



**REPORT AND FINANCIAL STATEMENTS
FOR THE
YEAR ENDED 31 JULY 2016**

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 2015/16:

Mrs Jayne Dickinson - Principal and CEO; Accounting Officer
Mr Kevin Standish - Deputy Principal, Curriculum and Standards
Mrs Jyoti Baker - Vice Principal Finance & Resources (28 February 2016 – Current)
Mrs Ann-Christine Harland - Vice Principal Finance & Resources (up to 28 February 2016)

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
2nd Floor Turnpike House
123 High Street
Crawley
West Sussex RH10 1DQ

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

Solicitors:

Eversheds LLP
Kett House
Station Road
Cambridge CB1 2JY

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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 2016.

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

Governors approved the College's three-year mission and strategic plan in March 2013 for the year commencing 1 August 2013. The plan objectives and targets are set annually. 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, Quality, Responsibility, Openness, Innovation and Aspiration

In July 2016, the Corporation approved the College's three-year mission and strategic statement (formerly strategic plan) for the year commencing 1 August 2016. This will continue to be reviewed annually with objectives and targets set and reviewed accordingly.

Public Benefit

East Surrey College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 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:

- High quality teaching, learning and assessment
- Widening participation and tackling social inclusion
- Excellent employment and progression record for students
- Links with employers, industry and commerce and their skills needs.

These have been further drawn out and illustrated in various sections of the Report of the Governing Body.

Implementation of Strategic Plan

Following the annual review of its Strategic Plan which involved key external stakeholders, staff and students, the College redefined its Strategic Aims for the three year period 2013-2016. The Corporation monitors the performance of the College against these aims. The College's strategic aims for 2015/16 are:

- **Teaching and Learning** – to further promote excellence and innovation in teaching, learning and assessment that inspires, challenges boundaries and values learning
- **Success and Progression** – to raise standards in order to equip students with the skills and training they need to support progression to further study and sustain career opportunities
- **Information, Advice and Guidance** – to be a provider of choice offering outstanding customer-focused service that promotes participation and prioritises achievement and continuous improvement
- **Safeguarding and Inclusivity** – to provide a safe, inclusive environment for all stakeholders in which feedback is welcomed and used to improve the student experience
- **Curriculum Planning** – to offer a wide, relevant and inclusive course offer that enables individuals and our local and business communities to innovate and thrive
- **Partnerships** – to develop with integrity complementary partnerships and enterprise opportunities that enhance our capability for growth
- **Finance** – to achieve value for money in the use of public funds, financial investment and fee contributions to secure sustainability and financial stability

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 and during Governor Workshops.

In 2015/16, the College's key quality and community objectives were:

- **75% Self-Assessment Review (SAR) – Teaching, Learning and Assessment Grade Good or above** – MET 100% Achieved
- **86% headline success rate** – MET 86.7% for 16-18s and 86.3% for adults
- **55% high grade success rate GCSE English/Maths** – this target has since proved to be far in excess of the national position for retake students and has not been met. GCSE English 16-18, GCSE Adult English and GCSE Adult Maths high grades are showing to be above national resit position. (GCSE English high grades was 51% for 16-18 and 56.6% for 19+. For GCSE Maths the high grades was 11.7% for 16-18 yrs and 30.6% for 19+).
- **75% Apprenticeship framework achievement target** – significant progress has been made in finishing with a 72.4% achievement rate, up from 64.4% in 2014/15 but above national rates. For the largest area of Apprenticeships – Construction – it has been EXCEEDED.
- **Matrix re-accreditation for Information, Advice and Guidance** – MET with significant areas of strength
- **Safeguarding and Prevent** – MET. Embedded in curriculum and the ethos of the College. Designated leads training is complete and regular update training for all College staff continues to take place. All documentary requirements are completed and regularly reviewed.
- **Study Programme requirements** – MET

- **Apprenticeships** – MET. Offer has expanded rapidly and with increased quality and engagement with employers. FE Choices survey resulted in a very high 97% satisfaction rate.
- **New partnerships** – MET. Academy of Contemporary Music for 16-18s – with EFA supporting additional in-year growth funding request

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 progress or significant progress against remaining objectives.

The College was inspected in December 2014 and graded Good with a number of areas judged Outstanding. The self-assessment report for 2014/15 continued to grade the College as Good with Leadership and Management graded Outstanding. All curriculum areas were graded at least Good based on evidence and review of that evidence. The self-assessment report for 2015/16 is expected to maintain this position while recognising many areas of notable continuous progress.

The College was in Wave 2 of the Area-Based Review process. 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.

Financial objectives:

The College's financial objectives were:

- to generate sufficient operational inflow to ensure that the College's strategy can be effectively implemented and the long term loan and its covenants can be maintained
- to be responsive to anticipated reductions in grant funding by creating additional income streams
- to ensure 'Good' financial health

The College monitors its performance through a series of performance indicators. The key performance indicators for 2015/16 were:

- **Recruitment of learner numbers to targets for all priority funding streams:** Met, for all income streams other than the EFA
- **Staff costs as a % of Income:** MET
- **Cash generated from operating activities:** MET
- **Borrowing as a % of Income:** MET
- **Debt servicing costs as a % of income:** MET
- **Operating surplus or deficit:** MET
- **Employer engagement income:** MET

In addition, the College monitors its performance against externally assessed measures such as:

- Financial Health
- Sector specific EBITDA

The College achieved its targets in 2015/16. The College financial health is measured as 'Outstanding' according to the Skills Funding Agency assessment. The College agrees with this assessment for 2015/16.

FINANCIAL POSITION

Financial results

The College generated an operating surplus before exceptional items of £386k in the year (2014/15 – surplus of £313k, restated as £82k due to the impact of FRS102), with total comprehensive income of £1,065k (2014/15 – deficit of £315k due to FRS102 pensions treatment). 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 £2,007k (2014/15 - £1,018K) and a cash and short term investment balance of £3,204k, (2014/15 – £2,261k). 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 £220k were incurred in the year as part of the College's capital programme.

The College has significant reliance on the Skills Funding Agency and Education Funding Agency for its principal funding source, largely from recurrent grants. In 2015/16 the Skills Funding Agency/EFA provided 82% (2014/15 – 81%) of the College's total income.

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 £4.5m (2014/15: £4.8m). 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 £1,623k, (2014/15: £1,151k). 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 £1,984k (2015: £995k). 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 success 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. While the FE Choices Employer survey confirms very high quality and satisfaction at 97%, the College did not return a sufficiently large sample enabling an outcome on FE Learner views. 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 in 2014/15 was 85.8% which was the eighteenth best in England out of 216 GFE (General and Further Education) colleges. This placed East Surrey College as the highest performing college in Surrey, London and north Sussex

Student Numbers

In 2015/16 the College delivered training to 95% of its allocated 16-18 year olds, compared to 98% in 2014/15. The 2015/16 allocation includes an increased in-year allocation to accommodate ACM students. The draw of outstanding facilities at Gatton Point, ongoing investment at Gatton Point South, excellent transport links, sustained high quality and choice of provision, including the Traineeship offer leading to Apprenticeships, experience in delivering courses starting mid-year and provision of suitable support to High Needs 19-25 year olds, contributing to relatively sustainable recruitment of young people, although the impact of demographic decline is still clear. The growth is forecast to start from 2018/19 locally. This is evidenced by the increased places needed in local schools. In addition, the College delivered training to classroom based full and part-time 19+ students, achieving in full its adult education allocation. The College also delivered provision to over 370 14-16 year old students from local schools, over 369 work based students, over 155 students on HE programmes and over 3,282 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 assessed as being a Good provider by Ofsted in December 2014 (Report January 2015) with a series of Outstanding grades awarded. During 2015/16, 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. The Ofsted report makes reference to the College's success in intervening in underperforming areas to bring about improvements and also notes that the majority of students achieve well with a curriculum that meets the needs of local employers very well. 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 Investors in People Gold Award, Matrix Accreditation, the Buttle UK Award for promoting aspiration for looked after children and care leavers 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, working together with 4 local partner schools, successfully launched a joint Common Application Process for year 11 pupils for 2015/16 in September 2014. The two colleges have a shared Sportmaker 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, achievement and success rates are now quoted including functional skills and are no longer segmented into long, short or very short durations. Despite this new pressure, in 2015/16 retention improved to 93.0% for all qualifications and all ages of students, an improvement of 1.0% over 2014/15. All duration success rate has improved by 0.3% to 86.6% and is up 2.9% from 2013/14. Success rate for students aged 16-18 is now 86.7% up 5.1% since 2013/14. 19+ success rate 86.3% is still high and in 2015/16 is without the enhancement of substantial short sub-contracted provision. 19+ long success shows 4.8% improvement. 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 1.5% though still of concern for adults at 4.9%. Key areas of under-performance in 2014/15 – Accounting and Sport - have improved significantly.

Technology is more mixed with some areas of strong performance and others weaker. English is overall good but GCSE Maths requires much improvement. There has been good improvement on Apprenticeship provision with achievement rate just above the national rate. 14-16 provision continues to be outstanding. College students also 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 (including some Floristry)
- Business, IT and Accountancy
- Construction and the Built Environment
- Engineering including Motor Vehicle Engineering
- 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, JCP+ 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 and material resources 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 well-embedded in delivery and the ethos of the College as well as employability skills.

New Full-time Programmes

From September 2015, several new courses were added including Level 3 Applied Science, Level 2 Pre – access courses for Skills for Working in Health Care sector, Level 2 Aviation Environment and a Technical Baccalaureate option in Business and Technology subjects. All have recruited well in 2016/17 with the exception of the Technical Baccalaureate. In addition, two new full-time programmes were offered for September 2016, these were Level 2 Cabin Crew, Level 3 Fashion and Media Make-Up. Several new higher education courses also ran for the first time. New validations were secured to run from 2016/17. These were the Foundation degree in Music and Sound Production which was converted from the existing HND in Music Production and the Foundation degree in Internet Software Development.

The College has continued to develop its work with local schools by directly contracting to accommodate nearly 500 enrolments by 14-16 year olds to vocational courses at the College. This is believed to be the highest level in Surrey colleges. The College is very active in the three 14-19 Learning Networks that span East Surrey, Mole Valley and Tandridge and middle and senior managers participate in a variety of meetings and other collaborative events. In 2015/16, the College continued its close collaborative working with local schools through its Springboard (14 – 16 alternative learning) and ESOL programmes.

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 2016 will again, commence 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. Surrey CC, working with the College has now appointed a Job Carver role to help develop Supported Internships in east Surrey area.

The College has successfully offered more employee responsive adult full-cost provision during the year, with AAT at levels 2, 3 and 4, Counselling (these are SFA funded or student loans) and EFL proving popular.

The College continues to be an active partner in the Gatwick Diamond and is part of the Inspire group which brings together employers, employers' organisations and other key players to promote higher skills development and employment in the region, including entrepreneurial activity. The College enjoys a highly productive relationship with the University of Brighton, the validation body for its Foundation and B.Sc. Top Up degree programmes. Other partnerships that support curriculum development or engagement include Sussex Learning Network and GFE South.

The College delivered Community Learning across East and Mid Surrey including Reigate and Banstead, Epsom and Ewell, Dorking and the Mole Valley to over 3,282 students. The Gatton Point site was again open on Saturdays, attracting adult students to the College and the WEA consolidated its presence in the Epsom area with ESOL/Maths/English learners progressing to College accredited courses.

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 2015 to 31 July 2016, the College paid 55% of its invoices within 30 days (2014/15 - 75%), invoice average payments being 39 days (2014/15 - 22 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 2nd Wave of area reviews, which commenced in March 2016 and were completed in July 2016. The final report is due for publication on 29th 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 HE 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.

Future Prospects

The College is currently in its second year of demographic decline of its 16 -18 cohort. The decline is due to reverse from 2019/20. The College is positioning itself to take advantage of the upturn and developing additional income streams ensuring the Colleges' long term sustainable future.

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

- Developing new curriculum as identified by students and employers:
The College is introducing three 'A' levels to complement its Vocational provision in the Reigate School of Art.
- The College received a 97% approval rating from Employers on the survey conducted by FE Choices. The College is focussed on developing its links with Employer and developing and growing its Apprenticeships provision. We have engaged with employers on identifying their current needs and taking them on the journey towards understanding the Apprenticeship Levy rules being introduced in May and subsequently assisting them in devising planned recruitment of Apprentices of all ages post May 17.
- The College is also working closely with the Local authorities to identify and deliver provision to High Needs Students, devising and delivering programmes with Progression from Supported Internships and Level 1 provision to Higher education for the high performing special needs student. Surrey County Council have appointed a member of staff to its Job Carver role to enable links to be developed with the Independent Specialist Schools sector to enable transfers between providers, focussing on student needs and progression to employment and independent living.

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. Should the College decide that the site cannot be kept and is sold, then under the letter of Consent from the LSC, subsequently transferred to the Skills Funding Agency, proceeds are required to be remitted to the Skills Funding Agency up to a value of £8.2m plus 50% of any additional proceeds.

Financial

The College has net assets of £2,007k (2014/15 - £1,018k) including a LGPS pension liability of £5,834k (2014/15 -£6,210k).

People

The College employed some 257 established staff, full-time and fractional, in a range of curriculum and support functions during the year (see note 8). The College also employed 74 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.

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 and is comprised of a broad cross section of the College's staff. This Committee reviews the Risk Register to ensure the information contained is relevant, assess the score allocated and amend the risks as appropriate.

A Risk Register is maintained at the College level. Each risk 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 has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2015/16, 83% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. 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 17year old students.

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. Overall success rates are high and continuing to show year on year improvement for this age group. This continues to be the case in 2015/16, 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.
- The College demonstrates strong growth in Traineeships and Apprenticeships
- 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

- The College continues to recruit consistent numbers on 14-16 provision supporting transition to the College at age 16
- 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
- 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
- Considerable focus is being placed on maintaining and managing key relationships with the various funding bodies
- 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

In line with the majority of colleges, East Surrey College will seek to increase tuition fees in line with market information. The College monitors the fees charged by its competitors and partners. 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.

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 re its Triennial valuations.

4. Change in policy arising from Machinery of Government changes

The unheralded reductions in July 2015 to the 2015/16 Adult funding to Colleges by the SFA provided a reminder that post-16 income is not protected by Government and the College sector is highly vulnerable to cross Department cuts. However, a commitment was made at the Chancellor's Autumn Statement to maintain the budgets for the following three years and that colleges would in future be given longer implementation dates enabling colleges to respond more effectively to changes. The BIS led Area Reviews commenced for the Surrey Colleges in March 2016. The outcome for the College was positive. The recommendation supports the Colleges' ability to stay independent, with the current collaborations with the other Colleges to be continued.

In mitigation, the College continues to be active in regular meetings with local colleges, Surrey County Council and the shared service company SSSC Ltd. Senior staff also attend relevant SFA, AOC/AOSEC, Ofsted seminars and stakeholder meetings. The College is an effective member of GFE South, Sussex Learning Network and an associate member of FE Sussex. These bring opportunities for bidding, sharing of experience, CPD and joint meeting with key representatives of national bodies. The College also meets regularly with recognised Unions to maintain effective communication channels. The College also sets prudent budgets, which includes contingency reserves for unplanned income reductions.

5. Failure to maintain Good Financial health

The demographic decline for 16-18 year olds is expected to continue till 2019-20 and the introduction of the Apprenticeship levy in May 2017, adds significant risk to College Income. The College is also making contingency plans should the Community Learning grant for adults not be replaced from 1 August 2017. In addition, the lack of information as to the size and scope of the next round of ESF grants subcontracts, which are not expected to be announced until Spring 2017, all lead to uncertainty as to the level of income available from 2017/18 onwards. This coupled with increased costs of the Employer's pensions and NI contributions, results in pressures and risks in the sector that are being mitigated.

Mitigating these concerns are effective marketing, an effective and robust curriculum plan, consultation with stakeholders, as well as maintaining excellent new accommodation and teaching resources in the College. For 2015/16, the College decided to close The Old House accommodation at its Gatton Point South site to save costs. This accommodation had minimum use, the curriculum delivery from this site, was transferred to Gatton Point. Contracts that expired in 2015/16 were renewed, following tender process, to gain best value for the College. The College engages subcontractors, if necessary, to deliver high quality, complementary provision and provides detailed reporting of contributions by cluster of courses to assess viability.

The 3 year forecast presented to the Skills Funding Agency is updated for Corporation review annually, with midyear reviews if needed. Financial viability is highlighted through

the monthly management accounts (including key ratios) and internal and external audit reports.

STAKEHOLDER RELATIONSHIPS

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by face to face meetings. Ofsted judged partnerships and partnership engagement to be Outstanding in their December 2014 inspection.

Stakeholders include:

- Students;
- Education Funding Bodies;
- Schools, including those with sixth forms;
- Staff;
- Local employers (with specific links);
- Local Authorities and County Councils;
- Government Offices and Local Enterprise Partnerships (LEPs);
- Employer Organisations;
- Sector Skills Councils;
- 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 continues using the Equality Framework using indicators of 'Developing, Achieving or Excelling' to plan further continuing professional development of its staff. The College is a "Positive about Disabled" employer and has committed to the principles and objectives of the "Positive about Disabled" standard.

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. There

are a number of student 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;
- f) Information on counselling and welfare services is included in the College Charter and the College has a counselling service over 4 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 8 December 2016 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 2016. 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/ reappointed | Term of office | Date resigned/end of term of office | Status of appointment | Committees served | Attendance |
|------------------|--|----------------------|--|-------------------------------|--|------------|
| Michael Axelrod | 7 July 2011 1 May 2015 | 4 years | | Independent Member | Audit Strategy | 80% |
| Andrew Baird | 19 March 2008 19 March 2012 1 January 2016 | 4 years | | Independent Member | Corporation Board Chair (from 1.9.16) Finance and Resources: Chair; Senior Post holders' Employment Search and Governance Strategy | 95% |
| Robert Campbell | 1 August 2014 1 August 2015 | 1 year 1 year | 31 December 2015 | Student Member | Learning and Quality Strategy | 0% |
| Peter Coughlan | 1 August 2016 | 1 year | | Student Member | Learning and Quality Strategy | 100% |
| Hayley Dalton | 1 August 2013 | 4 years | 25 November 2016 | Support Staff Member | Audit Strategy | 60% |
| Margaret Davey | 21 March 2005 21 March 2009 21 March 2013 | 4 years | | Independent Member | Corporation Board: Vice Chair; Learning and Quality: Chair; Search and Governance; Senior Postholder Employment Strategy | 65% |
| Jayne Dickinson | 1 January 2012 | Ex Officio | | Principal and Chief Executive | Finance and Resources; Learning and Quality; Search and Governance Strategy | 100% |
| Raymond Elgy | 25 March 2009 25 March 2013 | 4 years | | Independent Member | Finance and Resources; Senior Postholder Employment Strategy | 80% |
| Rosemary French | 25 March 2009 25 March 2013 | 4 years | | Independent Member | Audit; Senior Postholder Employment: Chair Search and Governance Strategy | 88% |
| Hannah Frewer | 1 August 2015 | 1 year | 31 July 2016 | Student Member | Learning and Quality Strategy | 50% |
| Andrew Gilchrist | 27 August 2008 27 August 2012 1 May 2016 | 4 years | | Independent Member | Audit: Chair; Strategy | 92% |

| Name | Date appointed/ reappointed | Term of office | Date resigned/end of term of office | Status of appointment | Committees served | Attendance |
|---|---|----------------------|--|--|--|------------|
| Susan Kay | 14 December 2012 | 4 years | 31 August 2016 | Independent Member | Learning and Quality Audit Strategy | 89% |
| Charlie Martin | 8 December 2016 | 4 years | | Support Staff Member | Strategy | 100% |
| Colin Monk | 8 December 2016 | 4 years | | Independent Member | Strategy | 100% |
| Georgia Crabb- O'Toole | 1 January 2016 1 August 2016 | 7 mths 1 year | | Student Member | Learning and Quality Strategy | 56% |
| Kirsty Penfold | 1 August 2016 | 4 years | | Academic Staff Member | Learning and Quality Strategy | 100% |
| Catherine Prest | 16 June 2012 | 4 years | 30 April 2016 | Independent Member | Learning and Quality Strategy | 88% |
| Elizabeth Rushton | 11 December 2014 | 4 years | | Independent Member | Finance and Resources Senior Postholder Employment Strategy | 100% |
| Ron Searle | 24 July 2006 24 July 2010 1 May 2014 | 4 years | | Independent Member | Learning and Quality Strategy | 50% |
| Barbara Spittle | 29 November 2007 29 November 2011 1 September 2015 | 4 years | | Independent Member | Corporation Board: Chair (to 31.8.16); Finance and Resources; Search and Governance: Chair Strategy: Chair | 67% |
| Neil Ward | 1 August 2013 | 4 years | 26 May 2016 | Teaching Staff Member | Learning and Quality Committee Strategy | 86% |
| Isobel Wallace | 16 June 2012 1 May 2016 | 4 years | | External Co- opted Member of the Audit Committee up to 30 April 2016 Independent Member (appointed 1 May 2016) | Audit Strategy | 100% |
| Patrick Waller | 14 July 2016 | 4 years | | External Co- opted Member of the Audit Committee | Audit Strategy | 100% |
| 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 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 2015/16 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 2016, 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 2016 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 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 2016 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 2016 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 10th December 2015 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2015.

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 8 December 2016 and signed on its behalf by:

Signed



Andrew Baird
Chair

Signed



Jayne Dickinson
Principal & Chief Executive

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 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 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 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 Skills Funding Agency.

Signed



Jayne Dickinson
Accounting Officer

8 December 2016

Signed



Andrew Baird
Chair

8 December 2016

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, 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 2015/16 issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare 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 Skills Funding Agency/Education Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency/Education 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 Skills Funding Agency/Education Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 8 December 2016 and signed on its behalf by:

Signed



Andrew Baird
Chair

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF EAST SURREY COLLEGE

We have audited the College financial statements ("the financial statements") set out on pages 28 to 52. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in our engagement letter dated 19 June 2015.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Chief Executive of the Skills Funding Agency and our engagement letter dated 19 June 2015. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 19 June 2015 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of East Surrey College and Auditor

As explained more fully in the Statement of Responsibilities of the Members of the Corporation, set out on page 24, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter dated 19 June 2015, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of the College's surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.

UHY Hacker Young

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

13/12/16

Reporting accountant's assurance report on regularity

To: The Corporation of East Surrey College and Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency

In accordance with the terms of our engagement letter dated 19 June 2015 and further to the requirements of the financial memorandum with Skills Funding 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 1st August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the Corporation of East Surrey College and the Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of East Surrey College and Skills Funding 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 Skills Funding Agency 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 Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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 for matters 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 2015 to 31 July 2016 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

13/12/16

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2016

| | Note | 2016 College £'000 | Re-stated 2015 College £'000 |
|--|------|--------------------------|---------------------------------------|
| Income | | | |
| Funding body grants | 2 | 13,660 | 13,198 |
| Tuition fees and education contracts | 3 | 2,054 | 2,202 |
| Other grants and contracts | 4 | 599 | 680 |
| Other income | 5 | 96 | 135 |
| Investment income | 6 | 11 | 8 |
| Total income | | 16,420 | 16,223 |
| Expenditure | | | |
| Staff costs | 7 | 9,098 | 9,057 |
| Other operating expenses | 9 | 4,332 | 3,978 |
| Depreciation | 12 | 2,109 | 2,595 |
| Interest and other finance costs | 10 | 495 | 511 |
| Total expenditure | | 16,034 | 16,141 |
| Surplus before other gains and losses | | 386 | 82 |
| Surplus before tax | | 386 | 82 |
| Surplus for the year | | 386 | 82 |
| Unrealised surplus on revaluation of assets | | 76 | 76 |
| Actuarial gain/(loss) in respect of pensions schemes | | 603 | (473) |
| Total Comprehensive Income/(Expense) for the year | | 1,065 | (315) |

STATEMENT OF CHANGES IN RESERVES
for the year ended 31 July 2016

| | Income and expenditure account £'000 | Revaluation reserve £'000 | Restricted Reserve £'000 | Total £'000 |
|---|---|--|---|-------------------------|
| Restated Balance as 1 st August 2014 | (1,104) | 2,491 | 23 | 1,410 |
| Surplus from the income and expenditure account | 81 | - | - | 81 |
| Other comprehensive income | (473) | - | - | (473) |
| Transfers between revaluation and income and expenditure reserves | 76 | (76) | - | - |
| | <u>(316)</u> | <u>(76)</u> | <u>-</u> | <u>(392)</u> |
| Balance as 31 July 2015 | (1,420) | 2,415 | 23 | 1,018 |
| Surplus from the income and expenditure account | 386 | - | - | 386 |
| Other comprehensive income | 603 | - | - | 603 |
| Transfers between revaluation and income and expenditure reserves | 76 | (76) | - | - |
| Total comprehensive income for the year | <u>1,065</u> | <u>(76)</u> | <u>-</u> | <u>989</u> |
| Balance as at 31 July 2016 | <u>(355)</u> | <u>2,339</u> | <u>23</u> | <u>2,007</u> |

BALANCE SHEET as at 31 July 2016

| | Notes | 2016 £'000 | Restated 2015 £'000 |
|---|--------|----------------------|---------------------------|
| Tangible Fixed assets | 12 | 52,295 | 54,184 |
| | | 52,295 | 54,184 |
| Current Assets | | | |
| Trade and other receivables | 13 | 815 | 723 |
| Cash and cash equivalents | 18 | 3,204 | 2,261 |
| | | 4,019 | 2,984 |
| Less creditors – amounts falling due within one year | 14 | (2,132) | (1,974) |
| Net current assets | | <u>1,887</u> | <u>1,010</u> |
| Total assets less current liabilities | | <u>54,182</u> | <u>55,194</u> |
| Less Creditors – amounts falling due after more than one year | 15 | (46,329) | (47,953) |
| Provisions | | | |
| Defined benefit obligations | 17, 19 | (5,834) | (6,210) |
| Other provisions | 17 | <u>(13)</u> | <u>(13)</u> |
| Total net assets | | <u>2,007</u> | <u>1,018</u> |
| Restricted reserves | | 23 | 23 |
| Unrestricted reserves | | | |
| Income and expenditure account | | 5,479 | 4,790 |
| Pension reserve | | <u>(5,834)</u> | <u>(6,210)</u> |
| Income and expenditure account | | (355) | (1,420) |
| Revaluation reserve | | <u>2,339</u> | <u>2,415</u> |
| Total reserves | | <u>2,007</u> | <u>1,018</u> |

The Financial statements on pages 28 to 52 were approved and authorised for issue by the Corporation on 8 December 2016 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 2016

| | Note | 2016 £'000 | Restated 2015 £'000 |
|--|------|---------------|---------------------------|
| Cash flow from operating activities | | 386 | 82 |
| Surplus for the year | | | |
| Adjustment for non-cash items | | | |
| Depreciation | 12 | 2,109 | 2,595 |
| Deferred capital grants released to income | 2 | (1,425) | (1,818) |
| Increase in debtors | | (92) | (257) |
| Increase in creditors due within one year | | 158 | 88 |
| Pensions costs less contributions payable | | 3 | (43) |
| Pension finance cost | 10 | 224 | 222 |
| Adjustment for investing for financing activities | | | |
| Interest payable | 10 | 271 | 289 |
| Investment Income | 6 | (11) | (8) |
| Profit on sale of fixed assets | | - | 1 |
| Net cash flow from operating activities | | 1,623 | 1,151 |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | - | 2 |
| Investment income | 6 | 11 | 8 |
| Deferred capital grants received | | 100 | 5 |
| Payments made to acquire fixed assets | 12 | (220) | (340) |
| | | (109) | (325) |
| Cash flows from financing activities | | | |
| Interest paid | 10 | (271) | (289) |
| Repayments of amounts borrowed | 16 | (300) | (300) |
| | | (571) | (589) |
| Increase in cash and cash equivalents in the year | | 943 | 237 |
| Cash and cash equivalents at beginning of the year | 18 | <u>2,261</u> | <u>2,024</u> |
| Cash and cash equivalents at the end of the year | 18 | <u>3,204</u> | <u>2,261</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

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 jointly by the Skills Funding Agency and the EFA in the Accounts Direction 2015/16 Financial Statements.

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 2016 the College has a £4.5m fixed rate long term loan repayable over the balance life of 15 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 2016

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 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 2016

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

1. Statement of Accounting Policies (continued)

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:

| | |
|---------------------------------------|--------------|
| 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

1.Statement of Accounting Policies (continued)

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.

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. These are shown separately in note 25, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

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 2016. 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 2016

2. Funding Council Grants

| | 2016 College £'000 | 2015 College £'000 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Recurrent Grants | | |
| Skills Funding Agency | 2,083 | 2,048 |
| Education Funding Agency | 9,257 | 8,532 |
| Higher Education Funding Council | 142 | 47 |
| Specific Grants | | |
| Skills Funding Agency | 753 | 753 |
| Release of government capital grants | 1,425 | 1,818 |
| Total | 13,660 | 13,198 |

3. Tuition Fees and Education Contracts

| | 2016 College £'000 | 2015 College £'000 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Adult education fees | 117 | 129 |
| Fees for FE loan supported courses | 915 | 1,073 |
| Fees for HE loan supported courses | 701 | 698 |
| Total tuition fees | 1,733 | 1,900 |
| Education contracts | 321 | 302 |
| Total | 2,054 | 2,202 |

4. Other grants and contracts

| | 2016 College £'000 | 2015 College £'000 |
|----------------------------|-----------------------------------|-----------------------------------|
| Other grants and contracts | 599 | 680 |
| Total | 599 | 680 |

5. Other income

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|-----------------------|-----------------------|
| Other income generating activities | 89 | 133 |
| Miscellaneous income | 7 | 2 |
| Total | 96 | 135 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

6. Investment Income

| | 2016 £'000 | 2015 £'000 |
|-------|---------------|---------------|
| Total | 11 | 8 |
| | <u>11</u> | <u>8</u> |

7. Staff Costs

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

| | 2016 No. | 2015 No. |
|---------------------------|-------------|-------------|
| Teaching staff | 120 | 132 |
| Teaching support services | 54 | 48 |
| Non-teaching staff | 83 | 87 |
| | <u>257</u> | <u>267</u> |

Staff costs for the above persons

| | 2016 £'000 | 2015 £'000 |
|----------------------------------|---------------|---------------|
| Wages and salaries | 7,131 | 7,208 |
| Social security costs | 569 | 519 |
| Other pension costs | 1,324 | 1,183 |
| | <u>9,024</u> | <u>8,910</u> |
| Payroll sub total | 9,024 | 8,910 |
| Contracted out staffing services | 74 | 147 |
| | <u>9,098</u> | <u>9,057</u> |

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

| | 2016 No. | 2015 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 2016

8. Key Management Personnel (continued)

| | 2016 | | 2015 | |
|----------------------|----------------------------|--------------------|----------------------------|--------------------|
| | Senior Post holders | Other Staff | Senior Post Holders | Other Staff |
| | No. | No. | No. | No. |
| £70,001 - £80,000 | - | 2 | - | 2 |
| £80,001 to £90,000 | - | - | - | - |
| £90,001 to £100,000 | 2 | - | 2 | - |
| £100,001 to £110,000 | - | - | - | - |
| £110,001 to £120,000 | - | - | 1 | - |
| £120,001 to £130,000 | 1 | - | - | - |
| | 3 | 2 | 3 | 2 |

Key management personnel emoluments are made up as follows:

| | 2016 | 2015 |
|-------------------------|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 447 | 433 |
| Benefits in kind | 15 | 14 |
| | 462 | 447 |
| Pension contributions | 79 | 73 |
| Total emoluments | 541 | 520 |

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

| | 2016 | 2015 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 122 | 117 |
| Benefits in kind | 3 | 3 |
| | 125 | 120 |
| Pension contributions | 20 | 16 |

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 2016

9. Other Operating Expenses

| | 2016 | 2015 |
|--------------------|----------------|----------------|
| | College | College |
| | £'000 | £'000 |
| Teaching costs | 1,861 | 1,431 |
| Non-teaching costs | 1,443 | 1,377 |
| Premises costs | 1,028 | 1,170 |
| Total | 4,332 | 3,978 |

Other operating expenses include:

| | 2016 | 2015 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Auditors' remuneration | | |
| Financial statements audit | 19 | 19 |
| Internal audit | 24 | 23 |
| Other services provided by the financial statements auditors | 1 | 1 |
| Losses on disposal of tangible fixed assets (where not material) | - | (1) |
| Hire of assets under operating leases | 48 | 15 |

10. Interest and other finance costs:

| | 2016 | Restated |
|--|--------------|-----------------|
| | £'000 | 2015 |
| | | £'000 |
| On bank loans, overdrafts and other loans: | 271 | 289 |
| | 271 | 289 |
| Pension finance costs (note 19) | 224 | 222 |
| Total | 495 | 511 |

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 2016

12. Tangible Fixed Assets

| | Freehold Land and Buildings | Equipment | Total |
|---------------------------------------|--|------------------|---------------|
| Cost or valuation | £'000 | £'000 | £'000 |
| At 1 August 2015 | 64,493 | 6,982 | 71,475 |
| Additions | 84 | 136 | 220 |
| At 31 July 2016 | 64,577 | 7,118 | 71,695 |
| Depreciation | | | |
| At 1 August 2015 | 11,224 | 6,067 | 17,291 |
| Charge for year | 1,771 | 338 | 2,109 |
| At 31 July 2016 | 12,995 | 6,405 | 19,400 |
| Net book value at 31 July 2016 | 51,582 | 713 | 52,295 |
| Net book value at 31 July 2015 | 53,269 | 915 | 54,184 |

13. Trade & Other Receivables

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Amounts falling due within one year: | | |
| Trade receivables | 376 | 418 |
| Prepayments and accrued income | 357 | 305 |
| Amounts owed by the Skills Funding Agency | 82 | - |
| Total | 815 | 723 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

14. Creditors: Amounts Falling Due Within One Year

| | 2016 | 2015 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Bank loan and overdrafts | 300 | 300 |
| Trade payables | 403 | 330 |
| Other taxation and social security | 169 | 163 |
| Accruals and deferred income | 1,249 | 935 |
| Amounts owed to the Funding Agency | 11 | 246 |
| Total | 2,132 | 1,974 |

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

| | 2016 | 2015 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Bank Loan | 4,200 | 4,500 |
| Deferred income – government capital grants | 42,129 | 43,453 |
| Total | 46,329 | 47,953 |

The College has a commitment with Barclays Bank for a £4.5m 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:

| | 2016 | 2015 |
|----------------------------|--------------|--------------|
| | £'000 | £'000 |
| 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 | 3,000 | 3,300 |
| Total | 4,500 | 4,800 |

Bank loans and overdrafts at 5.6674% repayable by instalments falling due between 1 August 2016 and 31 July 2031 totalling £4,500,000.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

17. Provisions

| | Defined benefit Obligations £'000 | Restructuring £'000 | Total £'000 |
|--|--|------------------------|----------------|
| At 1 August 2015 | (6,210) | (13) | (6,223) |
| Expenditure in the period | 757 | 0 | 757 |
| Transferred from income and expenditure account | (381) | 0 | (381) |
| At 31 July 2016 | (5,834) | (13) | (5,847) |

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 2015 £'000 | Cash flows £'000 | Other changes £'000 | At 31 July 2016 £'000 |
|---------------------------|------------------------------|------------------------|---------------------------|-----------------------------|
| Cash and cash equivalents | 2,261 | 943 | - | 3,204 |
| Total | 2,261 | 943 | - | 3,204 |

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.

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Total pension cost for the year | | |
| Teachers Pension Scheme: contributions paid | 570 | 513 |
| Local Government Pension scheme Contributions paid | 751 | 713 |
| FRS 102 charge | 3 | (43) |
| Charge to the Statement of Comprehensive Income | 754 | 670 |
| Total Pension Cost for Year | 1,324 | 1,183 |

19. Defined benefit obligations (continued)

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

Contributions amounting to £153k (2015: £149k) 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:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

19. Defined benefit obligations (continued)

<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 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 £885,663 (2014/15: £919,712).

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.

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 2016 was £958,007 of which employer's contributions totalled £751,621 and employees' contributions totalled £206,387. The agreed contribution rates were 19.2% for employers. The new 50% scheme for employees does not change the employer contribution rate. In addition, the College will contribute cash payments of £228,996 for the year ended 31 July 2016.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

19. Defined benefit obligations (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary

| | At 31 July 2016 | At 31 July 2015 |
|---|--------------------|--------------------|
| Rate of increase in salaries | 1.90% | 4.00% |
| Future pensions increases | 1.90% | 2.60% |
| Discount rate for scheme liabilities | 2.50% | 3.60% |
| Inflation assumption (CPI) | 1.90% | 2.60% |
| 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 2016 | At 31 July 2015 |
|-----------------------------|--------------------|--------------------|
| <i>Retiring today</i> | | |
| Males | 22.50 | 22.50 |
| Females | 24.60 | 24.60 |
| <i>Retiring in 20 years</i> | | |
| Males | 24.50 | 24.50 |
| Females | 26.90 | 26.90 |

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

| | Long-term rate of return expected at 31 July 2016 | Fair Value at 31 July 2016 £'000 | Long-term rate of return expected at 31 July 2015 | Fair Value at 31 July 2015 £'000 |
|--|--|--|--|--|
| Equities | 2.5% | 11,870 | 3.60% | 10,408 |
| Bonds | 2.5% | 2,499 | 3.60% | 2,220 |
| Property | 2.5% | 937 | 3.60% | 971 |
| Cash | 2.5% | 312 | 3.60% | 278 |
| Total market value of assets | | <u>15,618</u> | | <u>13,877</u> |
| Weighted average expected long term rate of return | 2.5% | | 3.60% | |
| Actual return on plan assets | | <u>745</u> | | <u>667</u> |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

19. Defined benefit obligations (continued)

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

| | 2016 £'000 | 2015 £'000 |
|-----------------------------------|---------------|---------------|
| Fair value of plan assets | 15,618 | 13,877 |
| Present value of plan liabilities | (21,452) | (20,087) |
| Total pension liability | (5,834) | (6,210) |

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

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Amounts included in staff costs | | |
| Current service cost | 753 | 670 |
| Past service cost | 1 | - |
| Total operating charge | 754 | 670 |
| Amounts included in interest payable | | |
| Net interest cost | (224) | (222) |
| | (224) | (222) |

Amounts recognised in Other Comprehensive Income

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Expected return on pension plan assets | 745 | 667 |
| Experience losses arising on defined benefit obligations | 299 | 165 |
| Changes in assumptions underlying the present value of plan liabilities | (441) | (1,305) |
| Amount recognised in Other Comprehensive Income/(Expense) | 603 | (473) |

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

| | 2016 £'000 | 2015 £'000 |
|---|----------------|----------------|
| Deficit in scheme at 1 August | (6,210) | (5,558) |
| Movement in year: | | |
| Current service cost | (753) | (670) |
| Employer Contributions | 751 | 713 |
| Past service cost | (1) | - |
| Net interest on the defined (liability)/asset | (224) | (222) |
| Actuarial gain or loss | 603 | (473) |
| Net defined benefit/(liability) at 31 July | (5,834) | (6,210) |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

19. Defined benefit obligations (continued)

Asset and Liability Reconciliation

| Changes in the present value of defined benefit obligations | 2016 £'000 | 2015 £'000 |
|--|-----------------------|-----------------------|
| Defined benefit obligations at start of period | 20,087 | 17,786 |
| Current Service cost | 753 | 670 |
| Interest cost | 732 | 720 |
| Contributions by scheme participants | 205 | 201 |
| Experience gains and losses on defined benefit obligations | (299) | (165) |
| Changes in financial assumptions | 441 | 1,305 |
| Estimated benefits paid | (468) | (430) |
| Past Service cost | 1 | - |
| Liabilities at end of period | 21,452 | 20,087 |

| Reconciliation of Assets | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Fair Value of Plan Assets at start of period | 13,877 | 12,228 |
| Interest on plan assets | 508 | 498 |
| Return on assets | 745 | 667 |
| Employer contributions | 751 | 713 |
| Contributions by scheme participants | 205 | 201 |
| Estimated benefits paid | (468) | (430) |
| Assets at end of period | 15,618 | 13,877 |

20. Post Balance Sheet Events

The College was part of the 2nd Wave of area reviews, which commenced in March 2016 and were completed in July 2016. The final report is due for publication on 29th 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 HE and explore opportunities to develop the degree apprenticeships.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

21. Capital Commitments

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Commitments contracted for at 31 July | 100 | 269 |
| Authorised but not contracted for at 31 July | - | - |

22. Financial Commitments

At 31 July 2016 the College had annual commitments under non-cancellable operating leases as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Other equipment | | |
| Expiring within one year | - | - |
| Expiring between two and five years inclusive | - | - |
| Total | - | - |

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 FRS 8 – Related Party Disclosures.

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. These contracts were completed in July 2015 and no further contracts have been undertaken in 2015/16. The College is also a member of SISSC Ltd, with 6 other colleges in Sussex and Surrey, a common services group.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

25. Amounts disbursed as agent

Learner Support Funds

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Funding body grants – bursary support | 263 | 229 |
| Funding body grants – discretionary learner support | 179 | 255 |
| | <hr/> | <hr/> |
| | 442 | 484 |
| Disbursed to Students | (328) | (447) |
| Administration costs | (10) | (19) |
| | <hr/> | <hr/> |
| Balance unspent at 31 July | 104 | 18 |
| | <hr/> | <hr/> |

Funding body grants are available solely for students. In the majority of instances, the College acts only as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

26. Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31st July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31st July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1st August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

| | 1st August 2014 £'000 | 31st July 2015 £'000 |
|---|---|--|
| Financial Position | | |
| Total reserves under previous SORP | 1,629 | 1,222 |
| Employee leave accrual | (219) | (204) |
| Total effect of transition to FRS 102 and 2015 HE SORP | (219) | (204) |
| Total reserves under 2015 FE HE SORP | 1,410 | 1,018 |

| | 1st August 2014 £'000 | 31st July 2015 £'000 |
|---|---|--|
| Financial Performance | | |
| Surplus for the year after tax under previous SORP | 413 | 313 |
| Employee leave accrual | (48) | 15 |
| Pensions provision – actuarial loss | 603 | (473) |
| Changes to measurement of net finance cost on defined benefit plans | - | (246) |
| Unrealised surplus on revaluation of assets | 76 | 76 |
| Total effect of transition to FRS 102 and 2015 HE SORP | 631 | (628) |
| Total comprehensive income/(expense) for the years under 2015 FE HE SORP | 1,044 | (315) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

26. Transition to FRS 102 and the 2015 FE HE SORP (continued)

Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 20 days unused leave for teaching staff and 5 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £166k was recognised at 1 August 2014, and at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £15k has been charged to Comprehensive Income in the year ended 31 July 2016.

Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income

Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.