



SOUTH ESSEX COLLEGE
Report and Financial Statements
for the year ended 31 July 2013

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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 2013.

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 2012/13 and in May 2013 adopted a revised mission statement as follows:

'The first choice for achieving success through quality learning'

Implementation of strategic plan

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

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

Operating and Financial Review (continued)

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

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

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

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

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

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

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

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

5. Respect, Promote and Celebrate Diversity

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

Operating and Financial Review (continued)

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

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

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

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

Financial objectives

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

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

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

- Success, retention and attendance
- Achievement and destination
- Equality and Diversity
- Learner and Staff Satisfaction
- Financial Health

Operating and Financial Review (continued)

FINANCIAL POSITION

Financial results

The College generated an operating surplus in the year of £13.7million (2011/12 - £1.1million). The operating surplus includes a gain of £13.8million resulting from the disposal of the Woodview campus in Thurrock (for which further details are given on page 9) and is after exceptional restructuring costs of £0.9million (2011-12 £0.4million).

During 2012/13 the College embarked on a 'change programme' in the way it provides services which resulted in an organisational restructure and made all the necessary changes required during this first phase without the need for compulsory redundancy. The impact of this restructuring on the financial results was £0.9m.

The College has accumulated reserves of £69.4million (2011/12 - £49.3million) including £8.8million in cash. 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. Where there are cash funds in excess of this working capital requirement these will be used to invest in infrastructure improvements and associated capital equipment for the benefit of teaching, learning and assessment in accordance with the strategic plan.

Tangible fixed asset additions during the year amounted to £18.4million, of which £17.4million included the creation of the Learning Centre at Luker Road campus, contribution to the Forum in Southend and work in progress on the new campus at Thurrock. The disposal of land and buildings at Woodview Thurrock £12million.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2012/13 the funding bodies provided 80% 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 £123k (2011/12 - £36k).

The College 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 1st August 2013 for 2012/13 delivery. The 50% surplus due to the College of £23k has been generated and is included in the College results.

During 2012/13 the College also established a joint venture partnership with Chelmsford College for the sharing of services including Director of Finance, Procurement and Health and Safety expertise. This relationship will develop to include further services and expertise.

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

Cash inflow from operating activities was £2.5million (2011/12 - £5.5million)..

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 which opened in 2004. The building cost £52million, 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 outstanding loan is £5.7m payable by September 2018.

A further loan to facilitate the building of the new campus at Thurrock was drawn down; the value of this loan is currently £8.8million and is set to increase to £20million by the end of the project. The loan is repayable in full by 2041.

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

Post-balance sheet events

There are no post balance sheet events.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers & achievement

In 2012/13 the College has delivered activity that has produced £39.4m in funding body main allocation funding (2011/12– £35.3m).

Overall College headline FE Learner Responsive funded success rates have increased by 3pp in 2012-13 over the performance in 2011-12, from 79% to 82%, but are still 2pp below the national average for 2011-12. Overall retention has increased by 1pp over 2011-12.

Operating and Financial Review (continued)

Curriculum developments

We implemented a number of actions last year to improve our Curriculum delivery,

- We launched a new Teaching and Learning Strategy across the College and developed a staff training programme to support the implementation of the strategy.
- Completed a restructure of our Academic delivery including the delivery, management and assessment of functional skills.
- Monitored closely the performance of collaborative partners delivering foundation learning level programmes 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 monitors progress on this provision on a monthly basis to ensure the achievement of high performance.
- Curriculum development has taken place to ensure that appropriate additional qualifications are added to a student programme to maximise achievement and benefit the student. During 2012/13 students undertook a variety of additional qualifications that supported their employability. Success rates on the majority of these programmes were good.
- We held monthly meetings at Academy level where performance was monitored and actions agreed to rectify any areas of concern.

Applications for FE 16-18 programmes continue to be strong across the College and are marginally ahead of performance in 2012/13 at this stage. The College expects to exceed the government funding body Learner Responsive 16-18 learner number target for 2013/14. The curriculum for 2013/4 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 targets.

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

The College expects to meet its funding contracts with the two HEI's: University of Essex and the University of East London. We met our funding contracts with the University of Essex and University of East London, but no longer work with UEL.

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 2013/4. 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. Changes were made to the management of Functional Skills and Foundation Learning during the 2012/13 academic year. 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. This work is on-going and the curriculum plan was approved by the Corporation Board in July 2013.

Operating and Financial Review (continued)

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.

NOVA Partnership

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

Timely success is the percentage of learners who complete their programme by their planned end date. Successful completion of an Apprenticeship framework is also contingent upon the learner being employed at the end of their course. The tables below show the current position for 2012-13 as at 16th September 2013. Table 3 shows the three year trend for overall success, timely success and retention. Table 4 shows the current position on 2013/14 overall success, timely success and retention with a best case scenario.

Table 3: Three Year Trend for Success and Retention for 2012-13

(12/13 data taken from the PICS R12 data return)

	Overall			Timely			Retention		
	10/11	11/12	12/13	10/11	11/12	12/13	10/11	11/12	12/13
Overall	77%	72%	72%	70%	58%	61%	79%	76%	78%
Adv. App	78%	71%	68%	68%	52%	55%	80%	75%	74%
App	77%	72%	74%	70%	60%	64%	79%	76%	77%

Table 4: Current Success and Retention with the Best Case (12/13 data taken from the PICS R12 data return; National Average data is taken from the 2011-12 QSR)

	Overall	Nat. Average	Timely	Nat. Average	Retention	Best Case (Overall)
Framework Success Rates	72%	74%	61%	57%	78%	75%
Advanced Apprentices	68%	76%	55%	58%	74%	72%
Apprentices	74%	73%	64%	57%	77%	76%

Operating and Financial Review (continued)

Future developments

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

Southend

The University of Essex, Southend on Sea Borough Council and the College created a partnership to develop the town centre campus. The next phase of development opened in September 2013, 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 for the next academic year. More information is available at our website: www.theforumsouthend.co.uk

Thurrock

The new campus in Grays town centre is under construction and will open for September 2014 students. The previous site at Woodview will close during the summer of 2014. The £45million investment into the new campus is being funded from additional borrowing together with the receipt from the sale of the current campus at Woodview. More information is available at our website: <http://www.southessex.ac.uk/thurrock>

Basildon

A new College campus in Basildon town centre has planning permission and is due to open in 2015/16. The new campus will be funded through a partnership with the Homes and Communities Agency (HCA) and Basildon Borough Council (BBC) by selling land at the current college location in Nethermayne. The site at Nethermayne has outline planning permission for residential development which will fund the move.

RESOURCES

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

Financial

The College has £69.4m million of net assets, after the provision of £13.3m pension liability and long term bank debt of £14.0m.

People

The College employs 728 people (expressed as full time equivalents), of whom 307 are teaching staff.

Operating and Financial Review (continued)

Reputation

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

With regard to the improved capacity provided by the new building in Grays Town Centre, the College seeks to significantly increase student numbers over the next three years.

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

PRINCIPAL RISKS AND UNCERTAINTIES:

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

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

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

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

Risk Registers are held by Department 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).

With the implementation of structural change it will be necessary to carryout a training programme for all new Heads of Departments and managers. A risk workshop with Governors will also become an annual process to ensure alignment with the strategic plan.

Operating and Financial Review (continued)

Existing Controls are 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 receive a summary list of key actions which they are required to confirm 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 are the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

Under achievement of funding contracts

In order to mitigate the impact of reduced funding in 2013/14 the College implemented a 'Management of Change' process in May 2013. This process involved the restructure of the academic business areas to efficiently manage and control costs while encouraging growth and achievement. This will be a continuing process in other areas during 2013/14.

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

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

Failure of capital projects

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

There are various risks associated with capital projects, mostly related to the principles of the schemes (including planning elements and design issues) and the capital funding available. Actions 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. Project process is reported at each Policy & Resources Committee and at Corporation meetings.

The quality of our teaching and management of the learning experience is below required standards

An action plan is in place to address the areas for improvement highlighted in the 2012 OFSTED Report. This is regularly reviewed at Senior Leadership Team (SLT) and at Curriculum and Quality Committee meetings.

Operating and Financial Review (continued)

Franchising and partnership activities are appropriately monitored

The two major contracts (the Partnership for Higher Education with The University of Essex and Work Based Learning for the SFA delivered through The NOVA Partnership) remain significant and would have an impact if they had problems over delivery or were lost.

The College has a good, well-established reputation for the quality and compliance of its partnership/franchised activity.

The College endeavours to follow the funding agencies' best practice where this exists and partnership/franchising activity has been subject to internal audit and found to be operating correctly. The continued expansion of The NOVA Partnership has placed new management demands on the College and these are being addressed

Funding external environment

The coalition Government policy has affected the FE sector and funding cuts may continue for the foreseeable future. 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 cost course and its trading activities.

The following two emerging risks need a full risk assessment so that mitigation measures can be agreed and put in place.

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

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

In addition, we will develop some degree Foundation Year Programmes for students wishing to study at UK universities and possibly following this model, a pre-Masters programme for those wishing to undertake Masters programmes at a UK university

Changes to curriculum delivery and planning required by new funding methodologies not implemented effectively

A robust system of curriculum planning is in place. Each Head of Department will be required to sign a course planning spreadsheet confirming the group size, hours taught, hours delivered etc to enable accountability and rigour in assessment.

Operating and Financial Review (continued)

The College Head of Management Information and the Senior Leadership Team will set the strategy and planning framework based on changes required by the new funding formulae and the Heads of Department will be responsible for designing the appropriate curriculum and ensuring it is delivered within the framework.

STAKEHOLDER RELATIONSHIPS

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

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

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

Equal opportunities and employment of disabled persons

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

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

Operating and Financial Review (continued)

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.

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).

Operating and Financial Review (continued)

Disclosure of information to auditors

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

Approved by order of the Members of the Corporation on 9 December 2013 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
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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 2013. 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.

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 2012/13 and to the date of this report

	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; Search
Ms A O'Donoghue	13 Aug 2012			Principal and Chief Executive	Curriculum & Quality; Policy & Resources; Search & Governance
Ms D Adams	1 Aug 2013	31 Jul 2014	11 Sept 2013	Student	Curriculum & Quality
Mr M Baker	First Appointed 22 Mar 1999 Reappointed 26 Mar 2001; 26 Mar 2005; 26 Mar 2009 26 Mar 2013	2 years 4 years 4 years 4 years 4 years	 8 July 2013	Clause 3 of the Instrument	Chair: Remuneration; Policy & Resources; Audit & Risk
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 4 years	 10 Dec 2012	Clause 3 of the Instrument	Policy & Resources; Search & Governance;

Statement of Corporate Governance and Internal Control (continued)

Table 2 continued

Ms O Buck	First Appointed 1 Aug 2012 Appointed 18 Mar 2013	4 years		External Member Clause 3 of the Instrument	Policy & Resources
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	
Mrs K Davison	First Appointed 1 Aug 2013	31 Jul 2014		Student	Curriculum & Quality
Ms H Drew	First Appointed 1 Oct 2012	31 Jul 2013	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	27 Aug 2013	Clause 3 of the Instrument	Curriculum & Quality Search & Governance
Mr R Hughes	First Appointed 10 Dec 2012	2 years		Staff	Curriculum & Quality; Policy & Resources

Statement of Corporate Governance and Internal Control (continued)

Table 2 continued

Mr T Knight	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Policy & Resources; Search & Governance; Remuneration
Mr B Morris	First Appointed 1 Aug 2013	4 years		Clause 3 of the Instrument	Audit & Risk
Mr B Neagus	First Appointed 6 Dec 2010 Reappointed 10 Dec 2012	2 years 2 years		Staff	Audit & Risk
Mr S Nolan	First Appointed 14 Mar 12 Reappointed 1 Aug 2012	31 Jul 2012 31 Jul 2013	31 Jul 2013	Student	
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 to 18 Mar 2013; Chair: Curriculum & Quality; Remuneration; Policy & Resources
Ms U Patel	First Appointed 6 Dec 2010	2 years	6 Dec 2012	Staff	
Mr B Patterson	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Chair: Audit & Risk wef 10 May 2013
Mr P Pickford	First Appointed 30 Jan 1995 Reappointed 30 Jan 1997; 26 Mar 2001; 26 Mar 2005; 26 Mar 2009	2 years 4 years 4 years 4 years 4 years	25 Mar 2013	Clause 3 of the Instrument	Policy & Resources; Remuneration; Curriculum & Quality
Mr R Smith	First Appointed 1 Jan 2010	4 years		Clause 3 of the Instrument	Policy & Resources

Statement of Corporate Governance and Internal Control (continued)

Table 2 continued

Mr N South	First Appointed 1 Aug 2012	4 years	31 Jul 2013	Clause 3 of the Instrument	Curriculum & Quality
Mr T Thompson	First Appointed 1 Aug 2012 Appointed 26 Mar 2013	4 years		External Member Clause 3 of the Instrument	Audit & Risk
Mrs G Williams	First Appointed 1 Aug 2012	4 years		Clause 3 of the Instrument	Curriculum & Quality; Search & Governance; Remuneration
Mr L Wright	First Appointed 7 Oct 2013	31 Jul 2014		Student	
External Members of Committees					
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 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. He retired from the Board on 31 Jul 2013.					

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

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

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

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

Statement of Corporate Governance and Internal Control (continued)

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 followed. 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 2013, 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 2013 are set out in note 7 to the financial statements.

Audit committee

The Audit Committee comprises five members of the Corporation (excluding all members of the Policy & Resources Committee, the Principal and Chief Executive the Chairman of the Corporation). 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.

Statement of Corporate Governance and Internal Control (continued)

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 Principle 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 2013 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal on going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2013 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 SFA Joint 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 Principle Accounting Officer, the Principal and Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by;

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements auditors, who are also the regularity auditors, in their management letters and other reports.

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

The Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit & Risk Committee also receive regular reports from internal audit, which include

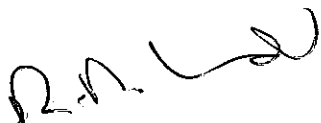
Statement of Corporate Governance and Internal Control (continued)

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 management 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 2013 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2013 by considering documentation from the Senior Leadership Team and internal audit, and taking account of events since 31 July 2013.

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.....and signed on its behalf by:



Mr R Launder
Chairman



Ms A O'Donoghue
Principal and 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 and with the Accounts Direction for 2012-13 financial statements issued jointly by the Skills Funding Agency and the 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 an Operating and Financial Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

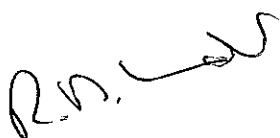
Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency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

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

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 the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 9 December 2013 and signed on its behalf by:

Mr R Launder
Chairman



Independent auditor's 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 2013, 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of South Essex College and Auditor

As described in the statement of Responsibilities the College's Corporation is responsible for preparing the Members' Report and financial statements in accordance with the 2012-13 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 Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the 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.

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 Groups' and of the College's affairs as at 31 July 2013 and of the consolidated surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Educations.

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

**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

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

Date 18-12-13

Independent Auditor's Report on Regularity to the Corporation of South Essex College ('the Corporation') and the Chief Executive of Skills Funding

In accordance with the terms of our engagement letter and further to the requirements of the Chief Executive of Skills Funding, 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 2013 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. Our review work has been undertaken so that we might state to the Corporation and the Chief Executive of Skills Funding, 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, 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.

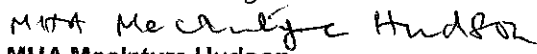
Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2013 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 2013 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.


MHA MacIntyre Hudson

Date 18-12-13

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	2013 £'000	2012 £'000
INCOME			
Funding body grants	2	42,669	38,638
Tuition fees and education contracts	3	7,948	6,475
Research grants and contracts	4	437	532
Other income		1,954	1,908
Endowment and investment income	5	145	111
Total income		53,153	47,664
EXPENDITURE			
Staff costs	6	26,730	26,064
Other operating expenses	8	21,273	14,956
Depreciation	12	3,602	4,218
Interest and other finance costs	9	732	865
Total expenditure		52,337	46,103
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax			
		816	1,561
Exceptional restructuring costs	6	(909)	(444)
Gain on disposal of assets	12	13,778	-
Surplus on continuing operations after depreciation of tangible fixed assets at valuation, exceptional items and disposal of assets but before tax		13,685	1,117
Taxation	10	-	-
Surplus on continuing operations after depreciation of assets at valuation and tax	11	13,685	1,117
Surplus for the year retained within general reserves		13,685	1,117

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	2013 £'000	2012 £'000
Surplus on continuing operations before taxation		13,685	1,117
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	21	213	309
Historical cost surplus for the year before taxation		<u>13,898</u>	<u>1,426</u>
Historical cost surplus for the year after taxation		<u>13,898</u>	<u>1,426</u>

Consolidated Statement of Total Recognised Gains and Losses

	Notes	2013 £'000	2012 £'000
Surplus on continuing operations after depreciation of assets at valuation and tax		13,685	1,117
Actuarial gain/(loss) in respect of pension scheme	29	4,021	(4,323)
Total recognised losses since last report		<u>17,706</u>	<u>(3,206)</u>
Reconciliation			
Opening reserves and endowments		23,102	25,999
Total recognised gains/(losses) for the year		17,706	(3,206)
Transfer from revaluation reserve		<u>4,513</u>	<u>309</u>
Closing reserves and endowments		<u>45,321</u>	<u>23,102</u>

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

	Notes	Group 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
Fixed assets					
Tangible assets	12	76,355	76,297	69,781	69,761
Investments	13	-	-	-	-
Total fixed assets		76,355	76,297	69,781	69,761
Current assets					
Stocks		68	55	73	62
Debtors	15	7,253	7,296	1,408	1,397
Debtors due after more than one year	15	12,008	12,008	-	-
Cash at bank and in hand		8,813	8,633	10,048	10,057
Total current assets		28,142	27,992	11,529	11,516
Less: Creditors – amounts falling due within one year	16	(6,744)	(6,665)	(7,501)	(7,500)
Net current assets		21,398	21,327	4,028	4,016
Total assets less current liabilities		97,753	97,624	73,809	73,777
Less: Creditors – amounts falling due after more than one year	17	15,004	15,004	7,821	7,821
Net assets excluding pension (liability)/asset		82,749	82,620	65,988	65,956
Net pension (liability)/asset	29	(13,313)	(13,313)	(16,668)	(16,668)
NET ASSETS INCLUDING PENSION ASSET/(LIABILITY)		69,436	69,307	49,320	49,288
Deferred capital grants	19	19,748	19,748	17,351	17,351
Reserves					
Income and expenditure account excluding pension reserve	22	58,634	58,505	39,770	39,738
Pension reserve	29	(13,313)	(13,313)	(16,668)	(16,668)
Income and expenditure account including pension reserve	22	45,321	45,192	23,102	23,070
Revaluation reserve	21	4,367	4,367	8,867	8,867
Total reserves		49,688	49,559	31,969	31,937
TOTAL FUNDS		69,436	69,307	49,320	49,288

The financial statements on pages 30 to 61 were approved by the Corporation on 9 December 2013 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	2013 £'000	2012 £'000
Cash (outflow)/inflow from operating activities	23	2,487	5,522
Returns on investments and servicing of finance	24	(222)	(313)
Capital expenditure and financial investment	25	(10,928)	(2,859)
Financing	26	7,428	(865)
		<hr/>	<hr/>
(Decrease)/Increase in cash in the year	26	<u>(1,235)</u>	<u>1,485</u>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/Increase in cash in the period		(1,235)	1,485
Cash inflow from loan movements	26	(7,428)	865
(increase)/decrease		<hr/>	<hr/>
Movement in net funds in the period		(8,663)	2,350
Net funds at 1 August	26	3,401	1,051
		<hr/>	<hr/>
Net funds at 31 July		<u>(5,262)</u>	<u>3,401</u>

Notes to the Accounts

1. Accounting policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP), the *Accounts Direction for 2012-13 financial statements* and in accordance with applicable Accounting Standards.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the College and its 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 students union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2013.

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 298, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

Notes to the Accounts (continued)

1. Accounting policies (continued)

Post retirement benefits (continued)

Enhanced Pensions

The actual cost of any enhanced 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.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Tangible fixed assets (continued)

Subsequent expenditure on existing fixed assets

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

Market value of the fixed asset has subsequently improved

Asset capacity increases

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

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

Buildings owned by third parties

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

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

Equipment

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

Inherited equipment was 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Tangible fixed assets (continued)

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.

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

Notes to the Accounts (continued)

1. Accounting policies (continued)

Taxation (continued)

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 35, 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Going concern (continued)

The College currently has £14.0million 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 from its bankers for use in connection with financing its new building in Grays Town Centre a £32 million loan facility of which £12m will be repaid from two promissory notes valued at £6m each in October 2014 and October 2015. The loan drawn down at 31st July 2013 from this facility is £8.3m 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

	2013 £'000	2012 £'000
Recurrent grant - EFA, SFA and LA	39,373	35,315
Work based learning	1,291	1,176
Access funds	988	487
FE Standards Fund	25	-
Releases of deferred capital grants (note 19)	802	1,411
Release of HEFCE Capital grants	176	179
Train to Gain	14	70
Total	42,669	38,638

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

	2013 £'000	2012 £'000
Train To Gain income	14	121
Payments to non College partners	-	(51)
Payments to College partners	-	-
Net income	14	70

	2012 £'000	2011 £'000
Work based learning income	7,096	9,753
Payments to College partners	(5,802)	(8,499)
Payments to non College partners	(3)	(78)
Net income	1,291	1,176

3 Tuition fees and education contracts

	2013 £'000	2012 £'000
Tuition fees	5,981	4,499
Education contracts	1,967	1,976
Total	7,948	6,475

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

4 Research grants and contracts

	2013 £'000	2012 £'000
Other grants and contracts	<u>437</u>	<u>532</u>

5 Endowment and investment income

	2013 £'000	2012 £'000
Other interest receivable	<u>145</u>	<u>111</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:

	2013 No.	2012 No.
Teaching staff	307	327
Non teaching staff	421	450
	<u>728</u>	<u>777</u>
Staff costs for the above persons		
	2013 £'000	2012 £'000
Wages and salaries	20,987	21,352
Social security costs	1,511	1,526
Other pension costs (including FRS 17 adjustments of £301,000 – 2012 (£13,000))	2,577	2,310
	<u>25,075</u>	<u>25,188</u>
Payroll sub total		
Contracted out staffing services	1,655	876
	<u>26,730</u>	<u>26,064</u>
Exceptional restructuring costs	909	444
	<u>27,639</u>	<u>26,508</u>

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

	Senior post-holders		Other staff	
	2013 No.	2012 No.	2013 No.	2012 No.
£50,001 to £60,000	-	-	17	18
£60,001 to £70,000	-	1	1	7
£70,001 to £80,000	-	-	1	-
£80,001 to £90,000	1	-	-	-
£90,001 to £100,000	2	4	-	-
£100,001 to £110,000	1	1	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	-	-	-	-
£140,001 to £150,000	-	1	-	-
£150,001 to £170,000	1	-	-	-
£170,001 to £175,000	-	-	-	-
	<u>5</u>	<u>7</u>	<u>19</u>	<u>25</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 Chief Executive 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.

	2013 No.	2012 No.
The number of senior post-holders including the Principal was:	5	7

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

	2013 £'000	2012 £'000
Salaries	506	455
Benefits in kind	43	57
Pension contributions	65	65
Total emoluments	614	577

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

	2013 £'000	2012 £'000
Salaries	160	119
Benefits in kind	9	8
	169	127
Pension contributions	17	17

The Principal & Chief Executive was appointed with effect from 13/8/2012

The pension contributions in respect of the Principal and Chief Executive 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.

The members of the Corporation other than the Principal and Chief Executive 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

	2013	2012
	£'000	£'000
Teaching costs	4,497	3,305
Non teaching costs	13,313	8,238
Premises costs	3,463	3,413
Total	21,273	14,956

Other operating expenses include:

	2013	2012
	£'000	£'000
Auditors' remuneration:		
Financial statements audit*	24	47
Internal audit**	28	29
Other services provided by the financial statements auditors	1	-
Other services provided by the internal auditors	3	-
Losses on disposal of tangible fixed assets (where not material)	-	(2)

* includes £24,000 in respect of the College (2011/12 £47,000)

** includes £28,000 in respect of the College (2011/12 £29,000)

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

9 Interest payable

	2013 £'000	2012 £'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	367	424
	<u>367</u>	<u>424</u>
Pension finance costs (note 28)	365	441
	<u>365</u>	<u>441</u>
Total	<u>732</u>	<u>865</u>

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:

	2013 £'000	2012 £'000
College's surplus for the period	13,562	1,080
Surplus generated by subsidiary undertakings and transferred to the College under gift aid/deed of covenant	123	37
	<u>13,562</u>	<u>1,080</u>
Total	<u>13,685</u>	<u>1,117</u>

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
Cost or valuation				
At 1 August 2012	89,548	1,449	4,816	95,813
Additions	17,418	56	961	18,435
Disposals	(12,094)	-	(8)	(12,102)
At 31 July 2013	94,872	1,505	5,769	102,146
Depreciation				
At 1 August 2012	22,145	693	3,194	26,032
Charge for the year	2,351	146	1,105	3,602
Elimination in respect of disposals	(3,842)	-	(1)	(3,843)
At 31 July 2013	20,654	839	4,298	25,791
Net book value at 31 July 2013	74,218	666	1,471	76,355
Net book value at 31 July 2012	67,403	756	1,622	69,781

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
Cost or valuation				
At 1 August 2012	89,548	1,420	4,727	95,695
Additions	17,372	56	961	18,389
Disposals	(12,094)	-	(8)	(12,102)
At 31 July 2013	94,826	1,476	5,680	101,982
Depreciation				
At 1 August 2012	22,145	675	3,114	25,934
Charge for the year	2,347	143	1,103	3,593
Elimination in respect of disposals	(3,841)	-	(1)	(3,842)
At 31 July 2013	20,651	818	4,216	25,685
Net book value at 31 July 2013	74,175	658	1,464	76,297
Net book value at 31 July 2012	67,403	745	1,613	69,761

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 £3,021,430. 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/>
Net book value based on cost	-
	<hr/>

13 Investments

	College 2013 £	College 2012 £
Investments in subsidiary companies	1	1
Investments in associate companies	50	-
	<hr/>	<hr/>
Total	51	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.

The College owns 50 per cent of the issued ordinary £1 shares of Nova Skills Education & Careers Limited, a company incorporated in England and Wales. The principal business activity of Nova Skills Education & Careers Limited is that of adult and other education. The interest in Nova Skills Education & Careers Limited was acquired on 28 June 2012 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

	Group 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
Amounts falling due within one year:				
Trade debtors	436	408	327	315
Amounts owed by group undertakings:				
Subsidiary undertakings	-	103	-	25
Joint Venture undertakings	18	18	-	-
Prepayments and accrued income	484	452	710	686
Other debtors	6,315	6,315	371	371
	<u>7,253</u>	<u>7,296</u>	<u>1,408</u>	<u>1,397</u>
Other debtors due after more than one year	12,008	12,008	-	-
Total	<u>19,261</u>	<u>19,304</u>	<u>1,408</u>	<u>1,397</u>

Included within other debtors due more than one year and less than one year are promissory notes receivable totalling £18,008,000 (2012 - £nil).

16 Creditors: amounts falling due within one year

	Group 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
Bank loans and overdrafts	977	977	890	915
Payments received in advance	1,711	1,665	2,094	2,094
Trade creditors	709	700	565	563
VAT	35	35	68	68
Other taxation and social security	762	762	765	765
Accruals	1,838	1,814	1,989	1,965
Other creditors	712	712	1,130	1,130
Total	<u>6,744</u>	<u>6,665</u>	<u>7,501</u>	<u>7,500</u>

17 Creditors: amounts falling due after one year

	Group 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
Bank loans	13,098	13,098	5,726	5,726
Other creditors - Lennartz	1,906	1,906	2,095	2,095
Total	<u>15,004</u>	<u>15,004</u>	<u>7,821</u>	<u>7,821</u>

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 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
In one year or less	977	977	921	921
Between one and two years	1,186	1,186	977	977
Between two and five years	4,400	4,400	3,300	3,300
In five years or more	7,463	7,463	1,449	1,449
Total	14,026	14,026	6,647	6,647

The bank loan of £5,726,000 with Lloyds TSB is secured on the Luker Road campus and is fully repayable by 30 September 2018.

The bank loan of £8,300,000 with Barclays Bank is secured on the new Thurrock campus and is fully repayable by 14 September 2041.

19 Deferred capital grants

	Group and College		
	Funding body £'000	Other grants £'000	Total £'000
At 1 August 2012	13,955	3,396	17,351
Cash received	3,310	155	3,465
Released to income and expenditure account	(762)	(306)	(1,068)
At 31 July 2013	16,503	3,245	19,748

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 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
At 1 August	8,867	8,867	9,176	9,176
Transfer from revaluation reserve to general reserve in respect of:				
Disposals	(4,287)	(4,287)	-	-
Depreciation on revalued assets	(213)	(213)	(309)	(309)
At 31 July	<u>4,367</u>	<u>4,367</u>	<u>8,867</u>	<u>8,867</u>

22 Movement on general reserves

	Group 2013 £'000	College 2013 £'000	Group 2012 £'000	College 2012 £'000
Income and expenditure account reserve				
At 1 August	23,102	23,070	25,999	26,004
Surplus retained for the year	13,685	13,570	1,117	1,080
Transfer from revaluation reserve	4,513	4,513	309	309
Actuarial loss in respect of pension scheme	4,021	4,021	(4,323)	(4,323)
At 31 July	<u>45,321</u>	<u>45,174</u>	<u>23,102</u>	<u>23,070</u>
Balance represented by:				
Pension reserve	(13,313)	(13,313)	(16,668)	(16,668)
Income and expenditure account reserve excluding pension reserve	58,634	58,505	39,770	39,738
At 31 July	<u>45,321</u>	<u>45,192</u>	<u>23,102</u>	<u>23,070</u>

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

	2013 £'000	2012 £'000
Surplus on continuing operations after depreciation of assets at valuation	13,685	1,117
Depreciation (notes 1 and 12)	3,602	4,218
Deferred capital grants released to income (note 19)	(1,068)	(1,727)
Profit on disposal of tangible fixed assets	(13,778)	100
Interest payable (note 9)	732	865
Interest receivable (note 5)	(145)	(111)
FRS 17 pension cost less contributions payable (notes 6 and 29)	301	(13)
Decrease in stocks	5	-
Increase in debtors	(17,853)	(202)
Amounts in relation to promissory loan notes	18,008	-
(Decrease)/Increase in creditors	(1,002)	1,275
Net cash (outflow)/inflow from operating activities	2,487	5,522

24 Returns on investments and servicing of finance

	2013 £'000	2012 £'000
Other interest received	145	111
Interest paid	(367)	(424)
Net cash (outflow) from returns on investment and servicing of finance	(222)	(313)

25 Capital expenditure and financial investment

	2013 £'000	2012 £'000
Purchase of tangible fixed assets	(18,435)	(3,006)
Proceeds from sales of tangible fixed assets	22,050	-
Amounts in relation to promissory loan notes	(18,008)	-
Deferred capital grants received	3,465	147
Net cash inflow/(outflow) from capital expenditure and financial investment	(10,928)	(2,859)

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

26 Analysis of changes in net funds

	At 1 August 2012 £'000	Cash flows £'000	Other changes £'000	At 31 July 2013 £'000
Cash in hand, and at bank	10,048	(1,235)	-	8,813
Overdrafts	-	-	-	-
	<u>10,048</u>	<u>(1,235)</u>	<u>-</u>	<u>8,813</u>
Debt due within 1 year	(921)	(56)	-	(977)
Debt due after 1 year	(5,726)	(7,372)	-	(13,098)
Total	<u>3,401</u>	<u>(8,663)</u>	<u>-</u>	<u>(5,262)</u>

27 Cash flow relating to exceptional items

	2013 £'000	2012 £'000
Provision as at 1 August	121	283
Income and expenditure account charge	909	444
Operating cash outflow	-	(606)
Provision as at 31 July	<u>1,030</u>	<u>121</u>

28 Major non-cash transactions

Maitland House

During the year the College made a provision of £200,000 for probable costs relating to the repair and restructuring of Maitland House.

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

29 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	2013 £'000	2012 £'000
Teachers Pension Scheme: contributions paid	1,178	1,271
Local Government Pension Scheme:		
Contributions paid	1,122	1,191
FRS 17 charge	301	(13)
Charge to the Income and Expenditure Account (staff costs)	1,423	1,178
Enhanced pension charge to Income and Expenditure Account (staff costs)	-	-
Total Pension Cost for Year	2,601	2,449

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 Teachers' Pension Scheme ("TPS") is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities, to teachers in many independent and voluntary-aided schools, and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers and lecturers and from 1 January 2007 automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

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

29 Pension and similar obligations (continued)

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

The last valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75%, and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

Scheme Changes

From 1 April 2012 to 31 March 2013, the employee contribution rate will range between 6.4% and 8.8%, depending on a member's Full Time Equivalent salary. Further changes to the employee contribution rate will be applied in 2013-14 and 2014-15.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the Proposed Final Agreement, and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme, and this process will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:

<http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf>

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

29 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 £1,179,000, of which employer's contributions totalled £754,000 and employees' contributions totalled £425,000. The agreed contribution rates for future years are 11.2 per cent for employers and range from 5.5% to 7.5% cent for employees.

FRS 17

Principal Actuarial Assumptions	At 31 July 2013	At 31 July 2012
Rate of increase in salaries	4.30%	3.60%
Rate of increase for pensions in payment / inflation	2.50%	1.80%
Discount rate for scheme liabilities	4.70%	3.90%
Inflation assumption (CPI)	2.50%	1.80%
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 2013	At 31 July 2012
<i>Retiring today</i>		
Males	22.70	22.70
Females	25.30	25.30
<i>Retiring in 20 years</i>		
Males	24.20	24.10
Females	26.90	26.80

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

29 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 2013	Value at 31 July 2013 £'000	Long-term rate of return expected at 31 July 2012	Value at 31 July 2012 £'000
Equities	6.50%	17,905	5.90%	15,244
Bonds	4.30%	2,170	3.90%	1,988
Property	5.50%	2,984	4.90%	2,651
Gilts	3.40%	2,170	2.80%	1,326
Cash	0.50%	814	0.50%	884
Alternative Assets	4.30%	1,085		-
Total market value of assets		27,128		22,093
Present value of scheme liabilities				
- Funded		(40,417)		(38,736)
- Unfunded		(24)		(25)
Deficit in the scheme		(13,313)		(16,668)

Analysis of the amount charged to income and expenditure account

	2013 £'000	2012 £'000
Employer service cost (net of employee contributions)	(1,408)	(1,155)
Past service cost	-	-
Total operating charge	(1,408)	(1,155)

Analysis of pension finance income / (costs)

	2013 £'000	2012 £'000
Expected return on pension scheme assets	1,165	1,334
Interest on pension liabilities	(1,530)	(1,775)
Pension finance income / (costs)	(365)	(441)

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

	2013 £'000	2012 £'000
Actuarial gains/(losses) on pension scheme assets	3,223	(1,158)
Actuarial losses on scheme liabilities.	798	(3,165)
Actuarial loss recognised in STRGL	4,021	(4,323)

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

29 Pension and similar obligations

Local Government Pension Scheme (Continued)

Movement in deficit during year

	2013	2012
	£'000	£'000
Deficit in scheme at 1 August	(16,668)	(11,917)
Movement in year:		
Employer service cost (net of employee contributions)	(1,408)	(1,155)
Employer contributions	1,121	1,190
Unfunded pension payments	1	1
Net interest/return on assets	(365)	(441)
Curtailments and settlements	(15)	(23)
Actuarial gain/(loss)	4,021	(4,323)
Deficit in scheme at 31 July	<u>(13,313)</u>	<u>(16,668)</u>

Asset and Liability Reconciliation

	2013	2012
	£'000	£'000
Reconciliation of Liabilities		
Liabilities at start of period	38,761	33,170
Service cost	1,408	1,155
Interest cost	1,530	1,775
Employee contributions	415	397
Actuarial (gain)/loss	(798)	3,165
Benefits paid	(890)	(924)
Curtailments and settlements	15	23
Liabilities at end of period	<u>40,441</u>	<u>38,761</u>

Reconciliation of Assets

Assets at start of period	22,093	21,253
Expected return on assets	1,165	1,334
Actuarial gain/(loss)	3,223	(1,158)
Employer contributions	1,122	1,191
Employee contributions	415	397
Benefits paid	(890)	(924)
Assets at end of period	<u>27,128</u>	<u>22,093</u>

The estimated value of employer contributions for the year ended 31st July 2014 is £1,134,000.

South Essex College of Further and Higher Education

Notes to the Accounts (continued)

29 Pension and similar obligations

Local Government Pension Scheme (Continued)

History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between the expected and actual return on assets:					
Amount £'000	(3,223)	1,158	688	(1,719)	(545)
Experience gains and losses on scheme liabilities:					
Amount £'000	(798)	3,165	875	1,688	1,435
Total amount recognised in STRGL:					
Amount £'000	(4,021)	4,323	1,563	(31)	442

30 Post-balance sheet events

31 Capital commitments

	Group and College	
	2013	2012
	£'000	£'000
Commitments contracted for at 31 July	<u>474</u>	<u>167</u>
Authorised but not contracted at 31 July	<u>-</u>	<u>-</u>

31 Financial commitments

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

	Group and College	
	2013	2012
	£'000	£'000
Land and buildings		
Expiring within one year	50	317
Expiring within two and five years inclusive	537	617
Expiring in over five years	-	-
	<u>587</u>	<u>934</u>

South Essex College of Further and Higher Education

Notes to the Accounts (continued)

33 Contingent liability

There are no contingent liabilities.

34 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.

As detailed in note 13, the College owns 50% of Nova Skills Education & Careers Limited. During the year the College received a donation of £18,000 from Nova Skills Education & Careers Limited (2012 - £nil).

35 Amounts disbursed as agent

Learner support funds

	2013 £'000	2012 £'000
Funding body grants – hardship support	1,242	976
Funding body grants – childcare	169	166
	<u>1411</u>	<u>1,142</u>
Disbursed to students	(938)	(463)
Administration costs	(49)	(24)
Balance unspent as at 31 July, included in creditors	<u>424</u>	<u>655</u>

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.