net assets (including £16.7 million pension liability) and long term debt of £5.7 million.

#### *People*

The College employs 777 people (expressed as full time equivalents), of whom 327 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.

### 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 ongoing 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 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.

Risk Registers are held by every faculty and Support teams and then consolidated and controlled centrally. It is updated at least quarterly. A reminder is sent to the relevant Heads of Teams requesting updates to the original risk registers. A thorough annual review of the register is included as part the Self Assessment Review (SAR).

Existing Controls will be evaluated and further action planned if necessary. Managers monitor the risks in their departments and agree an action plan. From the central risk register, a checklist of key controls is signed by the staff as evidence that monitoring is taking place at the departmental level. Individual risk holders get a summary list of key actions which they are required to sign off to certify that monitoring is taking place.

The risk champion or other designated person is required to carry out checks from time to time to ensure that recommended actions have been taken.

Outlined below is a description of 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.

#### **Risk Ref Cs.1 (Achievement of Funding Contracts)**

##### **Learner Responsive**

The College has an achievable contract allocation for 2012/13 for 7414 learners. This is an increase of 112 learners compared to the previous year. This contract would generate £32,831,687 of income, which is an increase of £831,127 compared to 2011/12.

The targets are learner numbers, SLN's (standard learner numbers) and the funding.

## Operating and Financial Review (continued)

### Adult Learner Responsive

The allocation from the Skills Funding Agency for adults is £5,492,758, which is a decrease of £403,107 compared to 2011/12. The College is likely to meet the contract values, which will allow the College to be in a better place for the future. The College would not receive any additional funding in the year if targets were exceeded.

The College will continue to efficiently manage and control costs while encouraging growth and achievement. The budget for the year 2012/13 shows that a surplus is achievable.

The recruitment targets for 2012/13 have been set in consultation with Heads of Faculties and indicate the College is well positioned to meet the learner number targets.

The College's funding is calculated by a method called lagged funding. This works by taking the LR01 (October 2012) learners and then adding the growth between the LR01 and the LR05 for 2011/12.

### Risk Ref Cs.4 (Teaching quality and management of learning experience is not sufficient to meet targets)

An action plan is in place to address the areas for improvement highlighted in the OFSTED Report. This is regularly reviewed at Policy and Resources Committee meetings. Actions in place to improve quality of learning and teaching include:

- Lesson observations and action planning
- Self assessment review process
- Curriculum and Quality risk register reviews
- Annual Monitoring of HE programmes
- Mock inspections
- Peer reviews
- Course monitoring
- Student satisfaction surveys

All teaching staff are assessed against a competency framework. Performance Management and Personal Development Plans are in place for those staff who do not meet the required competency for the role. A Quality Assurance Framework is in place to ensure that programmes meet awarding body quality standards.

A staff development plan concentrates on improving the quality of teaching and learning -. Advanced Practitioners are in place to improve the quality of teaching and learning. An additional AP is being recruited for 2012/13 to focus on functional skills.

The tutorial programme has been amended to focus on individual learner reviews and target setting to monitor performance and set challenging targets with the aim of improving retention and success rates.

The College is developing a Virtual Learning Environment (VLE) and E – Learning resources to assist learning and improve chances of success. Significant investment in resources to improve learner experience and satisfaction is planned.

### Risk Ref Cs.2 (Ensure appropriate staffing for contract allocated and payroll does not exceed 62.5%).

The College needs to ensure that it has appropriate staffing with the right skills and that payroll costs do not exceed 62.5% of payroll.

## Operating and Financial Review (continued)

The risks identified are:

- The College does not have the appropriate staffing establishment, in order to meet the College's key objectives.
- The College does not recruit staff with the correct skills.
- The College overspends on payroll.
- Payroll costs exceed 62.5% of total income.
- The split between full time lecturers and part time lecturers is not met. The College would prefer a split of 70% full time lecturers and 30% part time lecturers.

All of these risks have the potential to impact on the College's ability to manage its business, offer adequate programmes to students and, in the long run, may impact on student recruitment and College finances.

### Risk Ref Cs.3 (Failure of Capital Projects)

The College is currently involved in three major capital projects (Southend Elmer Square / Library Development, Grays Town Centre Learning Campus and Basildon Town Centre).

There are various risks associated with the capital projects –mostly related to the principles of the schemes (including planning elements and design issues) and the capital funding available. Discussions are currently taking place to ensure an optimal outcome for the College and that the vision for the projects is not compromised.

A comprehensive risk assessment of the projects has been carried out separately with key risks identified and mitigating factors put in place.

### Risk Ref Cs.9 (Future of Partnership arrangements)

#### Nova Provision (WBL):

The College receives the contract for the work based learning provision from the Skills Funding Agency. This contract is then allocated out to the Nova Partners. This provision has grown substantially from when it was first introduced. The contract for 2012/13 is £9,436,687. The College has been allocated £1,054,927 of this contract for its apprenticeships. All Partners will pay the College a levy of 5% of the income which they earn. For 2012/13, this will amount to £471,834 if the contract target is reached.

#### Collaborative Provision:

There are some contracts for collaborative working where partners deliver on behalf of the College. This is for learner responsive (funded by the Education Funding Agency) and adult learner responsive funding (funded by the Skills Funding Agency).

In 2011/ 2012 £5,563,846 was allocated to Partner and for 2012/13 £8,757,865 has been allocated. All Partners will pay the College a levy of 15% of the income which they earn. For 2012/13, this will amount to £1,105,014 if contract targets are reached.

There are various risks associated with these partnerships.

- Levy too low
- Partners demand high contracts
- Partners start to recruit our learners
- College falls behind Partners
- The College does not grow its own provision
- Partners gain their own contracts
- College relies on Partners
- Partners become powerful
- Providers teach courses that the College teaches.

## Operating and Financial Review (continued)

### **Risk Ref Cs.5 (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.

Additionally there are some contracts for collaborative working where partners deliver on behalf of the College.

The contractual joint venture with the University of Essex for Higher Education makes provision for a "winding down period" in the event of termination of the contract. This ensures that the College will receive funding for the learners enrolled at the time of the termination until they complete their programme. Any winding down would need to be undertaken with HEFCE involvement and may result in an alternative partner University being brought in to replace Essex. Consequently, this risk would not have an immediate impact. Key strategy would be to identify another HE partner with HEFCE assistance.

The College will lead The NOVA Partnership delivery of work based learning across the Thames Gateway in 2012/13 with a contract value of £9,436,687.

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. The continued expansion of The NOVA Partnership has placed new management demands on the College and these are being addressed.

### **Risk Ref Cs.7 (Funding external environment)**

The coalition Government policy has affected the FE sector. The College's allocation for learner responsive funding for 2011/12 had been significantly reduced by £3.1m. For 2012/13 the College's funding (LR and ALR) has increased by £428,020.

The College may face cuts in funding for the following year.

The Government are increasing the number of apprenticeships and are allowing schools to become academies. This will affect the number of students that the College recruits, therefore affecting the funding received.

The College will need to recruit more students, obtain other funding and increase the income generated from full course costs and its trading activities.

### **Risk Ref Cs.10 (Diversification into international markets)**

To generate further income, the College is planning on diversifying its activities internationally. The College will be building partnerships with educational institutes internationally and provide learning to them.

This is new to the College and there are many risks associated with this such as

- Political situation in Country
- Economic situation in Country
- Exchange rate risk
- Overseas tax implications
- Investment exceeds income generated
- The project fails
- Monies not paid by international partners

The College will also aim to recruit additional international students who would attend the College in the UK.

## Operating and Financial Review (continued)

### Risk Ref Cs.11 (Higher Education)

The College has also negotiated its own contract directly with HEFCE for 113 learners for 2012/13. This is for year 1 learners.

The College is also continuing its partnership in 2012/ 2013 with the University of Essex for an additional 245 year 1 learners. The College has increased its fees to £7000 which may have a negative impact in recruiting learners. There is a risk that the College does not meet these targets, resulting in the loss of income.

### 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.

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.

## Operating and Financial Review (continued)

### Disability statement

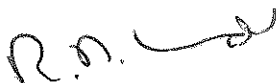
The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005.

- 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 of the Corporation 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 16/12/12 and signed on its behalf by:



Mr R Launder  
Chairman



## Operating and Financial Review (continued)

### Professional advisers

#### Financial statement and regularity auditors:

MHA MacIntyre Hudson  
4 County Place  
Boundary House  
Chelmsford  
Essex  
CM2 0RE

#### Internal auditors:

Scrutton Bland  
Sanderson House  
Museum Street  
Ipswich  
Suffolk  
IP1 1HE

#### Bankers:

Natwest Bank PLC  
High Street  
Southend on Sea  
Essex  
SS1 1BA

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

## 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 UK Corporate Governance Code ("the Code") issued by the FRC in June 2010. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2012. 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. In carrying out its responsibilities, the College adopted the AoC Foundation Code of Governance at their meeting on 5 December 2011. The College is fully compliant with the Code, except to the extent that it is still developing methodology to assess the performance on an ongoing basis of the Chair and individual Governors.

### 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 2011/12.**

	Date of appointments	Term of office	Date of resignation	Status of appointment	Committees served
Mr R Launder	First Appointed 1 Jan 2010	4 years		Clause 3 of the Instrument	Chair: Corporation wef 1 August 2011; Chair of Policy & Resources; Remuneration
Mr J Hayles	12 Jul 2011		13 Aug 2012	Acting Principal	Policy & Resources; Search & Governance
Ms A O'Donoghue	13 Aug 2012			Principal and Chief Executive	Curriculum & Quality; Policy & Resources; Search & Governance
Mr M Baker	First Appointed 22 Mar 1999  Reappointed 26 Mar 2001; 26 Mar 2005; 23 Mar 2009	2 years  4 years 4 years 4 years		Clause 3 of the Instrument	Chair: Remuneration; Policy & Resources
Mr J Bruce	First Appointed 1 Sept 1992  Reappointed 1 Jan 1994; 1 Oct 1994; 1 Oct 1998; 1 Oct 2002; 1 Oct 2006; 1 Oct 2010	  4 years 4 years 4 years 4 years		Clause 3 of the Instrument	Policy & Resources; Search & Governance
Ms K Byrne	First Appointed 14 Mar 12  Reappointed 1 Aug 2012	31 Jul 2012  31 Jul 2013	  1 Oct 2012	Student	
Mrs S Carr	First Appointed 1 Apr 2001  Reappointed 1 April 2003; 1 Apr 2005; 1 Apr 2007; 1 Apr 2011	2 years  2 years 2 years 4 years 4 years		Clause 3 of the Instrument	

**Statement of Corporate Governance and Internal Control (continued)**

Ms H Drew	First Appointed 1 Oct 2012	31 Jul 2013		Student	Curriculum & Quality
Mrs M Coombes	First Appointed 1 Jan 2010	4 years		Clause 3 of the Instrument	Curriculum & Quality
Mr Y Goolamali	First Appointed 15 Jul 2003  Reappointed 15 Jul 2005; 15 Jul 2007; 15 Jul 2011	2 years  2 years 4 years 4 years		Clause 3 of the Instrument	Audit & Risk
Dr R Gray	First Appointed 1 Mar 1998  Reappointed 15 Jul 1999; 15 Jul 2003; 15 Jul 2007; 15 Jul 2011	2 years  4 years 4 years 4 years 4 years		Clause 3 of the Instrument	Vice Chair: Corporation to 31 July 2012; Policy & Resources; Chair; Search & Governance; Remuneration
Ms D Hale	First Appointed 1 Jan 2010	4 years		Clause 3 of the Instrument	Curriculum & Quality Search & Governance
Ms R Klass	First Appointed 1 Mar 1998  Reappointed 15 Jul 1999; 15 Jul 2003; 15 Jul 2007; 15 Jul 2011	2 years  4 years 4 years 4 years 4 years	26 Mar 2012	Clause 3 of the Instrument	Chair: Search and Governance; Audit & Risk
Mr T Knight	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Policy & Resources
Ms S Memczak	First Appointed 4 Oct 2010  Reappointed 1 Aug 2011	9 months  1 year	3 Oct 2011	Student	
Mr B Neagus	First Appointed 6 Dec 2010	2 years		Staff	Audit & Risk
Mr S Nolan	First Appointed 14 Mar 12  Reappointed 1 Aug 2012	31 Jul 2012  31 Jul 2013		Student	

**Statement of Corporate Governance and Internal Control (continued)**

Mr D O'Halloran	First Appointed 15 Jul 1999  Reappointed 15 Jul 2003; 15 Jul 2007; 15 Jul 2011	4 years  4 years 4 years 4 years		Clause 3 of the Instrument	Vice Chair: Corporation; Chair: Audit & Risk; Chair: Curriculum & Quality; Remuneration
Ms U Patel	First Appointed 6 Dec 2010	2 years		Staff	
Mr B Patterson	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Audit & Risk
Mr P Pickford	First Appointed 30 Jan 1995  Reappointed 30 Jan 1997; 26 Mar 2001; 26 Mar 2005; 23 Mar 2009	2 years  4 years 4 years 4 years 4 years		Clause 3 of the Instrument	Policy & Resources; Remuneration; Curriculum & Quality
Mr M Smith	First Appointed 15 Jul 1999  Reappointed 15 Jul 2003; 15 Jul 2007; 15 Jul 2011	4 years  4 years 4 years 4 years	31 Jul 2012	Clause 3 of the Instrument	Policy & Resources
Mr R Smith	First Appointed 1 Jan 2010	4 years		Clause 3 of the Instrument	Policy & Resources
Mr N South	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Curriculum & Quality
Mrs G Williams	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Curriculum & Quality; Search & Governance
External Members of Committees					
Ms O Buck	First Appointed 1 Aug 2012	4 years		External Member	Policy & Resources
Mr P Little	First Appointed 21 Mar 2011	4 years		External Member	Audit & Risk
Mr P Singh Narang	First Appointed 21 Mar 2011	4 years		External Member	Audit & Risk
Mr P Stafford	First Appointed 1 Aug 2009  Reappointed 1 Apr 2011	23 May 11  4 years	9 Jul 2012	External Member	Audit & Risk
Mr T Thompson	First Appointed 1 Aug 2012	4 years		External Member	Audit & Risk
Mr R Millea FCA of Chaplin Frobisher Welling Limited is the Clerk to the Corporation					
Professor Nigel South (University of Essex) was an Observer to the Corporation until he became a Member of the Corporation with effect of 1 Aug 2012.					

## Statement of Corporate Governance and Internal Control (continued)

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, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets four times per year.

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 and Audit & Risk. The Corporation has established a Curriculum & Quality Committee, with effect from 1 August 2012. 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 that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board 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 five members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Clerk is responsible for ensuring that appropriate 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 2012, 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 and other senior post-holders, and to appraise their performance. It also appraises the Clerk's performance.

Details of remuneration for the year ended 31 July 2012 are set out in note 7 to the financial statements.

## Statement of Corporate Governance and Internal Control (continued)

### Audit & Risk Committee

The Audit & Risk Committee comprises four members of the Corporation (excluding all members of Policy & Resources Committee), together with three external members. The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit & Risk Committee meets four times per annum 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 monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit & Risk Committee.

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.

The Audit & Risk Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors 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.

#### *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 ongoing 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 2012 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 ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2012 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

## Statement of Corporate Governance and Internal Control (continued)

### *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, which operates in accordance with the requirements of the LSC's *Audit Code of Practice*. 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 & Risk 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.

### *Review of effectiveness*

As Accounting Officer, the Principal and Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control 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 (for colleges in plan-led funding), the appointed funding auditors (for colleges outside plan-led funding) 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 risk committee, if appropriate), 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 2012 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2012 by considering documentation from the Senior Leadership Team and internal audit, and taking account of events since 31 July 2012.

### **Foundation Code of Governance**

The Corporation adopted the Association of Colleges' Foundation Code of Governance at its meeting in December 2011. It is fully compliant with the Code except that it is still developing mechanisms to assess the performance of the Members of the Board and the Chair.

## Statement of Corporate Governance and Internal Control (continued)

### Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 15/12/12 and signed on its behalf by:



Mr R Launder  
Chairman



Ms Angela O'Donoghue  
Principal & Chief Executive



## 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 and Chief Executive, 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 Institutions* and with the Accounts Direction issued jointly by the Skills Funding Agency and the Young Peoples Learning Agency/Education Funding Agency, 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 a Members Report 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 with the Skills Funding Agency 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 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 Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on...10/12/12... and signed on its behalf by:



Mr R Launder  
Chairman

## **Independent Auditors' Report to the Corporation of South Essex College**

We have audited the Group and College financial statements of South Essex College for the year ended 31 July 2012, which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Corporation, as a body, in accordance with statutory requirements. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 described in the Statement of Responsibilities the College's Corporation is responsible for preparing the Members' Report and financial statements in accordance with the 2011/12 Accounts Direction, the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Practice 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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

## Independent Auditors' Report to the Corporation of South Essex College (continued)

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and of the College's affairs as at 31 July 2012 and of the consolidated surplus of income over expenditure for the year ended; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

### Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the EFA and the Audit Code of Practice issued by the Learning and Skills Council

In our opinion:

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



**MHA MacIntyre Hudson**

Chartered Accountants &  
Statutory Auditors  
Boundary House  
4 County Place  
Chelmsford  
Essex  
CM2 0RE



Date

## Independent Auditors' Report on Regularity to the Corporation of South Essex College ('the Corporation') and the Chief Executive of Skills Funding Agency

In accordance with the terms of our engagement letter and further to the requirements of the Chief Executive of Skills Funding Agency, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of South Essex College ('the College') for the year ended 31 July 2012 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Corporation and the Chief Executive of Skills Funding Agency. Our review work has been undertaken so that we might state to the Corporation and the Chief Executive of Skills Funding Agency, those matters we are required to state to it 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 and the Chief Executive of Skills Funding Agency, for our review work, for this report, or for the opinion we have formed.

### Respective responsibilities of the Members of the Corporation of South Essex College and Auditors

The College's Corporation is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations, for ensuring that expenditure and income are applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

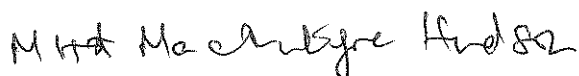
Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

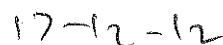
### Basis of opinion

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. Our review includes examination, on a test basis, of evidence relevant to the regularity and propriety of the College's income and expenditure.

### Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.





**MHA MacIntyre Hudson**

Date

Chartered Accountants & Statutory Auditors  
Boundary House  
4 County Place  
Chelmsford  
Essex  
CM2 0RE

**South Essex College of Further and Higher Education**  
**Consolidated Income and Expenditure Account**

	Notes	2012 £'000	2011 £'000
<b>INCOME</b>			
Funding body grants	2	38,638	42,585
Tuition fees and education contracts	3	6,475	7,112
Research grants and contracts	4	532	433
Other income		1,908	1,822
Endowment and investment income	5	111	99
<b>Total income</b>		<b>47,664</b>	<b>52,051</b>
<b>EXPENDITURE</b>			
Staff costs	6	26,064	30,279
Exceptional restructuring costs	6	444	1,248
Other operating expenses	8	14,956	15,242
Depreciation	12	4,218	4,172
Interest and other finance costs	9	865	818
<b>Total expenditure</b>		<b>46,547</b>	<b>51,759</b>
<b>Surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax</b>		<b>1,117</b>	<b>292</b>
Loss on disposal of assets	12	-	-
<b>Surplus on continuing operations after depreciation of tangible fixed assets at valuation, exceptional items and disposal of assets but before tax</b>		<b>1,117</b>	<b>292</b>
Taxation	10	-	-
<b>Surplus on continuing operations after depreciation of assets at valuation and tax</b>	11	<b>1,117</b>	<b>292</b>
<b>Surplus for the year retained within general reserves</b>		<b>1,117</b>	<b>292</b>

The income and expenditure account is in respect of continuing activities

## South Essex College of Further and Higher Education

### Consolidated Statement of Historical Cost Surpluses and Deficits

	Notes	2012 £'000	2011 £'000
Surplus on continuing operations before taxation		1,117	292
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	21	309	309
<b>Historical cost surplus for the year before taxation</b>		<b>1,426</b>	<b>601</b>
<b>Historical cost surplus for the year after taxation</b>		<b>1,426</b>	<b>601</b>

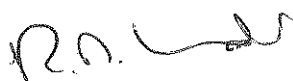
### Consolidated Statement of Total Recognised Gains and Losses

	Notes	2012 £'000	2011 £'000
Surplus on continuing operations after depreciation of assets at valuation and tax		1,117	292
Actuarial loss in respect of pension scheme	28	(4,323)	(1,563)
<b>Total recognised losses since last report</b>		<b>(3,206)</b>	<b>(1,271)</b>
<b>Reconciliation</b>			
Opening reserves and endowments		25,999	26,961
Total recognised losses for the year		(3,206)	(1,271)
Transfer from revaluation reserve		309	309
<b>Closing reserves and endowments</b>		<b>23,102</b>	<b>25,999</b>

**South Essex College of Further and Higher Education**  
**Balance sheets as at 31 July**

	Notes	Group 2012 £'000	College 2012 £'000	Group 2011 £'000	College 2011 £'000
<b>Fixed assets</b>					
Tangible assets	12	69,781	69,761	71,093	71,074
Investments	13	-	-	-	-
<b>Total fixed assets</b>		<b>69,781</b>	<b>69,761</b>	<b>71,093</b>	<b>71,074</b>
<b>Current assets</b>					
Stocks		73	62	73	57
Debtors	15	1,408	1,397	1,206	1,217
Cash at bank and in hand		10,048	10,057	8,929	8,970
<b>Total current assets</b>		<b>11,529</b>	<b>11,516</b>	<b>10,208</b>	<b>10,244</b>
<b>Less: Creditors – amounts falling due within one year</b>	16	<b>(7,501)</b>	<b>(7,500)</b>	<b>(6,347)</b>	<b>(6,359)</b>
<b>Net current assets</b>		<b>4,028</b>	<b>4,016</b>	<b>3,861</b>	<b>3,885</b>
<b>Total assets less current liabilities</b>		<b>73,809</b>	<b>73,777</b>	<b>74,954</b>	<b>74,959</b>
<b>Less: Creditors – amounts falling due after more than one year</b>	17	<b>7,821</b>	<b>7,821</b>	<b>8,931</b>	<b>8,931</b>
<b>Net assets excluding pension liability</b>		<b>65,988</b>	<b>65,956</b>	<b>66,023</b>	<b>66,028</b>
Net pension liability	28	(16,668)	(16,668)	(11,917)	(11,917)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<b>49,320</b>	<b>49,288</b>	<b>54,106</b>	<b>54,111</b>
<b>Deferred capital grants</b>	19	<b>17,351</b>	<b>17,351</b>	<b>18,931</b>	<b>18,931</b>
<b>Reserves</b>					
Income and expenditure account excluding pension reserve	22	39,770	39,738	37,916	37,921
Pension reserve	28	(16,668)	(16,668)	(11,917)	(11,917)
Income and expenditure account including pension reserve	22	23,102	23,070	25,999	26,004
Revaluation reserve	21	8,867	8,867	9,176	9,176
<b>Total reserves</b>		<b>31,969</b>	<b>31,937</b>	<b>35,175</b>	<b>35,180</b>
<b>TOTAL FUNDS</b>		<b>49,320</b>	<b>49,288</b>	<b>54,106</b>	<b>54,111</b>

The financial statements on pages 29 to 57 were approved by the Corporation on 16/12/12 and were signed on its behalf on that date by:



Mr R Launder  
Chair



Ms Angela O'Donoghue  
Principal & Chief Executive

**South Essex College of Further and Higher Education  
Consolidated Cash Flow Statement**

	Notes	2012 £'000	2011 £'000
<b>Cash inflow from operating activities</b>	23	<b>5,522</b>	<b>4,483</b>
Returns on investments and servicing of finance	25	(313)	(370)
Taxation	10	-	-
Capital expenditure and financial investment	25	(2,859)	(1,708)
Management of liquid resources		-	-
Financing	26	(865)	(820)
		<hr/>	<hr/>
<b>Increase in cash in the year</b>		<b><u>1,485</u></b>	<b><u>1,585</u></b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase in cash in the period		1,485	1,585
Cash inflow from liquid resources		-	-
Cash outflow from decrease in lease financing	26	<u>865</u>	<u>820</u>
Movement in net funds in the period		2,350	2,405
Net funds at 1 August		1,051	(1,354)
		<hr/>	<hr/>
<b>Net funds at 31 July</b>		<b><u>3,401</u></b>	<b><u>1,051</u></b>



## 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) and in accordance with applicable Accounting Standards. They conform to guidance published by in the 2011/12 Accounts Direction Handbook.

#### 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 subsidiary, South Essex Commercial Services Ltd. 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. In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2012.

#### 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 a 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 28, 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.

#### Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing 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.

## Notes to the Accounts (continued)

### 1. Accounting policies (continued)

#### 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 not 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.

##### *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.

## Notes to the Accounts (continued)

### 1. Accounting policies (continued)

#### Tangible fixed assets (continued)

##### *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

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)

#### 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 subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

#### Liquid resources

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, Train to Gain 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 36, 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.

#### Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cash flow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

The College currently has £6.6 million of loans outstanding with bankers on various terms (see note 18). The College's forecast and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

In addition the College has secured a £20 million loan facility from its bankers for use in connection with financing its new building in Grays Town Centre and has taken this matter into account in forming its judgement as to the validity of the going concern basis in the same way as the current existing loans.

Accordingly 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

### Notes to the Accounts (continued)

#### 2 Funding council grants

	2012 £'000	2011 £'000
Recurrent grant - YPLA, SFA and LA	35,315	37,988
Work based learning	1,176	1,207
Access funds	487	308
FE Standards Fund	-	1,218
Entry to teaching initiative	-	38
Releases of deferred capital grants (note 19)	1,411	1,455
Release of HEFCE Capital grants	179	157
Train to Gain	70	214
<b>Total</b>	<b>38,638</b>	<b>42,585</b>

The College is the lead partner in two consortia to deliver Train To Gain and Work based learning 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 was as follows:

	2012 £'000	2011 £'000
Train To Gain income	121	720
Payments to non College partners	(51)	(487)
Payments to College partners	-	(19)
<b>Net income</b>	<b>70</b>	<b>214</b>

	2012 £'000	2011 £'000
Work based learning income	9,753	12,171
Payments to non College partners	(78)	(77)
Payments to College partners	(8,499)	(10,887)
<b>Net income</b>	<b>1,176</b>	<b>1,207</b>

#### 3 Tuition fees and education contracts

	2012 £'000	2011 £'000
Tuition fees	4,499	4,693
Education contracts	1,976	2,419
<b>Total</b>	<b>6,475</b>	<b>7,112</b>

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**4 Research grants and contracts**

	2012 £'000	2011 £'000
Other grants and contracts	<u>532</u>	<u>433</u>

**5 Endowment and investment income**

	2012 £'000	2011 £'000
Other interest receivable	<u>111</u>	<u>99</u>

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**6 Staff costs**

The average number of persons (including senior post-holders) employed by the College during the year, described as full-time equivalents, was:

	2012 No.	2011 No.
Teaching staff	327	384
Non teaching staff	450	442
	<u>777</u>	<u>826</u>

**Staff costs for the above persons**

	2012 £'000	2011 £'000
Wages and salaries	21,352	24,648
Social security costs	1,526	1,813
Other pension costs (including FRS 17 adjustments of (£13,000) – 2011 £167,000)	2,310	2,772
	<u>25,188</u>	<u>29,233</u>
Payroll sub total		
Contracted out staffing services	876	1,046
	<u>26,064</u>	<u>30,279</u>
Exceptional restructuring costs	444	1,248
	<u>26,508</u>	<u>31,527</u>

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

	Senior post-holders		Other staff	
	2012 No.	2011 No.	2012 No.	2011 No.
£50,001 to £60,000	-	-	18	21
£60,001 to £70,000	1	-	7	6
£70,001 to £80,000	-	-	-	-
£80,001 to £90,000	-	-	-	-
£90,001 to £100,000	4	4	-	-
£100,001 to £110,000	1	2	-	-
£110,001 to £120,000	-	1	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	-	-	-	-
£140,001 to £150,000	1	-	-	-
£170,001 to £175,000	-	1	-	-
	<u>7</u>	<u>8</u>	<u>25</u>	<u>27</u>



## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2012 No.	2011 No.
The number of senior post-holders including the Principal was:	<u>7</u>	<u>8</u>

Senior post-holders' emoluments are made up as follows:

	2012 £'000	2011 £'000
Salaries	455	715
Benefits in kind	57	50
Pension contributions	<u>65</u>	<u>101</u>
<b>Total emoluments</b>	<b><u>577</u></b>	<b><u>866</u></b>

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

	2012 £'000	2011 £'000
Salaries	119	165
Benefits in kind	<u>8</u>	<u>8</u>
	<u>127</u>	<u>173</u>
Pension contributions	<u>17</u>	<u>23</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and are paid at the same rate as for other employees.

#### Compensation for loss of office paid to a former senior post-holder

	2012 £'000	2011 £'000
Compensation paid to the former post-holder	30	65
Estimated value of other benefits, including provisions for pension benefits	<u>-</u>	<u>-</u>

The estimated value of other benefits has been calculated in accordance with Financial Reporting Standard 17. The severance payment was approved by the College's remuneration committee.

The members of the Corporation other than the Principal and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**8 Other operating expenses**

	2012	2011
	£'000	£'000
Teaching costs	3,305	3,345
Non teaching costs	8,238	8,636
Premises costs	3,413	3,261
	<u>14,956</u>	<u>15,242</u>
<b>Total</b>	<b>14,956</b>	<b>15,242</b>

**Other operating expenses include:**

	2012	2011
	£'000	£'000
Auditors' remuneration:		
Financial statements audit*	47	47
Internal audit**	29	24
Other services provided by the financial statements auditors	-	-
Other services provided by the internal auditors	-	-
Losses on disposal of tangible fixed assets	(2)	-
Hire of other assets – operating leases		490
	<u></u>	<u></u>

\* includes £47,000 in respect of the College (2010/11 £47,000)

\*\* includes £29,000 in respect of the College (2010/11 £24,000)

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 9 Interest payable

	2012 £'000	2011 £'000
On bank loans, overdrafts and other loans:		
Repayable within five years, not by instalments	-	-
Repayable within five years, by instalments	-	-
Repayable wholly or partly in more than five years	424	469
	<u>424</u>	<u>469</u>
On finance leases	-	-
Pension finance costs (note 28)	441	349
	<u>441</u>	<u>349</u>
<b>Total</b>	<b><u>865</u></b>	<b><u>818</u></b>

#### 10 Taxation

The members do not believe the College was liable for any corporation tax arising out of its activities during either period.

#### 11 Surplus on continuing operations for the period

The surplus on continuing operations for the year is made up as follows:

	2012 £'000	2011 £'000
College's surplus for the period	1,080	289
Surplus generated by subsidiary undertaking	37	3
	<u>1,117</u>	<u>292</u>
<b>Total</b>	<b><u>1,117</u></b>	<b><u>292</u></b>

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (Group)**

	Land and buildings Freehold £'000	Furniture £'000	Equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2011	87,677	1,368	3,873	92,918
Additions	1,953	81	972	3,006
Disposals	(82)	-	(29)	(111)
<b>At 31 July 2012</b>	<b>89,548</b>	<b>1,449</b>	<b>4,816</b>	<b>95,813</b>
<b>Depreciation</b>				
At 1 August 2011	19,097	554	2,174	21,825
Charge for the year	3,048	139	1,031	4,218
Elimination in respect of disposals	-	-	(11)	(11)
<b>At 31 July 2012</b>	<b>22,145</b>	<b>693</b>	<b>3,194</b>	<b>26,032</b>
<b>Net book value at 31 July 2012</b>	<b>67,403</b>	<b>756</b>	<b>1,622</b>	<b>69,781</b>
Net book value at 31 July 2011	68,580	814	1,699	71,093

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (College only)**

	Land and buildings Freehold £'000	Furniture £'000	Equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2011	87,677	1,339	3,788	92,804
Additions	1,953	81	968	3,002
Disposals	(82)	-	(29)	(111)
<b>At 31 July 2012</b>	<b>89,548</b>	<b>1,420</b>	<b>4,727</b>	<b>95,695</b>
<b>Depreciation</b>				
At 1 August 2011	19,097	538	2,095	21,730
Charge for the year	3,048	137	1,030	4,215
Elimination in respect of disposals	-	-	(11)	(11)
<b>At 31 July 2012</b>	<b>22,145</b>	<b>675</b>	<b>3,114</b>	<b>25,934</b>
<b>Net book value at 31 July 2012</b>	<b>67,403</b>	<b>745</b>	<b>1,613</b>	<b>69,761</b>
Net book value at 31 July 2011	68,580	801	1,693	71,074

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS 15. Accordingly the book values at implementation have been retained.

The College currently carries inherited assets at a valuation of £8,867,261. The assets were valued on incorporation and have not been revalued since although there was a small disposal in 2002. The historic cost of the assets is nil. Inherited Land and Buildings were valued at depreciation replacement cost by a firm of independent chartered surveyors.

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 12 Tangible fixed assets (College only) (continued)

If fixed assets had not been revalued they would have been included at the following historical cost amounts:

	£'000
Cost	Nil
Aggregate depreciation based on cost	Nil
	<hr/>
<b>Net book value based on cost</b>	<b><u>Nil</u></b>

#### 13 Investments

	College 2012 £	College 2011 £
Investments in subsidiary companies	1	1
	<hr/>	<hr/>

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 Limited was acquired on 22 July 2003 on its incorporation.

#### 14 Endowment assets

The College does not have endowment assets.

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**15 Debtors**

	<b>Group 2012 £'000</b>	<b>College 2012 £'000</b>	<b>Group 2011 £'000</b>	<b>College 2011 £'000</b>
Amounts falling due within one year:				
Trade debtors	327	315	781	779
Amounts owed by group undertakings:				
Subsidiary undertakings	-	25	-	41
Prepayments and accrued income	710	686	425	397
Other debtors	371	371		
<b>Total</b>	<b><u>1,408</u></b>	<b><u>1,397</u></b>	<b><u>1,206</u></b>	<b><u>1,217</u></b>

**16 Creditors: amounts falling due within one year**

	<b>Group 2012 £'000</b>	<b>College 2012 £'000</b>	<b>Group 2011 £'000</b>	<b>College 2011 £'000</b>
Bank loans and overdrafts	890	915	1,228	1,269
Payments received in advance	2,094	2,094	723	723
Trade creditors	565	563	-	-
VAT	68	68	88	88
Other taxation and social security	765	765	-	-
Accruals	1,989	1,965	2,367	2,338
Other creditors	1,130	1,130	1,941	1,941
<b>Total</b>	<b><u>7,501</u></b>	<b><u>7,500</u></b>	<b><u>6,347</u></b>	<b><u>6,359</u></b>

**17 Creditors: amounts falling due after one year**

	<b>Group 2012 £'000</b>	<b>College 2012 £'000</b>	<b>Group 2011 £'000</b>	<b>College 2011 £'000</b>
Bank loans	5,726	5,726	6,647	6,647
Other creditors - Lennartz	2,095	2,095	2,284	2,284
<b>Total</b>	<b><u>7,821</u></b>	<b><u>7,821</u></b>	<b><u>8,931</u></b>	<b><u>8,931</u></b>

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 18 Borrowings

##### Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2012 £'000	College 2012 £'000	Group 2011 £'000	College 2011 £'000
In one year or less	921	921	865	865
Between one and two years	977	977	921	921
Between two and five years	3,300	3,300	3,112	3,112
In five years or more	1,449	1,449	2,614	2,614
<b>Total</b>	<b>6,647</b>	<b>6,647</b>	<b>7,512</b>	<b>7,512</b>

The bank loan of £6,647,000 with Lloyds TSB is secured on the Luker Road campus and is fully repayable by 30 September 2018.

#### 19 Deferred capital grants

	Group and College		Total
	LSC	Other	
	£'000	£'000	£'000
At 1 August 2011	15,227	3,704	18,931
Cash received	100	47	147
Released to income and expenditure	(1,372)	(355)	(1,727)
<b>At 31 July 2012</b>	<b>13,955</b>	<b>3,396</b>	<b>17,351</b>

#### 20 Endowments

The College does not have endowments.



**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**21 Revaluation reserve**

	Group 2012 £'000	College 2012 £'000	Group 2011 £'000	College 2011 £'000
At 1 August	9,176	9,176	9,485	9,485
Transfer from revaluation reserve to general reserve in respect of:				
Depreciation on revalued assets	(309)	(309)	(309)	(309)
<b>At 31 July</b>	<b>8,867</b>	<b>8,867</b>	<b>9,176</b>	<b>9,176</b>

**22 Movement on general reserves**

	Group 2012 £'000	College 2012 £'000	Group 2011 £'000	College 2011 £'000
<b>Income and expenditure account reserve</b>				
At 1 August	25,999	26,004	26,961	26,966
Surplus retained for the year	1,117	1,080	292	292
Transfer from revaluation reserve	309	309	309	309
Actuarial loss in respect of pension scheme	(4,323)	(4,323)	(1,563)	(1,563)
<b>At 31 July</b>	<b>23,102</b>	<b>23,070</b>	<b>25,999</b>	<b>26,004</b>
Balance represented by:				
Pension reserve	(16,668)	(16,668)	(11,917)	(11,917)
Income and expenditure account reserve excluding pension reserve	39,770	39,738	37,916	37,921
<b>At 31 July</b>	<b>23,102</b>	<b>23,070</b>	<b>25,999</b>	<b>26,004</b>

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**23 Reconciliation of consolidated operating (deficit)/surplus to net cash inflow from operating activities**

	2012 £'000	2011 £'000
Surplus on continuing operations after depreciation of assets at valuation	1,117	292
Depreciation (notes 1 and 12)	4,218	4,172
Deferred capital grants released to income (note 19)	(1,727)	(1,770)
Loss on disposal of tangible fixed assets	100	150
Interest payable (note 9)	865	818
Interest receivable (note 5)	(111)	(99)
FRS 17 pension cost less contributions payable (notes 6 and 28)	(13)	167
FRS 17 pension finance income (note 5)	-	-
(Increase)/decrease in stocks	-	(7)
(Increase)/decrease in debtors	(202)	1,293
Increase/(decrease) in creditors	1,275	(533)
<b>Net cash inflow from operating activities</b>	<b>5,522</b>	<b>4,483</b>

**24 Returns on investments and servicing of finance**

	2012 £'000	2011 £'000
Other interest received	111	99
Interest paid	(424)	(469)
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b>(313)</b>	<b>(370)</b>

**25 Capital expenditure and financial investment**

	2012 £'000	2011 £'000
Purchase of tangible fixed assets	(3,006)	(2,221)
Deferred capital grants received	147	513
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(2,859)</b>	<b>(1,708)</b>

**South Essex College of Further and Higher Education**  
**Notes to the Accounts (continued)**

**26 Analysis of changes in net funds**

	At 1 August 2011 £'000	Cash flows £'000	Other changes £'000	At 31 July 2012 £'000
Cash in hand, and at bank	8,967	1,081	-	10,048
Overdrafts	(404)	404	-	-
	<u>8,563</u>	<u>1,485</u>	<u>-</u>	<u>10,048</u>
Debt due within 1 year	(865)	(56)	-	(921)
Debt due after 1 year	(6,647)	921	-	(5,726)
<b>Total</b>	<u><u>1,051</u></u>	<u><u>2,350</u></u>	<u><u>-</u></u>	<u><u>3,401</u></u>

**27 Cash flow relating to exceptional items**

	2012 £'000	2011 £'000
Provision as at 1 August	283	678
Income and expenditure account charge	444	1,248
Operating cash outflow	(606)	(1,643)
<b>Provision as at 31 July</b>	<u><u>121</u></u>	<u><u>283</u></u>

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 28 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	2012 £'000	2011 £'000
Teachers Pension Scheme: contributions paid	1,271	1,450
Local Government Pension Scheme:		
Contributions paid	1,191	1,337
FRS 17 charge	(13)	167
Charge to the Income and Expenditure Account (staff costs)	1,178	1,504
Enhanced pension charge to Income and Expenditure Account (staff costs)	-	-
<b>Total Pension Cost for Year</b>	<b>2,449</b>	<b>2,954</b>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010.

#### Teachers' Pension Scheme

The TPS is an unfunded defined benefit scheme. Contributions on a "pay-as-you-go" basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.

The pensions cost is normally assessed no less than every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation (under the new provisions)	31 March 2004
Actuarial method	Prospective benefits
Investment returns per annum	6.5 per cent per annum
Salary scale increases per annum	5.0 per cent per annum
Notional value of assets at date of last valuation	£162,650 million

Proportion of members' accrued benefits covered by the notional value of the assets	98.88%
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Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 August 2011 to 31 July 2012 the employer contribution was 14.1 per cent. The employee rate was 6.4% for the period to 31st March 2012, with rates between 6.4% and 8.8% depending on the member's salary from 1st April 2012. An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 28 Pension and similar obligations (continued)

##### 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.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

##### 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 2012 was £1,588,000, of which employer's contributions totalled £1,191,000 and employees' contributions totalled £397,000. The agreed contribution rates for future years are 17.3 per cent for employers and range from 5.5% to 7.5% for employees.

##### FRS 17

Principal Actuarial Assumptions	At 31 July 2012	At 31 July 2011
Rate of increase in salaries	3.60%	4.40%
Rate of increase for pensions in payment / inflation	1.80%	2.90%
Discount rate for scheme liabilities	3.90%	5.30%
Inflation assumption (CPI)	1.80%	2.90%
Commutation of pensions to lump sums	50%	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 2012	At 31 July 2011
<i>Retiring today</i>		
Males	22.70	22.60
Females	25.30	25.20
<i>Retiring in 20 years</i>		
Males	24.10	24.00
Females	26.80	26.80

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 28 Pension and similar obligations

##### Local Government Pension Scheme (Continued)

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

	Long-term rate of return expected at 31 July 2012	Value at 31 July 2012  £'000	Long-term rate of return expected at 31 July 2011	Value at 31 July 2011  £'000
Equities	5.90%	15,244	7.00%	14,536
Bonds	3.90%	1,988	4.90%	1,807
Property	4.90%	2,651	6.00%	2,402
Gilts	2.80%	1,326	3.90%	1,488
Cash	0.50%	884	0.50%	1,020
<b>Total market value of assets</b>		<b>22,093</b>		<b>21,253</b>
Present value of scheme liabilities				
- Funded		(38,736)		(33,147)
- Unfunded		(25)		(23)
<b>Deficit in the scheme</b>		<b>(16,668)</b>		<b>(11,917)</b>

##### Analysis of the amount charged to income and expenditure account

	2012 £'000	2011 £'000
Employer service cost (net of employee contributions)	(1,155)	(1,368)
Past service cost	-	-
<b>Total operating charge</b>	<b>(1,155)</b>	<b>(1,368)</b>

##### Analysis of pension finance costs

	2012 £'000	2011 £'000
Expected return on pension scheme assets	1,334	1,309
Interest on pension liabilities	(1,775)	(1,658)
<b>Pension finance costs</b>	<b>(441)</b>	<b>(349)</b>

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

	2012 £'000	2011 £'000
Actuarial losses on pension scheme assets	(1,158)	(688)
Actuarial losses on scheme liabilities	(3,165)	(875)
<b>Actuarial loss recognised in STRGL</b>	<b>(4,323)</b>	<b>(1,563)</b>

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 28 Pension and similar obligations

##### Local Government Pension Scheme (Continued)

##### Movement in deficit during year

	2012 £'000	2011 £'000
Deficit in scheme at 1 August	(11,917)	(9,838)
Movement in year:		
Employer service cost (net of employee contributions)	(1,155)	(1,368)
Employer contributions	1,190	1,337
Unfunded pension payments	1	1
Past service cost	-	-
Net interest/return on assets	(441)	(349)
Curtailments and settlements	(23)	(136)
Actuarial gain or loss	(4,323)	(1,563)
<b>Deficit in scheme at 31 July</b>	<b>(16,668)</b>	<b>(11,917)</b>

##### Asset and Liability Reconciliation

	2012 £'000	2011 £'000
<b>Reconciliation of Liabilities</b>		
<b>Liabilities at start of period</b>	33,170	29,788
Service cost	1,155	1,368
Interest cost	1,775	1,658
Employee contributions	397	468
Liabilities assumed in a business combination	-	-
Actuarial loss	3,165	875
Benefits paid	(924)	(1,123)
Past Service cost	-	-
Curtailments and settlements	23	136
<b>Liabilities at end of period*</b>	<b>38,761</b>	<b>33,170</b>

##### Reconciliation of Assets

<b>Assets at start of period</b>	21,253	19,950
Expected return on assets	1,334	1,309
Actuarial loss	(1,158)	(688)
Employer contributions	1,191	1,337
Employee contributions	397	468
Benefits paid	(924)	(1,123)
Assets distributed on settlements	-	-
Assets acquired in a business combination	-	-
<b>Assets at end of period</b>	<b>22,093</b>	<b>21,253</b>

\* of the total liabilities £25,000 (2011 : £23,000) relates to wholly unfunded schemes

The estimated value of employer contributions for the year ended 31st July 2013 is £1,081,000.

## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 28 Pension and similar obligations

##### Local Government Pension Scheme (Continued)

##### History of experience gains and (losses)

	2012	2011	2010	2009	2008
Difference between the expected and actual return on assets:					
Amount £'000*	1,158	688	(1,719)	(545)	(666)
Experience gains and losses on scheme liabilities:					
Amount £'000*	3,165	875	1,688	1,435	(652)
Total amount recognised in STRGL:					
Amount £'000*	4,323	1,563	(31)	442	(4,513)

#### 29 Post-balance sheet events

There are no post balance sheet events.

#### 30 Capital commitments

	Group and College	
	2012	2011
	£'000	£'000
Commitments contracted for at 31 July	<u>167</u>	<u>20</u>
Authorised but not contracted at 31 July	<u>NIL</u>	<u>NIL</u>

#### 31 Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as

	Group and College	
	2012	2011
	£'000	£'000
Land and buildings		
Expiring within one year	317	43
Expiring within two and five years inclusive	617	393
Expiring in over five years	-	1,094
	<u>934</u>	<u>1,530</u>



## South Essex College of Further and Higher Education

### Notes to the Accounts (continued)

#### 32 Contingent liability

There are no contingent liabilities.

#### 33 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.

Transactions with the LSC and its successor organisations and HEFCE are detailed in notes 2, 15, 16 and 19.

#### 34 Amounts disbursed as agent

##### Learner support funds

	2012 £'000	2011 £'000
Funding body grants – hardship support	976	340
Funding body grants – childcare	166	82
Other Funding bodies grants	-	4
	<u>1,142</u>	<u>426</u>
Disbursed to students	(463)	(358)
Administration costs	(24)	(17)
	<u>655</u>	<u>51</u>
Balance unspent as at 31 July, included in creditors		

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account. The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.

