

**EAST KENT COLLEGE**

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

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## Operating and Financial Review

### NATURE, OBJECTIVES AND STRATEGIES:

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

#### Legal status

The Corporation, or Governing Body was established under The Further and Higher Education Act 1992 for the purpose of conducting East Kent College. The College is an exempt charity for the purposes of the Charities Act 2011. East Kent College was formerly known as Thanet College, with the name change being approved by the Secretary of State with effect from the 1<sup>st</sup> September 2012.

#### Introduction

The College continues to make significant progress against its strategic aims. Improving student outcomes to an all-time high whilst completing its structural change programme gives the College confidence that 'Outstanding' will be achieved by July 2014.

Teaching and learning was a clear focus during this year with clear signs that the student experience is now good. A review of the curriculum to ensure that all programmes are attractive, coherent and relevant has led to a new offer being advertised for September 2012 including the introduction of ten Higher National Certificates. Our programmes for the unemployed have been nationally recognised and are delivering very high job outcomes rates.

The College has managed small growth during 2011/12. Staff numbers have remained consistent with those of 2010/11 but following several structural reviews the College has operated at below staff capacity during the year. The recruitment and retention of staff remains a priority for the College. The College achieved its 16-19 learner numbers but the balance between full-time and part-time has shifted significantly to the latter. Increased competition from Schools continues with another School Sixth Form starting in 2011/12 with two more due to start in 2013/14. The College achieved its adult funding target with an increase in the use of sub-contractors during the year.

The College continues to look at ways to diversify its income and during the year created a new commercial salon 'The Salon' and re-launched 'The Restaurant'. These strategies are starting to bring returns and much growth is expected for 2012/13.

Further investment in the College estate has seen significant re-furbishment of tired and dated facilities. Successful capital bids with Education Funding Agency (EFA) and the Skills Funding Agency (SFA) during the year will bring significant benefits in future years. The 'Hub' and the 'Centre for Environmental Technologies' are due to open in April 2013 and September 2013 respectively.

#### Mission

The mission of the College, 'To raise aspirations, develop skills and deliver quality' is at the heart of the Colleges ambitious plans for the future.

#### 2010-14 Strategic Plan

In 2011/12 the College entered the second year of its four year Strategic Plan. Building on the foundations put in place in year one the College continued to move forward in the pursuit of achieving its stated aims:

- To be outstanding in everything we do
- To meet the education and skills training needs of East Kent
- To improve the range and quality of the facilities and services we offer to students

These aims are underpinned by clear objectives and outcomes and monitored using a comprehensive set of performance indicators. This strategy is now understood by students, staff and external stakeholders and underpins strategic and governance decision making.

Significant progress has been made against all three aims with demonstrable improvement in quality and student experience indicators and visual improvement in the College estate and services.

The College continues to implement its Curriculum Strategy with an emphasis on embedding the College's specialisms of catering and hospitality, hair and beauty, interactive media, sustainable technologies and business finance for students and health and social care and leadership and management for employers. This has seen the College curriculum portfolio change significantly, particularly with the introduction of ten new Higher National Certificates.

### Financial objectives

The College's financial objectives are:

- to achieve the budgeted outcome for the year;
- to maintain working capital to cover expenditure with a current ratio of more than 0.5; and
- to control expenditure on staff salaries so that the total cost represents no more than **60%** of income.

The performance indicators that confirm these objectives have been monitored throughout the year by the Governors and the College's Executive Management Team and the objectives were met for the year ended 31 July 2012, except that the current ratio dropped to 0.44 by the financial year-end.

### Performance indicators

The College undertook a full self-assessment of its provision in 2011/12 and following validation agreed the following grades against the Common Inspection Framework:

Aspect	Grade
Overall effectiveness of provision	Good
Outcomes for learners	Good
Quality of teaching, learning and assessment	Good
Leadership and management	Good

### Quality assurance

The College has a Quality Assurance Strategy in place which identifies three key aims namely; to have an outstanding self assessment framework, to provide systematic reporting that enables tracking and monitoring of performance and to develop a culture that values and encourages customer feedback. In focusing on these aims the College implemented a new Quality Assurance Framework which significantly strengthened the reporting and tracking of progress against the College's key performance indicators. It also strengthened self-assessment particularly at programme level which was previously an area identified for improvement.

### Employer engagement

Significant changes took place during last year, including a review of Training Solutions the employer focused arm of the College based at Manston Business Park. This resulted in a rationalisation of their work with that of the Partnership Division given the overlap that existed between the two areas.

The good work with employers has continued during 2011/12 with the College shortlisted for a National Beacon Award for its work with employers and the unemployed. Award winners are to be announced at the national Conference in November 2012. This very much recognises the outstanding and unique work undertaken with 450 unemployed learners in partnership with a range of employers resulting in 144 gaining permanent employment as a direct result of the College's programme. Premier Inn was one such employer who has benefited from this model of working with employers - "Thanks to the assistance from the College, this has been the easiest and smoothest recruitment drive of any Premier Inn opening in the District"

## FINANCIAL POSITION

### Financial results

The College reports an operating surplus of £562,000 after the adjustment for FRS17 has been taken into the income and expenditure account. At 31 July 2012, the College had accumulated reserves before pension reserve of £4,444,000 and a cash bank balance of £550,000. The impact of the FRS17 pension deficit on the Local Government Pension Scheme has been incorporated into the balance sheet and is reflected as a reduction in reserves of £6,088,000. This is a significant reduction on the previous year end position, with a further actuarial loss of £2.237 million being recognised in the balance sheet.

Tangible fixed asset additions during the year amounted to £2,021,000. This included £578,000 spent on furniture, fixtures, fittings and equipment in support of the learner experience in the classrooms and workshops and £911,000 completing the refurbishment of the Pegwell building to create new Hair and Beauty salons and classrooms for the Early Years and Care programmes, in addition to the £950,000 spent in 2010/11. A further £532,000 was spent on other curriculum-related refurbishment projects and held as "assets under construction" at the balance sheet date, pending completion for the beginning of the new academic year. This also included fees spent on the development of the Centre for Environmental Technologies.

The College has significant reliance on the Skills Funding Agency (SFA) and Young People's Learning Agency (YPLA) for its principal funding source, largely from recurrent grants. In 2010/11 the SFA and YPLA provided 83% of the College's total income, reducing to a reliance on SFA and EFA income of just 80% in 2011/12.

### 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.

Short term borrowing for temporary revenue purposes is authorised by the Principal and the Chair of the Business Committee. All other borrowing requires the authorisation of the Governing Body.

### Cash flows

The operating cash inflow of £1,221,000 (2010/11: £1,661,000) and high capital expenditure of £2,021,000 resulted in a net cash outflow for the year of £632,000 (2010/11 net cash inflow of £355,000).

### Liquidity

The size of the College's total borrowing and its approach to interest rate cover have been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow. During the year the College was able to reduce its trade debtors by approximately 60% and also manage a small reduction in trade creditors of 3%.

### Taxation

As an exempt Charity for the purposes of the Charities Act 1993 the College is not liable to Corporation Tax.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

### Student achievements

The College achieved an overall success rate of 80% for 2010/11 which is 1% above national averages for all Colleges. The overall success rate on long courses was 79% which was 2% above national averages and demonstrates that the College has maintained the significant improvements achieved in 2009/10. The three year trend for long courses currently shows a 6% increase over the period.

### Curriculum developments

The management and development of the College's Curriculum is shaped and directed by the College's Curriculum Strategy (2010-2014). The Strategy has a number of general aims including to meet local and regional education and skills needs and thereby contribute to economic growth; grow the numbers of students, including non-Thanel residents; enhance the career-related focus of its programmes of study; ensure high-quality teaching and learning which integrates best-practice in the use of technology; strengthen links with industry and relevant professional bodies.

The College remains committed to providing a broad-based, general Further Education curriculum which serves a wide range of students, including students with learning difficulties/disabilities and those students engaged through community-based groups. But in order to enhance the shape and character of the curriculum the College has begun the process of developing seven specialist areas of the Curriculum including Business and Finance, Catering and Hospitality, Hair and Beauty, Interactive Media and Environmental Technologies. Within the current planning period (to 2014) the College will also seek to grow its professional training portfolio with a distinctive specialism in Health and Social Care and Leadership and Management.

The curriculum for 2011/12 has remained mostly stable, with the most major development being the introduction of the foundation-level progression curriculum. This new foundation learning curriculum is designed to start the process of improving student progression. Foundation-level students will, as part of a cross-college approach, have the opportunity to experience pathways of study within vocational curriculum areas such as construction, catering and the creative arts. Through the vocational experience, functional skills development and the guidance of Learning Mentors foundation students will be supported in developing the capabilities and interests necessary for successful progression to the next level of study.

In preparation for 2012/13 a curriculum review of long-courses (those of 24 weeks or more) and short-courses (those under 24 weeks) was conducted. The review provided a valuable opportunity for focused discussion, at the subject level, of the means by which to achieve a "responsive, progressive and innovative curriculum", acknowledging the strategic aim to establish the seven areas of curricular specialism. The review encouraged subject teams to reflect, for example, on the ways in which a full-time programme might be diversified to appeal to a new cohort of students interested in more flexible modes of delivery, investigating whether a cluster of short courses might meet a particular professional training need. The result of this comprehensive review was a substantial revision to the College's curricular offer for 2012/13, with twenty-three new long-courses, thirty-one new short-courses and, in addition, nine new Higher National Certificate programmes to be delivered in collaboration with the College's partner university, Canterbury Christ Church University. This reinvigoration of college-based provision is now to be augmented with a similar investment in workplace learning, and a review is underway to develop new approaches in the College's areas of specialism to employer-responsive provision for 2013-2015.

The College continues to be successful in delivering qualifications in all national priority areas identified by the Skills Funding Agency and the Young People's Learning Agency.

### 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 per cent. The College does not have the ability to accurately monitor this KPI, but it does estimate that it pays the vast majority of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

**Future developments**

The College has received confirmation from the Skills Funding Agency/EFA that the allocation of money to support Learner Responsive and the Adult Skills delivery in 2012/13 will be £14,031,667.

**Going Concern**

The financial statements have been prepared on a going concern basis. The College continues to generate an operating surplus, is able to invest in its estate and has satisfactory balance sheet strength.

The College has prepared a five year financial plan, including a cashflow forecast, which shows that the College will be able to meet its debts as they fall due, can continue to deliver an operating surplus in every year of the plan and can maintain a satisfactory level of cash throughout. It is therefore appropriate for these financial statements to be prepared on a going concern basis.

**RESOURCES**

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

*Tangible*

Tangible resources include the main College site, currently stated at a net book value of £12.5 million; equipment, plant and machinery with a net book value of £1.3 million; and assets under construction with a net book value of £0.5 million.

*Financial*

The College has £6.0 million of net assets (including a £6.1 million pension liability) and long term debt of £777,000.

*People*

The College employs 281 people (expressed as full time equivalents), of whom 183 are teaching staff.

**Reputation**

The College undertook a review of its reputation during 2010/11 through the use of an external specialist, which identified a mixed picture particularly in respect to its branding. A formal review of branding took place during 2011/12, resulting in the College re-naming itself as East Kent College from September 2012.

**Property**

During 2010/11 the College established a new master plan for the redevelopment of its Ramsgate Road site and developed a new property strategy which clearly sets out the Colleges three key aims namely:

1. To deliver the new master plan
2. To create vibrant community education and training centres
3. To improve the quality of the facilities and services we offer to employers.

Significant progress was made during 2010/11 and 2011/12 with phase one of the master property plan successfully implemented and the first three floors of the Pegwell Building being redeveloped to provide industry standard hair beauty and nail technology salons. In addition a new business centre was created and opened offering high quality training facilities for employers. SFA grant funding has been approved for £2 million to create a new Centre for Environmental Technologies, budgeted at £6.531 million, with the balance of funding being sought through additional loan financing of £4.531 million. Construction is due to commence during the 2012/13 academic year, with the new facility due to be opened in September 2013.

## STAFF AND STUDENT INVOLVEMENT

During 2011/12, the College further developed its 'Student Involvement Strategy' which places students at the heart of the strategic direction and decision making of the College and to develop the skills and social awareness of students to enable them to contribute effectively to society and their communities.

In recognition of the progress made the Principal and new post of Student Liaison Officer were highly commended for the Senior Leader National Learner Voice award and Student Liaison Practitioner of the Year award at the National LSIS Learner Voice Awards.

The College's Committee structure has enabled staff to be consulted on a range of issues covering; equality and diversity, risk and sustainability, employment policies and procedures. Alongside there have been numerous task and finish groups where staff and students come together to focus on different aspects of the College such as; College security, compliance, industrial updating, capital works and to be consulted on changes to policies and procedures prior to consideration by Policy Group.

75% of staff indicated in the end of year survey that they feel fully consulted on any changes, which reflects an 8% increase on 2010/11. The College considers good communication with its staff to be essential to its success and to this end publishes a termly newsletter which is available to all staff with termly whole staff body presentations by the Principal.

The College has been recognised as Investors in People (IIP) employer since 1997 and continues to maintain this standard, having been re-assessed in 2009/10 and being awarded the Bronze standard.

## PRINCIPAL RISKS AND UNCERTAINTIES

The College has made significant progress in developing its systems and processes for internal controls, particularly risk management.

The appointment of new internal auditors has brought about significant positive change in monitoring key controls with several new improved processes being implemented.

The college also implemented a new high risk control system during 2011/12. The new system has linked the identified high risks to the strategic aims, objectives and the annual business plan actions with progress being monitored by the key performance indicators. This direct linkage has brought a sharp focus to the high risks and has ensured that all actions are impacting on mitigating these risks.

The current principal risks are identified as follows:

### 1. Government funding

The College has a dependency on government funding of over 80%. This is slightly above the benchmarked average for general further education colleges (78%) but is similar to colleges with similar demographics (coastal). For the academic year 2013/14 the government, through its agencies (Education Funding Agency 16-19 and Skills Funding Agency 19+) are implementing new funding methodologies. These present both opportunity but significant financial risk. The College is modelling the impact of these changes as details are released.

To reduce the college's dependency the following is the strategy being followed:

- To develop a broader portfolio of courses in the College's specialisms to include pre 16 and higher education
- To grow the commercial income by implementing business ventures and commercialism part of the curriculum.
- To be outstanding in all aspects of our work to raise the college profile with employers and stakeholders.



## 2. Student Experience

With growing choice and competition for students the experience that is delivered is often the determinant to differentiate between providers. The College is managing this with the following key strategies:

- To deliver outstanding teaching and learning making the learning experience relevant, coherent and attractive
- To build an estate that is safe, current and fit for the delivery of outstanding teaching and learning
- To delivery support services that remove all barriers to learning and embrace individuality
- By putting learners at the heart of decision making.

## STAKEHOLDER RELATIONSHIPS

In line with other colleges East Kent College has many stakeholders. These include:

- Students;
- Education sector funding bodies
- Staff;
- Local employers;
- Local schools;
- Franchise partners;
- The Funding Council;
- Local Authorities;
- Government Offices/Regional Development Agencies/LEPs;
- The local community;
- Other FE institutions;
- Trade unions; and
- Professional bodies.

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

### Equal opportunities and employment of disabled persons

East Kent College is committed to ensuring equality of opportunity for all who learn and work here. The College respects and values positively differences in race, gender, sexual orientation, able-bodiedness, class and age. The College strives vigorously to remove conditions that place people at a disadvantage and the College will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy, including its Race Relations Policy, is published on the College's Internet site.

### Equal opportunities and employment of disabled persons

The College considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion that are accessible to all staff. The College has maintained its "Positive About Disabled" status.

## DISABILITY STATEMENT

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

- a) As part of the redevelopment of the buildings it has installed lifts and ramps so that most of the facilities allow access to people with a disability;
- b) There is a list of specialist equipment, such as lighting for audio facilities, which the College can make available for use by students;
- c) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;
- d) The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and /or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and /or disabilities;
- e) Specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard College format;
- f) Counselling and welfare services are described in the College charter.

**Disclosure of information to auditors**

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

**Approved by order of the members of the Governing Body on 12 December 2012 and signed on its behalf by:**



**Professor Michael Wright CBE – Chairman**

**PROFESSIONAL ADVISERS**

**Auditors**

*Financial statements and regularity auditors*

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London  
EC2V 6DL

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Hawley Street  
Margate  
CT9 2PZ

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C/o Howard & Howard Solicitors  
43 Wimpole Street  
London  
W1M 7AF

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Ramsgate  
Kent  
CT11 9DL

Royal Bank of Scotland  
London City Office  
62-63 Threadneedle Street  
London  
EC2R 8LA

Barclays Corporate  
South East Region  
17 North Street  
Ashford  
Kent  
TN24 8LF

### Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code ("the Code") issued by the FRC in June 2010. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2012. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011,

### The Governing Body

The composition of the Governing Body is set out in the table below. It is the Governing Body's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

	<i>Date of appointment / re-appointment</i>	<i>Term of office</i>	<i>Date of resignation</i>	<i>Status of appointment</i>	<i>Committees served</i>
Professor Michael Wright CBE DL	30.09.98 30.09.02 30.09.06 30.09.08 30.09.10 30.09.14	4 years 4 years 2 years 2 years 4 years		Governor	Chair of Governing Body from 11/12/09 Member of: Chairs' Committee, Remuneration
Beverley Aitken	30.09.98 30.09.02 30.09.06 30.09.09 30.09.13	4 years 4 years 3 years 4 years		Governor	Vice Chair: Governing Body Chair: Business, Member of: Chairs' Committee, Remuneration
Patrick Hollis	30.09.05 30.09.09 30.09.12	4 years 3 years		Governor	Chair: Education Vice Chair: Business Member of: Chairs'; Committee, Remuneration
Richard Samuel	30.11.08 30.09.10 30.09.14	2 years 4 years	31.07.11	Governor	Member of: Business
Tim Kent	06.09.10 30.09.12	2 years		Governor	Vice Chair: Education
Leyland Ridings MBE	01.09.10 31.08.14	4 years		Governor	Chair: Audit Member of: Chairs' Committee, Remuneration
Sarah Kemp	01.09.10 31.08.14	4 years		Governor	Member of: Business

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

Kate Grieg	01.09.11	4 years	16.03.12	Governor	Member of: Education
Sue Kendall-Seatter	01.09.11	4 years		Governor	Member of: Education
Stephanie Martin	01.09.10 31.08.14	4 years		Governor	Member of: Education
Stephanie Swan	01.09.10 31.08.12	2 years		Governor	Member of: Audit
Alison Russell	06.07.11 31.08.15	4 years	16.05.12	Governor	Member of: Audit
Graham Razey	19.04.10			Principal	Business, Education, Chairs' Committee
Carol Silk	30.09.09 30.09.11 31.08.13	2 years 2 years		Staff Governor	Member of: Education
Pauline Solley	01.09.11	2 years		Staff Governor	
Tara Ashman	30.09.09 30.09.11	2 years	31.05.11	Staff Member	Member of: Education
Carly Tickner	01.10.11	2 years	31.08.11	Student Governor	Member of: Education
Semih Ozyurt	01.10.11 31.08.13	2 years		Student Governor	Member of: Education
Dietra Richards	01.09.11	2 years	31.12.11	Student Governor	Member of Education

**SENIOR OFFICERS ATTENDING**

	<i>Date of appointment / re-appointment</i>	<i>Term of office</i>	<i>Date of resignation</i>	<i>Status of appointment</i>	<i>Committees served</i>
Anne Leese	01.01.07	N/A		Deputy Principal	Audit; Education; Business; Remuneration
Andrew Gower	25.04.11	N/A		Vice Principal	Education
Karen Evans	09.07.07		31.03.12	Director of Business Development	Business
Karen Pilgrim	01.08.05		31.03.12	Director of Finance	Audit; Business
Sandy Foster	Clerk and College Solicitor appointed 07.01.11				
Nicky Stevenson	Deputy Clerk, assisting the Clerk to the Governing Body Appointed 11.06.02 resigned 31.07.11				

**Non-Governor appointments:**

It was decided in June 2011 to remove the position of Co-opted Committee Member from the Membership Structure for the time being. The skills audit profile review process would continue to assess this decision.

Three Co-opted Committee Members, Lesley Game, Liz Langton Way and Liz Pilcher, served during 2010/2011. Their appointments ceased on 31.08.11.

The Governing Body 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 Governing Body meets at least 3 times per academic year.

The Governing Body conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are Audit, Business, Education, Remuneration, and Chairs' (includes Search). Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available in the Governor Area for members or for the public on the College website or from the Clerk to the Governing Body at:

[Clerk@eastkent.ac.uk](mailto:Clerk@eastkent.ac.uk)

or

East Kent College  
Ramsgate Road  
Broadstairs  
Kent CT10 1PN

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

There is a clear division of responsibility in that the role of the Chair of the Governing Body and Principal of the College are separate.

**APPOINTMENTS TO THE GOVERNING BODY**

Any new appointments to the Governing Body are a matter for the consideration of the Governing Body as a whole. The Governing Body has a Chairs' Committee which is comprised of five members; the Chair of the Governing Body, the three Committee Chairs and the Principal. This Committee is responsible for the selection and nomination of any new members for the Governing Body's consideration, and ensuring that appropriate training is provided in accordance with a continuing review of the skills profile of the Governing Body.

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

**REMUNERATION COMMITTEE**

Throughout the year ended 31 July 2012, the College's Remuneration Committee comprised four members. 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 2012 are set out in note 6 to the financial statements.

## AUDIT COMMITTEE

The Audit Committee comprises the Chair and three other members of the Governing Body (excluding the Principal). The Committee operates in accordance with written terms of reference approved by the Governing Body. Its purpose is to advise the Governing Body on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management, control and governance processes.

The Audit Committee meets 3 times per year and provides a forum for reporting by the College's internal 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. Management are responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendation have been implemented.

The Audit Committee also advises the Governing Body on the appointment of internal and financial statements auditors and their remuneration for both audit and non-audit work.

## INTERNAL CONTROL

### Scope of responsibility

The Governing Body is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Governing Body 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 he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the Skills Funding Agency and College and the Education Funding Agency. He is also responsible for reporting to the Governing Body any material weaknesses or break downs in internal control.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in East Kent College for the year ended 31 July 2012 and up to the date of approval of the annual report and accounts.

### Capacity to handle risk

The Governing Body 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 Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2012 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Governing Body.

### 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; and
- ◆ the adoption of formal project management disciplines, where appropriate.

The College has an internal audit service, which operates in accordance with the requirements of the LSC's Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Governing Body on the recommendation of the Audit Committee. At a minimum annually, the Head of Internal Audit (HIA) provides the Governing Body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

### Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. The Principal's 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; and
- ◆ comments made by the College's financial statements auditors, the regularity auditors and the appointed funding auditors (for employer responsive funded activity only in 2011/12) in their management letters and other reports.

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

The senior 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 Governing Body'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 2012 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2012 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2012.

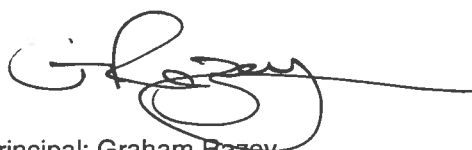
### GOING CONCERN

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reasons, they continue to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Governing Body on 12 December 2012 and signed on its behalf by:



Chair: Professor Michael Wright CBE



Principal: Graham Raze



**Statement of Responsibilities of the Members of the Governing Body**

The members of the Governing Body are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency / Education Funding Agency and the Governing Body of the College, the Governing Body, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction issued jointly by the Skills Funding Agency and the 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 Governing Body 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.

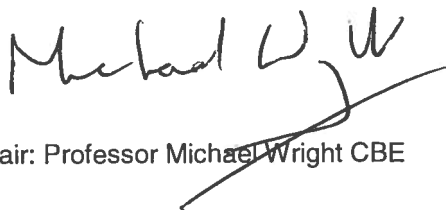
The Governing Body is also required to prepare an Annual Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

Members of the Governing Body are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency / Education Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency / Education Funding Agency and any other conditions that may be prescribed from time to time. Members of the Governing Body must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Governing Body 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 by the Skills Funding Agency / Education Funding Agency are not put at risk.

Approved by order of the members of the Governing Body on 12 December 2012 and signed on its behalf by:



Chair: Professor Michael Wright CBE

### **Independent auditor's report to the Governing Body of East Kent College**

We have audited the College financial statements ("the financial statements") of East Kent College for the year ended 31 July 2012 set out on pages 21 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Governing Body, as a body, in accordance with statutory requirements. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Governing Body of East Kent College and Auditor**

As explained more fully in the Statement of the Governing Body's responsibilities set out on page 20, the Governing Body 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 applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Governing Body; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

### **Opinion on financial statements**


In our opinion the financial statements:

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

**Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the Young People's Learning Agency and the Audit Code of Practice issued by the Learning and Skills Council**

In our opinion:

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

  
Buzzacott LLP  
Chartered Accountants and Statutory Auditors  
130 Wood Street  
London  
EC2V 6DL

18 December 2012

**Independent Auditors' Report on Regularity to the Governing Body of East Kent College ('the Governing Body') and the Skills Funding Agency**

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

This report is made solely to the Governing Body and the Skills Funding Agency. Our review work has been undertaken so that we might state to the Governing Body and the Skills Funding Agency those matters we are required to state to it in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body and the Skills Funding Agency, for our review work, for this report, or for the opinion we have formed.

**Respective responsibilities of the Members of the Governing Body of East Kent College and Auditors**

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

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

**Basis of opinion**

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

**Opinion**

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



Buzzacott LLP  
Chartered Accountants and Statutory Auditors  
130 Wood Street  
London  
EC2V 6DL

18 December 2012

## Income and Expenditure Account

	Notes	2012 £'000	2011 £'000
<b>INCOME</b>			
Funding body grants	2	12,773	12,606
Tuition fees and education contracts	3	595	598
Other income		2,112	2,059
Investment income	4	1	1
<b>Total income</b>		<b>15,481</b>	<b>15,264</b>
<b>EXPENDITURE</b>			
Staff costs	5	8,668	8,814
Exceptional restructuring costs	5	201	350
Other operating expenses	7	5,097	4,885
Depreciation	10	842	875
Interest and other finance costs	8	111	122
<b>Total expenditure</b>		<b>14,919</b>	<b>15,046</b>
<b>Surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax</b>		<b>562</b>	<b>218</b>
Taxation	9	-	-
<b>Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax</b>		<b>562</b>	<b>218</b>

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

**Statement of Historical Cost Surpluses and Deficits**

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
		<b>£'000</b>	<b>£'000</b>
Surplus on continuing operations before taxation		562	218
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	17	207	207
<b>Historical cost surplus for the year before and after taxation</b>		<u>769</u>	<u>425</u>

**Statement of Total Recognised Gains and Losses**

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
		<b>£'000</b>	<b>£'000</b>
Surplus on continuing operations after depreciation of assets at valuation and tax		562	218
Actuarial (loss)/gain in respect of pension scheme	24	(2,237)	798
<b>Total recognised (losses) / gains since last report</b>		<u>(1,675)</u>	<u>1,016</u>


**Reconciliation**


Opening reserves at 1 August 2011		4,777	3,761
Total recognised (losses)/gains for the year		(1,675)	1,016
<b>Closing reserves at 31 July 2012</b>		<u>3,102</u>	<u>4,777</u>

## Balance sheet as at 31 July

	Notes	2012	2011
		£'000	£'000
<b>Fixed assets</b>			
Tangible assets	10	<u>14,348</u>	<u>13,169</u>
<b>Current assets</b>			
Stocks		23	19
Debtors	11	388	463
Cash at bank and in hand		<u>550</u>	<u>1,182</u>
Total current assets		961	1,664
<b>Less: Creditors – amounts falling due within one year</b>	12	<u>(2,180)</u>	<u>(2,422)</u>
<b>Net current liabilities</b>		<u>(1,209)</u>	<u>(758)</u>
<b>Total assets less current liabilities</b>		<b>13,129</b>	<b>12,411</b>
Less: Creditors – amounts falling due after more than one year	13	(777)	(1,001)
Less: Provisions for liabilities	15	(228)	(292)
<b>Net assets excluding pension liability</b>		<u>12,124</u>	<u>11,118</u>
Net pension liability	24	<u>(6,088)</u>	<u>(3,708)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u>6,036</u>	<u>7,410</u>
<b>Deferred capital grants</b>	16	<u>2,934</u>	<u>2,633</u>
<b>Reserves</b>			
Income and expenditure account excluding pension reserve	18	4,444	3,532
Pension reserve	24	<u>(6,088)</u>	<u>(3,708)</u>
Income and expenditure account including pension reserve	18	(1,644)	(176)
Revaluation reserve	17	4,746	4,953
<b>Total reserves</b>		<u>3,102</u>	<u>4,777</u>
<b>TOTAL FUNDS</b>		<u>6,036</u>	<u>7,410</u>

The financial statements on pages 21 to 40 were approved by the Governing Body on 12 December 2012 and were signed on its behalf by:

  
**Professor Michael Wright CBE**  
 Chair

  
**Graham Razezy**  
 Principal

**Cash Flow Statement**

	<b>Notes</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
<b>Cash inflow from operating activities</b>	19	1,221	1,661
Returns on investments and servicing of finance	20	(19)	(25)
Capital expenditure and financial investment	21	(1,615)	(1,067)
Financing	22	<u>(219)</u>	<u>(214)</u>
<b>(Decrease)/increase in cash in the year</b>	<b>23</b>	<b><u>(632)</u></b>	<b><u>355</u></b>
 <b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash in the period		(632)	355
Change in net funds resulting from cash flows	22	<u>219</u>	<u>214</u>
Movement in net funds in the period		(413)	569
Net debt at 1 August 2011		<u>(39)</u>	<u>(608)</u>
<b>Net debt at 31 July 2012</b>		<b><u>(452)</u></b>	<b><u>(39)</u></b>



## Notes to the Financial Statements

### 1. Accounting policies

#### Statement of accounting policies

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

#### Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding agency and EFA in the 2011/12 Accounts Direction Handbook.

#### Basis of accounting

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

#### Going Concern

The activities of the College, together with 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.

The College currently has £1million of loans outstanding with bankers on terms negotiated in 2008. Additionally there is £1m of uncommitted facility available for unconditional drawdown with all being secured by a fixed and floating charge on College assets. The terms of the existing agreement are for up to another 14 years. The College's forecasts and financial projections indicate that it will be able to operate within this 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 under or over achievement for the adult learner responsive funding element is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body mid-November following the year-end. Employer responsive grant income is recognised based on a year-end reconciliation of income claimed and actual delivery. 16-18 learner-responsive funding is not normally subject to a reconciliation and is therefore not subject to contract adjustments.

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, for example the National Health Service.

Income from grants, contracts and other services rendered is included to the extent of 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 period in which it is earned.

## Notes to the Financial Statements (continued)

### 1. Accounting policies (continued)

#### Post retirement benefits

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

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 24, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

#### Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the college's income and expenditure account in the year that the member of staff retires. In subsequent years, a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

#### Tangible fixed assets

##### *Land and buildings*

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. 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 on an annual basis. Building improvements made since 1994 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 40 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of 40 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.

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1994, 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.

## Notes to the Financial Statements (continued)

### 1. Accounting policies (continued)

#### *Equipment*

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

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from Incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- building improvements – 40 years on a straight-line basis
- furniture, fixtures and fittings – 3 to 15 years on a straight-line basis.
- motor vehicles and general equipment – 3 to 15 years on a straight-line basis
- computer equipment – 3 years on a straight-line basis

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

#### **Leased assets**

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

#### **Stocks**

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

#### **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 potentially exempt from taxation in respect of income or capital gains received within 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.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets by nature.

#### **Liquid resources**

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

#### **Provisions**

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

**Notes to the Financial Statements** (continued)**1. Accounting policies (continued)****Agency arrangements**

The College acts as an agent in the collection and payment of Discretionary Support Funds. Related payments received from the SFA or EFA and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 28, except for the 5 per cent of the total grant received which is available to the College to cover administration costs relating to those funds.

**2 Funding body grants**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Main funding body recurrent grant	12,182	11,832
Main funding body non recurrent	509	713
Release of deferred capital grants (note 16)	<u>82</u>	<u>61</u>
<b>Total</b>	<b><u>12,773</u></b>	<b><u>12,606</u></b>

**3 Tuition fees and education contracts**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Tuition fees	533	471
Education contracts	<u>62</u>	<u>127</u>
<b>Total</b>	<b><u>595</u></b>	<b><u>598</u></b>

**4 Investment income**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Interest receivable	<u>1</u>	<u>1</u>
<b>Total</b>	<b><u>1</u></b>	<b><u>1</u></b>

## Notes to the Financial Statements (continued)

## 5 Staff costs

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

	2012 No.	2011 No.
Teaching staff	183	203
Non teaching staff	98	84
	<u>281</u>	<u>287</u>

## Staff costs for the above persons

	2012 £'000	2011 £'000
Wages and salaries	7,272	7,245
Social security costs	509	505
Other pension costs (including FRS 17 adjustments of £53,000 – 2011 £198,000)	887	1,064
	<u>8,668</u>	<u>8,814</u>
Exceptional restructuring costs	201	350
<b>Payroll total</b>	<u><b>8,869</b></u>	<u><b>9,164</b></u>

The number of senior post-holders and other staff as at 31 July 2012 who received emoluments, including pension contributions and benefits in kind, in the following ranges was:

	Senior post-holders	
	2012 No.	2011 No.
£10,001 to £20,000	-	1
£20,001 to £30,000	-	1
£30,001 to £40,000	1	-
£70,001 to £80,000	-	1
£80,001 to £90,000	1	-
£90,001 to £100,000	-	1
£110,001 to £120,000	1	1
£140,001 to £150,000	1	1
	<u>4</u>	<u>6</u>

## 6 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.

## Notes to the Financial Statements (continued)

## 6 Senior post-holders' emoluments (continued)

	2012 No.	2011 No.
The number of senior post-holders including the Principal was:	<u>4</u>	<u>6</u>
Senior post-holders' emoluments are made up as follows:		
	2012 £'000	2011 £'000
Salaries	336	310
Benefits in kind	1	1
Pension contributions	<u>43</u>	<u>42</u>
<b>Total emoluments</b>	<b><u>380</u></b>	<b><u>353</u></b>

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

	2012 £'000	2011 £'000
Salaries	122	116
Benefits in kind	<u>1</u>	<u>1</u>
	<u>123</u>	<u>117</u>
Pension contributions	<u>17</u>	<u>16</u>

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

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

## 7 Other operating expenses

	2012 £'000	2011 £'000
Teaching costs	2,114	1,933
Non teaching costs	1,815	1,641
Premises costs	<u>1,168</u>	<u>1,311</u>
<b>Total</b>	<b><u>5,097</u></b>	<b><u>4,885</u></b>
<b>Other operating expenses include:</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Auditors' remuneration:		
Financial statements audit	18	18
Internal audit	24	19
Other services provided by the financial statements auditors	6	6
Hire of other assets – operating leases	<u>108</u>	<u>96</u>

**Notes to the Financial Statements** (continued)**8 Interest**

	2012 £'000	2011 £'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than five years	21	26
Pension finance cost (Note 24)	90	96
<b>Total</b>	<b>111</b>	<b>122</b>

**9 Taxation**

The members do not believe the College is liable for any corporation tax arising out of its activities during this year.

**10 Tangible fixed assets**

	Assets under construction £000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2011	950	16,432	3,278	20,660
Transfers	(950)	950	-	-
Additions	532	911	578	2,021
<b>At 31 July 2012</b>	<b>532</b>	<b>18,293</b>	<b>3,856</b>	<b>22,681</b>
<b>Depreciation</b>				
At 1 August 2011	-	5,349	2,142	7,491
Charge for the year	-	427	415	842
<b>At 31 July 2012</b>	<b>-</b>	<b>5,776</b>	<b>2,557</b>	<b>8,333</b>
<b>Net book value at 31 July 2012</b>	<b>532</b>	<b>12,517</b>	<b>1,299</b>	<b>14,348</b>
Net book value at 31 July 2011	950	11,083	1,136	13,169

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 were valued in 1994 at depreciated replacement cost by a firm of independent chartered surveyors. Other tangible fixed assets inherited from the LEA at Incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £5,556,000 have been partly 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 its' Financial Memorandum, to surrender the proceeds.

**Notes to the Financial Statements** (continued)**11 Debtors**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Amounts falling due within one year:		
Trade debtors	74	180
Prepayments and accrued income	314	283
	<hr/>	<hr/>
<b>Total</b>	<b><u>388</u></b>	<b><u>463</u></b>

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

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Bank loans and overdrafts (note 14)	225	220
Payments received in advance	41	47
Trade creditors	792	820
Other taxation and social security	156	150
Accruals	966	1,185
	<hr/>	<hr/>
<b>Total</b>	<b><u>2,180</u></b>	<b><u>2,422</u></b>

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

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Bank loans (note 14)	777	1,001
	<hr/>	<hr/>
<b>Total</b>	<b><u>777</u></b>	<b><u>1,001</u></b>

**14 Borrowings****Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
In one year or less	225	220
Between one and two years	195	226
Between two and five years	517	536
In five years or more	65	239
	<hr/>	<hr/>
<b>Total</b>	<b><u>1,002</u></b>	<b><u>1,221</u></b>

Bank loans and overdrafts at variable rates of interest between 1.25 and 5.25 per cent repayable by instalments falling due between 1 August 2011 and 31 July 2020 and are unsecured.



**Notes to the Financial Statements** (continued)**15 Provisions for liabilities and charges**

	<b>Enhanced pensions £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
At 1 August 2011	207	85	292
Expenditure in the period	(16)	(79)	(95)
Transferred to income and expenditure account	31	-	31
	<hr/>	<hr/>	<hr/>
<b>At 31 July 2011</b>	<b><u>222</u></b>	<b><u>6</u></b>	<b><u>228</u></b>

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

	<b>2012</b>	<b>2011</b>
Price inflation	2.50%	2.75%
Discount rate	3.89%	5.36%

**16 Deferred capital grants**

	<b>College funding £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
At 1 August 2011	1,935	698	2,633
Grants received	386	20	406
Released to income and expenditure account	(82)	(23)	(105)
	<hr/>	<hr/>	<hr/>
<b>At 31 July 2012</b>	<b><u>2,239</u></b>	<b><u>695</u></b>	<b><u>2,934</u></b>

**17 Revaluation reserve**

	<b>2012 £'000</b>	<b>2011 £'000</b>
At 1 August 2011	4,953	5,160
Transfer from revaluation reserve to general reserve in respect of:		
Depreciation on revalued assets	(207)	(207)
	<hr/>	<hr/>
<b>At 31 July 2012</b>	<b><u>4,746</u></b>	<b><u>4,953</u></b>

**Notes to the Financial Statements** (continued)**18 Movement on general reserves**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income and expenditure account reserve</b>		
At 1 August	(176)	(1,399)
Surplus/(Deficit) retained for the year	562	218
Transfer from revaluation reserve (note 17)	207	207
Actuarial (losses)/gains in respect of pension scheme (note 24)	(2,237)	798
	<u>(1,644)</u>	<u>(176)</u>
<b>At 31 July</b>		
Balance represented by:		
Pension reserve	(6,088)	(3,708)
Income and expenditure account reserve excluding pension reserve	4,444	3,532
	<u>(1,644)</u>	<u>(176)</u>

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

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation	562	218
Depreciation (note 10)	842	875
Deferred capital grants released to income (note 16)	(105)	(117)
Interest payable (note 8)	20	26
Interest receivable (note 4)	(1)	(1)
FRS 17 pension cost less contributions payable (notes 5 and 24)	53	198
FRS 17 pension finance costs (note 24)	90	96
(Increase) in stocks	(5)	(2)
Decrease/(increase) in debtors	75	(111)
(Decrease)/increase in creditors	(247)	479
(Decrease) in provisions	(63)	-
	<u>1,221</u>	<u>1,661</u>
<b>Net cash inflow from operating activities</b>		

## Notes to the Financial Statements (continued)

## 20 Returns on investments and servicing of finance

	2012 £'000	2011 £'000
Interest received	1	1
Interest paid	(20)	(26)
<b>Net cash outflow from returns on investment and servicing of finance</b>	<b>(19)</b>	<b>(25)</b>

## 21 Capital expenditure and financial investment

	2012 £'000	2011 £'000
Purchase of tangible fixed assets	(2,021)	(1,389)
Deferred capital grants received	406	322
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(1,615)</b>	<b>(1,067)</b>

## 22 Financing

	2012 £'000	2011 £'000
Debt due beyond a year:		
Repayment of amounts borrowed	(219)	(214)
<b>Net cash outflow from financing</b>	<b>(219)</b>	<b>(214)</b>

## 23 Analysis of changes in net funds

	At 1 August 2011 £'000	Cash flows £'000	Other changes £'000	At 31 July 2012 £'000
Cash in hand, and at bank	1,182	(632)	-	550
Debt due within 1 year	(220)	219	(224)	(225)
Debt due after 1 year	(1,001)	-	224	(777)
<b>Total net debt</b>	<b>(39)</b>	<b>(413)</b>	<b>-</b>	<b>(452)</b>

**Notes to the Financial Statements** (continued)**24 Pension and similar obligations**

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

<b>Total pension cost for the year</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Teachers Pension Scheme: contributions paid	450	452
Local Government Pension Scheme:		
Contributions paid	384	414
FRS 17 charge (note 5)	53	198
Charge to the Income and Expenditure Account (staff costs)	437	612
Enhanced pension charge to Income and Expenditure Account (staff costs)		-
	<hr/>	<hr/>
<b>Total Pension Cost for Year (note 5)</b>	<b>887</b>	<b>1,064</b>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2011.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

**Teachers' Pension Scheme**

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

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

Latest actuarial valuation (under the new provisions)	31 March 2004
Actuarial method	Prospective benefits
Investment returns per annum	6.5 per cent per annum
Salary scale increases per annum	5.0 per cent per annum
Notional value of assets at date of last valuation	£162,650 million
Proportion of members' accrued benefits covered by the notional value of the assets	98.88 %

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

**Notes to the Financial Statements** (continued)**24 Pension 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 Kent County Council Local Authority. The total contribution made for the year ended 31 July 2012 was £540,000, of which employer's contributions totalled £385,000 and employees' contributions totalled £155,000. The agreed contribution rates for future years are 15.6% for employers and range from 5.50% and 7.5% for employees, depending on salary.

**FRS 17**

<b>Principal Actuarial Assumptions</b>	<b>At 31 July 2012</b>	<b>At 31 July 2011</b>
Rate of increase in salaries	4.0%	5.0%
Rate of increase for pensions in payment / inflation	1.8%	2.7%
Discount rate for scheme liabilities	3.9%	5.3%
Inflation assumption (CPI)	1.8%	2.7%
Commutation of pensions to lump sums	50%	50%

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

	<b>At 31 July 2012</b>	<b>At 31 July 2011</b>
<i>Retiring today</i>		
Males	20.0	19.8
Females	24.0	23.9
<i>Retiring in 20 years</i>		
Males	22.0	21.9
Females	25.9	25.8

**Notes to the Financial Statements** (continued)**24 Pension and similar obligations** (continued)**Local Government Pension Scheme** (continued)

The College's share of the assets and liabilities in the scheme (estimated to be <1% of the total) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2012	Value at 31 July 2012	Long-term rate of return expected at 31 July 2011	Value at 31 July 2011
		£'000		£'000
Equities	5.6%	8,499	6.8%	8,091
Bonds	3.9%	1,397	5.3%	1,552
Property	3.6%	1,048	4.8%	997
Cash	3.0%	566	3.0%	443
Target Return	2.0%	233		
<b>Total market value of assets</b>		<b>11,643</b>		<b>11,083</b>
Present value of scheme liabilities				
- Funded		(17,713)		(14,774)
- Unfunded		(18)		(17)
<b>Deficit in the scheme</b>		<b>(6,088)</b>		<b>(3,708)</b>

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

	2012 £'000	2011 £'000
Employer service cost (net of employee contributions)	524	525
Past service gain	-	-
Total operating charge	<b>524</b>	<b>525</b>

**Analysis of pension finance income / (costs)**

Expected return on pension scheme assets	704	618
Interest on pension liabilities	(794)	(714)
<b>Net pension finance cost</b>	<b>(90)</b>	<b>(96)</b>

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

	2012 £'000	2011 £'000
Actuarial (losses)/gains on pension scheme assets	(521)	153
Actuarial (losses)/gains on scheme liabilities	(1,716)	645
<b>Actuarial (loss)/gain recognised in STRGL</b>	<b>(2,237)</b>	<b>798</b>

**Notes to the Financial Statements** (continued)**24 Pension and similar obligations** (continued)**Local Government Pension Scheme** (continued)**Movement in deficit during year**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Deficit in scheme at 1 August	(3,708)	(4,212)
Movement in year:		
Employer service cost (net of employee contributions)	(524)	(525)
Employer contributions	508	514
Unfunded pension payments	2	2
Past service gain	-	-
Net interest/return on assets	(90)	(96)
Settlements or curtailments	(39)	(189)
Actuarial (loss)/gain	(2,237)	798
<b>Deficit in scheme at 31 July</b>	<b>(6,088)</b>	<b>(3,708)</b>

**Asset and Liability Reconciliation**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
<b>Reconciliation of Liabilities</b>		
<b>Liabilities at 1 August 2011</b>	14,791	14,290
Current Service cost	524	525
Interest cost	794	714
Employee contributions	156	172
Actuarial (gain)/loss	1,716	(645)
Losses on curtailments	39	189
Benefits paid	(287)	(452)
Unfunded pension payments	(2)	(2)
<b>Liabilities at 31 July 2012</b>	<b>17,731</b>	<b>14,791</b>
<b>Reconciliation of Assets</b>		
<b>Assets at 1 August 2011</b>	11,083	10,078
Expected return on assets	704	618
Actuarial (losses)/gains	(521)	153
Employer contributions	510	516
Employee contributions	156	172
Benefits paid	(289)	(454)
<b>Assets at 31 July 2012</b>	<b>11,643</b>	<b>11,083</b>

The estimated value of employer contributions for the year ended 31 July 2013 is £389,000

**Notes to the Financial Statements (continued)****24 Pension and similar obligations (continued)****Local Government Pension Scheme (continued)****History of experience gains and losses**

	2012	2011	2010	2009	2008
Difference between the expected and actual return on assets: Amount £'000	(521)	153	873	(1,126)	(1,590)
Experience gains and (losses) on scheme liabilities: Amount £'000	(1)	943	5	(1)	132
Total amount recognised in STRGL: Amount £'000	(2,237)	798	1,359	(2,656)	(900)

**25 Capital commitments**

	2012 £'000	2011 £'000
Commitments contracted for at 31 July	<u>522</u>	<u>950</u>
Authorised but not contracted at 31 July	<u>6,009</u>	<u>950</u>

The College has committed costs of £522,000 to construct the new Centre for Environmental Technologies building, which is due for completion by September 2013, with a total project cost of £6,531,000. The work that has so far been recognised in the assets as Work In Progress will be depreciated by applying the College's accounting policies once the area is handed over for occupation.

**26 Financial commitments**

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

	2012 £'000	2011 £'000
Land and buildings		
Expiring in two to five years	<u>104</u>	<u>104</u>
	<u>104</u>	<u>104</u>

**27 Related party transactions**

Owing to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

Transactions with the funding bodies are detailed in notes 2, 11, 16 and 28.



## Notes to the Financial Statements (continued)

## 28 Amounts disbursed as agent

<b>Learner support funds</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Funding body grants – hardship support	455	169
Funding body grants – childcare	194	180
Interest earned	-	-
	<u>649</u>	<u>349</u>
Disbursed to students	(499)	(248)
Administration costs	(27)	(17)
	<u>123</u>	<u>84</u>
Balance unspent as at 31 July, included in creditors	<u>123</u>	<u>84</u>

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