EKC GROUP

**Report and Financial Statements**
**for the year ended 31 July 2019**

# Key Management Personnel, Board of Governors and Professional advisers

## Key management personnel

Key management personnel are defined as members of the Group Executive Team and were represented by the following in 2018/19:

Graham Razey, Group Principal and CEO; Accounting officer
Anne Leese, Group Deputy Principal and CEO
Paul Sayers, Executive Director – Strategy and Partnerships
Chris Legg, Executive Director – Finance and Commercial Development
Tammy Mitchell, Executive Director – Schools and Early Years
Lauren Anning, Executive Director – Student Experience and Wellbeing

## Board of Governors

A full list of Governors is given on pages 13 to 15 of these financial statements.

Ms T Ashman acted as Clerk to the Corporation throughout the period.

## Professional advisers

**Financial statements auditors and reporting accountants:**
Buzzacott LLP
130 Wood Street
London
EC2V 6DL

**Internal auditors:**
Wilkins Kennedy
35 Station Road
Ashford
Kent
TN23 1PP

**Bankers:**
Santander
South East
3rd Floor
Santander House
100 Ludgate Hill
London
EC4M 7RE

**Solicitors:**
Cripps LLP
Wallside House
12 Mount Ephraim Rd
Tunbridge Wells
TN1 1EG

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

Eversheds
1 Wood St
London
EC2V 7WS

# Report of the Governing Body

## NATURE, OBJECTIVES AND STRATEGIES:

The Governors present their report and the audited financial statements for the year ended 31 July 2019.

**Legal status**

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting EKC Group. The Group is an exempt charity for the purposes of the Charities Act 2011. On 1 February 2018 a 'Type B' merger was completed between East Kent College and Canterbury College. This resulted in the transfer of assets, liabilities and rights of Canterbury College to East Kent College and the dissolution of the Corporation of Canterbury College. On 1 August 2018 East Kent College was renamed EKC Group.

**Introduction – Financial Statements**

The past year has seen EKC Group continue to focus on developing the foundations for a strong and resilient future. This has been an exceptionally busy year for EKC Group, as it has continued to grow its provision, and develop brand awareness for both the Group itself, and its many constituent parts.

In the past year, the Group has developed a new Business Unit called EKC IntoWork, alongside its family of five Colleges and two other Business Units. EKC IntoWork delivers employability provision across the whole of East Kent, as well as delivering prison education services at the Eastchurch site at Standford Hill Prison on the Isle of Sheppey. The prison and employability provision has already seen significant successes, working with major employers to deliver the workforces they need through short courses and high quality sector based work academies.

The Group was also successful in being accepted as a Basic Maths Premium Pilot Group. This gave extra funding from the Department for Education, and tested new pedagogies for improving maths GCSE outcomes. The pilot saw students achieve double the national average achievement rate. The Group further cemented its place as a leader in the sector, when it was chosen to be one of the Groups to deliver T-Levels in phase two of the national roll out of the new qualifications. EKC Group has also worked to develop the prominence of some of its elements of work, and this year saw the inaugural East Kent Apprenticeship Awards. The Group led the awards which celebrated Apprentices, and the employers who take one on, across the east of the county.

The Group has continued to embed social action into its students' curriculum, and over the past year has seen almost 50,000 hours' worth of high quality student led social action delivered within the communities it serves, with over 400 projects completed.

As part of the work the Group has undertaken to develop technical and vocational education opportunities for everyone within the communities it serves, it has also developed its 14 to 16-year-old provision at its Broadstairs College. The new Broadstairs Junior College brand was launched, ensuring that a greater range of learners can start to develop their skills at an earlier age. This model is now being rolled out at other EKC Group Colleges where appropriate.

The Group has also continued its work to meet the needs of local employers, developing a wide range of courses to ensure its curriculum provision is fully aligned with the South East Local Enterprise Partnership's Skills Strategy, in order to unlock the potential of East Kent's future workforce.

**Mission**

To play a leading role for East Kent in developing the economic and social prosperity of the communities we serve.

**Public Benefit**

EKC Group is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body who are trustees of the exempt charity are disclosed on pages 13-15.

In setting and reviewing the Group's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate explicitly that their aims are for the public benefit.

In delivering its mission, the Group provides the following identifiable public benefits through the advancement of education:

- high-quality teaching;
- widening participation and tackling social exclusion;
- strong links with the communities the Group serves;
- excellent employment and progression opportunities for students, including apprenticeships;
- strong student support systems; and
- partnerships with employers, industry and commerce.

**Implementation of strategic plan**

Throughout the past academic year, the Group has continued to work to deliver on the goals and objectives set out in its strategic plan for 2018-2022. The three strategic goals are:

- To drive educational change with the communities we serve
- To provide exceptional learning opportunities
- To achieve outstanding outcomes for students and employers

These goals are underpinned by objectives with a number of performance indicators being used to track and measure performance against them.

The Group has worked hard to deliver on each of these key goals. It has regularly reviewed and, where necessary, altered its service level strategies to ensure every area is delivering on its objectives.

**Financial Objectives**

The Group financial objectives are:

- to achieve the budgeted EBITDA outcome for the year;
- to improve working capital to cover expenditure with a current ratio of 1.0; and
- to control expenditure on staff salaries so that the total cost represents no more than 65% of income.

These objectives have been monitored throughout the year by the Governors and the Group's Executive Management Team. The Group slightly under-performed against its budgeted EBITDA outcome of £5,453,000 for the year, with an EBITDA of £5,276,000, exceeded the current ratio objective for the year ended 31 July 2019 of 0.7:1, with an adjusted current ratio of 0.79:1 and came in at the 65% level of staff costs as a percentage of income.

**Performance Indicators**

The Group has an established and comprehensive suite of performance indicators (GPIs), which are used by managers and Governors at both full Board and Local Board level to track and monitor performance against set targets. Monthly progress reports are issued for all indicators and are scrutinised at respective Management and Governor Committees. The performance indicators cover a range of measures including; student recruitment, finance, quality, staffing, safety, safeguarding and Governor membership/attendance.

Ofsted's review of leadership at the Group in January 2017 was particularly complimentary about these:

*"The innovative and highly effective 'college performance indicators' (CPIs) dashboard gives leaders and governors a very clear and reliable picture of performance. Senior staff and governors use the CPIs well to gain a view of comparative performance across the year and for the previous three years. When required, improvement action is rapid and generally highly effective."*

**Ofsted Result**

The Group was last inspected by Ofsted in January 2017 against the Common Inspection Framework and the grades awarded were:

| Aspect | Grade |
|---|---|
| Overall effectiveness | Good |
| Leadership & Management | Outstanding |
| Teaching Learning & Assessment | Good |
| Personal Development, Behaviour and Welfare of Students | Outstanding |
| Outcomes for learners | Good |
| 16-19 Study Programmes | Good |
| Adult provision | Outstanding |
| High Needs | Outstanding |
| Apprenticeships | Outstanding |
| Technical School | Good |

Key findings by Ofsted included:

"Outstanding leadership strategies meet the economic and social needs of students across the region and in local communities, have improved the standing and reputation of the college following the acquisition of Dover and Folkestone campuses, and recognise and meet employers' skills needs."

"The provision for work experience is outstanding and is highly rated by employers and other stakeholders. An exceptionally high number of students take part in purposeful and challenging work experience."

"Almost all students enjoy very good levels of progression with the vast majority progressing successfully to further education, training or employment because of successful completion of their qualifications and excellent support and preparation for their next steps."

"Students benefit from good teaching, learning and assessment and are highly motivated to succeed in well-planned and equipped learning environments that enhance their learning and inspire them."

"Apprentices across all subject areas make outstanding progress in developing good job skills and knowledge."

"Leaders and managers work very closely with local authorities, special schools and other agencies to maintain outstanding provision for students with high needs."

"As a result of exceptionally effective and productive community engagement and partnership working, adult students from significantly disadvantaged backgrounds develop skills, enabling them to progress into sustainable employment or further learning."

"14- to 16-year-old full-time students gain good levels of confidence and a renewed positive attitude to learning through the effective development of their personal, social and work-related skills."

"In a small minority of lessons, across all provision types, work set is too easy and students do not make the progress they should. In addition, a small minority of students in all provision types are unaware of the progress they are making and unsure of the steps they need to take in order to achieve."
The nursery based at Broadstairs College was inspected in May 2019 and was graded "Good". Similarly, the nursery at Canterbury College was last inspected in 2018 and was graded "Good".

**Employer Engagement**

Respective Colleges and Business Units have continued to develop partnerships with employers across East Kent and to grow their apprenticeship provision through EKC WorkHigher. Our EKC IntoWork business unit has also been particularly successful in developing community-based adult provision to best meet employer need and has been very successful in working with a range of employers to help meet their staff recruitment needs such as Wetherspoon and Café Rouge.

During 2018-19 EKC Group established the role of Industry Liaison Officer across its five Colleges as part of the national T level work placement pilot. In doing so it proved highly successful ensuring over 300 students undertook an extended work placement in partnership with employers.

EKC Group having hosted a very successful Construction summit with industry stakeholders has worked closely with a key employer to draw up plans to create a centre for Civil Engineering, which is planned to open in 2020.

## FINANCIAL POSITION

### Financial Results

The Group reports an operating deficit of £1,589,000 after pensions adjustments (£2,654,000) have been taken into the Statement of Comprehensive Income. At 31 July 2019, the Group had accumulated income and expenditure reserves before pension reserve of £90,300,000 and a cash at bank balance of £1,788,000. The impact of the pension deficit on the Local Government Pension Scheme has been incorporated into the balance sheet and is reflected as a reduction in reserves of £29,963,000. This is a deterioration on the previous year-end position, with an actuarial loss of £4,567,000.

Tangible fixed asset additions during the year amounted to £2,031,000. This was mostly on a number of smaller value projects, with the more significant capital projects during the year being the completion of the Sheppey College reception and College services refurbishment, Canterbury College security improvements, the Broadstairs refectory refurbishment and on-going technology investments.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/19, there was an increase in the reliance on ESFA income to 80.2% (2017/18: 76.5%).

### Treasury policies and objectives

Treasury management is the management of the Group'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 Group 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 Governing Body. All other borrowing requires the authorisation of the Governing Body and shall comply with the requirements of the Financial Memorandum and the Group's Financial Regulations.

### Cash flow and liquidity

The net cash inflow for the year is £1,180,000 (2017/18: net cash outflow of £1,133,000). This is predominantly made up of an operating cash inflow of £4,630,000 (2017/18: £12,232,000) and capital expenditure of £2,031,000 (2017/18: £2,265,000).

The size of the Group'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. The Group has seen a much-reduced level of trade payables at the 2018/19 year-end (£238,000), than at the 2017/18 year-end (£992,000). This relatively low level of trade payables is as a result of a front-loading of some revenue expenditure budgets and a low number of on-going capital projects.

**Reserves Policy**

The Group continues to be reliant on its core government grant funding, with 80.2% of its income coming from government sources in 2018/19. These income sources have seen annual real-terms funding reductions in recent years; therefore it is especially important to ensure there are sufficient reserves to ensure the on-going solvency of the Group.

The Group already has substantial positive unrestricted reserves of £60,337,000, so the financial plan focuses on following a strategy of increasing the Group's underlying cash holdings, whilst continuing to invest in improvements to the Group estate and technology. The current cash balance of £1,788,000 is forecast to be approximately maintained, with a forecasted cash balance of £1,852,000 by July 2020, through a mixture of cash inflow from operating activities of £4,175,000, new capital expenditure of £5,400,000, loan repayments and debt servicing of £1,861,000 and new loan drawdown of £3,150,000 to support the capital development at Folkestone College.

## Taxation

As an exempt charity for the purposes of the Charities Act 2011 the Group is not liable to Corporation Tax.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

**Student numbers**

In 2018/19, the Group has delivered activity that has produced £39,865,000 in funding body main allocation funding (2017/18 - £28,949,000). The Group had approximately 5,700 funded and 2,700 non-funded students.

**Student achievements**

EKC Group achieved an overall achievement rate of 83% for 2018-19, against an 85.9% national average for all Colleges. The overall achievement rate for 16-18 year olds was 81.7%, whilst the overall achievement rate for adults was 85.7%.

EKC Group saw significant improvements in its high grade outcomes for GCSE English and maths having identified these as a key area for improvement at the end of the 2017-18 academic year namely a 3.9% increase for English and a 7% increase for maths.

Apprenticeships achieved similar outcomes to 2018-19 with a 67% overall achievement rate. This had also been an area identified within the Group's Quality Improvement Plan at the end of 2017-18.

EKC Group was also very successful in the regional skills competitions resulting in 10 entries into UK World Skills, the highest number from all of the Kent Colleges.

**Curriculum developments**

EKC Group had 4,956 students on 16-19 study programmes across 14 subject areas, 3,919 students on funded Adult Education provision and 49 students on 14-16 programmes in our Junior College at Broadstairs.

EKC Group continued to develop commercial enterprise to provide highly relevant and stretching work experience and was delighted to be shortlisted for a national Beacon award for its pioneering Yarrow Hotel, a 28-bedroom hotel where all students on a catering/hospitality study programme at Broadstairs College benefitted from high-level work experience. A unique development for further education.

In addition, the Group developed new Creative provision at Dover Technical College, launched a Business Enterprise offer at Folkestone College in partnership with the Peter Jones Academy, extended our Community provision into Sittingbourne and Ashford and rolled out our highly successful Progression Curriculum across Sheppey and Canterbury College.

EKC Group delivered T Level work placements in 2018-19 as part of the national pilot and was successful in its bid to deliver the full T level qualification in 2021.

EKC Group was highly successful in securing funds for a maths pilot which made a significant impact on our achievement of high pass grades in GCSE maths. The Group was also successful in its bid to become a Centre of Excellence for maths.

**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 Group 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 Group incurred no interest charges in respect of late payment for this period.

**Events after the end of the reporting period and future prospects**

**Future prospects**

EKC Group has recently developed a plan to acquire one of its neighbouring colleges after that college got into financial difficulties. The plan was invited for submission by the Further Education Commissioner (FEC). The FEC has now recommended that Ashford College and the Canterbury Spring Lane site of Hadlow College be acquired by EKC Group subject to the due diligence process.

As part of its strategic work to systematically plan skills provision across the whole educational landscape in East Kent, EKC Group is working to bring on-stream new multi academy trust provision later this year. The Group has already recruited four schools to join its MAT subject to consultation with stakeholders, and aims to deliver this for the beginning of 2020.

**Going Concern**

The financial statements have been prepared on a going concern basis. The Group continues to deliver a strong EBITDA of 10.1%, significantly above sector norms, the Group still maintains a significant operating cash inflow and is therefore able to improve the current ratio through this healthy cash generation.

The Group has prepared a three-year financial plan, including a cash-flow forecast, which shows that the Group will be able to meet its debts as they fall due, can deliver a positive EBITDA position in every year of the plan and can maintain a satisfactory level of cash throughout. It should also be noted that the level of EBITDA that the Group continues to deliver is significantly ahead of the sector benchmarks. It is therefore appropriate for these financial statements to be prepared on a going concern basis.

## RESOURCES

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

*Tangible*

Tangible resources include the main College sites, currently stated at a net book value of £149,746,000; equipment, plant and machinery with a net book value of £6,747,000; and assets under construction with a net book value of £316,000.

*Financial*

The Group has £63,720,000 of net assets (after deducting a £29,963,000 pension liability) and long-term debt of £12,682,000.

*People*

The Group employs 880 people (expressed as full-time equivalents), of whom 582 are teaching staff.

**Reputation**

Following merger, EKC Group has worked hard to develop its reputation as a new entity, while also growing the reputations of its constituent colleges and business units. It has done this through a series of planned campaigns, growing awareness of the Group for both internal and external stakeholders. As a new brand, EKC Group has sought to develop its constituent Colleges and Business Units first and foremost, as they are core to their locality. The Group has enabled this through the development of a Stakeholder Plan, which sets clear targets of key stakeholders to engage with, alongside core messages about what the Group's different elements do.

The Group has also continued with its social action strategy, helping to embed it firmly within its communities, and develop its relationship as an organisation which positively affects social mobility while contributing to society. In the past year it delivered tens of thousands of hours of social action led by students, across the communities the Group serves. This not only resulted in positive media coverage, but also significantly boosted stakeholder and community awareness of what the Group does, and how it seeks to operate.

The Group has also been prominent in developing its regional and national reputation for areas in which it excels. It was shortlisted for a number of sector awards (Association of Colleges Beacon Awards, Queens Award for Voluntary Service, Times Educational Supplement FE Award) in the past year, and has also taken part in a number of sector initiatives (Careers and Enterprise Company video and toolkit, successful Strategic College Improvement Fund bids as the leading College, Maths Centre for Excellence), helping grow its profile as a leading organisation in further education. These achievements have all received excellent coverage from trusted local media partners with which EKC Group has robust relationships. The Group has also begun the development of a new campaign to build the prominence of technical and vocational education in East Kent, and change the societal narrative around FE Colleges more widely.

**Property**

During 2018/19, the Group saw some improvements to its estate namely:

1. Improvements to the Sheppey College reception and College services areas (£373,000)
2. Refurbishment of the Broadstairs refectory (£178,000)
3. Enhancements to Canterbury College security (£199,000)

## STAFF AND STUDENT INVOLVEMENT

### Students

During 2018/19, EKC Group had a paid position of Student Union President with Vice Presidents based at every campus. Students were able to provide feedback on College progress through; national and College surveys, a regular student question time with Senior Managers, student experience reviews and the student representative structure.

Student representatives were also members of the newly formed Local College Boards where they actively engaged in shaping the future direction of respective Colleges.

The Group continued to implement a series of "progress weeks" during which students participated in social action programmes including; work in the community, volunteering and charity events.

### Staff

EKC Group set up a successful Staff Wellbeing Group in 2018/19 with a range of local and Group initiatives implemented. The staff satisfaction survey for 2018/19 showed demonstrable distance travelled with over 21% more staff saying they were "Proud to be a member of EKC Group".

EKC Group formed a new joint working group with the University and College Union (UCU) having agreed a comprehensive recognition agreement with them. In doing so a number of benefits and changes were agreed including; a 1% staff pay award from 1 August 2019, time off for staff at Christmas and a commitment to continue to review staff workloads.

# PRINCIPAL RISKS AND UNCERTAINTIES

The Group strives to continuously develop and improve its systems and processes for internal controls, particularly risk management.

The Group has an established risk control system that links the identified high risks to the Group's strategic aims and objectives, with progress being monitored by the key performance indicators. This direct linkage brings a sharp focus to key risks and has ensured that all actions are mitigating these.

The current risks include:

**1. Government funding**

The Group has a dependency on government funding of 80.2%. This is in higher than the benchmarked average for general further education colleges (74% as per the SFA Finance record 2017/18 for all General FE Colleges). The Group has been following the strategy below to diversify its income:

- To develop a broader portfolio of courses in the Group's specialisms to include pre 16 and higher education, already evidenced by the Group's 14-16 Junior College and HE offer, and the creation of EKC Schools Trust.
- To grow the commercial income by implementing business ventures and commercialism as part of the curriculum, for example The Yarrow hotel, community cafés, commercial salons, and other entrepreneurial student-led enterprises.
- To be outstanding in all aspects of our work to raise the Group's profile with employers and stakeholders.

**2. Tuition fee policy**

In line with the majority of other colleges, EKC Group will seek to increase tuition fees in accordance with Government's fees policy. The risk for the Group is that demand falls off. This risk is mitigated in a number of ways:

- By ensuring the Group is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses due to changes in price.

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

The financial statements report the share of the Local Government Pension Scheme deficit on the Group's balance sheet in line with the requirements of FRS102.

**4. Student experience**

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

- To deliver outstanding teaching and learning making the learning experience relevant, coherent and attractive.
- To deliver an outstanding, innovative study programme which encompasses; English, mathematics and work experience, alongside the main qualification aim.
- To build an estate that is safe, current and fit for the delivery of outstanding teaching and learning.
- To provide increased commercial opportunities that reflect industry standards and practices and to ensure links with employers provide relevant experience and insight.
- To deliver support services that remove all barriers to learning and embrace individuality and provide inclusivity by putting learners at the heart of decision-making.
- To support students in making the right life choices for them to achieve positive progression into employment/higher level study.
- To stretch and challenge students to be the best they possibly can be.

## STAKEHOLDER RELATIONSHIPS

EKC Group has many stakeholders who are vitally important to supporting the achievement of its strategic goals. These include:

- students;
- education sector funding bodies;
- staff;
- local employers;
- local schools;
- franchise partners;
- the Funding bodies;
- Local Authorities;
- South East Local Enterprise Partnership;
- the local community;
- other FE institutions;
- Trade Unions; and
- professional bodies.

The Group recognises the importance of these relationships and engages in regular communication through the Group website and through its membership of forums and other strategic partnerships.

### Equal Opportunities

EKC Group is committed to ensuring equality of opportunity for all who learn and work here. The Group respects and values positively differences in race, gender, sexual orientation, able-bodiedness, class and age. The Group strives vigorously to remove conditions that place people at a disadvantage and will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

EKC Group 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 Group continues. The Group's approach is to provide training, career development and opportunities for promotion that are accessible to all staff.

## DISABILITY STATEMENT

EKC Group seeks to achieve the objectives set down in the Equality Act 2010 and in particular makes the following commitments;

- 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;
- there is a list of specialist equipment, such as lighting for audio facilities, which the Group can make available for use by students;
- the admissions policy ensures all needs are fully assessed prior to the start of the course ensuring full inclusivity. Appeals against a decision not to offer a place are dealt with under the admissions policy;
- the Group 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 practitioners 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;
- specialist programmes are described in programme information guides, and achievements and destinations are recorded and published; and
- counselling and welfare services are readily available for staff and students.

## Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college

| Numbers of employees who were relevant period | FTE employee number |
|---|---|
| 9 | 7.4 |

| Percentage of time | Number of employees |
|---|---|
| 0% | - |
| 1-50% | 9 |
| 51-99% | - |
| 100% | - |

| | |
|---|---|
| Total cost of facility time | £38,395 |
| Total pay bill | £36,595,000 |
| Percentage of total bill spent on facility time | 0.10% |

| | |
|---|---|
| Time spent on paid trade union activities as a percentage of total paid facility time | 88% |

**Disclosure of information to auditors**

The Governors 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 Group's auditors are unaware; and each Governor 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 Group's auditors are aware of that information.

**Approved by order of the members of the Governing Body on 17 December 2019 and signed on their behalf by:**

Charles Buchanan

**Chair of Governors**

# Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and financial statements of the EKC Group to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

EKC Group endeavours to conduct its business:

- in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- in accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges; and
- having due regard to the UK Corporate Governance Code 2016 ("the Code") insofar as it is applicable to the further education sector.

The Group is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the Group has applied the principles set out in the Code. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Governors, the Group 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 2019. 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 Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015.

The Group 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 have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

Post-merger the Charity Commission for England and Wales authorised the remuneration of a trustee for work undertaken for the charity under the power given in section 105 of the Charities Act 2011. This order is for the Chair of Governors and has been approved for two years in the first instance.

### 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.

| *Name* | *Date of appointment / re-appointment* | *Term of office* | *Date of resignation* | *Status of appointment* | *Committees served* | *Corporation Attendance* | *Meeting Attendance* |
|---|---|---|---|---|---|---|---|
| Charles Buchanan | 01.02.2018 | 4 years | | Independent member | Chair of Corporation<br>Member of Search & Governance Committee and Member of Remuneration Committee | 100% | 100% |

| *Name* | *Date of appointment / re-appointment* | *Term of office* | *Date of resignation* | *Status of appointment* | *Committees served* | *Corporation Attendance* | *Meeting Attendance* |
|---|---|---|---|---|---|---|---|
| Tim Kent | 01.02.2018 | 4 years | | Independent member | Member of Remuneration Committee, Member of Search & Governance Committee and Corporation Member | 56% | 100% |
| Jonathan Clarke | 01.02.2018 | 1 year 5 months | | Independent member | Chair of Remuneration Committee, Chair of Search & Governance Committee and Corporation Member | 94% | 100% |
| Tom Price | 01.02.2018 | 1 year 5 months | 31.05.2019 | Independent member | Member of Audit Committee and Corporation Member | 92% | 100% |
| Gail Clarke | 01.02.2018 | 2 years 5 months | | Independent member | Member of Audit Committee and Corporation Member | 72% | 67% |
| Miranda Chapman | 01.02.2018 | 3 years 5 months | | Independent member | Corporation Member | 78% | N/A |
| Tony Allen | 01.02.2018 | 1 year 5 months | | Independent member | Chair of Audit Committee and Corporation Member | 72% | 100% |
| Peter Wood | 01.02.2018 | 1 year 5 months | | Independent member | Member of Audit Committee and Corporation Member | 83% | 100% |

| *Name* | *Date of appointment / re-appointment* | *Term of office* | *Date of resignation* | *Status of appointment* | *Committees served* | *Corporation Attendance* | *Meeting Attendance* |
|---|---|---|---|---|---|---|---|
| Jeremy Licence | 01.02.2018 | 1 year 5 months | 02.11.2018 | Independent Member | Member of Remuneration Committee, Member of Search & Governance Committee and Corporation Member | 50% | 100% |
| Penny Williams | 01.02.2018 | 2 years 5 months | | Independent member | Corporation Member | 56% | N/A |
| Linda Keen | 29.01.2019 | 1 year 5 months | | Independent member | Corporation Member | 83% | N/A |
| Peter Troke | 29.01.2019 | 1 year 5 months | | Independent member | Corporation Member | 83% | N/A |
| John Korzeniewski | 29.01.2019 | 1 year 5 months | | Independent member | Corporation Member | 83% | N/A |
| Peter Cheney | 09.07.2019 | 1 year | | Independent member | Member of Audit Committee and Corporation Member | 100% | N/A |
| Graham Razey | 01.02.2018 | N/A | | Group Principal | Member of Search & Governance Committee and Corporation Member | 100% | 100% |
| Nicola Kelly | 01.02.2018 | 2 years | | Staff Governor | Member of Corporation | 86% | N/A |
| Omar Walker | 01.08.2019 | 1 year | 31.07.2019 | Student Governor | Member of Corporation | 100% | N/A |

**Board Diversity**

| | | | |
|---|---|---|---|
| Male | 67% | Female | 33% |

## SENIOR OFFICERS ATTENDING

| | *Date of appointment / re-appointment* | *Term of office* | *Date of resignation* | *Status of appointment* | *Committees served* | *Attendance* |
|---|---|---|---|---|---|---|
| Anne Leese | 01.02.2018 | N/A | | Group Deputy Principal | Corporation | 78% |
| Chris Legg | 01.02.2018 | N/A | | Executive Director - Finance and Commercial Development | Audit, Corporation | 92% |
| Paul Sayers | 01.02.2018 | N/A | | Executive Director - Strategic Partnerships | Audit, Corporation | 92% |
| Lauren Anning | 01.02.2018 | N/A | 31.05.2019 | Executive Director – Student Experience & Wellbeing | Corporation | 100% |
| Tammy Mitchell | 03.09.2018 | N/A | | Executive Director – Schools and Early Years | Corporation | 89% |
| Tara Ashman | Clerk appointed 01.02.2018 | | | | | 100% |

The Governing Body is provided with regular and timely information on the overall financial performance of the Group 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 six times per academic year.

The Governing Body conducts its business through a Carver model structure and additional agreed committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are Audit, Remuneration, and Search & Governance. Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available from the Clerk by writing to 'The Clerk, EKC Group, 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 Group'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 that 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 Group Principal of the Group 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 Search and Governance Committee, which is comprised of four members; the Chair of Search and Governance Committee, the Chair of the Governing Body, the Group Principal and one additional member from the Corporation. 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.

## CORPORATION PERFORMANCE

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

The Board considers its individual performance over the year at the strategic events and through Governor self-evaluation and 1-to-1 meetings with the Chair. Further assurance is gained from both external parties (Ofsted visits) and the Group Performance Indicators (GPIs), which are reported on a monthly basis. These indicators cover all aspects of the Group's operations including teaching and learning, student outcomes, satisfaction and leadership and management. The GPIs form a sound basis from which managers and Governors can judge performance and progress. The annual and three-year targets are based on the most accurate comparative data from within and outside the sector (where appropriate) and targets are set to be both challenging but achievable.

## REMUNERATION COMMITTEE

Following adoption of the Senior Postholders Remuneration Code by formal resolution in March 2019, the EKC Group Remuneration Committee comprised three members; the Chair of the Remuneration Committee, the Chair of the Governing Body and one additional member from the Corporation. Since March 2019, the Group Principal has been a reporting Officer in line with the schedule of delegation for Senior Postholders, prior to this he was a member of the Committee. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Group Principal and Senior Postholders of the organisation.

Details of remuneration for the year ended 31 July 2019 are set out in note 7 to the financial statements.

## AUDIT COMMITTEE

The Audit Committee comprises the Chair and three 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 Group's systems of internal control and its arrangements for risk management, control and governance processes.

The Audit Committee meets three times per year and provides a forum for reporting by the Group's financial statements auditors, who have access to the Committee for independent discussion, without the presence of management.

The Governing Body took the decision to manage the internal audit under the freedom and flexibilities of the Joint Audit Code of Practice to procure a wider range of internal audit services, focused on added-value improvement reviews linked to key risks and new developments. The Audit Committee has responsibility for reviewing these reports.

The Committee also receives and considers reports from the main FE funding bodies as they affect the Group's business. Management are responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure recommendations have been implemented.

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

## INTERNAL CONTROL

### Scope of responsibility

The Governing Body is ultimately responsible for EKC Group'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 EKC Group 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 Group and the funding bodies. He is also responsible for reporting to the Governing Body any material weaknesses or breakdowns in internal control.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of EKC Group 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 within EKC Group for the year ended 31 July 2019 and up to the date of approval of the annual report and financial statements.

### Capacity to handle risk

The Governing Body has reviewed the key risks to which EKC Group 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 EKC Group's significant risks that has been in place for the period ended 31 July 2019 and up to the date of approval of the annual report and financial statements. This process is reviewed regularly 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 by use of Group Performance Indicators;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

EKC Group has an internal audit service, supplemented by additional work provided by other industry practitioners, which operates in accordance with the requirements of the ESFA's Post-16 Audit Code of

Practice. The scope of this work is informed by an analysis of the risks to which the Group 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. The Chair of the Audit Committee provides the Governing Body with a report on internal audit activities and will include the independent opinions on the adequacy and effectiveness of the Group'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 Team within EKC Group who have responsibility for the development and maintenance of the internal control framework; and
- comments made by EKC Group's financial statements auditors, the regularity auditors and the appointed funding auditors 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 other independent advisers and approves plans to address weaknesses and ensure continuous improvement of the control systems.

The Executive 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 Executive Team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Executive Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Based on the advice of the Audit Committee and the Principal, the Governing Body is of the opinion that EKC Group 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 safeguarding of the assets".

**GOING CONCERN**

After making appropriate enquiries, the Governing Body considers that EKC Group has adequate resources to continue in operational existence for the foreseeable future.

EKC Group has prepared a three-year financial plan, including a cash-flow forecast, which shows that the Group will be able to meet its debts as they fall due, can deliver a positive EBITDA position 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.

Approved by order of the members of the Governing Body on 17 December 2019 and signed on their behalf by:

| | |
|---|---|
| Charles Buchanan | Graham Razey |
| **Chair of Governors** | **Accounting Officer** |

**Governing Body's Statement on the Group's Regularity, Propriety and Compliance with Funding Body Terms and Conditions of Funding**

The Governing Body has considered its responsibility to notify the Education & Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with the terms and conditions of funding, under the Group's Financial Memorandum. As part of its consideration the Governing Body has had due regard to the requirements of the Financial Memorandum.

We confirm, on behalf of the Governing Body that, after due enquiry, and to the best of its knowledge, the Governing Body is able to identify any material irregular or improper use of funds by the Group, or material non-compliance with the terms and conditions of funding under the Group's Financial Memorandum.

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

Charles Buchanan
**Chair of Governors**
17 December 2019

Graham Razey
**Accounting Officer**
17 December 2019

# Statement of Responsibilities of the Members of the Governing Body

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

Within the terms and conditions of the Group's Financial Memorandum with the ESFA, the Governing Body, through its Principal, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's College Accounts Direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the Group 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; and
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the Group will continue in operation.

The Governing Body is also required to prepare a Report of the Governing Body which describes what it is trying to do and how it is going about it, including the legal and administrative status of the Group.

The Governing Body is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group, 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 Group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Group website is the responsibility of the Governing Body of the Group; 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 ESFA are used only in accordance with the Financial Memorandum with the ESFA 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 Group's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Governing Body on 17 December 2019 and signed on their behalf by:

Charles Buchanan
**Chair of Governors**

# Independent auditor's report to the Governing Body of EKC Group

## Opinion

We have audited the financial statements of EKC Group (the 'College') for the year ended 31 July 2019 which comprise the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows, the principal accounting policies, and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2019 and of its deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

## Basis for opinion

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

## Conclusions relating to going concern

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

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

## Other information

The Governing Body is responsible for the other information. The other information comprises the information included in the annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

**Responsibilities of the Governing Body**

As explained more fully in the statement of responsibilities of members of the Governing Body, the Governing Body is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Governing Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Body is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Body either intends to liquidate the college or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**Use of our report**

This report is made solely to the Governing Body, as a body, in accordance with the College's Articles of Government. Our audit work has been undertaken so that we might state to the Governing 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 college and the Governing Body as a body, for our audit work, for this report, or for the opinions we have formed.

Buzzacott LLP

Buzzacott LLP
Statutory Auditor
130 Wood Street
London
EC2V 6DL

24 December 2019

# Reporting Accountant's Assurance Report on Regularity

**To: The Governing Body EKC Group and Secretary of State for Education acting through the Department for Education ("the Department")**

In accordance with the terms of our engagement letter dated 13 May 2019 and further to the requirements of the financial memorandum with the Education and Skills Funding Agency, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that, in all material respects, the expenditure disbursed and income received by EKC Group during the period 1 August 2018 to 31 July 2019 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

**Respective responsibilities of EKC Group and the reporting accountant**

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament of that the financial transactions do not conform to the authorities that govern them.

**Approach**

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

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

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

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

The work undertaken to draw to our conclusion includes:

- An assessment of the risk of material irregularity and impropriety across all of the College's activities;
- Further testing and review of self-assessment questionnaire including enquiry, identification of control processes and examination of supporting evidence across all areas identified as well as additional verification work where considered necessary; and
- Consideration of evidence obtained through the work detailed above and the work completed as part of our financial statements audit in order to support the regularity conclusion.

**Conclusion**

In the course of our work, nothing has come to our attention which suggests that in all material respects, the expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Buzzacott LLP

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

24 December 2019

# Statement of Comprehensive Income

| | Notes | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|---|---|---|---|
| **INCOME** | | | |
| Funding body grants | 2 | 43,758 | 48,452 |
| Tuition fees and education contracts | 3 | 5,611 | 4,646 |
| Other grants and contracts | 4 | 459 | 532 |
| Other income | 5 | 4,216 | 3,685 |
| Endowment and investment income | 6 | 2 | 3 |
| **Total income** | | **54,046** | **57,318** |
| **EXPENDITURE** | | | |
| Staff costs | 7 | 36,595 | 27,508 |
| Fundamental restructuring costs | 7 | 65 | 580 |
| Other operating expenses | 8 | 12,960 | 15,986 |
| Depreciation | 10 | 4,418 | 3,301 |
| Interest and other finance costs | 9 | 1,044 | 885 |
| **Total expenditure** | | **55,082** | **48,260** |
| **(Deficit)/Surplus before other gains and losses** | | **(1,036)** | **9,058** |
| Loss on disposal of assets | | (553) | - |
| **(Deficit)/Surplus for the year** | | **(1,589)** | **9,058** |
| Gain on fair value of assets and liabilities acquired on the Merger with Canterbury College | | - | 37,390 |
| Actuarial (loss)/gain in respect of pensions schemes | 19 | (4,567) | 9,018 |
| **Total Comprehensive (Expenditure)/Income for the year** | | **(6,156)** | **55,466** |
| Represented by: | | | |
| **Unrestricted Comprehensive (Expenditure)/Income** | | **(6,156)** | **55,466** |

The statement of Comprehensive Income is in respect of continuing activities.

# Statement of Changes in Reserves

| | Income and expenditure account | Revaluation reserve | Total |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Balance at 31 July 2017** | **10,672** | **3,738** | **14,410** |
| Surplus from the income and expenditure account | 9,058 | - | 9,058 |
| Transfer from Canterbury College | 37,390 | - | 37,390 |
| Actuarial gain in respect of pension schemes | 9,018 | - | 9,018 |
| Transfers between revaluation and income and expenditure reserves | 194 | (194) | - |
| Total comprehensive income for the year | 55,660 | (194) | 55,466 |
| **Balance at 31 July 2018** | **66,332** | **3,544** | **69,876** |
| Deficit from the income and expenditure account | (1,589) | - | (1,589) |
| Actuarial loss in respect of pension schemes | (4,567) | - | (4,567) |
| Transfers between revaluation and income and expenditure reserves | 161 | (161) | - |
| Total comprehensive expenditure for the year | (5,995) | (161) | (6,156) |
| **Balance at 31 July 2019** | **60,337** | **3,383** | **63,720** |

# Balance sheet as at 31 July

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Non current assets** | | | |
| Tangible fixed assets | 10 | 156,809 | 159,769 |
| | | **156,809** | **159,769** |
| **Current assets** | | | |
| Stocks | | 55 | 28 |
| Trade and other receivables | 11 | 1,758 | 1,853 |
| Cash and cash equivalents | 16 | 1,788 | 608 |
| | | **3,601** | **2,489** |
| **Creditors – amounts falling due within one year** | 12 | (6,669) | (7,958) |
| **Net current liabilities** | | **(3,068)** | **(5,469)** |
| **Total assets less current liabilities** | | **153,741** | **154,300** |
| **Creditors – amounts falling due after more than one year** | 13 | (59,509) | (61,878) |
| **Provisions** | | | |
| Defined benefit obligations | 19 | (29,963) | (22,182) |
| Other provisions | 15 | (549) | (364) |
| **Total net assets** | | **63,720** | **69,876** |
| **Unrestricted Reserves** | | | |
| Income and expenditure account | | 60,337 | 66,332 |
| Revaluation reserve | | 3,383 | 3,544 |
| **Total unrestricted reserves** | | **63,720** | **69,876** |

The financial statements on pages 26 to 45 were approved and authorised for issue by the Governing Body on 17 December 2019 and were signed on its behalf on that date by:

Charles Buchanan
**Chair of Governors**

Graham Razey
**Accounting Officer**

## Statement of Cash Flows

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| (Deficit)/surplus for the year | 10 | (1,589) | 9,058 |
| **Adjustment for non-cash items** | | | |
| Depreciation | | 4,418 | 3,301 |
| (Increase)/decrease in stocks | | (27) | 20 |
| Decrease in debtors | 11 | 95 | 83 |
| Decrease in creditors due within one year | 12 | (972) | (1,222) |
| Decrease in creditors due after one year | 13 | (1,749) | (1,767) |
| Increase/(decrease) in provisions | 15 | 185 | (252) |
| Pensions costs less contributions payable | 19 | 3,214 | 2,666 |
| **Adjustment for investing or financing activities** | | | |
| Investment income | 6 | (2) | (3) |
| Interest payable | 9 | 484 | 348 |
| Loss on sale of fixed assets | | 569 | - |
| **Net cash flow from operating activities** | | **4,626** | **12,232** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of fixed assets | | 4 | - |
| Investment income | 6 | 2 | 3 |
| Transfer of cash balance from Canterbury College | | - | 421 |
| Payments made to acquire fixed assets | 10 | (2,031) | (2,265) |
| | | (2,025) | (1,841) |
| **Cash flows from financing activities** | | | |
| Interest paid | 9 | (484) | (348) |
| New loan | | - | 12,486 |
| Repayments of amounts borrowed | 14 | (937) | (23,662) |
| | | (1,421) | (11,524) |
| **Increase/(decrease) in cash and cash equivalents in the year** | | **1,180** | **(1,133)** |
| Cash and cash equivalents at 1 August 2018 | 16 | 608 | 1,741 |
| Cash and cash equivalents at 31 July 2019 | 16 | 1,788 | 608 |

# Notes to the Accounts

## 1. Statement of accounting policies and estimation techniques

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

### Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the ESFA's College Accounts Direction for 2018 to 2019 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies.

### Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition to the 2015 FE HE SORP on 1 August 2014 and 1 February 2018 for certain non-current assets.

### Going concern

The activities of the Group, together with the factors likely to affect its future development and performance are set out in the Report of the Governing Body. The financial position of the Group, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The Group currently has £13.7 million of loans outstanding with bankers on terms negotiated in 2013/14 and in 2017/18. The terms of the existing fixed-rate agreements are for up to 14 years.

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

### Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the income stream involved. Any under or over achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other non-governmental capital grants are recognised in income when the Group is entitled to the funds subject to any performance-related conditions being met.

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

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis.

**Accounting for post-employment benefits**

Post-employment benefits to employees of the Group are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

The TPS is an unfunded scheme. Contributions to the TPS are calculated to spread the cost of pensions over employees' working lives with the Group 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 based on valuations using a prospective benefit method. The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

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

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

**Short term employment benefits**

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

**Enhanced Pensions**

The actual cost of any enhanced on-going 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 Group's income 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.

**Non-current Assets - Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

**Land and buildings**

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation based on 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 as it is considered to have an infinite useful life. Freehold buildings are depreciated over their expected useful economic life to the College of between 40 and 60 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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

On adoption of FRS 102, the Group followed the transitional provision to retain the book value of land and buildings, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

**Assets under construction**

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

**Equipment**

Equipment costing less than £2,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- General Equipment 7 years
- IT Equipment 3-5 years

**Borrowing costs**

Borrowing costs are recognised as expenditure in the period in which they are incurred.

**Leased assets**

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income. Any lease premiums or incentives relating to leases signed after 1 August 2014 are spread over the minimum lease term. The Group has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

**Inventories**

Inventories are stated at the lower of their cost and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

**Cash and cash equivalents**

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

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

**Financial liabilities and equity**

Financial liabilities and equity are classified per the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short-term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

**Taxation**

The Group 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 Group is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The Group is partially exempt in respect of Value Added Tax (VAT), so that it can only recover a minor element of the 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, where the inputs themselves are tangible fixed assets.

**Provisions and contingent liabilities**

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period it arises.

A contingent liability arises from a past event that gives the Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

**Agency arrangements**

The Group acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies, where the Group is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. These amounts and subsequent disbursements to students are excluded from the Income and Expenditure Account of the Group and are shown separately in Note 21, except for the 5 per cent of the total grant received which is available to the Group to cover administration costs relating to those funds.

**Judgements in applying accounting policies and key sources of estimation uncertainty**

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

- Determine whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the Group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

*Other key sources of estimation uncertainty*

- *Tangible fixed assets*

Tangible fixed assets are depreciated over their useful economic lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 19, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

| **2 Funding body grants** | **Year ended 31 July 2019 £'000** | **Year ended 31 July 2018 £'000** |
|---|---|---|
| **Recurrent grants** | | |
| Education and Skills Funding Agency - adult | 10,383 | 7,781 |
| Education and Skills Funding Agency – 16 -18 | 29,482 | 21,194 |
| **Specific grants** | | |
| Education and Skills Funding Agency | 2,091 | 18,065 |
| Releases of government capital grants | 1,802 | 1,412 |
| **Total** | **43,758** | **48,452** |

The Specific grants from the year ended 31 July 2018 above contain a sum of £16,976,000 of restructuring facility from the Education and Skills Funding Agency. The purpose of this grant was to enable and facilitate the merger between East Kent College and Canterbury College through a restructuring and overall reduction of the level of long-term borrowings at the point of merger. £5,000,000 is repayable based on certain performance conditions being met.

| **3 Tuition fees and education contracts** | **Year ended 31 July 2019 £'000** | **Year ended 31 July 2018 £'000** |
|---|---|---|
| Adult education fees | 707 | 527 |
| Apprenticeship fees and contracts | 115 | 93 |
| Fees for HE loan supported courses | 1,057 | 780 |
| Fees for FE loan supported courses | 812 | 690 |
| **Total tuition fees** | **2,691** | **2,090** |
| Education contracts | 2,920 | 2,556 |
| **Total** | **5,611** | **4,646** |

| **4 Other grants and contracts** | **Year ended 31 July 2019 £'000** | **Year ended 31 July 2018 £'000** |
|---|---|---|
| Other grants and contracts | 459 | 532 |
| **Total** | **459** | **532** |

| 5 Other income | Year ended 31 July 2019 | Year ended 31 July 2018 |
|---|---|---|
| | £'000 | £'000 |
| Catering and residences | 1,189 | 809 |
| Other income generating activities | 3,027 | 2,876 |
| **Total** | **4,216** | **3,685** |

| 6 Investment income | Year ended 31 July 2019 | Year ended 31 July 2018 |
|---|---|---|
| | £'000 | £'000 |
| Other interest receivable | 2 | 3 |
| **Total** | **459** | **532** |

## 7 Staff costs

The average number of persons (including key management personnel) employed by the College during the year, described as full-time equivalents, was:

| | 2019 | 2018 |
|---|---|---|
| | No. | No. |
| Teaching staff | 582 | 533 |
| Non-teaching staff | 298 | 257 |
| | **880** | **790** |

**Staff costs for the above persons**

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 27,692 | 20,620 |
| Social security costs | 2,253 | 1,714 |
| Other pension costs (note 19) | 6,429 | 5,106 |
| **Payroll sub total** | **36,374** | **27,440** |
| Contracted out staffing services | 221 | 68 |
| | **36,595** | **27,508** |
| Fundamental restructuring costs - contractual | 65 | 580 |
| **Total Staff costs** | **36,660** | **28,088** |

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal & CEO, Deputy Principal & CEO, Executive Director of Finance & Commercial Development, Executive Director of Strategy & Partnerships, Executive Director of Student Experience & Wellbeing, Executive Director of Schools & Early Years and the Clerk to the Governing Body.

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

| | 2019 | 2018 |
|---|---|---|
| | No. | No. |
| The number of key management personnel including the Accounting Officer was: | 6 | 6 |

The number of key management personnel and other staff who received annual emoluments, excluding pension contributions and employer's national insurance but including benefits in kind, in the following ranges was:

| | Key management personnel | | Other staff | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | No. | No. | No. | No. |
| £30,001 to £35,000 p.a. | - | - | N/A | N/A |
| £40,001 to £45,000 p.a. | - | 1 | N/A | N/A |
| £45,001 to £50,000 p.a. | 1 | - | N/A | N/A |
| £60,001 to £65,000 p.a. | - | - | 5 | - |
| £70,001 to £75,000 p.a. | - | - | 4 | 1 |
| £75,001 to £80,000 p.a. | - | - | - | 2 |
| £85,001 to £90,000 p.a. | 1 | 1 | 1 | - |
| £95,001 to £100,000 p.a. | 1 | - | - | - |
| £100,001 to £105,000 p.a. | - | 1 | 1 | |
| £110,001 to £115,000 p.a. | 1 | 1 | - | - |
| £125,001 to £130,000 p.a. | - | 1 | - | - |
| £130,001 to £135,000 p.a. | 1 | - | - | - |
| £170,001 to £175,000 p.a. | 1 | 1 | - | - |
| | 6 | 6 | 11 | 3 |

Key management personnel compensation is made up as follows:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Salaries | 647 | 640 |
| Employers National Insurance | 83 | 82 |
| Benefits in kind | 5 | 5 |
| | 735 | 727 |
| Pension contributions | 101 | 99 |
| Total key management personnel emoluments | 836 | 826 |

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place.

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Salaries | 174 | 172 |
| Benefits in kind | 1 | 1 |
| | 175 | 173 |
| Pension contributions | 29 | 28 |

The members of the Governing Body, other than the Chair of the Governing Body, the Accounting Officer and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Benefits in kind relate to the provision of health insurance.

Relationship of Principal/Chief Executive pay and remuneration expressed as a multiple

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Principal and CEO's basic salary as a multiple of the median of all staff | 6.5 | 6.6 |
| Principal and CEO's total remuneration as a multiple of the median of all staff | 7.2 | 8.0 |

The Group has adopted the AoC's senior staff remuneration code.

## 8 Other operating expenses

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Teaching costs | 2,792 | 2,926 |
| Non-teaching costs | 6,583 | 10,408 |
| Premises costs | 3,585 | 2,652 |
| **Total** | **12,960** | **15,986** |

| **Other operating expenses include:** | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Auditors' remuneration: | | |
| Financial statements audit | 27 | 27 |
| Internal audit | 25 | 20 |
| Other services provided by the external auditors | 29 | - |
| Hire of assets under operating leases | 299 | 455 |

## 9 Interest and other finance costs

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| On bank loans, overdrafts and other loans: | 484 | 348 |
| Net interest on defined pension liability (note 19) | 560 | 537 |
| **Total** | **1,044** | **885** |

## 10 Tangible fixed assets

| | Land and buildings | Equipment | Assets in the course of construction | Total |
|---|---|---|---|---|
| **Cost or valuation** | £'000 | £'000 | £'000 | £'000 |
| At 1 August 2018 | 164,422 | 17,034 | 2,572 | 184,028 |
| Transfers | 1,978 | 593 | (2,572) | (1) |
| Disposals | (908) | (2,501) | - | (3,409) |
| Additions | 92 | 1,623 | 316 | 2,031 |
| **At 31 July 2019** | **165,584** | **16,749** | **316** | **182,649** |
| **Depreciation** | | | | |
| At 1 August 2018 | 13,209 | 11,050 | - | 24,259 |
| Charge for the year | 3,118 | 1,300 | - | 4,418 |
| Charge on disposal | (489) | (2,348) | - | (2,837) |
| **At 31 July 2019** | **15,838** | **10,002** | **-** | **25,840** |
| **Net book value at 31 July 2019** | **149,746** | **6,747** | **316** | **156,809** |
| Net book value at 31 July 2018 | **151,213** | **5,984** | **2,572** | **159,769** |

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. Fixed assets transferred from K College on 1 August 2014 and fixed assets transferred from Canterbury College on 1 February 2018 were valued by a firm of independent chartered surveyors. The Governing Body is of the view that no material change in the value of the fixed assets has since occurred.

The Department for Education holds a charge over Folkestone College in relation to £5,000,000 of the restructuring grant received for the merger of East Kent College and Canterbury College in February 2018.

## 11 Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Trade receivables | 309 | 348 |
| Prepayments and accrued income | 961 | 835 |
| Amounts owed by the ESFA | 488 | 670 |
| **Total** | 1,758 | 1,853 |

## 12 Creditors: amounts falling due within one year

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Bank loans and overdrafts (note 14) | 1,054 | 1,371 |
| Trade payables | 238 | 992 |
| Other taxation and social security | 544 | 593 |
| Accruals and deferred income | 2,689 | 2,785 |
| Employee holiday pay | 463 | 507 |
| Deferred income - government capital grants | 1,673 | 1,710 |
| Amounts owed to the ESFA | 8 | - |
| **Total** | **6,669** | **7,958** |

## 13 Creditors: amounts falling due after one year

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Bank loans (note 14) | 12,682 | 13,302 |
| Deferred income - government capital grants | 46,827 | 48,576 |
| **Total** | **59,509** | **61,878** |

## 14 Maturity of debt

**Bank loans and overdrafts**

| Bank loans and overdrafts are repayable as follows: | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| In one year or less | 1,054 | 1,371 |
| Between one and two years | 1,034 | 1,351 |
| Between two and five years | 9,790 | 9,939 |
| In five years or more | 1,858 | 2,012 |
| **Total** | **13,736** | **14,673** |

Bank loans and overdrafts at variable interest rates of between 2.15% and 4.73% repayable by instalments falling due between 1 August 2017 and 31 August 2028 and are secured over the Canterbury College estate.

## 15 Provisions

| | Defined benefit obligations | Enhanced pensions | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 August 2018 | 22,182 | 364 | 22,546 |
| Net expenditure in the period | 7,781 | 185 | 7,966 |
| **At 31 July 2019** | **29,963** | **549** | **30,512** |

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

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:

| | 2019 | 2018 |
|---|---|---|
| Price inflation | 2.20% | 2.35% |
| Discount rate | 2.00% | 2.65% |

## 16 Cash and cash equivalents

| | At 1 August 2018 | Cash flows | At 31 July 2019 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 608 | 1,180 | 1,788 |
| **Total** | **608** | **1,180** | **1,788** |

## 17 Capital and other commitments

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Commitments contracted for at 31 July | 570 | 591 |

## 18 Lease obligations

At 31 July the College had minimum lease payments under non-cancellable operating leases as follows:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Future minimum lease payments due** | | |
| **Land and buildings** | | |
| Not later than one year | 69 | 170 |
| Later than one year and not later than five years | 76 | 124 |
| | 145 | 294 |
| **Other** | | |
| Not later than one year | 86 | 122 |
| Later than one year and not later than five years | 195 | 206 |
| Later than five years | - | 3 |
| | 281 | 331 |
| **Total lease payments due** | **426** | **625** |

## 19 Defined benefit obligations

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

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2016 and of the LGPS 31 March 2016.

| Total pension cost for the year | | 2019 £000 | | 2018 £'000 |
|---|---|---|---|---|
| Teachers' Pension Scheme: contributions paid | | 1,845 | | 1,350 |
| Local Government Pension Scheme: | | | | |
| Contributions paid | 1,961 | | 1,469 | |
| FRS 102 (28) charge | 2,623 | | 2,287 | |
| Charge to the Statement of Comprehensive Income | | 4,584 | | 3,756 |
| **Total Pension Cost for Year within staff costs** | | **6,429** | | **5,106** |

Contributions amounting to £229,245 (2018: £233,068) were payable to the scheme at 31 July and are included within creditors.

### Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools, colleges and other educational establishments. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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. Retirement and other pension benefits are paid by public funds provided by Parliament.

Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

The valuation of the TPS is carried out in line with regulations made under the Public Service Pension Act 2013. Valuations credit the teachers' pension account with a real rate of return assuming funds are invested in notional investments that produce that real rate of return.

The latest actuarial review of the TPS was carried out as at 31 March 2016. The valuation report was published by the Department for Education (the Department) in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion giving a notional past service deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19). DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website.

The pension costs paid to TPS in the year amounted to £1,845,403 (2018: £1,350,396).

**Local Government Pension Scheme**

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Kent County Council Local Authority . The total contribution made for the year ended 31 July 2019 was £2,764,873, of which employer's contributions totalled £1,960,588.38 and employees' contributions totalled £804,285. The agreed contribution rates for future years are 15.2 % for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

**Principal Actuarial Assumptions**

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by a qualified independent actuary.

| | At 31 July 2019 | At 31 July 2018 |
|---|---|---|
| Rate of increase in salaries | 2.35% | 2.35% |
| Future pensions increases | 2.35% | 2.35% |
| Discount rate for scheme liabilities | 2.10% | 2.65% |
| Inflation assumption (CPI) | 2.35% | 2.35% |

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

| | At 31 July 2019 years | At 31 July 2018 years |
|---|---|---|
| ***Retiring today*** | | |
| Males | 22.00 | 23.10 |
| Females | 24.00 | 25.20 |
| ***Retiring in 20 years*** | | |
| Males | 23.70 | 25.30 |
| Females | 25.80 | 27.50 |

The Group's share of the assets in the plan at the balance sheet date were:

| | Fair Value at 31 July 2019 | Fair Value at 31 July 2018 |
|---|---|---|
| | £'000 | £'000 |
| Equity instruments | 49,528 | 46,389 |
| Gilts | 520 | 522 |
| Bonds | 6.554 | 6,043 |
| Property | 8,472 | 8,418 |
| Cash | 1,941 | 2084 |
| Target Ratio Portfolio | 5,645 | 4608 |
| **Total fair value of plan assets** | **72,660** | **68,064** |
| **Actual return on plan assets** | **3,288** | **4,936** |

**The amount included in the balance sheet in respect of the defined benefit pension plan and enhanced pensions benefits is as follows:**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Fair value of plan assets | 72,660 | 68,064 |
| Present value of plan liabilities | (102,598) | (90,218) |
| Present value of unfunded liabilities | (25) | (28) |
| **Net pensions liability (Note 15)** | **(29,963)** | **(22,182)** |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Amounts included in staff costs** | | |
| Current service cost | 4,783 | 3,706 |
| Past service cost | 51 | 26 |
| **Total** | **4,834** | **3,732** |

**Amount recognised in Other Comprehensive Income**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Return on pension plan assets | 1,467 | 2,708 |
| Changes in assumptions underlying the present value of plan liabilities | (6,034) | 6,310 |
| **Amount recognised in Other Comprehensive Income** | **(4,567)** | **9,018** |

**Movement in net defined liability during year**

| | 2019 £'000 | 2108 £'000 |
|---|---|---|
| Net defined benefit liability in scheme at 1 August | (22,182) | (13,422) |
| Movement in year: | | |
| Current service cost | (4,732) | (3,706) |
| Employer contributions | 2,157 | 1,433 |
| Administration expenses | (31) | (16) |
| Past service cost | (51) | (26) |
| Unfunded pension payments | 3 | 3 |
| Net interest on the defined liability | (560) | (537) |
| Actuarial (loss)/gain | (4,567) | 9,018 |
| Liabilities transferred form Canterbury College | - | (14,929) |
| **Net defined benefit liability at 31 July** | **(29,963)** | **(22,182)** |

**Asset and Liability Reconciliation**

**Changes in the present value of defined benefit obligations**

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Defined benefit obligations at 1 August** | 90,246 | 47,477 |
| Current Service cost | 4,732 | 3,706 |
| Interest cost | 2,381 | 1,853 |
| Contributions by Scheme participants | 801 | 584 |
| Changes in financial assumptions | 6,034 | (6,310) |
| Liabilities assumed on settlements | - | 43,681 |
| Estimated benefits paid | (1,619) | (768) |
| Unfunded pension payments | (3) | 26 |
| Curtailments and settlements | 51 | (3) |
| **Defined benefit obligations at 31 July** | **102,263** | **90,246** |

**Changes in fair value of plan assets**

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Fair value of plan assets at 1 August** | 68,064 | 34,055 |
| Interest on plan assets | 1,821 | 1,316 |
| Return on plan assets | 1,467 | 2,708 |
| Employer contributions | 2,160 | 1,436 |
| Administration expenses | (31) | (16) |
| Contributions by Scheme participants | 801 | 584 |
| Assets transferred from Canterbury College | - | 28,752 |
| Estimated benefits paid | (1,622) | (771) |
| **Fair value of plan assets at 31 July** | **72,660** | **68,064** |

## 20 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 such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £2,058; 7 governors (2018: £950; 2 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity. No Governor, other than the Chair of the Governing Body has received any remuneration or waived payments from the College during the year (2018: None). The annual remuneration of the Chair of the Governing Body is £20,000 (2018 - £20,000).

## 21 Amounts disbursed as agent

**Learner support funds**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Funding body grants – 16-19 Bursary Support and Vulnerable Bursary | 996 | 794 |
| Funding body grants – Advanced Learner Loans Bursary | 190 | 254 |
| | 1,186 | 1,048 |
| Disbursed to students - 16-18 | (691) | (253) |
| Disbursed to students - Vulnerable | (268) | (217) |
| Disbursed to students - Advanced Learner Loan | (78) | (68) |
| Administration costs | (46) | (21) |
| Balance unspent as at 31 July | 103 | 489 |

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

## 22 Post Balance Sheet Events

EKC Group has recently developed a plan to acquire one of its neighbouring colleges after that college got into financial difficulties. The plan was invited for submission by the Further Education Commissioner (FEC). The FEC has now recommended that Ashford College and the Canterbury Spring Lane site of Hadlow College be acquired by EKC Group subject to the due diligence process.

As part of its strategic work to systematically plan skills provision across the whole educational landscape in East Kent, EKC Group is working to bring on-stream new multi academy trust provision in the 2019/20 academic year. The Group has already recruited four schools to join its MAT subject to consultation with stakeholders, and aims to deliver this for the beginning of 2020.