



**REPORT AND FINANCIAL STATEMENTS  
FOR THE  
YEAR ENDED 31 JULY 2017**

# Key Management Personnel, Board of Governors and Professional advisers

## Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2016/17

Mrs Jayne Dickinson - Principal and CEO; Chief Accounting Officer  
Mr Kevin Standish - Deputy Principal, Curriculum and Standards  
Mrs Jyoti Baker - Vice Principal Finance & Resources

## Board of Governors

A full list of Governors is given on page 17 of these financial statements.  
Mrs S Glover acted as Clerk to the Corporation throughout the period.

## Professional advisers

Financial statements auditors and reporting accountants:

### Financial Statement and Regularity Auditor:

UHY Hacker Young  
Quadrant House  
4 Thomas More Square  
London  
E1W 1YW

### Internal Auditors:

RSM Risk Assurance Services LLP  
25 Farringdon Street  
London  
EC4A 4AB

### Bankers:

NatWest Bank Plc  
2<sup>nd</sup> Floor Turnpike House  
123 High Street  
Crawley  
West Sussex RH10 1DQ

Barclays Commercial Bank  
Level 28, 1 Churchill Place  
London E14 5HP

### Solicitors:

Mundays LLP  
Cedar House,  
78, Portsmouth Road  
Cobham  
Surrey KT11 1AN

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# REPORT OF THE GOVERNING BODY

## NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2017.

### Legal Status

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

### Corporation Name

The Corporation was incorporated as East Surrey College on 1 April 1993.

### Mission

The Corporation approved the College's three-year Strategic Statement: 2016-2019, on 14 July 2016, further updated for 2017/18 by the Corporation on 6 July 2017. The Corporation also approved the College Mission, Vision, Values and Public Value Statement, on 14 July 2016 and reconfirmed on 6 July 2017 for the following year. Objectives and targets are set annually, monitored by Committees and through the College's formal Performance Review process, which governors also attend.

The College's Mission as approved by its Members is:

- To provide inspirational, high quality education and training that meets the needs of individuals, employers and our local and wider communities.

Vision:

- To be an outstanding provider of further and higher education and training

Values:

- Clarity, Responsibility, Innovation, Quality, Openness and Aspiration

### Public Value Statement

East Surrey College seeks to add value to the social, economic and physical well-being of the communities it serves. It does this through a defined educational character, vision and mission informing strategic aims. The communities are defined as all partners who have an interest in promoting educational advancement of individuals to benefit business, the local economy and the community as a whole.

### Public Benefit

East Surrey College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 17 and 18.

In setting and reviewing the College's strategic aims, objectives and targets, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. In delivering its mission, the College provides the following identifiable public benefits through advancement of education:

## REPORT OF THE GOVERNING BODY (continued)

- High quality teaching, learning and assessment to benefit learning and achievement
- Widening participation and tackling social inclusion reducing achievement gaps and maximising positive outcomes
- Excellent employment and progression record for students
- Strong student support systems
- Strong links with employers, industry and commerce to ensure training meets skills needs.
- Links with the Local Enterprise Partnership (LEPs)

These are further drawn out and illustrated in various sections of this Report.

### Implementation of the Strategic Statement

The three-year Strategic Statement 2016-19 was approved by the Corporation on 14 July 2016 following an extensive process which involved key external stakeholders, staff and students.

The College's strategic aims for 2016/17 are:

1. To deliver excellence in teaching, learning and assessment
2. To ensure growth in employment skills and enterprise
3. To develop complementary partnerships to widen opportunities and increase participation
4. To generate strong finances to enable future investment and sustainability

The College sets specific objectives for each year against these aims and with associated targets. There is reporting to College Governors on these within committees, at Corporation, at formal Performance Reviews and during Governor Workshops.

In 2016/17, the College's key quality and community targets were:

- 'Best' observation grades 95% graded at least Good and 35% Outstanding. **MET**
- All curriculum Self-Assessment grades for Teaching, Learning and Assessment graded at least Good: **MET**
- Student survey results at least 95% agreement teaching is Good: **MET**
- Timely Apprenticeship achievement rates to meet or exceed national rates: **MET**
- Achievement gaps minimised: **MET**
- Value added outcomes for L3 BTEC in 75<sup>th</sup> percentile: **PARTIALLY MET**
- High grade Pass rates English and maths to demonstrate improvement: **MET**
- Apprenticeship income growth targets achieved: **SUBSTANTIAL PROGRESS AGAINST AMBITIOUS TARGET**
- Minimum 9.0 score for FE Choices Employer Survey: **MET/Substantially Exceeded**
- British values embedded: **MET**
- Safeguarding continues to be effective: **MET**
- Subcontracted partnerships flourish meeting financial and quality targets: **MET**
- Partnerships developed in Health, Construction, Engineering and Creative Industries: **MET**
- New partnerships developed: **MET**

Further information relating to quality and financial objectives is stated within this report. Overall, the College expects to have fully met most objectives and to have made significant progress against remaining objectives.

## REPORT OF THE GOVERNING BODY (continued)

The College was in Wave 2 of the Area-Based Review process: Surrey Area-Based Review. The Area Review team recognised the College's high reputation and commitment to working with its communities including the strong growth in apprenticeship numbers and range of provision. Recommendations were published in late November 2016 and include a 'standalone' recommendation for the College alongside recommendations for continuing to explore collaborative areas of work with other Surrey GFE colleges. The College successfully bid for the Transition Grant to further this work.

### Financial objectives:

The College's strategic aim:

*To generate strong finances to enable future investment and sustainability*

is underpinned by the following objectives:

- New options, sponsorships and bidding opportunities explored to increase commercial income and reduce reliance on core government grants – Proportion of Income earned from Government grants reduced by 1.19% - **MET**
- Robust financial management and governance oversight to continue to be upheld  
Finance record assesses the College financial health to be 'Outstanding'- **MET**
- Effective budget planning to enable continued investment in resources and staff training that enrich the student experience and the learning environment – Targeted staffing increases and introduction of new courses as referred to elsewhere in the report – **MET**
- Enhanced efficiency of internal systems and cost effectiveness of curriculum delivery –  
Clean audit reports - **MET**

The College monitors its performance through a series of performance indicators. The key performance indicators for 2016/17 were:

- Good financial health to be sustained with ratios for Good financial health met:
  - Performance ratio (EBITDA) - Between 1% - 5% **MET**
  - Current ratio - above 1.2 **MET**
  - Borrowing as a % of Income - below 40% **MET**
  - Staff costs as a % of Income - below 60% **MET**

The College achieved its targets in 2016/17.

## FINANCIAL POSITION

### Financial results

The College generated an operating surplus before exceptional items of £835k in the year (2015/16 – surplus of £386k), with total comprehensive income of £571k (2015/16 – £1,065k). The total comprehensive income is stated after accounting for the Actuarial Gain or Loss on the Local Government Pension Scheme.

The College has accumulated reserves of £2,502k (2015/16 - £2,007k) and a cash and short term investment balance of £5,342k, (2015/16 – £3,204k). The College wishes to continue to build its reserves and cash balances in order to build a sustainable long term future.

Fixed asset additions of £228k were acquired in the year as part of the College's capital programme.

## **REPORT OF THE GOVERNING BODY (continued)**

The College has significant reliance on the Education and Skills Funding Agency for its principal funding source, largely from recurrent grants. In 2016/17 the Education and Skills Funding Agency provided 79.4% (2015/16 – 80.6%) of the College's total income.

The College has one subsidiary company, Surrey Skills Limited. The Company is expected to undertake Education, Training and related services. Any surpluses generated by the subsidiaries are transferred to the College under a deed of covenant. However, in 2016/17, Surrey Skills Limited was dormant.

### **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. The College has a separate Treasury Management Policy in place.

The College currently has a long term loan outstanding of £4.2m (2015/16: £4.5m). Borrowing requirements require the authorisation of the Corporation and comply with any requirements of the Funding Agreements.

### **Cash flows and Liquidity**

Net cash inflow from operating activities stood at £2,904k, (2015/16: £1,623k). The positive net cash flow resulted from increased activity and management of other resources.

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 debt servicing and operating cash flow. During the year the operating cash inflows comfortably exceeded the College's outgoings.

### **Reserves Policy**

The College has no formal Reserves Policy, but recognises the importance of reserves in the financial stability of an organisation, whilst ensuring adequate resources are provided for the College's core business. The College currently holds £23k of restricted reserves. As at the balance sheet date, unrestricted reserves are stated at £2,479k (2016: £1,984k). It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses.

## **CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**

### **Performance indicators**

The College benchmarks its practice against a variety of national benchmarking opportunities including achievement rate tables, FE Choices outcomes, Matrix and other quality mark activities. FE Choices surveys are supplemented by the College's own extensive surveys measuring satisfaction. The FE Choices Employer survey confirms very high quality and satisfaction at 99%, the ESFA Learner Satisfaction Interim Survey showed a satisfaction level of 87.4%. The College's own substantial survey outcomes indicate very strong satisfaction rates on the majority of courses.

The College continues to benchmark the quality of its provision and progress through a range of peer referencing activities with other Colleges and against national benchmarks. The success rate of our students aged 16-18 at level 3 was 89.6% up 6.3% and Level 1 at 87% is 5.7% above 201/16. The overall 16 – 18 success rate for 2016/17 was 85.9%,

### Student Numbers

In 2016/17 the College delivered training to 97.2% of its allocated 16-18 year olds, compared to 95% in 2015/16. Students are attracted by the outstanding and modern facilities, excellent local transport links, sustained high quality and a growing choice of provision. Also, the provision of suitable support to High Needs 19-25 year olds, contributing to relatively sustainable recruitment of young people. Recruitment of 16-18 year olds continues to grow despite the continuing demographic decline of school leavers with growth forecast to start from 2018/19 locally. In addition, the College delivered training to classroom based full and part-time adult (19+ years) students, achieving in full its adult education allocation. The College also delivered provision to over 250 14-16 year old students from local schools, over 400 work based students, over 165 students on HE programmes and over 2,363 Community Learning funded by the Skills Funding Agency. A number of full cost courses also ran including some additional professional courses.

### College Achievements

The College was subject to a Short Ofsted Inspection in October 17 with outcomes that the College continued to be good and safeguarding was effective. The College has since undertaken its annual self assessment with the benefit that it was able to base this on 2016/17 validated data and a far wider range of data including third party data, in formation and benchmarking than the rather restricted lines of enquiry in the Short Inspection were able to do. In addition, each of the College's curriculum areas have undergone a rigorous self assessment process. As a result, and noting the continued upward trends in apprenticeships and English and maths - areas of key focus for colleges, the College has judged that there is sufficient evidence to tip the College's self assessment grading into outstanding.

During 2016/17, the College has continued to monitor improvements in both Curriculum and Support departments through Quality Improvement Plans which rigorously challenge all areas to continually improve with particular emphasis on any areas of under-performance. Support department Service Level Agreements were reviewed and revised in-year and also monitored for progress through the College Quality and Performance Review process, with reporting to the Governors' Learning and Quality Committee. External verifier and Centre Systems Reviews throughout the year have been overwhelmingly positive with high levels of quality delivered.

The College has the Matrix Accreditation and the JAMES accreditation for the music industry. The most recent review of Higher Education (2012) awarded a number of commendations.

East Surrey College and Reigate College, worked together since September 2014, with four local partner schools to successfully launch a joint Common Application Process for year 11 pupils. The two colleges have shared a Sportsmaker post, part-funded through Sport England. The Principals of East Surrey and Reigate colleges continue to hold joint meetings with local Headteachers.

### Student Achievements

All retention, pass and achievement rates are now quoted including functional skills and are no longer segmented into long, short or very short durations but are reported by qualification type such as Awards, Certificates, Diplomas, GCSE etc. In 2016/17 retention declined by 1.2% to 91.3% for all qualifications and all ages of students, however pass rates improved by 0.6% to 93.9%. Overall, the 2016/17 achievement rate of 85.7% has declined slightly from 86.2% in 2015/16 but is still 2.6%



## **REPORT OF THE GOVERNING BODY (continued)**

above the national rate and without the benefit of some very short provision boosting rates. The achievement rate for students aged 16-18 is now 85.5% which is 3.0% above the national rate and for students aged 19+ the achievement rate is 86.3%, 1.2% above the national rate. Success rates by ethnicity, age and for students with learning difficulties and disabilities, children in care, those on free school meals and those with medical and health needs are mostly high. The gender gap is declining for 16-18s to just 0.2% (male 84.6%/female 84.8%) though still of some concern for adults at 5.8%, up from 4.9% (male 82.3%/female 88.1%). Key areas of high performance in 2016/17 are Science (94.7%), Engineering (93.3%), ICT (93.0%), Creative Arts and Design (92.5%), Nursing and Allied Subjects (91.4%), Public Services (90.7%) and Business Management (90.4%) and Media and Communications (90.4%). GCSE English is overall good at 86.1% with 39.6% achieving a high grade, and GCSE Maths has improved to 83.9% with 25.4% achieving a high grade, much improvement on 2015/16 and above or well above national rates for resit students.

There has been good improvement on Apprenticeship provision with achievement rate above the national rate. 14-16 provision continues to be outstanding. College students have again achieved notable successes in external competitions for Hair and Beauty, Art and Design.

### **Curriculum Developments**

The College offers a broad curriculum to young people and adults, that extends from Entry Level to Higher Education provision (Pre-entry to Level 5). Provision is in the main Subject Sector Areas of:

- Art, Media and Design
- Business, IT and Accountancy
- Construction and the Built Environment
- Engineering including Motor Vehicle Maintenance
- Hairdressing, Beauty Therapy, Theatrical and Special Effects Make-Up and Spa Therapy
- Health and Social Care and Childcare, including Access to Nursing and Social Work
- Modern Foreign Languages (Adult Community Learning)
- Preparation for Life and Work
- Public Services, Applied Science and Sport
- Maths and English and ESOL
- Travel and Tourism / Aviation Operations
- Adult and Community Learning
- Teaching and Assessing

The curriculum continues to develop to ensure that there is a balance of provision between the levels and that there are clear progression routes in all curriculum areas that meet local employment and higher education needs. All provision is mapped to Coast2Capital LEP, Gatwick Diamond and local priority skills demands. Emphasis has been placed on developing a quality vocational offer targeted at 16-18s and 19+ adult students as well as priority groups such as those not previously in education or employment with training notable successful outcomes. There is a continuing drive in curriculum planning to raise class sizes to ensure more efficient use of staffing as well as to provide more variety in the curriculum offer. The College has embraced fully the requirements of the Study Programme including Maths and English. Safeguarding (incorporating Prevent) duties and responsibilities are effective and well-embedded in delivery and the ethos of the College as well as employability skills.

### **New Full-time Programmes**

From September 2017, two new courses were added, Level 3 Games Design and Level 2 Applied Science and both have recruited well, as have last year's new courses, Level 2 Air Cabin Crew and Level 3 Fashion and Media Make-Up.

The College has continued to develop its work with local schools by directly contracting to accommodate nearly 250 enrolments by 14-16 year olds to vocational courses at the College. This is a declining number as schools are focussed more on ensuring as many of their students as

## **REPORT OF THE GOVERNING BODY (continued)**

possible achieved the five high grade GCSE's of the English Baccalaureate. The College continues its close collaborative working with local schools through its Springboard 14–16 alternative learning programme.

The College continues to engage with various Local Authorities with regard to its provision for students with learning difficulties and/or disabilities, offering Speech and Language Therapies and, from September 2017 has again, commenced a 5-day provision for a cohort of learners with high support needs with two additional days funded by Surrey County Council. There continues to be partnership working with specialist providers and agencies such as Young Epilepsy.

The College has successfully offered more employee responsive adult provision during the year, with AAT (Association of Accounting Technicians) at levels 2, 3 and 4 and Counselling also at levels 2 to 4.

The College continues to be an active partner in the Gatwick Diamond and is part of the Inspire group that brings together employers, employers' organisations and other key players to promote higher skills development and employment in the region, including entrepreneurial activity. The College has enjoyed a highly productive relationship with the University of Brighton but is now seeking to move its foundation degrees to the University of Chichester. A new partnership with London South Bank University has resulted in the launch of the College's first Degree Apprenticeship, working in collaboration with a key, large, local employer.

The College delivered Community Learning across East and Mid Surrey including Reigate and Banstead, Epsom and Ewell, Dorking and the Mole Valley to over 2,363 students. The Gatton Point site was again open on Saturdays, attracting adult students to the College and the WEA continues to offer non-qualification programmes at venues around Surrey.

A Governor Learning Walk programme provides more chances for Governors' questions and challenge. Long-established, termly Performance Reviews include governors enabling them to question and challenge leaders and managers on quality improvement, MIS, Finance and HR management. This underpins review of improvement.

### **Payment Performance**

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2016 to 31 July 2017, the College paid 78% of its invoices within 30 days (2015/16 - 55%), invoice average payments being 33 days (2015/16 - 39 days). The College incurred no interest charges in respect of late payment for this period.

### **Events after the End of the Reporting Period**

The College was part of the 2<sup>nd</sup> Wave of area reviews, which commenced in March 2016 and were completed in July 2016. The final report is due for publication on 29<sup>th</sup> November. The recommendation for the College was:

- East Surrey College to remain as a stand-alone FE college but to also explore options for partnership that will deliver greater financial resilience in the longer term.

The College is continuing to explore joint working options with the other three GFE Colleges in Surrey and to this end has received a Transition Grant of £50k to further develop its Higher Education and explore opportunities to develop the degree apprenticeships.

The College was judged financially 'Outstanding' by the Skills Funding Agency for 2015/16 and continues to plan for at the very least a 'Good' financial health for the foreseeable future.

## REPORT OF THE GOVERNING BODY (continued)

The College received a short Ofsted inspection in October 2017. Whilst the formal letter is expected shortly, the College is assured of retaining its 'GOOD' status.

### Future Prospects

The widespread demographic decline is due to reverse from 2019/20 with particularly sharp growth in Reigate and Banstead and Croydon from where the College's heaviest recruitment stems for 16-18s. The College is positioning itself to take advantage of the upturn and meanwhile developing additional income streams to ensure the College's long-term sustainable future.

The College has supported the Academy of Contemporary Music to implement a two-year Level 3 programme (one-year only in 2015/16) as well as the addition of a Level 2 programme for weaker students at the College's insistence and as a result of tight performance management of this, the College's only subcontract arrangement for 16-18s. College leaders worked with ESFA to facilitate additional in-year funding to support such a large increase spanning 2016/17 and 2017/18 once baseline conditions have been met.

The College recognises the need to be agile in its delivery to remain competitive in the current education environment. To this end, there is continued focus on:

- Developing new curriculum as identified by students and employers. To contextualise curriculum planning, sector skills academies are established in: Care and being established in Construction and Digital/creative media. These are providing expert opportunities to ensure close matching of the College offer with employer needs along with ongoing formal and informal opportunities for professional dialogue.
- In order to secure a strong start for the Apprenticeship Levy, the College delivered employer workshops in collaboration with Reigate and Banstead Borough Council. Persistent growth continues to be evidenced in our Apprenticeship numbers closely aligned with evidenced quality improvement. While the College is concerned about the introduction of the Levy, it believes its mitigations to be solid to protect and grow market share, benefitting from a very strong FE Choices employer satisfaction rating at 97% in 2015/16 (latest available, expected to increase to circa 99% when next published).
- There is clear, evidenced growth in STEM provision. This has supported the establishment of the first Degree Apprenticeship in Embedded Electronic Systems working in partnership with London South Bank University and a key local employer. This forms the blueprint for further Degree Apprenticeship growth working with HEI and supported by the Sussex Learning Network who supply valuable, live data on employer needs.
- The College continues to work closely with other Surrey FE partners – pre- and following the Surrey Area-Based Review - although changes in leadership in two of these have stalled the pace of late. The College successfully applied for the Transition Grant which is focused on the recommendation to growth higher level provision in collaboration with some notable progress. Further small grants for quality improvement work have been accessed through partnership bidding and there is productive working within the College to benchmark and streamline processes and policies which is benefitting all those involved.
- The College is working closely with Local authorities to identify and deliver provision to High Needs Students, devising and delivering programmes such as Supported Internships which are now firmly established and 5-day provision for a small cohort of students as a further pilot for Surrey County Council. It is projected that Supported Internships will become the preferred progression route from special schools for many students over the next few years as transition arrangements develop.

## REPORT OF THE GOVERNING BODY (continued)

- Ofsted inspection has consistently judged the College's partnership working to be Outstanding. College leaders are positioned on a series of influential groups and committees in order to better influence local direction and to position the College well in key forums. This includes the Surrey Employment and Skills Boards, Business Leaders groups, school/college partnerships, sector-based academies (led by the College) and a range of employer partnerships which are propelling the College into a very strong reputational and delivery position locally and certainly within the community. Community engagement remains strong resulting in excellent destination opportunities for students and opportunities to grow apprenticeship provision to ambitious targets.

## RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the main College site of Gatton Point and Gatton Point South. Following educational demand, the College has invested in the Gatton Point South site for educational use. The College's strategic intention is to invest in the site to meet demographic growth needs and to support growth in key STEM areas. The intention is to bid for LEP funding to facilitate this.

### Financial

The College has net assets of £2,502k (2015/16 - £2,007k) including a LGPS pension liability of £6,393k (2015/16 - £5,834k).

### People

The College employed some 230 established staff, full-time and fractional, in a range of curriculum and support functions during the year (see note 7). The College also employed 41 FTE of sessional staff to deliver primarily on its Community Learning courses and supporting its high needs students.

### Reputation

The College has a strong reputation locally and nationally, reinforced by the January 2015 Ofsted Inspection outcome of 'Good' with many 'Outstanding' areas. The College has grown its student cohort by successful partnership working with a range of agencies and by a responsive approach to local employer needs as well as students and parents. This includes the establishment of a Care Academy to better meet the needs of this sector.

## PRINCIPAL RISKS AND UNCERTAINTIES

The College has continued 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.

Based on the Strategic Statement (previously referred to as the Strategic Plan), the Risk Management Committee ('RMC') undertakes a formal, termly comprehensive review of the risks to which the College is exposed. The Committee identifies systems and procedures including specific preventative and containment actions which should mitigate any potential impact on the College. In addition to the annual review, the RMC considers any risks which may arise as a result of a new area of work being undertaken by the College.

The 'RMC' meets three times per year. Its membership is made up of a cross section of the College Executive, Directorate and Heads of Department. The identification of risks is an embedded part of the various team meetings. The risks identified at these meetings are collated and the risk register updated accordingly. This Committee reviews the Risk Register to ensure the information contained is relevant, assess the score allocated and amend the risks as appropriate.

## REPORT OF THE GOVERNING BODY (continued)

The Risk Register, maintained at the College level is allocated to a specific Governing Body Committee for review each term. The Risk Register identifies key risks, the likelihood of those risks occurring, their potential impact on the College and actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system and it is the key 'high rated' risks that governors focus on in committees. The Risk Register is assessed early in each Committee agenda.

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

### 1. Government Funding

The College continues to have considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2016/17, 79% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. The planned introduction of the Insolvency Regime for the FE Sector although welcomed, has significant risks and consequently impact on future College operations. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College is aware of several issues which may impact on future funding:

#### ➤ **Achieving 16-18 learner targets**

Local Authority reports on Year 12 student numbers in schools in the surrounding Surrey wards and also in Croydon, indicate that in the years to 2020, the College should expect to see reduced numbers of applications and enrolments. There are many schools and Academies with small numbers in their Sixth Form and this presents a very competitive market for students aged 16. The College receives many applications from 17 year old students who are funded at a lower rate.

Mitigations:

- The College received one of the most positive Ofsted reports in the post-16 sector (including Sixth Form Colleges) in January 2015. Overall the College is graded Good but with significant areas judged Outstanding. The college had a short inspection in October 2017 and continues to be graded Good. Overall success rates are high and continuing to show year on year improvement for this age group. This continues to be the case in 2016/17, as discussed elsewhere in this report. The College curriculum offer is attractive and is annually reviewed. It offers good progression routes to higher levels and into employment.
- There is continued focus on student progression. Students progress very well to higher levels, employment (predominantly apprenticeships) or HE
- There is very good engagement with schools and the reputation of the College is strong
- Strong partnership working with organisations to secure further number growth, to enhance student experience and offer complementary provision
- The College continues to make prudent provision for reduced student numbers in its medium term forecasts
- The College continues to plan for its capital building strategy and capacity for growing the offer with the expected increase in local numbers from 2021.

#### ➤ **Apprenticeships funding**

The government introduced the Apprenticeship Levy proposals during this academic year for implementation in May 2017. This will change the shape of the College's delivery model and introduce significant risk to the College's funding stream.

The College is taking mitigating actions by:

- Proactively engaging with employers and employer groups, keeping them informed of developments and helping design future plans for delivery
  - The College demonstrates strong growth in Traineeships and Apprenticeships
  - Ensuring it meets its allocation in a timely manner.
  - Recognising the challenges but positioning itself to take advantage of the opportunities.
- **The risks to the other funding streams including the revised Community Learning Funding is being mitigated by:**
- Ensuring the College is rigorous in delivering high quality education and training
  - Regularly reviewing the offer, timing and availability of courses to maximise recruitment
  - Engaging effectively with local community groups to raise awareness of the offer and to introduce new provision based on local identified interest and need
  - Ensuring the College is focused on those priority sectors which will continue to benefit from public funding

## **2. Tuition Fee Policy**

Ministers have confirmed that the tuition fee assumption remains at 50%. In line with the majority of colleges, East Surrey College will seek to increase tuition fees in accordance with the fee assumptions and market information. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses as prices change
- Regular review of the offer to ensure it meets local employment requirements and student need and does not simply duplicate provision in the locality unless there is evidenced unmet interest

## **3. Maintain adequate funding of pension liabilities**

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. With the reclassification of capital grants from Reserves to Long term liabilities, the impact of the pension fund liabilities is significant and has the capacity to show the College Balance sheet with negative reserves. The planned Insolvency regime has meant that the Pension Fund has taken the view that the FE Colleges, whatever their financial health are at the highest risk level, increasing further the already significant costs of the Local Government Pension Scheme.

This risk is mitigated by:

- The College has actively engaged with the Pension fund to review its assumptions in calculating its long term liabilities. Where reasonable in agreement with the various stakeholders these assumptions have been restated.
- The College continues to engage with the Pension funds regarding its Triennial valuations, in the hope of more realistic risk categorisations and the College's element of fund.

## **4. Failure to maintain the financial viability of the College**

The College's calculated financial health grade is classified as 'Outstanding' although the College self assesses as 'Good' due to the risks discussed in this report. This is largely the consequence of the development of the High Needs Provision and new provision that responds to the needs of our Employers. Notwithstanding that, the continuing challenge to the College's financial position remains:

## REPORT OF THE GOVERNING BODY (continued)

- the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintain the student experience
- The increased risk classification of the College, resulting in higher costs in funding pension liabilities and ability to raise capital financing to fund growth
- The lack of Capital funding to invest in the College Estate to meet the anticipated growth opportunities.

This risk is mitigated in a number of ways:

- Effective marketing, an effective and robust curriculum plan, consultation with stakeholders, as well as maintaining excellent accommodation on Gatton Point North and teaching resources
- By rigorous budget setting processes and sensitivity analysis
- Regular in year budget monitoring
- Robust Financial controls
- Exploring ongoing procurement efficiencies
- Bidding for capital and revenue funding where available including any calls released by the Local Enterprise Partnership (LEP)

## STAKEHOLDER RELATIONSHIPS

The College recognises the importance of these relationships and engages in regular communication with its wide range of stakeholders through its internet site and social media mechanisms, face to face contact meetings. These continue to be further enhanced.

Stakeholders include:

- Students;
- Education Funding Bodies;
- Schools, including those with sixth forms;
- Staff;
- Local employers: large, SME and micro-businesses;
- Local Authorities and County Councils;
- Government Offices and Local Enterprise Partnerships (LEPs);
- Employer Organisations;
- Sector Skills representative bodies;
- Awarding Bodies;
- The local community;
- Other FE and HE institutions;
- Trade Unions

## Equal Opportunities and Employment of Disabled Persons

East Surrey College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

**The College has adopted a Single Equality Scheme which is published on the College's Internet site. The College is a "Disability Confident" employer and has committed to the principles and objectives of the "Disability Confident" scheme.**

## REPORT OF THE GOVERNING BODY (continued)

### Disability Statement

The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Act 2001 and 2005 and in particular makes the following commitments:

- a) The College has automatic doors to all entrance points, disabled ramps and lift access where reasonable to do so;
- b) There is a wide range of specialist equipment, such as adaptive keyboards and voice recognition software, which the College can make available for use by students;
- c) Information on choosing and enrolling on a course is included in the College Charter. Appeals against a decision not to offer a place are dealt with under the Complaints Policy;
- d) The College has invested in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. The College works with specialist institutions such as the SCC Sensory Support Service for students requiring VI support and expertise. The College employs learning support assistants who can provide a variety of support for learning. There is an extensive programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities, or who have particular support needs such as mental health issues;
- e) Specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard College format; This includes a Supported Internship programme for students with high support needs.
- f) Information on counselling and welfare services is included in the College Charter and the College has a counselling service over 3 days a week.
- g) The College has DDA compliant lifts at both of its main sites and ensures that there is colour and contrast in its colour schemes

### Disclosure of Information to Auditor

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 auditor is 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 auditor is aware of that information.

**Approved by order of the Members of the Corporation on 14 December 2017 and signed on its behalf by:**



Andrew Baird  
Chair



## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

- i. In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership)
- ii. In full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- iii. Having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Foundation Code.

In the opinion of the Governors, the College complies with all the provisions of the Foundation Code and it has complied throughout the year ended 31 July 2017. 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, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in July 2012 and the Audit and Accountability Annex to the Foundation Code that was issued in March 2013. The code was updated in March 2015 and adopted by the College in July 2015.

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

### **Public Benefit Statement**

The College seeks to add value to the social, economic and physical well-being of the community it services. It does this through a defined educational character, vision and mission which inform the strategic aims which are reviewed annually and through its overarching values. The wider community is defined as all partners who have an interest in promoting educational advancement of individuals to benefit local business and the community as a whole.

## MEMBERS OF THE CORPORATION

### The Corporation

The members who served on the Corporation during the year and up to the date of the signature of this report were as listed in the table below

| Name             | Date appointed/<br>reappointed                    | Term<br>of<br>office | Date<br>resigned/end<br>of term of<br>office | Status of<br>appointment            | Committees served   | Attendance |
|------------------|---|----------------------|--|-------------------------------------|---|------------|
| Michael Axelrod  | 7 July 2011<br>1 May 2015                         | 4 years              | 31 August<br>2017                            | Independent<br>Member               | Finance and Resources<br>Strategy   | 38%        |
| Andrew Baird     | 19 March 2008<br>19 March 2012<br>1 January 2016  | 4 years              |  | Independent<br>Member               | Corporation Board<br>Chair (from 01.09.16)<br>Finance and Resources<br>Senior Post holders'<br>Employment<br>Search and<br>Governance: Chair from<br>01.09.16<br>Strategy: Chair from<br>01.09.16 | 100%       |
| Peter Coughlan   | 1 August 2016                                     | 1 year               | 31 July 2017                                 | Student<br>Member                   | Learning and Quality  | 43%        |
| Hayley Dalton    | 1 August 2013                                     | 4 years              | 25 November<br>2016                          | Support Staff<br>Member             | Audit<br>Strategy   | 100%       |
| Margaret Davey   | 21 March 2005<br>21 March 2009<br>21 March 2013   | 4 years              | 31 December<br>2016                          | Independent<br>Member               | Corporation Board: Vice<br>Chair;<br>Learning and Quality:<br>Chair;<br>Search and<br>Governance;<br>Senior Postholder<br>Employment<br>Strategy  | 60%        |
| Jayne Dickinson  | 1 January 2012                                    | Ex<br>Officio        |  | Principal and<br>Chief<br>Executive | Finance and<br>Resources;<br>Learning and Quality;<br>Search and<br>Governance<br>Strategy  | 100%       |
| Raymond Elgy     | 25 March 2009<br>25 March 2013<br>01 January 2017 | 4 years              |  | Independent<br>Member               | Finance and Resources<br>Chair;<br>Senior Postholder<br>Employment<br>Strategy  | 77%        |
| Rosemary French  | 25 March 2009<br>25 March 2013<br>01 January 2017 | 4 years              |  | Independent<br>Member               | Audit;<br>Senior Postholder<br>Employment: Chair<br>Search and<br>Governance<br>Strategy  | 85%        |
| Andrew Gilchrist | 27 August 2008<br>27 August 2012<br>1 May 2016    | 4 years              |  | Independent<br>Member               | Audit: Chair;<br>Strategy   | 80%        |
| Susan Kay        | 14 December<br>2012                               | 4 years              | 31 August<br>2016                            | Independent<br>Member               | Learning and Quality<br>Audit<br>Strategy   | 89%        |
| Charlie Martin   | 8 December<br>2016                                | 4 years              |  | Support Staff<br>Member             | Strategy<br>Audit   | 86%        |
| Colin Monk       | 8 December<br>2016                                | 4 years              |  | Independent<br>Member               | Strategy<br>Audit   | 72%        |

| Name  | Date appointed/<br>reappointed                                    | Term<br>of<br>office | Date<br>resigned/end<br>of term of<br>office | Status of<br>appointment                                     | Committees served   | Attendance |
|---|---|----------------------|--|--|---|------------|
| Georgia Crabb-<br>O'Toole                   | 1 January 2016<br>1 August 2016                                   | 7 mths<br><br>1 year | 31 July 2017                                 | Student<br>Member  | Learning and Quality  | 86%        |
| Kirsty Penfold                              | 1 August 2016   | 4 years              |  | Academic<br>Staff Member                                     | Learning and Quality<br>Strategy  | 80%        |
| Elizabeth Rushton                           | 11 December<br>2014   | 4 years              |  | Independent<br>Member  | Corporation Board:<br>Vice Chair (from<br>01.01.17)<br>Learning and Quality:<br>Chair from 01.01.17<br>Search and<br>Governance<br>Finance and Resources<br>Senior Postholder<br>Employment<br>Strategy | 100%       |
| Ron Searle                                  | 24 July 2006<br>24 July 2010<br>1 May 2014                        | 4 years              |  | Independent<br>Member  | Learning and Quality<br>Strategy  | 40%        |
| Barbara Spittle                             | 29 November<br>2007<br>29 November<br>2011<br>1 September<br>2015 | 4 years              | 31 March<br>2017                             | Independent<br>Member  | Corporation Board:<br>Chair (to 31.8.16);<br>Finance and<br>Resources;<br>Learning and Quality<br>Search and<br>Governance: Chair to<br>31.08.16<br>Strategy: Chair to<br>31.08.16                      | 75%        |
| Isobel Wallace                              | 16 June 2012<br>1 May 2016  | 4 years              |  | Independent<br>Member  | Audit (to 31.12.16)<br>Finance and Resources<br>(from 01.01.17)<br>Strategy   | 60%        |
| Kieran O'Neill                              | 01 August 2017  | 1 year               |  | Student<br>Member  | Learning and Quality  |            |
| Lucy Jackson                                | 01 August 2017  | 1 year               |  | Student<br>Member  | Learning and Quality  |            |
| Robert Pickles                              | 06 July 2017  | 4 years              |  | Independent<br>Member  | Learning and Quality<br>Strategy  |            |
| Phillip Kerle                               | 06 July 2017  | 4 years              |  | Independent<br>Member  | Finance and Resources<br>Strategy   |            |
| Patrick Waller                              | 14 July 2016  | 4 years              |  | External Co-<br>opted<br>Member of<br>the Audit<br>Committee | Audit<br>Strategy   | 89%        |
| Sue Glover acts as Clerk to the Corporation |   |                      |  |  |   |            |

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Members also supported the College at a range of strategic planning events.

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

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

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 Finance and Resources, Learning and Quality, Senior Post holder Employment, Search and Governance, Audit and Strategy. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at [www.esc.ac.uk](http://www.esc.ac.uk) or from the Clerk to the Corporation at:

East Surrey College  
Gatton Point  
London Road  
Redhill  
Surrey  
RH1 2JX

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

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

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

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Principal of the College 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 and 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 Corporation is responsible for ensuring that appropriate training is provided as required.

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

## **STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)**

### **Corporation performance**

Governance at the College is strong. The Governing Body plays a key role in challenging the senior management to ensure that the College aims are achieved. Through a committee structure, the Governors are particularly focused on a holistic approach to Governance and timely and accurate reporting ensures that Governors are able to challenge effectively. Through this model, the Board has been able to take considerable assurance that governance was robust and appropriately structured to support delivery of the strategic plan and continued improvements to the College.

The Board reviewed its performance for 2016/17 in June as part of the annual self-assessment review taking into consideration its self-assessment. The Board also considers its individual performance through 1 to 1 meetings with the Chair. Further assurance is gained from both external parties (Ofsted and FE Commissioner visits) and the College Key Performance Indicators, which are reported at committee and board meetings. These indicators cover all aspects of the college's operations including teaching and learning, student outcomes, satisfaction and leadership and management. The KPIs form a sound basis from which managers and Governors can judge performance and progress. The targets in the strategic plan are based on the most accurate comparative data from within and outside the sector (where appropriate) and targets are set to be both challenging and achievable.

### **Senior Post Holders Employment Committee**

Throughout the year ending 31 July 2017, the College's Senior Post Holder Employment Committee comprised 5 members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

Details of remuneration for the year ended 31 July 2017 are set out in note 8 to the financial statements.

### **Audit Committee**

The Audit Committee comprises 5 members of the Corporation (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

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

The College's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statement auditors and their remuneration for both audit and non-audit work as well as reporting annually to the Corporation.

### *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, not absolute assurance, against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum/Financial Agreement between East Surrey College and the Education and Skills Funding Agency. 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 East Surrey College for the year ended 31 July 2017 and up to the date of approval of the annual report and accounts.

### *Capacity to handle risk*

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

### *The risk and control framework*

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

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

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee.

### *Review of effectiveness*

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

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

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

The senior management 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 Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit 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 Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

At its 14 December 2017 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2017 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2017.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of its assets".

### **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:**

Signed



Andrew Baird  
Chair  
14 December 2017

Signed



Jayne Dickinson  
Principal & Chief Executive  
14 December 2017

**GOVERNING BODY'S STATEMENT ON THE COLLEGE'S REGULARITY, PROPRIETY AND compliance with the Funding body terms and conditions of funding**

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

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Education and Skills Funding Agency's terms and conditions of funding under the College's financial memorandum.

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

Signed



Jayne Dickinson  
Accounting Officer  
14 December 2017

Signed



Andrew Baird  
Chair  
14 December 2017



## 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 Education and Skills Funding Agency and the Corporation of the College, its Accounting Officer is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the College Accounts Direction for 2016/17 commissioned by the AOC in partnership with the College Finance Directors Group, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare a Report of the Governing Body 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 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 Education and Skills Funding Agency are used only in accordance with the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate controls in place 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 funds from the Education and Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 14 December 2017 and signed on its behalf by:

Signed



Andrew Baird  
Chair

# INDEPENDENT AUDITORS' REPORT TO THE CORPORATION OF EAST SURREY COLLEGE

## Opinion

We have audited the financial statements of East Surrey College for the year ended 31 July 2017 which comprise of the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice), the SORP 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and the College Accounts Direction 2016 to 2017 issued by the Education and Skills Funding Agency.

In our opinion, East Surrey College's financial statements (the "financial statements"):

- give a true and fair view of the state of the College's affairs as at 31 July 2017 and of the College's surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the SORP 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and the College Accounts Direction 2016 to 2017

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. The Governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## **Independent Auditor's Report to the Corporation of East Surrey College (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the College and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Governing Body.

We have nothing to report in respect of the following matters where the Post 16 Audit Code of Practice issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of the Corporation of East Surrey College**

As explained more fully in the Statement of Responsibilities of the Members of the Corporation, the Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governors are responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## Independent Auditor's Report to the Corporation of East Surrey College (continued)

This report is made solely to the Corporation, as a body, in accordance with our engagement letter dated 22 August 2017. Our audit work has been undertaken so that we might state to the College's members 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 College and the College's members as a body, for our audit work, for this report, or for the opinions we have formed.

UHY Hacker Young

**UHY Hacker Young**

Chartered Accountants  
Statutory Auditor

Quadrant House  
4 Thomas More Square  
London E1W 1YW

19/12/ 2017

## **Reporting accountant's assurance report on regularity**

**To: The corporation of East Surrey College and Secretary of State for Education, acting through the Department for Education ('the Department')**

In accordance with the terms of our engagement letter dated 22 August 2017 and further to the requirements of the financial memorandum with the ESFA we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by East Surrey College during the period 1 August 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice (the Code) issued by the Department. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record returns, for which the Department has other assurance arrangements in place.

This report is made solely to the corporation of East Surrey College and the Department in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of East Surrey College and the Department those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of East Surrey College and the Department for our work, for this report, or for the conclusion we have formed.

### **Respective responsibilities of East Surrey College and the reporting accountant**

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

### **Approach**

We conducted our engagement in accordance with the Code issued by the Department. We performed a limited assurance engagement as defined in that framework.

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

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

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

## Reporting accountant's assurance report on regularity (continued)

The work undertaken to draw to our conclusion includes:

- Evaluation of the general control environment
- Review of the declaration of interests
- Review of minutes
- A sample of payments has been reviewed to confirm that each has been appropriately authorised
- A sample of expenditure items were reviewed
- Formal representations have been obtained from the governing body and the accounting officer acknowledging their responsibilities relating to regularity and propriety

### Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

UHY Hacker Young

UHY Hacker Young  
Quadrant House  
4 Thomas More Square  
London  
E1W 1YW

19/12/17

**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 July 2017

|  | Note | 2017<br>£'000 | 2016<br>£'000 |
|--|------|---------------|---------------|
| <b>Income</b>  |      |               |               |
| Funding body grants                                  | 2    | 13,508        | 13,660        |
| Tuition fees and education contracts                 | 3    | 2,137         | 2,054         |
| Other grants and contracts                           | 4    | 869           | 599           |
| Other income   | 5    | 68            | 96            |
| Investment income                                    | 6    | 8             | 11            |
| <b>Total income</b>                                  |      | <b>16,590</b> | <b>16,420</b> |
| <b>Expenditure</b>                                   |      |               |               |
| Staff costs  | 7    | 9,239         | 9,098         |
| Other operating expenses                             | 9    | 4,098         | 4,332         |
| Depreciation   | 12   | 2,016         | 2,109         |
| Interest and other finance costs                     | 10   | 402           | 495           |
| <b>Total expenditure</b>                             |      | <b>15,755</b> | <b>16,034</b> |
| <b>Surplus before other gains and losses</b>         |      | <b>835</b>    | <b>386</b>    |
| <b>Surplus before tax</b>                            |      | <b>835</b>    | <b>386</b>    |
| <b>Surplus for the year</b>                          |      | <b>835</b>    | <b>386</b>    |
| Unrealised surplus on revaluation of assets          |      | 76            | 76            |
| Actuarial (loss)/gain in respect of pensions schemes |      | (340)         | 603           |
| <b>Total Comprehensive Income for the year</b>       |      | <b>571</b>    | <b>1,065</b>  |

**STATEMENT OF CHANGES IN RESERVES**  
for the year ended 31 July 2017

|  | Income and<br>expenditure<br>account<br>£'000 | Revaluation<br>reserve<br>£'000 | Restricted<br>Reserve<br>£'000 | Total<br>£'000 |
|--|---|---------------------------------|--------------------------------|----------------|
| Balance as 1 <sup>st</sup> August 2016                               | (355)   | 2,339                           | 23                             | 2,007          |
| Surplus from the income and<br>expenditure account                   | 835   | -                               | -                              | 835            |
| Other comprehensive loss   | (340)   | -                               | -                              | (340)          |
| Transfers between revaluation and<br>income and expenditure reserves | 76  | (76)                            | -                              | -              |
|  | <u>571</u>                                    | <u>(76)</u>                     | <u>-</u>                       | <u>495</u>     |
| <b>Balance as at 31 July 2017</b>                                    | <u>216</u>                                    | <u>2,263</u>                    | <u>23</u>                      | <u>2,502</u>   |



**BALANCE SHEET as at 31 July 2017**

|   | Notes | 2017<br>£'000        | 2016<br>£'000        |
|---|-------|----------------------|----------------------|
| Tangible Fixed assets   | 12    | 50,461               | 52,295               |
|   |       | <b>50,461</b>        | <b>52,295</b>        |
| <b>Current Assets</b>   |       |                      |                      |
| Trade and other receivables                                   | 13    | 480                  | 815                  |
| Cash and cash equivalents                                     | 18    | 5,342                | 3,204                |
|   |       | <b>5,822</b>         | <b>4,019</b>         |
| <b>Less creditors – amounts falling due within one year</b>   | 14    | (2,704)              | (2,132)              |
| <b>Net current assets</b>                                     |       | <u><b>3,118</b></u>  | <u><b>1,887</b></u>  |
| <b>Total assets less current liabilities</b>                  |       | <u><b>53,579</b></u> | <u><b>54,182</b></u> |
| Less Creditors – amounts falling due after more than one year | 15    | (44,671)             | (46,329)             |
| <b>Provisions</b>   |       |                      |                      |
| Defined benefit obligations                                   | 17    | (6,393)              | (5,834)              |
| Other provisions  | 17    | (13)                 | (13)                 |
| <b>Total net assets</b>                                       |       | <u><b>2,502</b></u>  | <u><b>2,007</b></u>  |
| <b>Restricted reserves</b>                                    |       | 23                   | 23                   |
| <b>Unrestricted reserves</b>                                  |       |                      |                      |
| Income and expenditure account                                |       | 6,609                | 5,479                |
| Pension reserve   |       | (6,393)              | (5,834)              |
| Income and expenditure account                                |       | 216                  | (355)                |
| Revaluation reserve   |       | 2,263                | 2,339                |
| <b>Total reserves</b>   |       | <u><b>2,502</b></u>  | <u><b>2,007</b></u>  |

The Financial statements on pages 30 to 51 were approved and authorised for issue by the Corporation on 14<sup>th</sup> December 2017 and were signed on its behalf on that date by:



Andrew Baird  
Chair



Jayne Dickinson  
Accounting Officer

**STATEMENT OF CASH FLOWS**  
for the year ended 31 July 2017

|  | Note | 2017<br>£'000       | 2016<br>£'000       |
|--|------|---------------------|---------------------|
| <b>Cash flow from operating activities</b>               |      |                     |                     |
| Surplus for the year                                     |      | 835                 | 386                 |
| <b>Adjustment for non-cash items</b>                     |      |                     |                     |
| Depreciation   | 12   | 2,016               | 2,109               |
| Deferred capital grants released to income               | 2    | (1,370)             | (1,425)             |
| Decrease/(increase)/ in debtors                          |      | 335                 | (92)                |
| Increase in creditors due within one year                |      | 577                 | 158                 |
| Pensions costs less contributions payable                |      | 72                  | 3                   |
| Pension finance cost                                     | 10   | 147                 | 224                 |
| <b>Adjustment for investing for financing activities</b> |      |                     |                     |
| Interest payable   | 10   | 255                 | 271                 |
| Investment Income  | 6    | (8)                 | (11)                |
| Profit on sale of fixed assets                           |      | <u>45</u>           | <u>-</u>            |
| <b>Net cash flow from operating activities</b>           |      | <b><u>2,904</u></b> | <b><u>1,623</u></b> |
| <b>Cash flows from investing activities</b>              |      |                     |                     |
| Proceeds from sale of fixed assets                       |      | 1                   | -                   |
| Investment income  | 6    | 8                   | 11                  |
| Deferred capital grants received                         |      | 8                   | 100                 |
| Payments made to acquire fixed assets                    | 12   | <u>(228)</u>        | <u>(220)</u>        |
|  |      | <b>(211)</b>        | <b>(109)</b>        |
| <b>Cash flows from financing activities</b>              |      |                     |                     |
| Interest paid  | 10   | (255)               | (271)               |
| Repayments of amounts borrowed                           | 16   | <u>(300)</u>        | <u>(300)</u>        |
|  |      | <b>(555)</b>        | <b>(571)</b>        |
| <b>Increase in cash and cash equivalents in the year</b> |      | <b>2,138</b>        | <b>943</b>          |
| Cash and cash equivalents at beginning of the year       | 18   | <u>3,204</u>        | <u>2,261</u>        |
| Cash and cash equivalents at the end of the year         | 18   | <u>5,342</u>        | <u>3,204</u>        |

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2017

### **1. Statement of 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 2015 (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published by the Education and Skills Funding Agency in the Accounts Direction 2016/17.

#### **Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom accounting standards.

#### **Going Concern**

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

As at 31 July 2017 the College has a £4.2m fixed rate long term loan repayable over the balance life of 14 years extendable to 20 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

Accordingly, the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

#### **Recognition of income**

Government revenue grants including funding body recurrent grants and other grants are accounted for under the accrual model as permitted by FRS102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any over or under achievement of the Adult Skills Budget 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 following the year end, and the result of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**1. Statement of Accounting Policies (continued)**

FRS102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Income from Tuition Fees is recognised in the period in which it is received and includes all fees payable by students or their sponsors.

Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or 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 year in which it is earned on a receivable basis.

**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 plans, which are externally funded and contracted out of the State Second Pension. The college also contributed to The People's Pension for the first time in 2016/17. This is a defined contribution scheme.

The TPS is an unfunded Scheme. 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 payrolls.

The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. 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 plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses are recognised immediately in other gains and losses.

**Short term Employment benefits**

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 July 2017

### 1. Statement of Accounting Policies (continued)

#### Tangible fixed assets

##### Land and buildings

Tangible fixed assets are stated at cost or deemed cost less accumulated depreciation and impairment losses. Land and buildings inherited from the Local Education Authority (LEA) that had been valued to fair value prior to the date of transition to the 2015 FE HE SORP are measured on the basis of deemed cost. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life which varies between 10 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 income account within creditors and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were valued in 1992, but not to adopt a policy of revaluations of these properties in the future.

##### Assets under construction

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

##### Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless, it increases future benefits to the College, in which case it is capitalised and depreciated on the relevant basis:

##### 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 year of acquisition. Equipment costing more than £1,000 is capitalised at cost. Equipment is depreciated on a straight line method over its useful economic life as follows:

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

### 1. Statement of Accounting Policies (continued)

|                                       |              |
|---------------------------------------|--------------|
| Mobile plant, furniture and equipment | - 5 years;   |
| Fixed plant                           | - 7 years;   |
| Motor vehicles                        | - 3 years;   |
| Computer equipment                    | - 3-7 years. |

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 income account within creditors and released to the income and expenditure account over the expected useful economic life of the related equipment.

#### Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. Assets held under finance leases are recognised initially at the fair value of the leased asset (or if lower, the present value of the minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between finance charges and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

#### Investments

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

#### Maintenance of premises

The cost of routine corrective maintenance is charged to the income and expenditure account in the year it is incurred.

#### Taxation

The College is considered to pass the tests set out in paragraph 1 of schedule 6 to the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from tax in respect of income and capital gains received in categories covered by sections 478 – 488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax ("VAT"), so that it can only recover around 3% of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the cost of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

#### Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

## **1. Statement of Accounting Policies (continued)**

### **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.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised as a finance cost in the statement of comprehensive income in the period it arises.

### **Agency arrangements**

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

### **Judgement in applying accounting policies and key sources of estimation uncertainty**

In preparing these financial statements, management have made the following judgements:

- The present value of the Local Government Pension Scheme defined liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 19, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figure derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**2. Funding Council Grants**

|   | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|---|-----------------------------|-----------------------------|
| <b>Recurrent Grants</b>                               |                             |                             |
| Education and Skills Funding Agency - Adult           | 1,201                       | 1,122                       |
| Education and Skills Funding Agency – 16-18           | 9,048                       | 9,257                       |
| Education and Skills Funding Agency - Apprenticeships | 1,035                       | 961                         |
| Higher Education Funding Council                      | 101                         | 142                         |
| <b>Specific Grants</b>                                |                             |                             |
| Skills Funding Agency                                 | 753                         | 753                         |
| Release of government capital grants                  | 1,370                       | 1,425                       |
| <b>Total</b>  | <b>13,508</b>               | <b>13,660</b>               |

**3. Tuition Fees and Education Contracts**

|                                    | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|------------------------------------|-----------------------------|-----------------------------|
| Adult education fees               | 103                         | 117                         |
| Fees for FE loan supported courses | 893                         | 915                         |
| Fees for HE loan supported courses | 767                         | 701                         |
| <b>Total tuition fees</b>          | <b>1,763</b>                | <b>1,733</b>                |
| Education contracts                | 374                         | 321                         |
| <b>Total</b>                       | <b>2,137</b>                | <b>2,054</b>                |

**4. Other grants and contracts**

|                            | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|----------------------------|-----------------------------|-----------------------------|
| Other grants and contracts | 869                         | 599                         |
| <b>Total</b>               | <b>869</b>                  | <b>599</b>                  |

**5. Other income**

|                                    | <b>2017</b><br><b>£'000</b> | <b>2016</b><br><b>£'000</b> |
|------------------------------------|-----------------------------|-----------------------------|
| Other income generating activities | 66                          | 89                          |
| Miscellaneous income               | 2                           | 7                           |
| <b>Total</b>                       | <b>68</b>                   | <b>96</b>                   |



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**6. Investment Income**

|                           | 2017<br>£'000 | 2016<br>£'000 |
|---------------------------|---------------|---------------|
| Other interest receivable | 8             | 11            |
| <b>Total</b>              | <b>8</b>      | <b>11</b>     |

**7. Staff Costs**

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

|                           | 2017<br>No. | 2016<br>No. |
|---------------------------|-------------|-------------|
| Teaching staff            | 105         | 120         |
| Teaching support services | 80          | 54          |
| Non-teaching staff        | 86          | 83          |
|                           | <b>271</b>  | <b>257</b>  |

**Staff costs for the above persons**

|                                  | 2017<br>£'000 | 2016<br>£'000 |
|----------------------------------|---------------|---------------|
| Wages and salaries               | 7,069         | 7,131         |
| Social security costs            | 637           | 569           |
| Other pension costs              | 1,449         | 1,324         |
| <b>Payroll sub total</b>         | <b>9,155</b>  | <b>9,024</b>  |
| Contracted out staffing services | 84            | 74            |
|                                  | <b>9,239</b>  | <b>9,098</b>  |

**8. Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directly and controlling the activities and are represented by the College Leadership Team which comprises of the Principal, Deputy Principal, Curriculum and Standards and Vice Principal Finance and Resources along with the Director of Communications and Director of HR.

**Emoluments of key management personnel, Accounting Officer and other higher paid staff**

|  | 2017<br>No. | 2016<br>No. |
|--|-------------|-------------|
| The number of key management personnel including the Accounting Officer was: | <u>5</u>    | <u>5</u>    |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**8. Key Management Personnel (continued)**

|                      | 2017                       |                    | 2016                       |                    |
|----------------------|----------------------------|--------------------|----------------------------|--------------------|
|                      | Senior Post holders<br>No. | Other Staff<br>No. | Senior Post Holders<br>No. | Other Staff<br>No. |
| £30,001 to £40,000   | -                          | 1                  | -                          | -                  |
| £70,001 to £80,000   | -                          | 1                  | -                          | 2                  |
| £90,001 to £100,000  | 2                          | -                  | 2                          | -                  |
| £120,001 to £130,000 | -                          | -                  | 1                          | -                  |
| £130,001 to £140,000 | 1                          | -                  | -                          | -                  |
|                      | <b>3</b>                   | <b>2</b>           | <b>3</b>                   | <b>2</b>           |

Key management personnel emoluments are made up as follows:

|                         | 2017<br>£'000 | 2016<br>£'000 |
|-------------------------|---------------|---------------|
| Salaries                | 418           | 447           |
| Benefits in kind        | 16            | 15            |
|                         | <b>434</b>    | <b>462</b>    |
| Pension contributions   | 74            | 79            |
| <b>Total emoluments</b> | <b>508</b>    | <b>541</b>    |

The above emoluments include amounts payable to the Principal, who is also the highest paid senior post-holder, as follows:

|                       | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------|---------------|---------------|
| Salaries              | 126           | 122           |
| Benefits in kind      | 4             | 3             |
|                       | <b>130</b>    | <b>125</b>    |
| Pension contributions | 21            | 20            |

The Members of the Corporation other than the Principal and the Staff Members did not receive any payment other than the reimbursement of travel and subsistence expenses incurred in the course of their official duties.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**9. Other Operating Expenses**

|                    | <b>2017</b>  | <b>2016</b>  |
|--------------------|--------------|--------------|
|                    | <b>£'000</b> | <b>£'000</b> |
| Teaching costs     | 1,836        | 1,861        |
| Non-teaching costs | 1,261        | 1,443        |
| Premises costs     | 1,001        | 1,028        |
| <b>Total</b>       | <b>4,098</b> | <b>4,332</b> |

**Other operating expenses include:**

|  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Auditors' remuneration:                                      |              |              |
| Financial statements audit                                   | 18           | 19           |
| Internal audit   | 14           | 24           |
| Other services provided by the financial statements auditors | 1            | 1            |
| Losses on disposal of tangible fixed assets                  | 45           | -            |
| Hire of assets under operating leases                        | 47           | 48           |

**10. Interest and other finance costs:**

|  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| On bank loans, overdrafts and other loans: | 255          | 271          |
|  | <b>255</b>   | <b>271</b>   |
| Pension finance costs (note 19)            | 147          | 224          |
| <b>Total</b>                               | <b>402</b>   | <b>495</b>   |

**11. Taxation**

The College was not liable for corporation tax arising from its activities during the year.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**12. Tangible Fixed Assets**

|                                       | Freehold Land<br>and Buildings | Equipment    | Total         |
|---------------------------------------|--------------------------------|--------------|---------------|
| <b>Cost or valuation</b>              | <b>£'000</b>                   | <b>£'000</b> | <b>£'000</b>  |
| At 1 August 2016                      | 64,577                         | 7,118        | 71,695        |
| Reclassification                      | 17                             | (19)         | (2)           |
| Additions                             | -                              | 228          | 228           |
| Disposals                             | (49)                           | (296)        | (345)         |
| <b>At 31 July 2017</b>                | <b>64,545</b>                  | <b>7,031</b> | <b>71,576</b> |
| <b>Depreciation</b>                   | <b>£'000</b>                   | <b>£'000</b> | <b>£'000</b>  |
| At 1 August 2016                      | 12,995                         | 6,405        | 19,400        |
| Reclassification                      | (4)                            | 2            | (2)           |
| Charge for the year                   | 1,773                          | 243          | 2,016         |
| Elimination in respect of disposals   | (27)                           | (272)        | (299)         |
| <b>At 31 July 2017</b>                | <b>14,737</b>                  | <b>6,378</b> | <b>21,115</b> |
| <b>Net book value at 31 July 2017</b> | <b>49,808</b>                  | <b>653</b>   | <b>50,461</b> |
| <b>Net book value at 31 July 2016</b> | <b>51,582</b>                  | <b>713</b>   | <b>52,295</b> |

**13. Trade & Other Receivables**

|                                      | 2017<br>£'000 | 2016<br>£'000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: |               |               |
| Trade receivables                    | 81            | 376           |
| Prepayments and accrued income       | 316           | 357           |
| Amounts owed by the Funding Agency   | 83            | 82            |
| <b>Total</b>                         | <b>480</b>    | <b>815</b>    |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**14. Creditors: Amounts Falling Due Within One Year**

|                                    | <b>2017</b>  | <b>2016</b>  |
|------------------------------------|--------------|--------------|
|                                    | <b>£'000</b> | <b>£'000</b> |
| Bank loan and overdrafts           | 300          | 300          |
| Trade payables                     | 156          | 403          |
| Other taxation and social security | 167          | 169          |
| Accruals and deferred income       | 1,967        | 1,249        |
| Amounts owed to the Funding Agency | 114          | 11           |
| <b>Total</b>                       | <b>2,704</b> | <b>2,132</b> |

**15. Creditors: Amounts Falling Due After More Than One Year**

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| Bank Loan                                   | 3,900         | 4,200         |
| Deferred income – government capital grants | 40,771        | 42,129        |
| <b>Total</b>                                | <b>44,671</b> | <b>46,329</b> |

The College has a commitment with Barclays Bank for a £4.2m fixed rate long term loan repayable by instalments to 2031 at a fixed interest rate of 5.6674%.

**16. Maturity of debt**

**(a) Bank loans and overdraft**

Bank loans and overdraft are payable as follows:

|                            | <b>2017</b>  | <b>2016</b>  |
|----------------------------|--------------|--------------|
|                            | <b>£'000</b> | <b>£'000</b> |
| In one year or less        | 300          | 300          |
| Between one and two years  | 300          | 300          |
| Between two and five years | 900          | 900          |
| In five years or more      | 2,700        | 3,000        |
| <b>Total</b>               | <b>4,200</b> | <b>4,500</b> |

Bank loans and overdrafts at 5.67% repayable by instalments falling due between 1 August 2017 and 31 July 2031 totalling £4,200,000.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

### 17. Provisions

|  | Defined<br>benefit<br>Obligations<br>£'000 | Restructuring<br>£'000 | Total<br>£'000 |
|--|--|------------------------|----------------|
| At 1 August 2016                                   | (5,834)                                    | (13)                   | (5,847)        |
| Expenditure in the period                          | 801  | -                      | 801            |
| Transferred from Income and<br>Expenditure account | (1,360)                                    | -                      | (1,360)        |
| <b>At 31 July 2017</b>                             | <b>(6,393)</b>                             | <b>(13)</b>            | <b>(6,406)</b> |

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 19.

### 18. Cash and cash equivalents

|                           | At 1 August<br>2016<br>£'000 | Cash<br>flows<br>£'000 | Other<br>changes<br>£'000 | At 31 July<br>2017<br>£'000 |
|---------------------------|------------------------------|------------------------|---------------------------|-----------------------------|
| Cash and cash equivalents | 3,204                        | 2,138                  | -                         | 5,342                       |
| <b>Total</b>              | <b>3,204</b>                 | <b>2,138</b>           | <b>-</b>                  | <b>5,342</b>                |

### 19. Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans: The Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Surrey Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Surrey County Council. Both are multi-employer defined-benefit plans. The college has also paid into the People's Pension Scheme for the first time in 2016/17.

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Total pension cost for the year</b>                |               |               |
| Teachers' Pension Scheme: contributions paid          | 558           | 570           |
| Local Government Pension scheme<br>Contributions paid | 802           | 751           |
| FRS 102 charge  | 72            | 3             |
| Charge to the Statement of Comprehensive Income       | 874           | 754           |
| The People's Pension                                  | 1             | -             |
| <b>Total Pension Cost for Year</b>                    | <b>1,433</b>  | <b>1,324</b>  |

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

All contributions were paid during the year (2016: £153k were payable to the scheme and are included in creditors).

### **Teachers' Pension Scheme**

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and, from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. 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 Account**

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

### **Valuation of the Teachers' Pension Scheme**

The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation and the subsequent consultation are:

- employer contribution rates were set at 16.48% of pensionable pay (including a 0.08% levy for administration);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay will be applied to future valuations.

The new employer contribution rate for the TPS was implemented in September 2015, rising from 14.1% to 16.48%.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

### **Scheme Changes**

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2017

Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and commenced on 1 April 2015.

The pension costs paid to TPS in the year amounted to £865,583 (2015/16: £885,663).

### **FRS 102**

Under the definitions set out in FRS102 (28.11), 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 FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

### **The People's Pension**

The People's Pension is a multi-employer, defined contribution occupational pension scheme that has master trust status. It's run by B&CE, a not-for-profit organisation. Total employer's contributions to the scheme for 2016/17 were £1k (2015/16 – nil).

### **Local Government Pension Scheme**

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by Surrey County Council. The total contribution made for the year ended 31 July 2017 was £995,251 of which employer's contributions totalled £801,913 and employees' contributions totalled £193,338. The agreed contribution rates were 19.2% for employers. The new 50% scheme for employees does not change the employer contribution rate.



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

**Principal Actuarial Assumptions**

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2017 by a qualified independent actuary

|   | At 31 July<br>2017 | At 31 July<br>2016 |
|---|--------------------|--------------------|
| Rate of increase in salaries                                  | 2.80%              | 1.90%              |
| Future pensions increases                                     | 2.50%              | 1.90%              |
| Discount rate for scheme liabilities                          | 2.70%              | 2.50%              |
| Inflation assumption (CPI)                                    | 2.50%              | 1.90%              |
| Commutation of pension to lump sums – pre-April 2008 service  | 25.00%             | 25.00%             |
| Commutation of pension to lump sums – post-April 2008 service | 63.00%             | 63.00%             |

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

|                             | At 31 July<br>2017 | At 31 July<br>2016 |
|-----------------------------|--------------------|--------------------|
| <i>Retiring today</i>       |                    |                    |
| Males                       | 22.50              | 22.50              |
| Females                     | 24.60              | 24.60              |
| <i>Retiring in 20 years</i> |                    |                    |
| Males                       | 24.10              | 24.50              |
| Females                     | 26.40              | 26.90              |

**The College's share of the assets in the scheme and the expected rates of return were:**

|  | Long-term<br>rate of<br>return<br>expected at<br>31 July<br>2017 | Fair Value<br>at<br>31 July<br>2017<br><br>£'000 | Long-term<br>rate of<br>return<br>expected<br>at 31 July<br>2016 | Fair Value<br>at<br>31 July<br>2016<br><br>£'000 |
|--|--|--|--|--|
| Equities   | 2.7%   | 13,054   | 2.5%   | 11,870   |
| Bonds  | 2.7%   | 2,503  | 2.5%   | 2,499  |
| Property   | 2.7%   | 1,431  | 2.5%   | 937  |
| Cash   | 2.7%   | 894  | 2.5%   | 312  |
| Total market value of assets                       |  | <u>17,882</u>                                    |  | <u>15,618</u>                                    |
| Weighted average expected long term rate of return | 2.7%   |  | 2.5%   |  |
| Actual return on plan assets                       |  | <u>1,445</u>                                     |  | <u>745</u>                                       |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 July 2017

The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

|                                       | 2017<br>£'000  | 2016<br>£'000  |
|---------------------------------------|----------------|----------------|
| Fair value of plan assets             | 17,882         | 15,618         |
| Present value of plan liabilities     | (24,270)       | (21,452)       |
| Present value of unfunded liabilities | (5)            | -              |
| <b>Total pension liability</b>        | <b>(6,393)</b> | <b>(5,834)</b> |

Amounts recognised in the Statement of Comprehensive Income in respect of the plan are as follows:

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Amounts included in staff costs</b>      |               |               |
| Current service cost                        | 876           | 753           |
| Past service cost                           | -             | 1             |
| <b>Total operating charge</b>               | <b>876</b>    | <b>754</b>    |
| <b>Amounts included in interest payable</b> |               |               |
| Net interest cost                           | (147)         | (224)         |
|   | <b>(147)</b>  | <b>(224)</b>  |

**Amounts recognised in Other Comprehensive Income**

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Expected return on pension plan assets                                  | 1,445         | 745           |
| Experience losses arising on defined benefit obligations                | (92)          | 299           |
| Changes in demographic assumptions                                      | 290           | -             |
| Changes in assumptions underlying the present value of plan liabilities | (1,983)       | (441)         |
| <b>Amount recognised in Other Comprehensive (Expense)/Income</b>        | <b>(340)</b>  | <b>603</b>    |

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

### Movement in net defined benefit/(liability) during the year

|   | 2017<br>£'000  | 2016<br>£'000  |
|---|----------------|----------------|
| Deficit in scheme at 1 August                     | (5,834)        | (6,210)        |
| Movement in year:                                 |                |                |
| Current service cost                              | (876)          | (753)          |
| Employer Contributions                            | 804            | 751            |
| Past service cost                                 | -              | (1)            |
| Net interest on the defined (liability)/asset     | (147)          | (224)          |
| Actuarial gain or loss                            | (340)          | 603            |
| <b>Net defined benefit/(liability) at 31 July</b> | <b>(6,393)</b> | <b>(5,834)</b> |

### Asset and Liability Reconciliation

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| <b>Changes in the present value of defined benefit obligations</b> |               |               |
| <b>Defined benefit obligations at start of period</b>              | <b>21,452</b> | <b>20,087</b> |
| Current Service cost   | 876           | 753           |
| Interest cost  | 542           | 732           |
| Contributions by scheme participants                               | 194           | 205           |
| Experience gains and losses on defined benefit obligations         | 92            | (299)         |
| Changes in financial assumptions                                   | 1,983         | 441           |
| Changes in demographic assumptions                                 | (290)         | -             |
| Estimated benefits paid  | (574)         | (468)         |
| Past Service cost  | -             | 1             |
| <b>Liabilities at end of period</b>                                | <b>24,275</b> | <b>21,452</b> |

### Reconciliation of Assets

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Fair Value of Plan Assets at start of period</b> | <b>15,618</b> | <b>13,877</b> |
| Interest on plan assets                             | 395           | 508           |
| Return on assets                                    | 1,445         | 745           |
| Employer contributions                              | 804           | 751           |
| Contributions by scheme participants                | 194           | 205           |
| Estimated benefits paid                             | (574)         | (468)         |
| <b>Assets at end of period</b>                      | <b>17,882</b> | <b>15,618</b> |

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

### 20. Post Balance Sheet Events

The College is continuing to explore joint working options with the other three GFE Colleges in Surrey and to this end has received a Transition Grant of £50k to further develop its HE and explore opportunities to develop the degree apprenticeships.

### 21. Capital Commitments

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Commitments contracted for at 31 July        | 78            | 100           |
| Authorised but not contracted for at 31 July | -             | -             |

### 22. Financial Commitments

Under FRS 102, total minimum lease payments due over the lease term are shown.

At 31 August 2017 the total of the College's future minimum lease payments under non- cancellable operating leases is:

|  | 2017           | 2016           |
|--|----------------|----------------|
| In respect of plant and machinery leases - |                |                |
| Expiring within one year                   | 41,638         | 41,638         |
| Expiring within two to five years          | 83,276         | 124,915        |
|  | <u>124,915</u> | <u>166,553</u> |

### 23. Contingent Liability

No material contingent liabilities exist at the balance sheet date.

### 24. Related Party Transactions

Due 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 organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under FRS102.

The College is a member of GFE South, which in previous years has resulted in the College delivering several ESF contracts held by the member colleges. There were no ESF contracts delivered in 2016/17. The College is also a member of SSSC Ltd, with 6 other colleges in Sussex and Surrey, a common services group. In 2016/17 the Directors of the Company

**NOTES TO THE FINANCIAL STATEMENTS**  
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agreed to transfer the back services to the individual Colleges and dissolve SSSC LTD. SSSC LTD is filing its closure on 30<sup>th</sup> October 2017.

**25. Current Investments**

The College has one subsidiary company, Surrey Skills Limited. The College invested £1 in the Company in 2016/17. The Company is expected to undertake Education, Training and related services. Any surpluses generated by the subsidiaries are transferred to the College under a deed of covenant. However, in 2016/17, Surrey Skills Limited was dormant.