EAST KENT COLLEGE

Report and Financial Statements for the year ended 31 July 2013

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Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2013.

Legal status

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

Introduction

The College underwent significant transformation during the academic year 2012/13. Following extensive consultation the College changed its name to East Kent College on 31 August 2012. This decision reflects the College's ambitious plans for the future and represents an important phase in the College's history. The mission of the College was also consulted upon and re-written to reflect our increasingly important role within the East Kent community.

During the past year the College has also achieved a number of key milestones in its journey to becoming an outstanding College by 2014. Through the achievement of the Investors in People gold award and a judgement of good with outstanding leadership and management from Ofsted the College demonstrated that the investment in teaching and learning, the student experience and staff is being recognised by external bodies.

The College continues to face significant financial challenges. Reductions in the College's core income for young people impacted once again in 2012/13 but over performance in adult delivery did result in additional in-year funding that enabled budgets to be broadly balanced. With the ever increasing options for young people for post-16 provision and the reducing demography in Thanet the challenge of young people funding will be with us for some time to come. The College has taken significant steps to reduce the impact of these reductions through securing funding from other sources such as the European Social Fund.

Investment in the College's estate and services continues to be a priority. The Centre for Environmental Technologies has made significant progress during the year and is on target to open in October 2013 and the Centre for Supported Learning opened in March 2013. These two major developments along with many smaller capital works are transforming the Broadstairs campus. The College has also been successful in securing grant funding from the Skills Funding Agency for the construction of a partly new and re-furbished Centre for Creative Industries. This £3.3.m development will allow the College to offer a broader curriculum to support the emergence of the digital industries in East Kent.

Mission

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

2010-14 Strategic Plan

In 2012/13 the College entered the third year of its four year Strategic Plan. Building on the foundations put in place in years one and two the College continued to move forward in the pursuit of achieving its stated aims:

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

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

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

The College continues to implement its Curriculum Strategy with an emphasis on embedding the College's specialisms of catering and hospitality, interactive media, environmental technologies, enterprise and business finance for college-based students, and health and social care and leadership and management within work-based learning. Since a major review conducted in 2011 the College's curriculum portfolio has adapted and changed in order to be more closely aligned to the regional skills needs of East Kent, now including a developing portfolio of Higher Education provision.

Financial objectives

The College's financial objectives are:

- to achieve the budgeted outcome for the year;
- to maintain working capital to cover expenditure with a current ratio of more than 0.5; and
- to control expenditure on staff salaries so that the total cost represents no more than 65% of income.

The performance indicators that confirm these objectives have been monitored throughout the year by the Governors and the College's Executive Management Team and the objectives were met for the year ended 31 July 2013.

Ofsted Result

The College was inspected by Ofsted in March 2013 against the Common Inspection Framework and the grades awarded where:

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

Quality assurance

The College has a Quality Assurance Strategy in place which identifies three key aims namely; to have an outstanding self assessment framework, to provide systematic reporting that enables tracking and monitoring of performance and to develop a culture that values and encourages customer feedback. In supporting these aims the College has implemented an annual Quality Assurance Framework ensuring robust, regular tracking and monitoring which has successfully impacted on the overall performance of the College. This was recognised by Ofsted when they inspected the College in March 2013.

"Comprehensive and rigorous quality assurance drives up performance. The quality improvement strategy is supported by an annual cycle and framework, including the central role of the Principal and senior managers in the systematic review of performance. Staff and managers are well aware of their responsibilities for quality assurance and improvement. A well conceived suite of key college performance indicators facilitate the work of managers and governors." – Ofsted March 2013

Employer engagement

The College changed its approach to employers during 2012-13 by moving the responsibility for developing such work back to the respective curriculum areas supported by the new positions of Employer Liaison Co-ordinators.

The quality of apprenticeship provision was flagged by Ofsted as an area for improvement so resources have been focused on raising standards as a priority rather than increasing the volume of work, which will be a focus for 2013-14.

FINANCIAL POSITION

Financial results

The College reports an operating deficit of £198,000 after the adjustment for FRS17 (£277,000) has been taken into the income and expenditure account. At 31 July 2013, the College had accumulated income and expenditure reserves before pension reserve of £4,727,000 and a cash at bank balance of £636,000. The impact of the FRS17 pension deficit on the Local Government Pension Scheme has been incorporated into the balance sheet and is reflected as a reduction in reserves of £4,779,000. This is a reduction on the previous year end position, with an actuarial gain of £1,586,000 being recognised in the statement of total recognised gains and losses.

Tangible fixed asset additions during the year amounted to £6,942,000. This included £1,257,000 spent on furniture, fixtures, fittings, refurbishment and equipment in support of the learner experience and £892,000 on a new build for our LLDD students A further £4,793,000 was spent on other curriculum-related refurbishment projects, refurbishment of the student centre, further costs for the Centre for Environmental Technologies which are held as "assets under construction" at the balance sheet date, pending completion for the beginning of the new academic year.

The College has significant reliance on the Skills Funding Agency (SFA) and Education Funding Agency (EFA) for its principal funding source, largely from recurrent grants. In 2011/12 the SFA and EFA provided 82.5% of the College's total income. In 2012/13, the College received an additional £500,000 from the SFA during the year, increasing the reliance on SFA and EFA income to 86.5%.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place.

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

Cash flows

The net cash inflow for the year is £86,000 (2011/12 net cash outflow of £632,000). This is due to an operating cash inflow of £524,000 (2011/12: £1,221,000), high capital expenditure of £6,942,000, capital grant receipts of £2,742,000 for the Centre for Environmental Technologies and the Centre for Supported Learning, and loans, of which £4,000,000 is a new loan for 2012/13.

Liquidity

The size of the College's total borrowing and its approach to interest rate cover have been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow. The College has seen an increase in trade debtors at year end, which is the result of £158,000 HE income invoiced in July 2013 and an accrual of £93,000 SFA income for over-delivery in 2012-13. The College managed a small reduction in trade creditors of 8%.

Taxation

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

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2012/13 the College has delivered activity that has produced £9,738,775 in funding body main allocation funding (2011/12 - £10,305,925) The College had approximate 4,600 funded and 1,200 non-funded students.

Student achievements

The College achieved an overall success rate of 88% for 2011/12 which is 3% above national averages for all Colleges. The overall success rate on long courses was 81% which was the same as the national average and demonstrates that the College has maintained the significant improvements achieved in 2010/11. The three year trend for long courses currently shows a 5% increase over the period.

Curriculum developments

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

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

In preparation for 2012/13 a curriculum review of long-courses (those of 24 weeks or more) and short-courses (those under 24 weeks) was conducted. The review provided a valuable opportunity for focused discussion, at the subject level, of the means by which to achieve a "responsive, progressive and innovative curriculum", acknowledging the strategic aim to establish areas of curricular specialism. The result of this comprehensive review was a substantial revision to the College's curricular offer for 2012/13, with the range of provision marketed externally including twenty-three new long-courses, thirty-one new short-courses and, in addition, nine new Higher National Certificate programmes in collaboration with the College's partner university, Canterbury Christ Church University. The reinvigoration of college-based provision is now to be augmented with a similar development of workplace learning, and business planning is underway to develop new approaches in the College's areas of specialism to employer-responsive provision for 2013-2015.

The College continues to be successful in delivering qualifications in all national priority areas identified by the Skills Funding Agency and the Education Funding Agency.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. The College does not have the ability to accurately monitor this KPI, but it does estimate that it pays the vast majority of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Future developments

The College has received confirmation from the Skills Funding Agency/EFA that the allocation of money to support Learner Responsive and the Adult Skills delivery in 2013/14 will be £11,855,000.

Going Concern

The financial statements have been prepared on a going concern basis. The College continues to generate an operating surplus, is able to invest in its estate through healthy cash generation and has satisfactory balance sheet strength, albeit with a net current liabilities position.

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

RESOURCES

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

Tangible

Tangible resources include the main College site, currently stated at a net book value of £12.9 million; equipment, plant and machinery with a net book value of £2.2 million; and assets under construction with a net book value of £5.2 million.

Financial

The College has £10.0 million of net assets (after deducting a £4.7 million pension liability) and long term debt of £4,580,000.

People

The College employs 288 people (expressed as full time equivalents), of whom 175 are teaching staff.

Property

During 2012/13 the College saw significant changes to its estate namely:

1. A major capital development to create a £6.5 million Centre for Environmental Technologies
2. The completion of a Centre for Supported Learning "The Hub" providing excellent facilities for students with learning difficulties and disabilities
3. A new gym
4. New facilities for HNC provision including a Higher Education Common Room
5. A new biology laboratory
6. The opening of the Peter Jones Enterprise Academy
7. The opening of a newly refurbished reception and open learning centre

The College was also successful in its Skills Funding Agency capital grant bid for a £3.3 million Centre for Creative Industries and in getting through the first stage of a capital grant bid to turn the Yarrow Building into a training hotel and to undertake maintenance works on the Horizon and Enterprise Buildings.

STAFF AND STUDENT INVOLVEMENT

During 2012/13, the College continued to embed its highly successful 'Student Involvement Strategy' which places students at the heart of the strategic direction and decision making of the College and to develop the skills and social awareness of students to enable them to contribute effectively to society and their communities.

The success achieved by the College in this respect was recognised by Ofsted when they inspected in March 2013:

"The College makes excellent use of the views of its learners, which it actively invites, in improving the quality of its provision to them".

The College achieved Investors in People Gold during 2012-13 which is the highest accolade available and represents the College's continuing commitment to invest, develop and inspire its staff to be the best they possibly can be. The IiP assessor found:

"The College and its staff have an absolute commitment to the learners and the delivery of a high quality teaching and learning provision. Continuous improvement has become everyday currency in the College as it drives towards its goal of becoming an outstanding college. The embedding of a passion in people for being the best they possibly can be is now bearing fruit. Whilst the College has further steps to take on the journey towards this goal it is progressing well and this is reflected in areas such as student achievements and the quality of teaching and learning. The extent to which the focus on being an outstanding college is interwoven in the fabric of the organisation and the way people operate is extremely impressive. Sustained success can only be achieved through a strong and positive culture and this was clearly evident during the course of the review".

PRINCIPAL RISKS AND UNCERTAINTIES

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

The College also implemented a new high risk control system during 2012/13. The new system has linked the identified high risks to the strategic aims, objectives and the annual business plan actions with progress being monitored by the key performance indicators. This direct linkage has brought a sharp focus to the high risks and has ensured that all actions are impacting on mitigating these risks.

The current risks include:

1. Government funding

The College has a dependency on government funding of over 80%. This is slightly above the benchmarked average for general further education colleges (78% as per the SFA Finance record 2011-12 for all General FE Colleges). For the academic year 2013/14 the government, through its agencies (Education Funding Agency 16-19 and Skills Funding Agency 19+) are implementing new funding methodologies. These present both opportunity but significant financial risk. The College is modelling the impact of these changes as details are released.

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

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

2. Student Experience

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

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

STAKEHOLDER RELATIONSHIPS

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

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

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

Equal opportunities and employment of disabled persons

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

The College considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion that are accessible to all staff. The College was reassessed for its employment practices in respect to applicants with a disability and was found to have maintained its "Two Ticks" status.

The College has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff.

DISABILITY STATEMENT

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

a) As part of the redevelopment of the buildings it has installed lifts and ramps so that most of the facilities allow access to people with a disability;

b) There is a list of specialist equipment, such as lighting for audio facilities, which the College can make available for use by students;

c) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;

d) The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and /or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and /or disabilities;

e) Specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard College format;

f) Counselling and welfare services are described in the College charter.

Disclosure of information to auditors

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

Approved by order of the members of the Governing Body on 18 December 2013 and signed on its behalf by:

Professor Michael Wright CBE – Chairman

PROFESSIONAL ADVISERS

Auditors

Financial statements and regularity auditors
Buzzacott LLP
130 Wood Street
London
EC2V 6DL

Internal Auditors
McIntyre Hudson
New Bridge House
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Solicitors

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3rd Floor
Santander House
100 Ludgate Hill
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Royal Bank of Scotland
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62-63 Threadneedle Street
London
EC2R 8LA

Statement of Corporate Governance and Internal Control

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

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2013. 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 account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011.

The Governing Body

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

	Date of appointment / re-appointment	*Term of office*	*Date of resignation*	*Status of appointment*	*Committees served*
Professor Michael Wright CBE DL	30.09.98 30.09.02 30.09.06 30.09.08 30.09.10 30.09.14	4 years 4 years 2 years 2 years 4 years		Governor	Chair of Governing Body from 11/12/09 Member of: Chairs' Committee, Remuneration
Beverley Aitken	30.09.98 30.09.02 30.09.06 30.09.09 30.09.13	4 years 4 years 3 years 4 years 3 years		Governor	Vice Chair: Governing Body Chair: Business, Member of: Chairs' Committee, Remuneration
Patrick Hollis	30.09.05 30.09.09 01.09.12	4 years 3 years 3 years		Governor	Chair: Education Vice Chair: Business Member of: Chairs' Committee, Remuneration
Dr Sue McGonigal	01.01.13	4 years		Governor	Audit Committee
Tim Kent	06.09.10 01.09.12	2 years 3 years		Governor	Vice Chair: Education
Leyland Ridings MBE	01.09.10 31.08.14	4 years		Governor	Chair: Audit Member of: Chairs' Committee, Remuneration
Dr Sarah Kemp	01.09.10 31.08.14	4 years		Governor	Member of: Audit

Hilary Askew	01.09.12	4 years		Governor	Member of: Education Committee
Sue Kendall-Seatter	01.09.11	4 years	31.08.13	Governor	Member of: Education Committee
Stephanie Martin	01.09.10 31.08.14	4 years		Governor	Member of: Education Committee
Charles Buchanan	01.12.12	4 years		Governor	Member of: Business Committee
Revd David Roper	01.09.12	4 years		Governor	Member of: Education Committee
Liz Langton-Way	01.09.11	4 years		Governor	Member of: Business Committee
Graham Razey	19.04.10			Principal	Member of: Business, Education, Chairs' Committee
Carly Tickner	01.09.12	1 year	31.08.13	Staff Governor	Member of: Education Committee
Pauline Solley	01.09.11	2 years	31.08.13	Staff Governor	Member of: Education Committee
Daniel Levey	01.09.12	1 year	31.08.13	Student Governor	Member of: Education Committee

SENIOR OFFICERS ATTENDING

	Date of appointment / re-appointment	***Term of office***	***Date of resignation***	***Status of appointment***	***Committees served***
Anne Leese	01.01.07	N/A		Deputy Principal	Audit; Education; Business; Remuneration
Andrew Gower	25.04.11	N/A		Vice Principal	Education
Chris Legg	01.05.12	N/A		Strategic Director of Finance and Commercial Development	Audit, Business
Sandy Foster	Clerk and College Solicitor appointed 07.01.11				

The Governing Body is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Governing Body meets at least 3 times per academic year.

The Governing Body conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are Audit, Business, Education, Remuneration, and Chairs' (includes Search). Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available in the Governor Area for members or for the public on the College website or from the Clerk to the Governing Body at Clerk@eastkent.ac.uk or write to 'The Clerk, East Kent College, Ramsgate Road, Broadstairs, Kent. CT10 1PN.

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

All Governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Governing Body, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Governing Body as a whole.
Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

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

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

APPOINTMENTS TO THE GOVERNING BODY

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

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

REMUNERATION COMMITTEE

Throughout the year ended 31 July 2013, the College's Remuneration Committee comprised four members. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post holders.

Details of remuneration for the year ended 31 July 2013 are set out in notes 5 and 6 to the financial statements.

AUDIT COMMITTEE

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

The Audit Committee meets 3 times per year and provides a forum for reporting by the College's internal and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management.

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

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

INTERNAL CONTROL

Scope of responsibility

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

The Governing Body has delegated the day-to-day responsibility to the Principal as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the Skills Funding Agency and the College and the Education Funding Agency. He is also responsible for reporting to the Governing Body any material weaknesses or break downs in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in East Kent College for the year ended 31 July 2013 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Governing Body has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2013 and up to the date of approval of the annual report and accounts. 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 College Performance Indicators;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

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

Review of effectiveness

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

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments made by the College's financial statements auditors, the regularity auditors and the appointed funding auditors (for employer responsive funded activity only in 2012/13) in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

GOING CONCERN

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

Approved by order of the members of the Governing Body on 18 December 2013 and signed on its behalf by:

Chair: Professor Michael Wright CBE

Principal: Graham Razey

Statement of Responsibilities of the Members of the Governing Body

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency / Education Funding Agency and the Governing Body of the College, the Governing Body, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction for 2012-13 financial statements issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements, the Governing Body is required to:

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

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

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

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

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

Approved by order of the members of the Governing Body on 18 December 2013 and signed on its behalf by:

Chair: Professor Michael Wright CBE

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

We have audited the College's financial statements of East Kent College for the year ended 31 July 2013 set out on pages 20 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

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

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

As explained more fully in the Statement of the Governing Body's responsibilities set out on page 16, the Governing Body is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the College's affairs as at 31 July 2013 and of the College's surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

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

In our opinion:

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

Buzzacott LLP

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

20 December 2013

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

In accordance with the terms of our engagement letter and further to the requirements of the Skills Funding Agency, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of East Kent College ('the College') for the year ended 31 July 2013 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Skills Funding Agency. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

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

Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Buzzacott LLP

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

20 December 2013

Income and Expenditure Account

	Notes	£'000	2013 £'000	£'000	2012 £'000
INCOME					
Funding body grants	2		13,066		12,773
Tuition fees and education contracts	3		1,060		595
Other income			1,008		2,112
Investment income	4		1		1
Total income			**15,135**		**15,481**
EXPENDITURE					
Staff costs	5	8,967		8,668	
Exceptional restructuring costs	5	223		201	
Other operating expenses	7	5,060		5,097	
Depreciation	10	959		842	
Interest and other finance costs	8	124		111	
Total expenditure			**15,333**		**14,919**
(Deficit)/Surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax			**(198)**		**562**
Taxation	9		-		-
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax			**(198)**		**562**

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

Statement of Historical Cost Surpluses and Deficits

	Notes	2013	2012
		£'000	£'000
(Deficit) / Surplus on continuing operations before and after taxation		(198)	562
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	17	204	207
Historical cost surplus for the year before and after taxation		6	769

Statement of Total Recognised Gains and Losses

	Notes	2013	2012
		£'000	£'000
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and tax		(198)	562
Actuarial gain/(loss) in respect of pension scheme	24	1,586	(2,237)
Total recognised gains/(losses) in the year		**1,388**	**(1,675)**
Reconciliation			
Opening reserves at 1 August 2012		3,102	4,777
Total recognised gains/(losses) for the year		1,388	(1,675)
Closing reserves at 31 July 2013		**4,490**	**3,102**

Balance sheet as at 31 July

	Notes	2013	2012
		£'000	£'000
Fixed assets			
Tangible assets	10	20,270	14,348
Current assets			
Stocks		30	23
Debtors	11	626	388
Cash at bank and in hand		636	550
Total current assets		1,292	961
Less: Creditors – amounts falling due within one year	12	(1,952)	(2,180)
Net current liabilities		**(660)**	**(1,219)**
Total assets less current liabilities		**19,610**	**13,129**
Less: Creditors – amounts falling due after more than one year	13	(4,580)	(777)
Less: Provisions for liabilities	15	(230)	(228)
Net assets excluding pension liability		**14,800**	**12,124**
Net pension liability	24	(4,779)	(6,088)
NET ASSETS INCLUDING PENSION LIABILITY		**10,021**	**6,036**
Deferred capital grants	16	**5,531**	**2,934**
Reserves			
Income and expenditure account excluding pension reserve	18	4,727	4,444
Pension reserve	24	(4,779)	(6,088)
Income and expenditure account including pension reserve	18	(52)	(1,644)
Revaluation reserve	17	4,542	4,746
Total reserves		**4,490**	**3,102**
TOTAL FUNDS		**10,021**	**6,036**

The financial statements on pages 20 to 40 were approved by the Governing Body on 18 December 2013 and were signed on its behalf by:

Professor Michael Wright CBE **Graham Razey**

Chair **Principal**

Cash Flow Statement

	Notes	2013 £'000	2012 £'000
Cash inflow from operating activities	19	524	1,221
Returns on investments and servicing of finance	20	(11)	(19)
Capital expenditure and financial investment	21	(4,200)	(1,615)
Financing	22	3,773	(219)
Increase/(Decrease) in cash in the year	**23**	**86**	**(632)**

Reconciliation of net cash flow to movement in net debt

	Notes	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year		86	(632)
Change in net debt resulting from cash flows	22	(3,773)	219
Movement in net debt in the period		(3,687)	(413)
Net debt at 1 August 2012		(452)	(39)
Net debt at 31 July 2013		**(4,139)**	**(452)**

Notes to the Financial Statements

1. Accounting policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP), the *Accounts Direction for 2012-13 financial statements* and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and Education Funding Agency in the 2012/13 Accounts Direction Handbook.

Basis of accounting

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

Going Concern

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

The College currently has £775,000 of loans outstanding with bankers on terms negotiated in 2008 and a £4,000,000 loan taken out in 2013. The terms of the existing agreements are for up to another 25 years. The College's forecasts and financial projections indicate that it will be able to operate within this facility and covenants for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the adult learner responsive funding element is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body mid-November following the year-end. Employer responsive grant income is recognised based on a year-end reconciliation of income claimed and actual delivery. 16-18 learner-responsive funding is not normally subject to a reconciliation and is therefore not subject to contract adjustments.

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

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.

Income from grants, contracts and other services rendered is included to the extent of the conditions of the funding have been met or the extent of the completion of the contract or service concerned.

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Post retirement benefits

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

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

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

Enhanced Pensions

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

Tangible fixed assets

Land and buildings

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account on an annual basis. Building improvements made since 1994 are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 40 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of 40 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1994, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

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

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

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

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

Leased assets

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

Stocks

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

Taxation

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

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

Liquid resources

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

Provisions

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Agency arrangements

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

2 Funding body grants

	2013 £'000	2012 £'000
Main funding body recurrent grant	11,667	12,182
Main funding body non recurrent	1,280	509
Release of deferred capital grants (note 16)	119	82
Total	**13,066**	**12,773**

3 Tuition fees and education contracts

	2013 £'000	2012 £'000
Tuition fees	632	533
Education contracts	528	62
Total	**1,160**	**595**

4 Investment income

	2013 £'000	2012 £'000
Interest receivable	1	1
Total	**1**	**1**

Notes to the Financial Statements (continued)

5 Staff costs

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

	2013 No.	2012 No.
Teaching staff	175	183
Non teaching staff	113	98
	288	**281**

Staff costs for the above persons

	2013 £'000	2012 £'000
Wages and salaries	7,458	7,272
Social security costs	522	509
Other pension costs (including FRS 17 adjustments of £165,000 – 2012: £53,000)	987	887
	8,967	8,668
Restructuring costs	223	201
Payroll total	**9,190**	**8,869**

The number of senior post-holders and other staff as at 31 July 2013 who received emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	Senior post-holders 2013 No.	Senior post-holders 2012 No.
£30,001 to £40,000	-	1
£40,001 to £50,000	1	-
£70,001 to £80,000	1	1
£90,001 to £100,000	1	1
£120,001 to £130,000	1	1
	4	**4**

6 Senior post-holders' emoluments

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

Notes to the Financial Statements (continued)

6 Senior post-holders' emoluments (continued)

	2013 No.	2012 No.
The number of senior post-holders including the Principal was:	4	4

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

	2013 £'000	2012 £'000
Salaries	357	336
Benefits in kind	1	1
Pension contributions	45	43
Total emoluments	**403**	**380**

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

	2013 £'000	2012 £'000
Salaries	129	122
Benefits in kind	1	1
	130	123
Pension contributions	18	17

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

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

7 Other operating expenses

	2013 £'000	2012 £'000
Teaching costs	2,234	2,114
Non teaching costs	1,663	1,815
Premises costs	1,163	1,168
Total	**5,060**	**5,097**

Other operating expenses include:	**2013 £'000**	**2012 £'000**
Auditors' remuneration:		
Financial statements audit	18	18
Internal audit	26	24
Other services provided by the financial statements auditors	4	6
Hire of other assets – operating leases	183	108

Notes to the Financial Statements (continued)

8 Interest

	2013 £'000	2012 £'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than five years	12	21
Pension finance cost (Note 24)	112	90
Total	**124**	**111**

9 Taxation

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

10 Tangible fixed assets

	Assets under construction £000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 1 August 2012	532	18,293	3,856	22,681
Transfers	(167)	-	167	-
Additions	4,793	892	1,257	6,942
Disposals	-	(183)	-	(183)
At 31 July 2013	**5,158**	**19,002**	**5,280**	**29,440**
Depreciation				
At 1 August 2012	-	5,776	2,557	8,333
Charge for the year	-	466	493	959
Disposals	-	(122)	-	(122)
At 31 July 2013	-	6,120	3,050	9,170
Net book value at 31 July 2013	**5,158**	**12,882**	**2,230**	**20,720**
Net book value at 31 July 2012	532	12,517	1,299	14,348

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

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

Land and buildings with a net book value of £5,556,000 have been partly financed by exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of its Financial Memorandum, to surrender the proceeds.

Notes to the Financial Statements (continued)

11 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade debtors	295	74
Prepayments and accrued income	238	314
Funding body accrued income	93	-
Total	**626**	**388**

12 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans (note 14)	195	225
Payments received in advance	-	41
Trade creditors	731	792
Other taxation and social security	168	156
Accruals	858	966
Total	**1,952**	**2,180**

13 Creditors: amounts falling due after one year

	2013 £'000	2012 £'000
Bank loans (note 14)	4,580	777
Total	**4,580**	**777**

14 Borrowings

Bank loans

Bank loans are repayable as follows:

	2013 £'000	2012 £'000
In one year or less (note 12)	195	225
Between one and two years	263	195
Between two and five years	712	517
In five years or more	3,605	65
Total	**4,775**	**1,002**

Bank loans at variable rates of interest between 1.25% and 5.25% repayable by instalments falling due between 1 August 2013 and 31 July 2038 and are unsecured.

Notes to the Financial Statements (continued)

15 Provisions for liabilities and charges

	Enhanced pensions £'000	Other £'000	Total £'000
At 1 August 2012	222	6	228
Expenditure in the period	(17)	-	(17)
Transferred to income and expenditure account	19	-	19
At 31 July 2013	**224**	**6**	**230**

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:

	2013	2012
Price inflation	4.28%	2.50%
Discount rate	2.50%	3.89%

16 Deferred capital grants

	Funding bodies £'000	Other £'000	Total £'000
At 1 August 2012	2,239	695	2,934
Grants received	2,742	-	2,742
Released to income and expenditure account	(119)	(26)	(145)
At 31 July 2013	**4,862**	**669**	**5,531**

17 Revaluation reserve

	2013 £'000	2012 £'000
At 1 August 2012	4,746	4,953
Transfer from revaluation reserve to general reserve in respect of:		
Depreciation on revalued assets	(204)	(207)
At 31 July 2013	**4,542**	**4,746**

Notes to the Financial Statements (continued)

18 Movement on general reserves

	2013 £'000	2012 £'000
Income and expenditure account reserve		
At 1 August 2012	(1,644)	(176)
(Deficit)/Surplus retained for the year	(198)	562
Transfer from revaluation reserve (note 17)	204	207
Actuarial gains/(losses) in respect of pension scheme (note 24)	1,586	(2,237)
At 31 July 2013	**(52)**	**(1,644)**
Balance represented by:		
Pension reserve	(4,779)	(6,088)
Income and expenditure account reserve excluding pension reserve	4,727	4,444
	(52)	**(1,644)**

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

	2013 £'000	2012 £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation	(198)	562
Loss on disposal of fixed assets	62	-
Depreciation (note 10)	959	842
Deferred capital grants released to income (note 16)	(145)	(105)
Interest payable (note 8)	12	20
Interest receivable (note 4)	(1)	(1)
FRS 17 pension cost less contributions payable (notes 5 and 24)	165	53
FRS 17 pension finance costs (note 24)	112	90
(Increase) in stocks	(7)	(5)
(Increase)/decrease in debtors	(238)	75
(Decrease) in creditors	(199)	(247)
Increase/(decrease) in provisions	2	(63)
Net cash inflow from operating activities	**524**	**1,221**

Notes to the Financial Statements (continued)

20 Returns on investments and servicing of finance

	2013 £'000	2012 £'000
Interest received	1	1
Interest paid	(12)	(20)
Net cash outflow from returns on investment and servicing of finance	**(11)**	**(19)**

21 Capital expenditure and financial investment

	2013 £'000	2012 £'000
Purchase of tangible fixed assets	(6,942)	(2,021)
Deferred capital grants received	2,742	406
Net cash outflow from capital expenditure and financial investment	**(4,200)**	**(1,615)**

22 Financing

	2013 £'000	2012 £'000
Debt due beyond a year:		
New loans acquired	4,000	-
Repayment of amounts borrowed	(227)	(219)
Net cash inflow/(outflow) from financing	**3,773**	**(219)**

23 Analysis of changes in net funds

	At 1 August 2012 £'000	Cash flows £'000	Other changes £'000	At 31 July 2013 £'000
Cash in hand, and at bank	550	86	-	636
Debt due within 1 year	(225)	-	30	(195)
Debt due after 1 year	(777)	(3,773)	(30)	(4,580)
Total net debt	**(452)**	**(3,687)**	**-**	**(4,139)**

Notes to the Financial Statements (continued)

24 Pension and similar obligations

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

Total pension cost for the year		2013 £000		2012 £000
Teachers Pension Scheme: contributions paid		419		450
Local Government Pension Scheme:				
Contributions paid	403		384	
FRS 17 charge (note 5)	165		53	
Charge to the Income and Expenditure Account (staff costs)		568		437
Enhanced pension charge to Income and Expenditure Account (staff costs)				
Total Pension Cost for Year (note 5)		**987**		**887**

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

Teachers' Pension Scheme

The Teachers' Pension Scheme ("TPS") is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities, to teachers in many independent and voluntary-aided schools, and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers and lecturers and from 1 January 2007 automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Notes to the Financial Statements (continued)

24 Pension and similar obligations (continued)

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.
The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

The last valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75%, and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

Scheme Changes

From 1 April 2012 to 31 March 2013, the employee contribution rate will range between 6.4% and 8.8%, depending on a member's Full Time Equivalent salary. For 2013-14, the employer contribution rate will range between 6.4% and 11.2% and further changes to the employee contribution rate will be applied in 2014-15.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the 'Proposed Final Agreement', and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme, and this process will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:
http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf

Notes to the Financial Statements (continued)

24 Pension and similar obligations (continued)

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Kent County Council Local Authority. The total contribution made for the year ended 31 July 2013 was £644,000 of which employer's contributions totalled £403,000 and employees' contributions totalled £241,000. The agreed contribution rates for future years are 15.6% for employers and range from 5.50% and 7.5% for employees, depending on salary.

FRS 17

Principal Actuarial Assumptions	**At 31 July 2013**	**At 31 July 2012**
Rate of increase in salaries	4.8%	4.0%
Rate of increase for pensions in payment / inflation	2.6%	1.8%
Discount rate for scheme liabilities	4.7%	3.9%
Inflation assumption (CPI)	2.6%	1.8%

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 2013	**At 31 July 2012**
Retiring today		
Males	20.1	20.0
Females	24.1	24.0
Retiring in 20 years		
Males	22.1	22.0
Females	26.0	25.9

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

	Long-term rate of return expected at 31 July 2013	**Value at 31 July 2013**	**Long-term rate of return expected at 31 July 2012**	**Value at 31 July 2012**
		£'000		£'000
Equities	6.2%	10,475	5.6%	8,499
Gilts	3.4%	-	2.8%	116
Bonds	4.3%	1,746	3.9%	1,281
Property	4.2%	1,164	3.6%	1,048
Cash	0.5%	582	3.0%	466
Target Return	4.7%	582		233
Total market value of assets		**14,549**		**11,643**
Present value of scheme liabilities				
- Funded		(19,310)		(17,713)
- Unfunded		(18)		(18)
Deficit in the scheme		**(4,779)**		**(6,088)**

Notes to the Financial Statements (continued)

24 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

Analysis of the amount charged to income and expenditure account

	2013 £'000	2012 £'000
Employer service cost (net of employee contributions)	644	524
Past service gain	-	-
Total operating charge	**644**	**524**

Analysis of pension finance income / (costs)

Expected return on pension scheme assets	596	704
Interest on pension liabilities	(708)	(794)
Net pension finance cost	**(112)**	**(90)**

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

	2013 £'000	2012 £'000
Actuarial gains/(losses) on pension scheme assets	1,625	(521)
Actuarial (losses) on scheme liabilities	(39)	(1,716)
Actuarial gain/(loss) recognised in STRGL	**1,586**	**(2,237)**

Notes to the Financial Statements (continued)

24 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

Movement in deficit during year

	2013 £'000	2012 £'000
Deficit in scheme at 1 August 2012	(6,088)	(3,708)
Movement in year:		
Employer service cost (net of employee contributions)	(644)	(524)
Employer contributions	477	508
Unfunded pension payments	2	2
Net interest on assets	(112)	(90)
Settlements or curtailments	-	(39)
Actuarial (loss)/gain	1,586	(2,237)
Deficit in scheme at 31 July 2013	**(4,779)**	**(6,088)**

Asset and Liability Reconciliation

	2013 £'000	2012 £'000
Reconciliation of Liabilities		
Liabilities at 1 August 2012	17,731	14,791
Current Service cost	644	524
Interest cost	708	794
Employee contributions	165	156
Actuarial loss	39	1,716
Losses on curtailments	-	39
Benefits paid	43	(287)
Unfunded pension payments	(2)	(2)
Liabilities at 31 July 2013	**19,328**	**17,731**
Reconciliation of Assets		
Assets at 1 August 2012	11,643	11,083
Expected return on assets	596	704
Actuarial gains/(losses)	1,625	(521)
Employer contributions	479	510
Employee contributions	165	156
Benefits paid	41	(289)
Assets at 31 July 2013	**14,549**	**11,643**

The estimated value of employer contributions for the year ending 31 July 2014 is £412,000

Notes to the Financial Statements (continued)

24 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between the expected and actual return on assets: Amount £'000	1,625	(521)	153	873	(1,128)
Experience gains and (losses) on scheme liabilities: Amount £'000	(1)	(1)	943	5	(1)
Total amount recognised in STRGL: Amount £'000	1,586	(2,237)	798	1,359	(2,656)

25 Capital commitments

	2013 £'000	2012 £'000
Commitments contracted for at 31 July	1,373	522
Authorised but not contracted at 31 July	-	6,009

The College has incurred costs of £5,158,000 to construct the new Centre for Environmental Technologies building, which is due for completion by October 2013, with a total project cost of £6,531,000. The work that has so far been recognised in the tangible fixed assets as assets under construction will be depreciated by applying the College's accounting policies once the area is handed over for occupation.

26 Financial commitments

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

	2013 £'000	2012 £'000
Land and buildings		
Expiring in two to five years	183	104
	183	104

27 Related party transactions

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

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

Notes to the Financial Statements (continued)

28 Amounts disbursed as agent

Learner support funds

	2013 £'000	2012 £'000
Funding body grants – hardship support	508	455
Funding body grants – childcare	349	194
Interest earned	-	-
	857	649
Disbursed to students	(651)	(499)
Administration costs	(43)	(27)
Balance unspent as at 31 July, included in creditors	163	123

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