



**REPORT AND FINANCIAL STATEMENTS
FOR THE
YEAR ENDED 31 JULY 2014**

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OPERATING AND FINANCIAL REVIEW

NATURE, OBJECTIVES AND STRATEGIES:

The Members present their report and the audited financial statements for the year ended 31 July 2014.

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 the Charities Act 2011.

Corporation Name

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

Mission

The College's mission as approved by its Members for 2013/14 is:

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

East Surrey College vision for 2013/14 is:

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

The College's values for 2013/14 are:

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

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 key strategic objectives for 2013/14 were to achieve:

- Outstanding learner success by having 85% of teaching graded Good or Better and 75% of SARS: Teaching Learning and Assessment element at Grade 2 or better.
- Success rates for long and short courses by each level at success rates to achieve overall success at 86% and for long courses, 84%.
- Increased participation of young people in vocational learning by achieving enrolment targets for 14-16 students, 16-18 FE students and 16-18 Apprentice starts by 31 July 2014
- Innovative and flexible solutions to adult and employer learning and training needs by achieving enrolment targets for HE and 19+ FE students, including Apprentices and Workplace NVQ students
- Achieving the targets of the new SFA approved Community Learning ('CL') Strategy in partnership with the WEA
- First class training resources by achieving effective utilisation of the Gatton Point South site, daytime room utilisation of the Gatton Point North site of 70% and Gatton Point South of 45%
- Shared services systems in HR and Payroll to be implemented
- Value for money in the use of public funds by achieving an operating surplus before interest of £308k (excluding FRS17 adjustment), pay costs of up to 66% of income and to generate cash balances in excess of 24 cash days in hand.

The College has reviewed progress in 2013/14 against specific targets within the strategic plan with outcomes as follows:

- The College was graded 'Good' at its last OFSTED inspection in January 2009. The College has taken account of the requirements of the new OFSTED inspection framework and it is anticipated to propose a self-assessment grade of 'Good' for 2013/14. The OFSTED Inspectorate will be conducting an Inspection at the College from 9 to 12 December 2014 and the report is expected to be published at the end of January 2015.

OPERATING AND FINANCIAL REVIEW (continued)

- Following considerable growth in 16-18 year old students in 2012/13, the College was granted a challenging classroom based target for 2013/14 of 1,678 learners comprising 1,662 16-18 year olds, 11 16-18 year old high needs and 5 19-24 year old high needs students. The College outturn for 2013/14 was 1,631 learners 16-18s, which included 37 16-18 high need and 23 19-24 high needs students, showing some growth over that achieved in 2012/13. The College achieved this through strong recruitment in September 2014 and in-year recruitment to its new Traineeship, Kickstart and Skills Centres programmes. With significant local competition locally and many learners enrolling at College at age 17, the College's long term strategy of enrolling 1,730 learners is unlikely for 2014/15.
- The increased number of high needs learners aged 16-24 with Learning Difficulties and Disabilities led the College to apply for additional support funds from 4 local authorities.
- The College achieved 1,996 Adult classroom based FE students against a target of 1,918, compared to the 2012/13 outturn of 1,716. Due to national reductions in the Adults Skills Grant and the introduction of the FE Advanced Learning Loans for students over 24 years of age (undertaking study at level 3 and above) which was taken up by 62 learners, the number of full time funded students reduced thus creating an opportunity for more part time enrolment. The College entered into a subcontracting relationship with The Learning Curve to deliver part time courses in its Caring Services department, with the value that this route offered for successful, complementary learning.
- The College exceeded its 16-18 Apprentice enrolment, attracting 60 starts, which is an increase compared to the target of 47 and 44 achieved in 2012/13. 11 19+ Apprentice starts were also generated, compared to the target of 36. 24 adult learners with the subcontractor MIT Ltd have currently achieved compared to the target of 59. Workbased NVQ recruitment has again been extremely challenging, with 31 starts, an increase on the 26 attained the previous year, however less than the target of 51. The College has also engaged in ESF subcontracts 'Training Works' and 'Opt Into', with other GFE South Colleges. The College was also successful in renewing its National Careers Service subcontract in September 2014, under which it delivers impartial careers advice to adults.
- The College reviewed and re-focussed its Community Learning Strategy for 2013/14, working closely with the WEA to follow the spirit of the pilot Community Trusts and SFA guidance. Working also with Surrey Care Trust, through increased responsiveness to referrals from the local Job Centre Plus and working in schools and with volunteers, Adult Community Learning was delivered to over 3,300 students by both the College and the WEA. This compares to the 3,774 planned under the grant, which had reduced as Formal First Steps is now consolidated within the Adult Skills Budget. Fee targets from College students able to pay their way were over 90% achieved for the year, following an increase in prices. Recruitment of "targeted" groups (predominantly students with learning difficulties and disabilities and those categorised as Hard to Reach) was achieved.
- The high utilisation of the Gatton Point rooms, particularly following the growth in students undertaking Maths and English classes under the new Study Programmes, led to the need for the new Level 2 Plumbing works to be installed in summer 2013 at the Gatton South site. In addition, as part of the College's IT Strategy, more than 200 Thin Clients were installed during Summer 2013, creating savings in energy costs in year.
- The College has carefully managed its costs in year leading to pay costs of 62.97% of income (2012/13 – 62.90%) and a surplus of £495k (2012/13 – £404k) being achieved. Despite a reduction in the Adult Skills Budget, turnover has remained at the same level as last year, at £16.3m.
- As at 31 July 2014, cash days in hand are 51, an increase from 30 as at 31st July 2013, and the current ratio has increased from 1.03 to 1.49. The College's financial health therefore remains as Good.
- The College is a member of SISSC Ltd, a shared services company for 8 Colleges in Sussex and Surrey. In February 2014, the College went live with the new HR and Payroll system. The College assesses the project as one which will generate savings in licence and support costs and has high commercial potential. College staff continue to be seconded to help other Colleges with the build and implementation of their systems.

Financial objectives

The College's financial objectives, set in July 2014, 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 achieve VFM targets, which are set within sector benchmark e.g. pay as a % of income
- to ensure 'Good' financial health

OPERATING AND FINANCIAL REVIEW (continued)

The College monitors its own performance through a monthly KPI dashboard under the following indicators:

- Recruitment of learner numbers to targets for all priority funding streams
- Tuition fee income collected
- Staff FTEs and working time lost
- Net borrowing
- Operating surplus or deficit
- Employer engagement income
- Attendance and Retention for long funded programmes
- Class size
- Lesson observations grading profile

In addition, the above indicators together with learner views, progress against quality improvement plans, teaching quality and learner feedback (compliments and complaints) are reviewed at termly Performance Review meetings, using a range of data for each academic department that feeds into the overall College KPI dashboard, adding extra rigour to the monitoring process. Termly Performance Reviews are chaired by the Principal with governors mostly in attendance.

Performance indicators

FE Choices has 4 key performance indicators:

- Success rates
- Learner destinations
- Satisfaction Survey, formerly learner views
- Satisfaction Survey, formerly employer views

The College is committed to observing the importance of sector measures and indicators and use of the FE Choices website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency which produces a financial health grading. The acceptable rating of 'Good' has been achieved.

FINANCIAL POSITION

Financial results

The College generated an operating surplus before exceptional items of £495k in the year (2012/13– surplus of £404k) as shown on page 20. The College received an increase of its grant and learner allocation from the Educational Funding Agency for 16-18 year olds and working with subcontractors, delivered 96.5% of its full SFA Adult Skills Budget allocation. The College continued to grow its 16-18 year old apprenticeship contract and successfully delivered its Year 11/12 Transition contract with Surrey County Council, transitioning young people from school to work with training. The College also delivered to two ESF contracts.

The College has accumulated reserves of £46,896k (2012/13 - £49,632k). Cash balances at 31st July 2014 were £2,024k (31 July 2013 - £1,174k) with cash generated from operating activities increasing from £836k to £1,767k for the year ended 31 July 2014.

Fixed asset additions of £405k were incurred in the year for the installation of Level 2 plumbing works at Gatton Point South and Thin Clients and other IT equipment. The final retention payment for Gatton Point was paid in December 2013.

The College has significant reliance on the Skills Funding Agency/EFA for its principal funding source, largely from recurrent grants. In 2013/14 the Skills Funding Agency/EFA provided 83.34% (2012/13 – 83.62%) of the College's total income.

OPERATING AND FINANCIAL REVIEW (continued)

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College has a separate Treasury Management Policy in place.

The College currently has a long term loan outstanding of £5.1m (2012/13: £5.4m). Borrowing requirements require the authorisation of the Corporation and comply with any requirements of the Financial Memorandum.

Cash flows

Operating cash inflow of £1,767k was generated (2012/13: £836k). Net debt reduced by £1,150k from £4,226k to £3,076k as the College has increased its cash reserves though savings in expenditure.

Liquidity

During the year the monthly operating cash inflows comfortably exceeded the College's outgoings. Due to the possibility that the final retention payment for Gatton Point could have been required to have been paid between 15th July and 15th August 2013, a very short term overdraft facility of £300k was approved by the Corporation, however as the retention payment was delayed, this was not subsequently required and the payment was finally claimed in December 2013.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student Numbers

In 2013/14 the College delivered training to 1,631 16-18 year olds, compared to 1,612 in 2012/13 and against its allocation of 1,678. The benefit to recruitment of the new campus at Gatton Point, ongoing investment at Gatton Point South, sustained good quality and choice of provision and an increase in courses starting mid-year contributed to this increase. In addition, the College delivered training to 1,658 classroom based 19+ students representing 2,106, compared to its target of 1,918 enrolments. The College also delivered provision to over 477 14-16 students from local schools, over 90 work based students, over 100 students on HE programmes and over 3,300 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 received its last Ofsted Inspection in January 2009. It was recorded that the effectiveness of provision, capacity to improve, achievement and standards, quality of provision and leadership and management were all Good. The College has continued to monitor improvements in both Curriculum and Support departments through Quality Improvement Plans which continue to rigorously challenge all areas to continually improve with particular emphasis on any areas of under-performance. Support department Service Level Agreements were 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.

In year, the College achieved re-accreditation of its Investors in People Gold Award, a substantial achievement. It also retained its Matrix accreditation, the Buttle UK Award for promoting aspiration for looked after children and Care leavers, Skills Academy status for Adult Social Care and the JAMES accreditation for the music industry. The College also delivered its first ever direct HEFCE contract in 2013/14.

Student Achievements

Retention continues to rise and is confirmed at 90.9% for Long qualifications, 3% above national rates. Achievement and Success rates are finalised with the overall success position of 85.2% increasing from 84.3% in 2012/13 continuing to sustain an upwards position over 5 years. Particularly strong increases in success rates have been noted at Level 2 (+1%), and Level 3 (+4%), with significant improvements in outturns for Travel and Engineering areas, which had previously under performed. Destination data is strong, based upon

OPERATING AND FINANCIAL REVIEW (continued)

2012/13, and is expected to show at least the same levels of work and/or further study for 2013/14, once this is collated. College standards also achieved notable successes in external competitions for Hair & Beauty, Art, Design, Media, Engineering and Construction.

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 and IT (including Accountancy)
- Construction and the Built Environment
- Engineering including Motor Vehicle Engineering
- Hair dressing, Beauty Therapy and Spa
- Health and Social Care and Childcare
- Modern Foreign Languages (Adult Community Learning)
- Preparation for Life and Work
- Public Services and Sport
- Skills for Life, including Maths and English and ESOL
- Travel and Tourism / Airport Operations
- Adult and Community Learning
- Teaching

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, JCP+ and local priority skills demands. Emphasis has been placed on developing a quality vocational offer targeted at both 16-18s and 19+ adult students as well as priority groups such as those not previously in education or employment with training with 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 as well as Maths and English. In addition from September 2013, Full and Part Time Plumbing courses at Level 2, HND Media and Theatrical Make Up and HND Automotive Engineering and Traineeships started, with considerable recruitment and success and from September 2014, Plumbing level 3 and Horticulture Level 1 has been added alongside a wider range of HE courses, including a B.Sc. Top up degree in Business Management and new HNC in Sports and Exercise, Mechanical Engineering and Electrical and Electronic Engineering and a new Foundation Degree in Aviation Operations Management.

The College has continued to develop its work with local schools by directly contracting to accommodate over 530 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 2013/14, the College continued its close collaborative working with local schools through its Springboard and ESOL programme, delivery in local Youth Centres and was successful in delivering outcomes in partnership with schools, the second year of a project to December 2015 to ensure effective transition for Year 2011/12 learners at local Surrey schools.

The College also delivered provision to a number of adults referred by Job Centre Plus under their mandatory referral scheme and, in association with the GFE South member Colleges has continued delivery under the new ESF contract 'Training Works' programme to low skilled employed workers. A substantial increase in mandated students, rising from 96 in 2012/13 to 164 in 2013/14, were able to be placed on suitable courses.

Starting in summer 2014, the College has also delivered to a limited extent under an ESF 'Opt Into' programme for NEET prevention and was one of the GFE South Colleges successful in becoming a subcontractor with Skills Training UK to deliver Maths and English to staff at employers from September 2014, making a strong start.

OPERATING AND FINANCIAL REVIEW (continued)

The College continues to engage with Surrey County Council with regard to its provision for students with learning difficulties and/or disabilities and has expanded its support for learners offering Speech and Language Therapies in 2013/14 and, from September 2014, will be trialling 5 day provision for Surrey County Council. There continues to be partnership working with specialist providers and agencies such as Young Epilepsy.

The College has successfully offered more employer responsive Full Cost provision during the year, however some programmes, such as the Certificate in Police Knowledge have shown a decline in numbers. Other full cost programmes such as Counselling and EFL proved popular for 2013/14.

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 skills development and employment in the region, including entrepreneurial activity. The College enjoys a highly productive relationship with the University of Brighton who validate its Foundation and B.Sc. Top Up degree programmes, and who are seeking to develop the provision in this locality with the College.

The College delivered Community Learning across East and Mid Surrey including Reigate and Banstead, Epsom and Ewell, Dorking and the Mole Valley to over 3,300 students. The Gatton Point site was again open on Saturdays, which attracted nearly 550 adult student enrolments to the College and the WEA increased its presence in the Epsom area. As the contract has been reduced, nearly half of the delivery of the contract is from the Workers' Educational Association in a sub-contract arrangement and additionally, in 2013/14 Surrey Care Trust provided delivery to volunteers and other learners, including ex-offenders.

The College continues to benchmark the quality of its provision and progress through a range of peer referencing activities with other Colleges and training providers. In addition, many local schools, colleges and private training providers take part in reciprocal observations of teaching and learning. Many departments have established productive peer review relationships with other providers. A Governor Learning Walk programme has been implemented to provide more chances for Governors' questions and challenge.

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 2013 to 31 July 2014, the College paid 56% per cent of its invoices within 30 days, invoice average payments being 34 days. The implementation of the new self-services financial software system during the year still had an impact on the timing of payments. The College incurred no interest charges in respect of late payment for this period.

Post Balance Sheet Events

None were noted.

Future developments

East Surrey College and Reigate College continued working together with 4 local schools to launch a joint Common Application Process for year 11 pupils for 2015/16 in September 2014. The two Colleges have a shared Sportsmaker post, funded through Sport England. Other areas of joint working in 2013/14 included joint meetings with local Head teachers.

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 Gatton Point South site. Should the College decide that the site cannot be kept and be sold in future, 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.

OPERATING AND FINANCIAL REVIEW (continued)

Financial

The College has net assets of £46,896k (2012/13 - £49,632k) including a LGPS pension liability of £5,558k (2012/13 - £3,998k).

People

The College employed some 240 established staff, full-time and fractional, in a range of curriculum and support functions during the year (see note 6), and in addition augmented the curriculum delivery with over 350 sessional staff.

Reputation

The College has a strong and growing reputation locally and nationally. The College has grown its 16-18 cohort by successful partnership working with a range of agencies and by a responsive approach particularly to the engagement of NEETS, taking on Learning mentors to enhance the capabilities of staff in this area.

PRINCIPAL RISKS AND UNCERTAINTIES

The College has continued to develop and embed its procedures surrounding Risk Management during the year.

The Risk Management Committee ('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 is complete, accurate and up to date, and to add or remove risks as appropriate.

Risks are scored for likelihood (1-6) and impact (1-6) and the multiplication of these scores gives the net risk score. A score of 8 or below is deemed a minor risk, from 9 to 15 is a significant risk, and greater than 15 a fundamental risk. The RMC reviews the scoring of risks at each meeting to see whether changes to the internal or external environment result in a revised score.

For each risk, the risk register details the contributing factors, early warning mechanisms, mitigating factors and a risk management plan with deadlines and identified persons responsible for actions. Risks are divided into one of 5 categories – Strategic, Compliance, Operational, Financial and Reputational. Each risk is allocated to a specific Governing Body Committee for review each term.

Fundamental risks

The four risks deemed fundamental in the College risk register are as follows –

- **Change in policy arising from Machinery of Government changes**

Following the publication of the Richards Review and the Government's current consultation on Apprenticeship Funding, the introduction of Study Programmes, the HE changes to pension arrangements and Ofsted framework, further changes to the EFA and Skills Funding Agency policy and budget remain a fundamental risk, these include contestability, tendering and uncertainty on funding methodology.

The regular meetings between the College, the SFA and Surrey County Council are a good early warning mechanism but also attendance at SFA, AOC/AOSEC, Ofsted seminars and stakeholder meetings. The College also meets regularly with recognised Unions to ensure that it can plan to mitigate the effect on students and staff of any potential industrial actions.

- **Failure to achieve 19+ learner targets**

The SFA has continued to reduce the range of funded courses and plans to introduce the new Universal Credit System, which may affect the fee remission claimable by 19+ students and hence

OPERATING AND FINANCIAL REVIEW (continued)

numbers. The size of the College's contract for 2015/16 onwards is unknown as is the impact of Employers receiving the funding for Workbased Learning from 2016 onwards.

Mitigating these concerns is effective marketing, an effective and robust curriculum plan, consultation with stakeholders, including Adult Care Service, Job Centre Plus and employers as well as excellent new accommodation and teaching resources in the College. The College engages subcontractors, if necessary, to deliver high quality, complementary provision.

- **Poor alignment of strategic and financial planning**

The reduction in funding of 17.5% for all 18 year old students, announced in December 2013, has had a considerable impact on the funding of full time College learners from 2014/15 onwards. In order to minimise this risk, greater emphasis on ensuring that the initial advice and guidance is strengthened for Year 11 learners at schools is required. In addition, in order to maintain its funding baseline for 2015/16, the College must ensure that very high volume of learners who have yet to achieve a Maths and English GCSE at grade C or above are enrolled on courses to work towards those qualifications. The risks associated with this are that the courses required may exceed the study funding allocations from the EFA and may create pressure for the recruitment of excellent staff, at a time of national shortage.

HE recruitment for 2014/15 may be challenging as the College is restricted by its Student Number Control contract, excluding ABB grade learners.

Early warning mechanisms exist such as discussions with the local authority on NEET contracts and referral to other schemes may be the only solution should additional funding not be forthcoming. Mitigating factors include comprehensive strategic planning, well researched market analysis and dialogue with funding bodies regarding constraints on in year recruitment.

- **Failure to maintain good financial health to 2016**

The main contributing factor to this risk is the College's ability to recruit 16-18 learners at a time when local demographics indicate a drop in Year 11 students through to 2018/19. The College mitigates this risk by including contingencies for funding shortfalls if recruitment does not match curriculum planning and hence the budgets. The 2 year forecast presented to the Skills Funding Agency is updated for Corporation review termly and has recently been updated for the next 10 years from 2014 to 2024. 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. In line with other Colleges and with universities, East Surrey College has many stakeholders. These include:

- Students;
- Education Funding Bodies;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices and LEPS;
- Employer Organisations;
- Sector Skills Councils;
- Awarding Bodies;
- The local community;
- Other FE and HE institutions;
- Trade Unions

OPERATING AND FINANCIAL REVIEW (continued)

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. In 2012/13, the College reviewed its activities against the LSIS 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

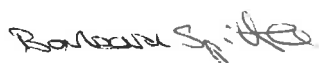
The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Act 2001 and 2005 and in particular makes the following commitments:

- 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.
- 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 11th December 2014 and signed on its behalf by:



Barbara Spittle
Chair of the Corporation

PROFESSIONAL ADVISORS

Financial Statement and Regularity Auditor:

Baker Tilly UK Audit LLP
Portland
25 High Street
Crawley
West Sussex RH10 1BG

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

Internal Auditors:

Baker Tilly Risk Advisory Services
25 Farringdon Street
London
EC4A 4AB

Solicitors:

Eversheds LLP
Kett House
Station Road
Cambridge CB1 2JY

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 2014. 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 and adopted by the College in June 2014.

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.

The Corporation

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

MEMBERS OF THE CORPORATION

Name	Date Appointed	Term of office	Date resigned / end of term of office	Status of appointment	Committees served	Attendance
Michael Axelrod	7 July 2011	4 years		Independent Member	Audit	70%
Andrew Baird	19 March 2008 19 March 2012	4 years		Independent Member	Finance and Resources: Chair; Senior Postholders' Employment	72%
Robert Campbell	1 August 2014	1 year		Student Member	Learning and Quality	100%
Harrison Castle	1 August 2013	1 year	31 July 2014	Student Member	Learning and Quality	40%
Hayley Dalton	1 August 2013	4 years		Support Staff Member	Search and Governance Committee	73%
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 Postholders' Employment	88%
Alra David	1 August 2013	1 year	31 July 2014	Student Member	Learning and Quality	0%
Jayne Dickinson	1 January 2012	Ex Officio		Principal and Chief Executive	Finance and Resources; Learning and Quality; Search and Governance	100%
Raymond Elgy	25 March 2009 25 March 2013	4 years		Independent Member	Finance and Resources; Search and Governance; Senior Postholders' Employment	89%
Rosemary French	25 March 2009 25 March 2013	4 years		Independent Member	Audit; Learning and Quality; Senior Postholders' Employment: Chair	65%
Andrew Gilchrist	27 August 2008 27 August 2012	4 years		Independent Member	Audit: Chair; Senior Postholders' Employment	91%
Vanessa Guest	15 December 2011	4 years		Independent Member	Finance and Resources	46%
Susan Kay	14 December 2012	4 years		Independent Member	Learning and Quality	84%
Pilirani Mshamboza	1 August 2014	1 year		Student Member	Learning and Quality	0%
Catherine Prest	16 June 2012	4 years		Independent Member	Learning and Quality	92%
Ron Searle	24 July 2006 24 July 2010	4 years		Independent Member	Learning and Quality	50%
Brian Smith	1 January 2011	4 years		Independent Member	Audit	100%
Barbara Spittle	29 November 2007 29 November 2011	4 years		Independent Member	Corporation Board: Chair; Finance and Resources; Search and Governance: Chair	100%
Neil Ward	1 August 2013	4 years		Teaching Staff Member	Search and Governance Committee	92%
Isobel Wallace	16 June 2012	4 years		External Co-opted Member of the Audit Committee	Audit	73%
Melvyn Cass retired as the Clerk to the Corporation on 31 August 2014 and Sue Glover took up the post on 1 st September 2014						

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 Postholder Employment, Search and Governance and Audit. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available 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.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

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.

Senior Post Holders Employment Committee

Throughout the year ending 31 July 2014, 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 2014 are set out in note 7 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 monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit 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.

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.

Internal Control

Scope of responsibility

The Corporation is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, 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 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.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an 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 2014 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 2014 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.

East Surrey College has an internal audit service, which operates in accordance with the requirements of the EFA and Skills Funding Agency's Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. As a minimum, annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College.

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.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

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 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, 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 December 2014 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2014 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2014.

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".

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

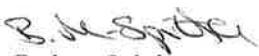
The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part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

We confirm, on behalf of the Corporation, that to the best of its knowledge, the Corporation believes it is 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 further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the Skills Funding Agency.

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 11th December 2014 and signed on its behalf by:


Barbara Spittle
Chair


Jayne Dickinson
Principal & Chief Executive

STATEMENT OF THE 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, through its Accounting Officer is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education and with the Accounts Direction for 2013/14 financial statements issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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


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

The Corporation is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it 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 any 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 financial transactions are in accordance with the framework of the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, Members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency are not put at risk.

Approved by order of the Members of the Corporation on 11th December 2014 and signed on its behalf by:


Barbara Spittle
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 20 to 44. 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 22 October 2014.

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 22 October 2014. 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 22 October 2014 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 the Corporation's Responsibilities set out on page 18, 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 22 October 2014, 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 2014 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:

- adequate 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.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Chartered Accountants
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

Date 19/12/14

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2014

	Note	2014 £000s	2013 £000s
Income			
Funding body grants	2	14,174	14,158
Tuition fees and education contracts	3	1,729	1,684
Other income	4	437	453
Investment income	5	7	10
Total income		16,347	16,305
Expenditure			
Staff costs	6	9,119	9,035
Other operating expenses	8	3,786	3,764
Depreciation	11	2,600	2,656
Interest and other finance costs	9	347	446
		15,852	15,901
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax		495	404
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and exceptional items but before tax		495	404
Taxation	10	-	-
Surplus on continuing operations after depreciation of assets at valuation, exceptional item and tax		495	404

The income and expenditure account is in respect of continuing activities.

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
for the year ended 31 July 2014

	Note	2014 £000s	2013 £000s
Surplus on continuing operations before taxation		495	404
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount		76	76
Historical cost surplus for the year before and after taxation		571	480


STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2014


	Note	2014 £000s	2013 £000s
Surplus on continuing operations after depreciation of assets, exceptional item and tax		495	404
Actuarial (loss)/gains in respect of pension scheme		(1,507)	1,001
Total recognised (losses)/gains since the last report		(1,012)	1,405
Reconciliation			
Opening reserves		2,641	1,236
Total recognised (losses)/gains for the year		(1,012)	1,405
Closing reserves		1,629	2,641

BALANCE SHEET
as at 31 July 2014

	Note	2014 £000s	2013 £000s
Fixed assets			
Tangible assets	11	56,440	58,667
Current assets			
Debtors	13	466	1,355
Cash at bank and in hand	12	2,024	1,174
		<u>2,490</u>	<u>2,529</u>
Creditors: amounts falling due within one year	14	<u>(1,663)</u>	<u>(2,453)</u>
Net current assets		<u>827</u>	<u>76</u>
Total assets less current liabilities		57,267	58,743
Creditors: amounts falling due after more than one year	15	(4,800)	(5,100)
Provisions for liabilities	17	(13)	(13)
Net assets excluding pension liability		52,454	53,630
Net pension liability	28	(5,558)	(3,998)
Net assets including pension liability		<u>46,896</u>	<u>49,632</u>
Deferred capital grants	18	45,267	46,991
Reserves			
Income and expenditure account excluding pension reserve	21	4,673	4,049
Pension reserve		<u>(5,558)</u>	<u>(3,998)</u>
Income and expenditure account including pension reserve		(885)	51
Restricted reserve	19	23	23
Revaluation reserve	20	2,491	2,567
Total reserves		<u>1,629</u>	<u>2,641</u>
Total		<u>46,896</u>	<u>49,632</u>

The financial statements on pages 20 to 44 were approved and authorised for issue by the Corporation on 11th December 2014 and signed on its behalf by:


Barbara Spittle
Chair


Jayne Dickinson
Principal

CASH FLOW STATEMENT
for the year ended 31 July 2014

	Note	2014 £000s	2013 £000s
Cash flow from operating activities	22	1,767	836
Return on investments and servicing of finance	23	(297)	(315)
Capital expenditure and financial investment	24	(320)	(688)
Financing outflow	25	(300)	(5,127)
Exceptional costs	27	-	-
Increase/(decrease) in cash in the year		850	(5,294)

In this statement, figures in brackets refer to cash outflows and all other figures are cash inflows to the College.

Reconciliation of net cash flow to movement in net debt

	Note	2014 £000s	2013 £000s
Increase/(decrease) in cash in the year		850	(5,294)
Decrease in bank loan	26	300	300
Lennartz VAT obligation repayment	26	-	4,827
Movement in net debt in the year		1,150	(167)
Net debt at 1 August		(4,226)	(4,059)
Net debt at 31 July	26	(3,076)	(4,226)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2014

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 2007 (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 2013/14 Financial Statements.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention 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 Operating and Financial Review. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes. As at 31 July 2014 the College has a £5.1m fixed rate long term loan repayable over 18 years extendable to 23. 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

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any over or under achievement of the adult skills budget allocation is adjusted for and reflected in the level of recurrent grant 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. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2014

1. Statement of Accounting Policies (continued)

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.

Post Retirement Benefits

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

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payrolls.

The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in note 28, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

Tangible fixed assets

Land and buildings

The College's buildings are specialised and therefore it is not appropriate to value them on the basis of open market value. Land and buildings inherited from the Local Education Authority (LEA) are stated in the balance sheet at valuation on the basis of depreciated replacement 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. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 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 capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments.

Impairments losses are recognised in the income and expenditure account.

1. Statement of Accounting Policies (continued)

On adoption of FRS 15, 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. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party, for example a charitable trust, they are only capitalised if the College has rights or access to ongoing future economic benefit. These assets are then depreciated over their expected useful economic life.

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the 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 capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases.

Maintenance of premises

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

1. Statement of Accounting Policies (continued)

Taxation

The College is considered to pass the tests set out in paragraph 1 schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK Corporation tax purposes. Accordingly, the College is exempt from tax in respect of income and capital gains received in categories covered by Chapter 3, Part 11, 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. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College is partially exempt in respect of Value Added Tax ("VAT"), so that it can only recover a minor element 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.

Liquid resources

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

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in note 34, 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.

The College also acts as agent in the collection and payment of the AGE and Surrey County Council grants to employers who employ apprentices who undertake training at the College. Related payments received from the funding bodies and subsequent disbursements to employers are excluded from the Income and Expenditure account and are shown separately in note 34. The College is not allowed to charge for the administration costs it incurs.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

2. Funding Body Grants

	2014 £000s	2013 £000s
Main funding body recurrent grants	11,177	11,182
HE funding	62	203
Main funding body non recurrent grants	1,070	758
Releases of deferred capital grants	1,865	2,015
Total	14,174	14,158

3. Tuition Fees and Education Contracts

	2014 £000s	2013 £000s
Tuition fees:		
UK Higher Education students	408	310
UK Further Education students	947	968
Non-EU students	-	-
	1,355	1,278
Total fees paid by or on behalf of individual students		
Education contracts:		
School Links contracts	326	388
Other contracts	48	18
Total	1,729	1,684

4. Other Income

	2014 £000s	2013 £000s
Other income generating activities	95	62
Releases from deferred capital grants (non-SFA)	18	2
Other income	324	389
Total	437	453

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

5. Investment Income

	2014 £000s	2013 £000s
Interest receivable	7	10
	7	10

6. Staff Costs

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

	2014 No.	2013 No.
Teaching staff	135	139
Teaching support services	49	47
Non-teaching staff	83	85
	267	271

Staff costs for the above persons

	2014 £000s	2013 £000s
Wages and salaries	7,281	7,353
Social security costs	520	524
Other pension costs (including FRS 17 adjustments of £10,000, 2012/13 £49,000)	1,091	919
Payroll sub total	8,892	8,796
Contracted out staffing services	227	239
Total	9,119	9,035

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

6. Staff Costs (continued)

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

	2014		2013	
	Number Senior Post holders	Number Other Staff	Number of Senior Post Holders	Number Other Staff
£60,001 to £70,000	-	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	-	1	-
Total	3	2	3	2

A general pay award of 0.7% for all staff was paid, in accordance with AOC recommendations, was made with effect from 1 August 2013. The pay award was approved by the Corporation.

7. Senior Post-holders' Emoluments

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

	2014	2013
The number of senior post-holders including the Principal who served during the year was:	3	3

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

	2014 £	2013 £
Salaries	295,000	293,790
Benefits in kind	6,383	5,004
Pension contributions	44,325	43,224
Total	345,708	342,018

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

	2014 £	2013 £
Salaries	115,000	115,000
Benefits in kind	3,215	3,157
Pension contributions	16,215	16,215
Total	134,430	134,372

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

7. Senior Post-holders' Emoluments (continued)

The senior post holders' pension contributions are in respect of employers' contributions to the Teacher's Pension Scheme and the Local Government Pension Scheme. All amounts are paid at the same rate as for other employees.

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

The Principal and other senior post-holders declined any general pay awards during the year under review. No bonuses or salary enhancements were awarded to the Principal or other senior post-holders.

8. Other Operating Expenses

	2014 £000s	2013 £000s
Teaching costs	1,459	1,445
Non-teaching costs	1,159	1,215
Premises costs	1,168	1,104
Total	3,786	3,764

Other operating expenses include:

	2014 £000s	2013 £000s
Auditors' remuneration		
- financial statements and regularity auditor	24	22
- internal auditor	21	24
- other services provided by the financial statements and regularity auditors	-	-
- other services provided by the internal auditors	-	-
Loss on disposal of tangible fixed assets (net of grant)	31	5
Hire of plant and machinery – operating leases	27	62
Hire of other assets – operating leases	-	9

9. Interest and other finance costs

	2014 £000	2013 £000
On bank loans, overdrafts and other loans:		
Repayable within five years, not by instalments	-	-
Repayable in more than 5 years, by instalments	304	325
	304	325
Pension finance costs (note 28)	43	121
Total	347	446

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

10. Taxation

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

11. Tangible Fixed Assets

	Freehold Land and buildings	Equipment	Total
	£000s	£000s	£000s
Cost or valuation			
At 1 August 2013	64,511	6,384	70,895
Additions	13	392	405
Transfers	-	-	-
Disposals	(31)	(32)	(63)
	<hr/>	<hr/>	<hr/>
At 31 July 2014	64,493	6,744	71,237
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 August 2013	7,696	4,533	12,229
Charge for year	1,765	835	2,600
Disposals	-	(32)	(32)
	<hr/>	<hr/>	<hr/>
At 31 July 2013	9,461	5,336	14,797
	<hr/>	<hr/>	<hr/>
Net book value at 31 July 2014	55,032	1,408	56,440
	<hr/>	<hr/>	<hr/>
Net book value at 1 August 2013	56,816	1,851	58,667
	<hr/>	<hr/>	<hr/>

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

Land and buildings inherited from the Local Education Authority were valued in 1992 at depreciated replacement cost by a firm of independent chartered surveyors. If the inherited land and buildings had not been revalued at that point then the net book value would have been:

	£000s
Cost	-
Aggregate depreciation based on cost	-
	<hr/>
Net book value based on cost	-
	<hr/>

Land and buildings with a net book value of £44,699k have been financed by exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum, to surrender the proceeds.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

12. Cash at bank and in hand

	2014 £000s	2013 £000s
Cash at bank and in hand	2,024	1,174
Total	2,024	1,174

13. Debtors

	2014 £000s	2013 £000s
Amounts falling due within one year:		
Trade debtors	81	156
Other debtors	-	-
Amounts owed by the Skills Funding Agency	-	860
Prepayments and accrued income	385	339
Total	466	1,355

14. Creditors: Amounts Falling Due Within One Year

	2014 £000s	2013 £000s
Payments received in advance	238	263
Trade creditors	289	379
Other taxation and social security	162	157
Accruals	568	1,300
Bank loan	300	300
Amounts owed to the Skills Funding Agency	106	54
Total	1,663	2,453

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

	2014 £000s	2013 £000s
Bank Loan	4,800	5,100
Total	4,800	5,100

The College has a commitment with Barclays Bank for a £5.1m fixed rate long term loan repayable to 2031 at a fixed interest rate of 5.6674%.

16. Borrowings

Bank loans and overdrafts are repayable as follows:

	2014 £000s	2013 £000s
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	3,600	3,900
Total	5,100	5,400

17. Provisions for Liabilities

	Restructuring £000s	Total £000s
At 1 August 2013 as previously stated	13	13
Expenditure in the period	-	-
Transferred from income and expenditure	-	-
At 31 July 2014	13	13

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

18. Deferred Capital Grants

	Funding Bodies	Other Grants	Total
	£000s	£000s	£000s
At 1 August 2013			
Land and buildings	44,699	87	44,786
Equipment	1,977	228	2,205
Movement of year end receivable land and buildings	(854)	-	(854)
Cash received			
Land and buildings	1,011	2	1,013
Equipment	-	-	-
Transfers from payments received in advance	-	-	-
Released to income and expenditure account			
Land and buildings	(1,838)	-	(1,838)
Equipment	(27)	(18)	(45)
Total at 31 July 2014	44,968	299	45,267
Land and buildings	43,018	89	43,107
Equipment	1,950	210	2,160
Total	44,968	299	45,267

19. Restricted Reserves

	2014	2013
	£000s	£000s
At 1 August	23	23
Interest receivable	-	-
At 31 July	23	23

Restricted reserves represent funds that have been donated to the College and are earmarked for the specific purpose of awarding prize money to students. They cannot be used for any other purpose.

20. Revaluation Reserve

	2014	2013
	£000s	£000s
At 1 August	2,567	2,643
Transfer from revaluation reserve to income and expenditure account in respect of:		
Depreciation on revalued assets	(76)	(76)
At 31 July	2,491	2,567

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

21. Movement on General Reserves

	2014 £000s	2013 £000s
Income and Expenditure Account		
At 1 August	51	(1,430)
Surplus retained for the year	495	404
Transfer from revaluation reserve	76	76
Actuarial (loss)/gain in respect of pension scheme	(1,507)	1,001
At 31 July	(885)	51
Balance represented by:		
Income and expenditure account reserve excl pension reserve	4,673	4,049
Pension reserve	(5,558)	(3,998)
At 31 July	(885)	51

22. Reconciliation of Operating Surplus to net cash outflow from Operating Activities

	2014 £000s	2013 £000s
Surplus on continuing operations after depreciation of assets at valuation, exceptional items and taxation	495	404
Depreciation	2,601	2,656
Loss on disposal of tangible fixed assets	31	5
Deferred capital grants released to income	(1,883)	(2,017)
FRS17 Pension cost less contributions payable (notes 5, 6 and 28)	10	49
FRS17 Pension finance cost	43	121
Decrease/(increase) in debtors	889	(82)
(Decrease)/increase in creditors	(716)	(615)
Interest payable	304	325
Interest receivable	(7)	(10)
Net cash inflow from operating activities	1,767	836

23. Returns on Investments and Servicing of Finance

	2014 £000s	2013 £000s
Interest received	7	10
Bank charges and interest paid	(304)	(325)
Net cash outflow from returns on investments and servicing of finance	(297)	(315)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

24. Capital Expenditure and Financial Investment

	2014 £000s	2013 £000s
Purchase of tangible fixed assets	(1,333)	(891)
Deferred capital grants received	1,013	201
Capital grants transferred from payments received in advance	-	2
Net cash outflow from capital expenditure and financial investment	(320)	(688)

25. Financing

	2014 £000s	2013 £000s
Repayment of loan instalment	(300)	(300)
Repayment of VAT under Lennartz obligation	-	(4,827)
Net cash outflow from financing	(300)	(5,127)

The College opted to unravel the Lennartz VAT obligation on 26th July 2012 and payments, totalling £4,827,000 were made in August and September 2012 following confirmation from HMRC.

26. Analysis of Changes in Net Debt

	At 1 August 2013 £000s	Cashflows £000s	Non-cash changes £000s	At 31 July 2014 £000s
Cash in hand, and at bank	1,174	850	-	2,024
Bank loan due within one year	(300)	300	(300)	(300)
Bank loan due after more than one year	(5,100)	-	300	(4,800)
Total	(4,226)	1,150	-	(3,076)

27. Cash flow relating to exceptional items

	2014 £000s	2013 £000s
Provision as at 1 August	13	13
Income and Expenditure account charge	-	-
Provision as at 31 July	13	13

28. Pensions and similar obligations

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

Total pension cost for the year

	2014 £000s	2013 £000s
Teacher's Pension Scheme: contributions paid	519	461
Local Government Pension Scheme:		
Contributions paid	562	409
FRS17 Charge	10	49
	<hr/>	<hr/>
Charge to the Income and Expenditure Account (staff costs) excluding exceptional FRS 17 costs	572	458
	<hr/>	<hr/>
Pension costs excluding exceptional FRS 17 costs	1,091	919
FRS 17 exceptional charge:		
Past service cost credit	-	-
Curtailments and settlements	-	-
	<hr/>	<hr/>
Charge to the Income and Expenditure Accounts (staff costs) including exceptional FRS17 costs	1,091	919

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

Contributions amounting to £129,283 (2012/13:£118,259) were payable to the schemes 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.

28. Pensions and similar obligations (continued)

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 will be implemented in September 2015.

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

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

Scheme Changes

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a 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 the reformed scheme will commence on 1 April 2015.

The pension costs paid to TPS in the year amounted to £832,932 (2012/13: £711,259)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

28. Pensions and similar obligations (continued)

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 2014 was £742,894 of which employer's contributions totalled £562,159 and employees' contributions totalled £180,735. The agreed contribution rates up to 31 March 2014 were 16.1%, increasing to 19.2% from 1 April 2014 for employers. The new 50% scheme for employees does not change. In addition, the College will contribute cash payments of £192,333 for the year ended 31 July 2015.

FRS 17

Principal Actuarial Assumptions

	At 31 July 2014	At 31 July 2013
Pension rate increase	2.7%	2.8%
Salary rate increase	4.0%	5.1%
Expected return on assets	6.0%	5.8%
Discount rate	4.0%	4.6%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed average future life expectancies at age 65 are:

	At 31 July 2014	At 31 July 2013
<i>Current pensioners</i>		
Males	22.5	21.9
Females	24.6	24.0
<i>Future pensioners</i>		
Males	24.5	23.9
Females	26.9	25.9

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

	Long-term rate of return expected at 31 July 2014	Value at 31 July 2014 £000s	Long-term rate of return expected at 31 July 2013	Value at 31 July 2013 £000s
Equities	6.6%	9,539	6.4%	8,834
Bonds	3.6%	1,956	3.8%	1,860
Property	4.7%	611	4.6%	581
Cash	3.6%	122	3.4%	349
Total market value of assets		12,228		11,624
Present value of scheme liabilities				
Funded		(17,781)		(15,618)
Unfunded		(5)		(4)
Deficit in the scheme		(5,558)		(3,998)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

28. Pensions and similar obligations (continued)

Analysis of the amount charged to income and expenditure account

	2014 £000s	2013 £000s
Employer service cost (net of employee contributions)	582	515
Past service gain	-	-
Losses on curtailments and settlements	-	-
Total operating charge	582	515

Analysis of pension finance costs

	2014 £000s	2013 £000s
Expected return on pension scheme assets	684	474
Interest on pension liabilities	(727)	(595)
Pension finance costs	(43)	(121)

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

	2014 £000s	2013 £000s
Actuarial (losses)/gains on pension scheme assets	(446)	1,343
Actuarial losses arising on the scheme liabilities	(1,061)	(342)
Actuarial (loss)/gain recognised in STRGL	(1,507)	1,001

Movement in deficit during year

	2014 £000s	2013 £000s
Deficit in scheme at 1 August	(3,998)	(4,829)
Movement in year:		
Current service cost	(582)	(515)
Past service cost credit	-	-
Employer Contributions	572	466
Impact of Settlements and Curtailments	-	-
Net interest on liabilities	(43)	(121)
Actuarial gain/(loss)	(1,507)	1,001
Deficit in scheme at 31 July	(5,558)	(3,998)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2014

28. Pensions and similar obligations (continued)

Asset and Liability Reconciliation

	2014 £000	2013 £000
Reconciliation of Liabilities		
Liabilities at start of period	15,622	14,364
Current Service cost	582	515
Interest cost	727	595
Employee contributions	182	146
Actuarial gain	1,061	342
Benefits paid	(388)	(340)
Past Service gain	-	-
Curtailments and settlements	-	-
	17,786	15,622
Reconciliation of Assets		
Assets at start of period	11,624	9,535
Expected return on assets	684	474
Actuarial (losses)/gains	(446)	1,343
Employer contributions	572	466
Employee contributions	182	146
Benefits paid	(388)	(340)
	12,228	11,624

The estimated value of employer contributions for the year ended 31 July 2015 is £696,000.

History of experience gains and losses

	2014 £000s	2013 £000s	2012 £000s	2011 £000s	2010 £000s
Difference between the expected and actual return on assets:					
Amount £000	(446)	1,343	(433)	1,077	787
Experience gains and losses on scheme liabilities:					
Amount £000	363	-	(208)	(612)	-
Total amount recognised in STRGL					
Amount £000	(1,507)	1,001	(2,065)	960	(48)

29. Post Balance Sheet Events

There were no material post balance sheet events

30. Capital Commitments

	2014 £000s	2013 £000s
Commitments contracted for at 31 July	48	331
Authorised but not contracted for at 31 July	-	-

31. Financial Commitments

At 31 July 2014 the College had annual commitments under non-cancellable operating leases as follows:

	2014 £000s	2013 £000s
Other equipment		
Expiring within one year	-	31
Expiring between two and five years inclusive	-	-
Total	-	31

32. Contingent Liability

No material contingent liabilities exist at the balance sheet date.

33. 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.

Transactions with the funding bodies and subcontract with Guildford College for HE are detailed in notes 2, 14, 15 and 20. The College is also a member of GFE South, which has resulted in the College delivering a 3 year ESF contract held by Central Sussex College on behalf of the member colleges. The College is also a member of SISSC Ltd, with 8 other colleges in Sussex and Surrey, a common services group.

34. Amounts disbursed as agent

	2014	2013
	£000s	£000s
Discretionary Support Funds		
Funding body grants – general access funds	438	406
Other LA – Free School Meals	18	19
	<hr/>	<hr/>
	456	425
Disbursed to Students - childcare	(381)	(350)
Administration costs - hardship	(21)	(21)
	<hr/>	<hr/>
Balance unspent at 31 July	54	54
	<hr/>	<hr/>

The balance unspent at 31 July is in respect of unused funds for Childcare and Discretionary Learner Support for Adults and Bursary for 24+ Loan Students.

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 Income and Expenditure Account.

	2014	2013
	£000s	£000s
AGE and SCC Funds		
Funding body grants – AGE	82	9
Funding body grants – SCC	41	5
	<hr/>	<hr/>
	123	14
Disbursed to Employers	(88)	(7)
	<hr/>	<hr/>
Balance unspent at 31 July	35	7
	<hr/>	<hr/>

Independent auditor's report on regularity to the corporation of East Surrey College and the Chief Executive of the Skills Funding Agency

This report is produced in accordance with the terms of our engagement letter dated 22 October 2014 for the purpose of reporting on the College's Statement of Regularity, Propriety and Compliance in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are regular in accordance with the authorities that govern them as defined by and in accordance with the Financial Memorandum with the Chief Executive of Skills Funding.

The regularity assurance framework that has been applied is set out in the Joint Audit Code of Practice and the Regularity Framework published by the Skills Funding Agency and the Education Funding Agency.

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

Responsibilities of the Corporation of East Surrey College

The Corporation of East Surrey College is responsible under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum, for ensuring that financial transactions are in accordance with the framework of authorities which govern them and that transactions underlying the financial statements for the year ended 31 July 2014 are regular.

The Corporation of East Surrey College is also responsible, under the requirements of the Accounts Direction 2013/14 published by the Skills Funding Agency and the Education Funding Agency for the preparation of the Statement on Regularity, Propriety and Compliance.

Auditor's responsibilities

Our responsibility is to express a reasonable assurance opinion that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are in all material respects regular, based on the procedures that we have performed and the evidence we have obtained. Our reasonable assurance engagement was undertaken in accordance with the Joint Audit Code of Practice, the Regularity Framework and our engagement letter dated 22 October 2014. The International Standards on Auditing (UK and Ireland) and Regularity Framework require that we plan and perform this engagement to obtain reasonable assurance in respect of the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the financial statements are in all material respects regular.

Basis of opinion

We have performed procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express reasonable assurance that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2014

Independent auditor's report on regularity to the corporation of East Surrey College and the Chief Executive of the Skills Funding Agency (continued)

Opinion

In our opinion, the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP

Chartered Accountants

Portland

25 High Street

Crawley

West Sussex

RH10 1BG

Date 19/12/14