



**REPORT AND FINANCIAL STATEMENTS
FOR THE
YEAR ENDED 31 JULY 2020**

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2019/20:

Mrs Jayne Dickinson - Chief Executive Officer (College Group) & Principal (ESC); Accounting Officer
Mr Kevin Standish - Principal (John Ruskin College) & Quality Lead (College Group)
Mrs Jyoti Baker - Chief Operating Officer (College Group)
Mrs Mitzi Gibson – Executive Director HR & Professional Development (College Group)

Board of Governors

A full list of Governors is given on pages 18 and 19 of these financial statements.
Mrs S Glover acted as Clerk to the Corporation throughout the period.

Financial Statement and Regularity Auditor:

Buzzacott
130 Wood Street
London
EC2V 6DL

Internal Auditors:

Scrutton Bland
Fitzroy House
Crown Street
Ipswich, IP1 3LG

Bankers:

NatWest Bank Plc
2nd Floor Turnpike House
123 High Street
Crawley, RH10 1DQ

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Solicitors:

Mundays LLP
Cedar House,
78, Portsmouth Road
Cobham
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Professional Advisors:

Eversheds
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REPORT OF THE GOVERNING BODY

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2020.

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting East Surrey College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

Corporation Name

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

On 1 February 2019, East Surrey College merged with John Ruskin College. The merger was completed by the transfer of the assets and liabilities to East Surrey College, followed by the dissolution of John Ruskin College. The two college campuses operate under their own names as part of East Surrey College Corporation trading as Orbital South Colleges.

Strategy

The Corporation approved the College Group's three-year Strategic Statement for 2019-2022 at their Corporation meeting on 11 July 2019. At that meeting, the Corporation also approved the Mission, Vision, Values and Public Value Statement for the following year 2019/20. Objectives and targets are set annually and monitored by Committees, through the College's formal termly Performance Reviews which are attended by Governors and through formal reporting to the Corporation Board at their Self-Assessment Workshop in July each year.

The College's Mission as approved by its Members is:

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

Vision:

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

Values:

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

Public Value Statement

The East Surrey College Corporation seeks to add value to the social, economic and physical well-being of the communities it serves. It does this through a defined educational character, vision and mission, through strategic aims and overarching values. The wider community is defined as all partners who have an interest in promoting educational advancement of individuals to benefit business, the local economy and the community as a whole.

Public Benefit

The East Surrey College Corporation trading as Orbital South Colleges (The College) is an exempt charity under Part 3 of the Charities Act 2011. Following the Machinery of Government changes in July 2016, the Secretary of State for Education regulates the FE Sector of which this College is part.

REPORT OF THE GOVERNING BODY (continued)

The members of the Governing Body, who are trustees of the charity, are disclosed on pages 18 and 19.

In setting and reviewing the College's strategic aims, objectives and targets, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. In delivering its mission, the College provides the following identifiable public benefits through advancement of education:

- High quality teaching, learning and assessment to benefit learning and achievement
- Widening participation and tackling social inclusion reducing achievement gaps and maximising positive outcomes
- Excellent employment and progression record for students through the development of workplace and personal behaviours and through engagement in work experience
- Strong student support systems
- Strong links with employers, industry and commerce and Local Enterprise Partnerships to ensure training meets skills needs

These public benefits, are further drawn out and illustrated in various sections of this Report.

Implementation of the Strategic Statement

The three-year Strategic Statement 2019-2022 was approved by the Corporation on 11 July 2019, following an extensive process which involved staff from across campuses to ensure a strategy that had ownership from across the merged organisation.

The College's strategic aims confirmed for 2019/20 were:

1. To deliver excellence in teaching, learning and assessment.
2. To enable students to develop excellent workplace behaviours and skills
3. To ensure an inclusive environment in which our students and staff feel safe and thrive
4. To develop complementary partnerships that contribute positively to sustainable communities
5. To generate strong finances and robust delivery structures that enable future investment and sustainability.

The College sets specific objectives for each year against these aims and with associated targets. Progress against these are reported to College Governors within committees, at Corporation, at formal Performance Reviews and at the annual Corporation Self-Assessment Workshop.

In 2019/20, the College's key quality and community targets were:

- 'Best' observation grades 95% graded at least Good and 35% Outstanding: **MET**
- All curriculum Self-Assessment grades for Teaching, Learning and Assessment graded at least Good. **MET**
- Student survey results at least 95% agreement teaching is Good: **MET**
- Timely Apprenticeship achievement rates to meet or exceed national rates: **MET FOR MOST SUBJECTS**
- Achievement gaps minimised: **MET OVERALL** - Entry and level 1 achievement has declined while level 2 and 3 has improved; this has led to non-white student achievement declining. A main reason for this was ESOL adult students being disadvantaged during lockdown from end March, in not being able to sit exams

REPORT OF THE GOVERNING BODY (continued)

- Value added outcomes for L3 BTEC in 75th percentile: **NOT MET**, but good progress towards achieving
- GCSE High grade Pass rates English and maths to demonstrate improvement: **MET**
- Minimum 9.0 score for FE Choices Employer Survey: **SUBSTANTIALLY EXCEEDED**
- British values embedded: **MET**
- Safeguarding continues to be effective: **MET**
- Subcontracted partnerships flourish meeting financial and quality targets: **MET**
- Partnerships developed in Health, Construction, Engineering and Creative Industries: **MET**
- New partnerships developed: **MET**

The grading within the 2019/20 Self-Assessment Report is endorsed by the Governors' Learning and Quality Committee in January of the following year, through delegated authority from the Corporation. The respective Colleges at their previous Ofsted inspection prior to merger: John Ruskin College was graded Requires Improvement, East Surrey College graded Good with many areas of strength and progress confirmed. The merged College received a monitoring visit in November 2019; the report received in January 2020 reported Reasonable Progress made in all areas following merger. For 2019/20, the College expects to propose to Learning and Quality Committee a grade of Good for all cross College grades while noting the significant improvements that have taken place since merger at both organisations. In drawing this conclusion, the College has considered the requirements and focus of the new Education Inspection Framework.

Financial objectives:

The College's strategic aim:

To generate strong finances and robust delivery structures that enable future investment and sustainability

is underpinned by the following objectives:

- Long term sustainability prioritised through sourcing of opportunities for growth, bidding and pursuit of new funding streams - **MET**
- Robust financial management and governance oversight to continue to be upheld
Finance record assesses the College financial health to be at least 'Good'- **MET**
- Effective budget planning to enable continued investment in resources and staff training that enrich the student experience and the learning environment – **MET**
- Targeted staffing increases and introduction of new courses as referred to elsewhere in the report – **MET**
- Enhanced efficiency of internal systems and cost effectiveness of curriculum delivery – **MET**
- Clean audit reports – **MET**

REPORT OF THE GOVERNING BODY (continued)

The College monitors its performance through a series of performance indicators. The key performance indicators for 2019/20 were:

- Good financial health to be sustained with ratios for Good financial health met:
 - Performance ratio (EBITDA) - Between 1% - 5% **MET**
 - Current ratio - above 1.2 **MET**
 - Borrowing as a % of Income - below 40% **MET**
 - Staff costs as a % of Income - below 65% **MET**

The College achieved its financial objectives in 2019/20.

Further information relating to quality and financial objectives are stated in the relevant sections within this report. Overall, the College expects to have fully met the operational financial objectives/targets for 2019/20 and to have made significant progress against remaining objectives/targets.

The College's Self-Assessment report for 2019/20 was presented in draft to Learning and Quality Committee in November 2020 and, with amendments, to the Corporation in December 2020 at which the Corporation delegated final sign off to the Chair of Learning and Quality and members of that Committee in January 2021. This should therefore be seen as a progressive position. The College has achieved its financial objectives and maintained its financial health.

FINANCIAL POSITION

Financial results

The College generated an operating deficit before exceptional items of £467k in the year (2018/19 – deficit of £399k), with total comprehensive expenditure of (£6,219k) (2018/19– Income: £20,624k). The total comprehensive expenditure or income is stated after accounting for the Actuarial Loss on the Local Government Pension Scheme and the net assets acquired following the merger with John Ruskin College in 2018/19.

The College has accumulated reserves of £20,115k (2018/19 - £26,334k) and a cash and short term investment balance of £9,868k, (2018/19 – £9,702k). The College has committed £3.75m of its cash reserves to capital projects to complete over the two years to 2020/21. The College will continue to focus on viable operating models to continue building its reserves and cash balances to enable capital investment and revenue growth and sustainability to build a long term future.

Fixed asset additions of £930k were made in the year as part of the College's capital programme.

The College has significant reliance on the Education and Skills Funding Agency for its principal funding source, largely from recurrent grants. In 2019/20 the Education and Skills Funding Agency provided 83% (2018/19– 82%) of the College's total income.

The College has one subsidiary company, Surrey Skills Limited. The Company is expected to undertake Education, Training and related ancillary services. Any surpluses generated by the subsidiary will be transferred to the College under a deed of covenant. However, in 2019/20, Surrey Skills Limited remained dormant.

Financial

The College has net assets of £20,115k (2018/19 - £26,334k) after taking account of a LGPS pension liability of £17,494k (2018/19 - £10,707k).

The College is also facing a potential increase in costs from the Teacher's pension scheme (TPS). The Government has committed to paying the increases in the Employers contribution to TPS until 31st March 2021. If further commitments are not received the College faces a significant increase in its cost base after 31st March 2021.

REPORT OF THE GOVERNING BODY (continued)

People

The College employed some 470 Headcount (360 FTE) established staff, full-time and fractional, in a range of curriculum and support functions during the year (see note 8). The College also employed 86 FTE of sessional staff to deliver primarily on its Community Learning courses and supporting its high needs students.

Reputation

The College has a strong reputation locally and nationally, reinforced by the 2017 Ofsted Inspection outcome of 'Good' with many 'Outstanding' areas and subsequent Short Inspection outcome confirming continuous progress. The College has grown its student cohort by successful partnership working with a range of agencies and by a responsive approach to local employer needs as well as students and parents. This includes the establishment of its Partnership with Employers through the Care and Construction Academies, to better meet the needs of these sectors.

Treasury policies and objectives

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

The College currently has a long term loan outstanding of £3.3m (2018/19: £3.6m). Borrowing requirements require the authorisation of the Corporation and comply with any requirements of the Funding Agreements.

Cash flows and Liquidity

Net cash inflow from operating activities stood at £1,305k (2018/19: £1,826k). The positive net cash flow resulted from increased activity and management of other resources.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of debt servicing and operating cash flow. During the year the operating cash inflows comfortably exceeded the College's outgoings.

COVID 19 Impact

The pandemic has had a significant impact on College operations as indicated elsewhere in the report. The College invested significant sums in transferring its operations online and purchasing equipment to enable students and staff to continue working from home and ensuring full health and safety regulations and the COVID 19 measures as per Government guidance was fully implemented. The management of College operations, ensuring clear communications to its staff and students, with their mental health and well being maintained as much as possible, resulted in significant costs and pressures on key College teams.

The Government and the ESFA support in the furlough scheme and non reconciliation of the Adult Education budget has supported the College's ability to maintain its financial health.

REPORT OF THE GOVERNING BODY (continued)

Reserves Policy

The College has no formal Reserves Policy, but recognises the importance of reserves in the financial stability of an organisation, whilst ensuring adequate resources are provided for the College's core business. The College currently holds £23k of restricted reserves. As at the balance sheet date, unrestricted reserves are stated at £20,092k (2019: £26,311k). It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses.

Going Concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Performance indicators

The College benchmarks its practice against a variety of national benchmarking opportunities including achievement rate tables, Matrix and other quality mark activities. The DAS employer survey, which replaced the FE Choices survey, confirms very high quality and the satisfaction rate for 2019/20 at 96%.

The College continues to benchmark the quality of its provision and progress through a range of referencing activities with other Colleges and against national benchmarks. The overall achievement rate of our students aged 16-18 in 2019/20 was 84.4% which is 1% above the GFE national rate. Adult achievement rate was 87.4% now 2.5% above the GFE national rate.

Termly Governor Learning Walk programme provides opportunities for Governors' questions and challenge, informing their monitoring of the Executive. Long-established, termly Performance Reviews include governors enabling them to question and challenge leaders and managers on quality improvement, MIS, Finance and HR management. This underpins review of improvement.

In March 2020, the lockdown due to the pandemic did not allow these walks to take place, however, Governors were kept informed of the support and progress of learners through Performance Reviews which continued as virtual events and included specific agenda items on the quality of teaching, learning and assessment. The Assistant Principal (newly appointed for 2020/21) has planned these for 2020/21.

In 2019/20, the College delivered training to 98.6% of its allocated 16-18 year olds, compared to 100.4% in 2018/19. Students are attracted by the outstanding and modern facilities, excellent local transport links, sustained high quality and a growing choice of provision. The provision of suitable support to High Needs 19-25 year olds, contributes to the relatively sustainable recruitment of young people. In addition, the College delivered training to classroom based full and part-time adult (19+ years) students. The College also delivered provision to over 110 14-16 year-old students from local schools, 737 Apprentices, circa 1,959 Community Learning enrolments. The Community Learning courses were most impacted by the pandemic and resulting lockdown. Some of the courses that lent themselves to online delivery were transferred online, with the practical courses suspended. The College also delivered a range of full cost courses, including higher level professional & HE courses.

REPORT OF THE GOVERNING BODY (continued)

College Achievements

During 2019/20, the College has continued to monitor improvements in both Curriculum and Support departments through Quality Improvement Plans, which rigorously challenge all areas to continually improve, with particular emphasis on any areas of under-performance. The Ofsted short Inspection report from October 2017 states **“Senior leaders and Governors are clear about the College’s strengths and areas requiring improvement to make the college Outstanding”**.

The monitoring visit report of January 2020 confirmed the progress made following the merger with John Ruskin College. Support department Service Level Agreements were reviewed and revised in-year and monitored for progress through the College Quality and Performance Review process, with reporting to the Governors’ Learning and Quality Committee. External verifier and Centre Systems Reviews throughout the year have been overwhelmingly positive with high levels of quality delivered.

The College has introduced several new programmes including Higher and Degree Apprenticeships and further options within its Vocational portfolio.

The College has Matrix Accreditation. The College was also graded as Bronze by QAA in the TEF (Teaching Excellence Framework) higher education review. The College has successfully transitioned its HE accreditation from University of Brighton to University of Chichester and developed close student partnership and progression links with the University of the Creative Arts and London South Bank University.

Student Achievements 2019/20

Across the combined college group the achievement rate for 16-18s is 84.2%, which is 0.8% above the national rate but does represents is a small decline of 0.4% on 2018/19. The number of qualifications taken by 16-18s increased by 460 to 5,180. The achievement rate for adults is 88.0%, which is 1.9% below the national rate while the number taken by adults increased by 131 to 2,280 qualifications. The achievement rate gap between 16-18s and adults is now 3.8% compared with 6.5% nationally. To note that due to a number of Covid-19 factors the position presented is not yet the final position as there are a number of achievement appeals with awarding bodies to be resolved so the final achievement rates will be a little higher than presented.

Most ethnic groups had achievement rates that were close to their respective national achievement rate however a few adult ethnic groups were below their respective achievement rate.

For 16-18’s, male achievement declined by 0.6% while female achievement remained static. Both rates are above national rates however. For adults, achievement has fallen for males by 4.1% and is now 3.3% below the national rate while females have fallen by 0.7%.

16-18’s learners that have declared a learning difficulty or disability (LLDD) have an identical achievement rate of 84.2% as learners without a difficulty/disability. Achievement of students eligible for free meals declined by 3.3% and is now 3.8% below the national rate. The main reason is the declining performance of students studying ESOL and English and maths functional skills. The achievement of 16-18’s with an EHCP fell by 5.8% and is now 1.5% below their peers.

Apprenticeship achievement has improved considerably when compared with 2018/19 with 135 apprentices achieving which is a 66.5% achievement rate and above the national rate of 64.7%.

REPORT OF THE GOVERNING BODY (continued)

Curriculum Developments

The College offers a broad curriculum to young people and adults, that extends from Entry Level to Higher Education provision (Pre-entry to Level 5). The College's curriculum offer is closely aligned to local employment prospects underpinned by regional and local data, employer engagement and DWP vacancy information.

Provision is in the main Subject Sector Areas of:

- Art, Media and Design (Reigate School of Art) – focusing on commercial and creative arts;
- Business, IT and Accountancy;
- Construction and the Built Environment;
- Engineering including Motor Vehicle Maintenance;
- Hairdressing, Beauty Therapy, Theatrical and Special Effects Make-Up and Spa Therapy;
- Health and Social Care and Childcare, including Access to Higher Education Study for Nursing, Science and for Social Work;
- Modern Foreign Languages (Adult Community Learning);
- Preparation for Life and Work;
- Public Services, Applied Science and Sport;
- Maths and English and ESOL;
- Travel and Tourism / Aviation Operations;
- Adult and Community Learning; and
- Teaching and Assessing.

The largest growth is in Construction and Engineering subjects, mirrored in buoyant apprenticeship growth over the past 5+ years in these subject areas, pronounced at higher levels.

ESC continues to run 14-16 school links provision as well as a Springboard alternative learning offer in collaboration with SE Surrey schools and Surrey County Council. JRC has for several years run successful Key Stage 4 provision for ESOL students funded through Croydon Council. JRC has successfully bid to run two cohorts in 2020/21.

The Executive have planned for a major growth initiative at JRC around the development of new curriculum. An ambitious build project, part funded by Coast to Capital LEP, will establish a Construction Skills Centre at the JRC site with concurrent plans for the conversion of a suite of classrooms into three additional construction and plumbing workshop spaces. For 2020/21, 45 students were enrolled onto Basic Construction and Plumbing courses and these students plus new applicants are expected to return in September 2021 to study the next level of their chosen trade.

The curriculum continues to develop to ensure that there is a balance of provision between the levels and that there are clear progression routes in all curriculum areas that meet local employment and higher education needs. All provision is mapped to Coast to Capital LEP, Gatwick Diamond and local priority skills demands. Emphasis is also placed on developing a quality vocational offer targeted at 16-18s and 19+ adult students as well as priority groups such as those not previously in education or employment with training notable successful outcomes. There is a continuing drive in curriculum planning, to ensure efficient use of staffing as well as to provide more variety in the curriculum offer with a significant increase in employer interaction with the College and its curriculum delivery to students. Safeguarding (incorporating Prevent) duties and responsibilities are effective and well-embedded in delivery and the ethos of the College as well as employability skills.

Stakeholder engagement

The College's curriculum maps to the Coast to Capital LEP priority areas, national priorities and local employment needs evidenced through working with sector skills organisations, the Surrey Employment and Skills Board, local Business Leaders groups, employers in the ESC/Care Academy group and through discussions with local councils and local employers.

REPORT OF THE GOVERNING BODY (continued)

Validation of Foundation Degrees is through University of Chichester with whom a highly productive relationship has developed. This includes developments around the new Degree Apprenticeship for Quantity Surveying and for two full Degrees that are expected to recruit for 2020/21. Successful collaborations have included a collaboration between London South Bank University, ESC and Thales, a large, local employer for recruitment to a Degree Apprenticeship in Embedded Electronic Systems.

The College delivers Community Learning across East and Mid Surrey including Reigate and Banstead, Epsom and Ewell, Dorking and the Mole Valley. The Gatton Point site is open on Saturdays, attracting adult students to the College and the WEA continues to offer non-qualification programmes for specific student cohorts at venues around Surrey. This includes 'hard to reach adults', adults with learning difficulties and disabilities and families though working with family centres in the community.

Payment Performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2019 to 31 July 2020, the College paid 87% of its invoices within 30 days (2018/19 - 91%), invoice average payments being 24 days (2018/19 - 23 days). The College incurred no interest charges in respect of late payment for this period. The principal reason for the lower volume of payments was the capital projects and the induction of the new suppliers into the College financial regulations. These have been resolved in the latter part of the year.

Events after the End of the Reporting Period

There have been no significant events affecting College operations after the end of the reporting period.

Future Prospects

The widespread demographic decline is due to reverse from 2020/21 with particularly sharp growth in Reigate and Banstead and around Croydon, from where the College's heaviest recruitment stems for 16-18s and adults. The College is positioning itself to take advantage of the upturn and meanwhile continues to develop additional income streams and partnerships to ensure the College's long-term sustainable future. This has contributed to robust apprenticeship growth.

Partnerships have always been important to ESC and as a result have grown significantly, particularly over the past three years and especially since merger. The College is aware of mergers and collaborative activity taking place in the region and has continually sought to ensure a strong future that enables it to maintain and grow a strong market share. Since merger with John Ruskin College, the College has positioned itself in the south London area and continues to seek a range of proactive partnerships and engagements in the area, for example through the established Future Places Board which seeks to ensure sufficient provision and places to meet local need.

PRINCIPAL RISKS AND UNCERTAINTIES

The College has continued to develop and embed systems of internal control including financial, operational and risk management designed to protect the College's assets and reputation.

Based on the Strategic Statement (previously referred to as the Strategic Plan), the Risk Management Committee ('RMC') undertakes a formal, termly comprehensive review of the risks to which the College is exposed. The Committee identifies systems and procedures including specific preventative and containment actions, which should mitigate any potential impact on the College. In addition to the annual review, the 'RMC' considers any risks, which may arise from a new area of work undertaken by the College.

REPORT OF THE GOVERNING BODY (continued)

The 'RMC' meets three times per year. Its membership consists of cross section of the College Executive, Directorate and Heads of Department. The identification of risks is an embedded part of the various team meetings. The risks identified at these meetings are collated and the risk register updated accordingly. This Committee reviews the Risk Register to ensure the information contained is relevant, assess the score allocated and amend the risks as appropriate.

The Risk Register is divided into sections, maintained at the College level, each section is allocated to a specific Governing Body Committee for review each term. The Risk Register identifies key risks, the likelihood of those risks occurring, their potential impact on the College and actions taken to reduce and mitigate the risks. Risks, are prioritised using a consistent scoring system. It is the key 'high rated' risks that governors focus on in committees.

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Government Funding

The College continues to have considerable reliance on continued government funding through the further education sector funding bodies and through OfS. In 2019/20, 92% of the College's revenue, was ultimately publicly funded and this level of requirement is expected to continue. The controls resulting from the Insolvency Regime for the FE Sector, are now embedded in College operations and consequent impact on College operations is that of making the sector a high risk organisation resulting in risk ratings of high with pensions and banks. The Government have committed to an increase in the funding rate of 16 – 18 year olds of 4.7%, which equates to an increase of £188 per student. The Government have also committed to paying the Colleges for the increases to the Teacher's Pension Scheme, at least until 31st March 2021.

The College is aware of several issues which may impact on future funding:

➤ **Achieving 16-18 learner targets**

Demographic data indicates a decline to July 2020, with an increase in future years, the College expected to see reduced numbers of applications and enrolments. There are many schools and Academies with small numbers in their Sixth Form and this presents a very competitive market for students aged 16. The College receives many applications from 17-year-old students who are funded at a lower rate.

Mitigations:

- The College curriculum offer is attractive and is annually reviewed. It offers good progression routes to higher levels and into employment.
- There is continued focus on student progression. Students progress very well to higher levels, employment (predominantly apprenticeships) or HE.
- There is very good engagement with schools and the reputation of the College is strong.
- Strong partnership working with organisations to secure further number growth, to enhance student experience and offer complementary provision.
- The College continues to plan for its capital building strategy and capacity for growing the offer with the expected increase in local numbers from 2021.

➤ **Apprenticeship funding**

Apprenticeship funding continues to be reshaped, in 2019/20 the most significant impact is the introduction of further classifications in the funding bands which overall resulted in lower funding rates but with a high demand on delivery.

REPORT OF THE GOVERNING BODY (continued)

The College is taking the following actions in order to mitigate this risk:

- Proactively engaging with employers and employer groups, keeping them informed of developments and helping design future plans for delivery.
 - Ensuring it meets its allocation in a timely manner.
 - Recognising the challenges but positioning itself to take advantage of the opportunities.
- **The risks to the other funding streams including the Community Learning Funding is being mitigated by:**
- Ensuring the College is rigorous in delivering high quality education and training.
 - Regularly reviewing the offer, timing and availability of courses to maximise recruitment.
 - Engaging effectively with local community groups to raise awareness of the offer and to introduce new provision based on local identified interest and need.
 - Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.

2. Tuition Fee Policy

There have been no changes to tuition fee assumption, which remains at 50%. In line with the majority of colleges, East Surrey College will seek to increase tuition fees in accordance with the fee assumptions and market information. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses as prices change.
- Regular review of the offer to ensure it meets local employment requirements and student needs and does not simply duplicate provision in the locality unless there is evidenced unmet interest

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. With the reclassification of capital grants from Reserves to Long term liabilities, the impact of the pension fund liabilities is significant and has the capacity to show the College Balance sheet with negative reserves. The Insolvency regime has meant that the Pension Fund has taken the view that the FE Colleges, whatever their financial health, are at the highest risk level increasing further the already significant costs of the Local Government Pension Scheme.

This risk is mitigated by:

- The College actively engaging with the Pension Fund to review its assumptions in calculating its long term liabilities. Where reasonable, in agreement with the various stakeholders these assumptions have been restated.
- The College continuing to engage with the Pension funds regarding its Triennial valuations, in the hope of more realistic risk categorisations.

The College's LGPS revenue costs have increased by 54% and Balance Sheet liability by 63.3%.

REPORT OF THE GOVERNING BODY (continued)

4. Failure to maintain the financial viability of the College

The College's calculated financial health grade is classified as 'Outstanding' although the College self-assesses as 'Good' due to the risks discussed in this report. This is largely the consequence of the development of the High Needs Provision and new provision that responds to the needs of our Employers. Notwithstanding that, the continuing challenge to the College's financial position remains:

- The constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining the student experience. In 2019/20 there has been a recognition from various quarters of the lack of funding in Colleges and an increase of 4.7% has been confirmed from 2020/21.
- This however is an increase in the base rate after 5 years and increased operating costs through pay rises, which have averaged at 1% per annum and increased pension contributions will continue to make the environment challenging.
- The increased risk classification of the College, resulting in higher costs in funding pension liabilities and ability to raise capital financing to fund growth.

This risk is mitigated in a number of ways:

- Effective marketing, an effective and robust curriculum plan, consultation with stakeholders, as well as maintaining excellent accommodation on Gatton Point North and teaching resources.
- By rigorous budget setting processes and sensitivity analysis.
- Regular in year budget monitoring.
- Robust financial controls.
- Exploring ongoing procurement efficiencies.
- Bidding for capital and revenue funding where available including the Local Enterprise Partnership (LEP).

5. Severe Business Disruption

The external environment that all organisations now operate in has significantly changed with crime moving online and cyber crime with scattergun ransom attacks becoming a key risk. The College was subject to one such attack in June 2019. The issue for the College was the loss of Availability of Data and not a Breach of Data. The College communicated with the relevant regulatory agencies as part of its control process and legal obligation.

The College has fully rebuilt its systems and implemented strengthened security measures across its IT infrastructure. The College is working towards attaining cyber essentials certification.

The COVID – 19 pandemic has had a significant impact on operations. The whole business of the College, was transferred to online learning and working during the lockdown. Significant costs were incurred in ensuring the College environment is fully maintained in line Government guidance. The staff and students have coped well, and health and wellbeing maintained through active communication and follow through when issues were identified.

REPORT OF THE GOVERNING BODY (continued)

STAKEHOLDER RELATIONSHIPS

The College recognises the importance of stakeholder relationships and engages in regular communication with its wide range of stakeholders through its social media, electronic communication methods and face to face contact meetings. Stakeholders include:

- Students;
- Education Funding Bodies;
- Schools, including those with sixth forms;
- Staff;
- Local employers: large, SME and micro-businesses;
- Local Authorities and County Councils;
- Local Enterprise Partnerships (LEPs);
- Employer Organisations;
- Sector Skills representative bodies;
- Awarding Bodies;
- The local community;
- DWP/JCP
- Other FE and HE institutions; and
- Trade Unions.

Equal Opportunities and Employment of Disabled Persons

East Surrey College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions, which place people at a disadvantage and we actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

The College has adopted a Single Equality Scheme, published on the College's Internet site. The College is a "Disability Confident" employer, committed to the principles and objectives of the "Disability Confident" scheme.

Disability Statement

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

- a) The College has automatic doors to all entrance points, disabled ramps and lift access where reasonable to do so;
- b) There is a wide range of specialist equipment, such as adaptive keyboards and voice recognition software, which the College can make available for use by students;
- c) Information on choosing and enrolling on a course is included in the College Charter;
- d) Appeals against a decision not to offer a place are dealt with under the Complaints Policy;
- e) The College has invested in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. The College works with specialist institutions such as the SCC Sensory Support Service for students requiring visual/sensory aid support and expertise. The College employs learning support assistants who can provide a variety of support for learning. There is an extensive programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities, or who have particular support needs such as mental health issues;

REPORT OF THE GOVERNING BODY (continued)

- f) Specialist programmes described in programme information guides, and achievements and destinations are recorded and published in the standard College format. This includes a Supported Internship programme for students with high support needs;
- g) Information on counselling and welfare services is included in the College Charter and the College has a counselling service over 3 days a week; and
- h) The College has DDA compliant lifts at both of its main sites and ensures that there is colour and contrast in its colour schemes.

Trade Union Facility Time

The College recognises the University and College Union and Unison Trade Unions. In the year from 1 August 2019 to 31 July 2020 there were no requests from staff for trade union facility time.

Disclosure of Information to Auditor

The Members who held office at the date of approval, of this report, confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditor is unaware;

and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditor is aware of that information.

Approved by order of the Members of the Corporation on 10 December 2020 and signed on its behalf by:



Andrew Baird
Chair

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

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

The College is committed to exhibiting best practice in all aspects of corporate governance.

In the opinion of the Governors, the College complies with all the provisions of the Code and it has complied throughout the year ended 31 July 2020. 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, which it formally adopted in July 2015.

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they had due regard for the Charity Commission’s guidance on public benefit and that the required statements appear elsewhere in these financial statements.

Public Benefit Statement

The College seeks to add value to the social, economic and physical well-being of the community it serves. It does this through a defined educational character, vision and mission, which inform the strategic aims, reviewed annually and through its overarching values. The wider community is defined as all partners who have an interest in promoting educational advancement of individuals to benefit business, the local economy and the community as a whole.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

MEMBERS OF THE CORPORATION

The Corporation

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

Name	Date appointed/ reappointed	Term of office	Date resigned/end of term of office	Status of appointment	Committees served	Attendance
Andrew Baird	19 March 2008 19 March 2012 1 January 2016 13 December 2018 1 September 2020	4 years 2 years		Independent Member	Corporation Board: Chair Finance and Resources Search and Governance: Chair Strategy: Chair	14 out of 14
Simon Bland	14 December 2017	4 years		Independent Member	Finance and Resources Strategy	7 out of 11
Jayne Dickinson	1 January 2012	Ex Officio		Chief Executive and Principal ESC	Finance and Resources Learning and Quality Search and Governance Strategy	18 out of 18
Lily Franklin	1 August 2019	4 years		Staff Member (ESC)	Learning and Quality	7 out of 7
Rosemary French	25 March 2009 25 March 2013 01 January 2017	4 years	31 December 2020	Independent Member	Audit Senior Post Holders Employment: Chair Search and Governance Strategy	12 out of 14
Derek Galloway	1 February 2019	4 years		Independent Member	Finance and Resources Strategy	7 out of 11
Andrew Gilchrist	27 August 2008 27 August 2012 1 May 2016	4 years	30 April 2020	Independent Member	Audit: Chair Strategy Senior Post Holders Employment	5 out of 7
Alex Hayman	12 July 2018	4 years		Independent Member	Audit: Chair Strategy Senior Post Holders Employment	11 out of 11
Phillip Kerle	06 July 2017	4 years		Independent Member	Finance and Resources: Chair Strategy Senior Post Holders Employment	10 out of 12
Ganesh Kumar	12 July 2018	4 years		Independent Member	Audit Strategy	5 out of 10
Grace Marriott	1 February 2019	4 years		Independent Member	Learning and Quality Strategy	9 out of 11
James Marshall	26 March 2020	4 years		External Co-opted member of the Audit Committee	Audit Strategy	3 out of 3

Name	Date appointed/ reappointed	Term of office	Date resigned/end of term of office	Status of appointment	Committees served	Attendance
Amran Mohamed	1 August 2018 1 August 2019	1 year	31 July 2020	Student Member (ESC)	Learning and Quality	5 out of 6
Colin Monk	8 December 2016 10 December 2020	4 years		Independent Member	Strategy Learning and Quality Senior Post Holders Employment	15 out of 15
Peter Papanastasiou	1 February 2019	4 years		Independent Member	Audit Strategy	7 out of 10
Robert Pickles	06 July 2017	4 years		Independent Member	Learning and Quality Strategy	9 out of 11
Simon Potten	12 July 2018	4 years		Independent Member	Learning and Quality Strategy	2 out of 10
Elizabeth Rushton	11 December 2014 1 January 2019	4 years		Independent Member	Corporation Board: Vice Chair Learning and Quality: Chair Search and Governance Senior Postholders Employment Strategy	15 out of 15
Anne Smith	1 February 2019	4 years		Independent Member	Learning and Quality Strategy	9 out of 11
Patrick Waller	14 July 2016	4 years	26 March 2020	External Co- opted Member of the Audit Committee	Audit Strategy	4 out of 7
Natalie Watkins- Khan	1 September 2019	4 years		Staff Member (JRC)	Learning and Quality	6 out of 7
Amy Whitear	3 October 2019	1 year	31 July 2020	Student Member (JRC)	Learning and Quality	6 out of 6
Sue Glover acts as Clerk to the Corporation						

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

In addition to the committee meetings listed above, members also supported the College at a range of strategic planning events.

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance and Resources, Learning and Quality, Senior Postholders' Employment, Search and Governance, Audit and Strategy. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.esc.ac.uk or from the Clerk to the Corporation at:

East Surrey College
Gatton Point
London Road
Redhill
Surrey
RH1 2JX

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

All governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Principal of the College are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance Committee, consisting of five members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Corporation performance

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

The Board reviewed its performance for 2019/20 in June as part of the annual self-assessment review taking into consideration its self-assessment. The Board also considers its individual performance through 1 to 1 meetings with the Chair. Further assurance is gained from both external parties (Ofsted and FE Commissioner visits) and the College Key Performance Indicators, which are reported at committee and board meetings. These indicators cover all aspects of the college's operations including teaching and learning, student outcomes, satisfaction and leadership and management. The KPIs form a sound basis from which managers and Governors can judge performance and progress. The targets in the strategic plan are based on the most accurate comparative data from within and outside the sector (where appropriate) and targets are set to be both challenging and achievable.

Senior Post Holders Employment Committee

Throughout the year ending 31 July 2020, the College's Senior Post Holder Employment Committee comprised 5 members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

The College endeavours to conduct its business in full accordance with the guidance to colleges from the Association of Colleges Senior Post Holders Remuneration Code, which was adopted in March 2019. The annual statement relating to the remuneration of Senior Post Holders can be found on the College website.

Details of the Senior Post Holders' (Key Management Personnel) remuneration for the year ended 31 July 2020 are set out in note 9 to the financial statements.

Audit Committee

The Audit Committee comprises 5 members of the Corporation (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the committee for independent discussion, without the presence of College management. The committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The College's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

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

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum/Financial Agreement between East Surrey College and the Education and Skills Funding Agency. She is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in East Surrey College for the year ended 31 July 2020 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks.

The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ended 31 July 2020 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The internal audit plan is based on an analysis of the risks to which the College is exposed, and noted on its risk register, compliance with any regulatory requirements and discussions at Audit Committee. The internal audit plans are endorsed by the Corporation, on the recommendation of the Audit Committee.

The internal auditors undertook four audit reviews in relation to 2019/20:

- Subcontracting;
- Key Financial Controls;
- Risk Management and Governance
- Learner Number Systems – Apprenticeships (Funding Assurance)

No significant internal control weaknesses were identified in the internal audit reviews listed above.

Review of effectiveness

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

- The work of the internal auditors;
- The work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the College's financial statements auditors and the regularity auditors in their management letters and other reports.

The Principal has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor, other sources of assurance and the Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

At its 10 December 2020 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2020.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of its assets".

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

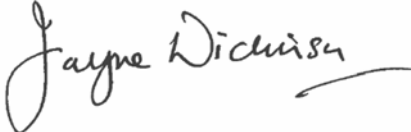
Approved by order of the Members of the Corporation on 10 December 2020 and signed on its behalf by:

Signed



Andrew Baird
Chair
10 December 2020

Signed



Jayne Dickinson
Chief Executive (College Group)
10 December 2020

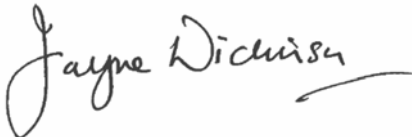
GOVERNING BODY’S STATEMENT ON THE COLLEGE’S REGULARITY, PROPRIETY AND COMPLIANCE WITH THE FUNDING BODY TERMS AND CONDITIONS OF FUNDING

The Corporation has considered its responsibility to notify ESFA of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the Corporation’s grant funding agreements and contracts with ESFA. As part of our consideration we have had due regard to the requirements of grant funding agreements and contracts with ESFA.

We confirm on behalf of the Corporation that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the Corporation, or material non-compliance with the terms and conditions of funding, under the Corporation’s grant funding agreements and contracts with ESFA, or any other public funder.

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

Signed



Jayne Dickinson
Accounting Officer
10 December 2020

Signed



Andrew Baird
Chair
10 December 2020

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION

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

Within the terms and conditions of the Corporation's grant funding agreements and contracts with ESFA, the Corporation – through its Accounting Officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 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 gives a true and fair view of the state of affairs of the Corporation and surplus/deficit of income over expenditure for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK 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 Corporation will continue in operation

The Corporation is also required to prepare a Members' Report that describes what it is trying to do and how it is going about it, including information about the legal and administrative status of the Corporation.

The Corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Corporation and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from ESFA, and any other public funds, are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by ESFA, or any other public funder. Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economic, efficient and effective management of the Corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA and other public bodies are not put at risk.

**STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION
(continued)**

Approved by order of the members of the Corporation on 10 December 2020
and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'A Baird', with a horizontal line above the signature.

Andrew Baird
Chair of governors

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

Opinion

We have audited the financial statements of East Surrey College (the 'College') for the year ended 31 July 2020 which comprise the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows and the notes to the financial statements, including the principal accounting policies. 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 2020 and of its deficit of income over expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- in all material aspects, funds from whatever source administered by the College for specific purposes have been properly applied only for those purposes for which they were received, and managed in accordance with relevant legislation; and
- in all material respects, funds provided by the OfS, UK Research and Innovation (including Research England), the Education and Skills Funding Agency and the Department for Education have been applied in accordance with the relevant terms and conditions; and
- the requirements of the Office for Students' Accounts Direction have been met.

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 Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation 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 members of the Corporation are responsible for the other information. The other information comprises the information included in the 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.

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

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.

We have nothing to report in respect of the following matters in relation to which the Office for Students requires us to report to you if, in our opinion:

- the College's grant and fee income, as disclosed in note 4 to these financial statements has been materially misstated: or
- the College's expenditure on access and participation activities for the financial year has been materially misstated.

Responsibilities of the Corporation

As explained more fully in the Statement of responsibilities of the members of the Corporation, the members of the Corporation are 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 members of the Corporation 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 members of the Corporation are 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 members of the Corporation 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

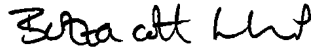
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

**INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF EAST SURREY
COLLEGE (continued)**

Use of our report

This report is made solely to the Corporation, 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 Corporation 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 Corporation as a body, for our audit work, for this report, or for the opinions we have formed.



Buzzacott LLP
Statutory Auditor
130 Wood Street
London
EC2V 6DL

Date: 16 December 2020

REPORTING ACCOUNTANT'S ASSURANCE REPORT ON REGULARITY

To: The Corporation of East Surrey College and Secretary of State for Education acting through Education and Skills Funding Agency ("the ESFA")

In accordance with the terms of our engagement letter dated 6 June 2019 and further to the requirements of the ESFA's grant funding agreements and contracts, or those of any other public funder we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by East Surrey College during the period 1 August 2019 to 31 July 2020 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 ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record returns, for which the ESFA or devolved authority has other assurance arrangements in place.

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

Respective responsibilities of East Surrey College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the 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 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by the ESFA. 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.

REPORTING ACCOUNTANT'S ASSURANCE REPORT ON REGULARITY (continued)

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 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 2019 to 31 July 2020 have not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Buzzacott LLP
Chartered Accountants
130 Wood Street
London
EC2V 6DL

Date: 16 Decemer 2020

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2020

	Note	2020 £'000	2019 £'000
Income			
Funding body grants	2	20,995	17,524
Tuition fees and education contracts	3	1,811	1,826
Other grants and contracts	5	1,329	1,475
Other income	6	126	50
Investment income	7	44	51
Total income		24,305	20,926
Expenditure			
Staff costs	8	15,287	12,555
Other operating expenses	10	6,329	5,980
Depreciation	13	2,718	2,387
Interest and other finance costs	11	438	403
Total expenditure		24,772	21,325
Deficit before other gains and losses		(467)	(399)
Deficit before tax		(467)	(399)
Deficit for the year		(467)	(399)
Fair value of net assets acquired	29	-	23,018
Actuarial loss in respect of pensions schemes	20	(5,752)	(1,995)
Total Comprehensive (Expenditure)/Income for the year		(6,219)	20,624

STATEMENT OF CHANGES IN RESERVES
for the year ended 31 July 2020

	Income and expenditure account £'000	Revaluation reserve £'000	Restricted Reserve £'000	Total £'000
Balance as at 1 August 2018	3,500	2,187	23	5,710
Deficit from the income and expenditure account	(399)	-	-	(399)
Other comprehensive income/ (expenditure):				
Acquired from merger with John Ruskin	23,018	-	-	23,018
Actuarial loss in respect of pension scheme	(1,995)			(1,995)
Transfers between revaluation and income and expenditure reserves	76	(76)	-	-
Total comprehensive income/ (expenditure) for the year	<u>20,700</u>	<u>(76)</u>	<u>-</u>	<u>20,624</u>
Balance as at 31 July 2019	<u>24,200</u>	<u>2,111</u>	<u>23</u>	<u>26,334</u>

	Income and expenditure account £'000	Revaluation reserve £'000	Restricted Reserve £'000	Total £'000
Balance as at 1 August 2019	24,200	2,111	23	26,334
Deficit from the income and expenditure account	(467)	-	-	(467)
Other comprehensive expenditure:				
Actuarial loss in respect of pension scheme	(5,752)	-	-	(5,752)
Transfers between revaluation and income and expenditure reserves	76	(76)	-	-
Total comprehensive expenditure for the year	<u>(6,143)</u>	<u>(76)</u>	<u>-</u>	<u>(6,219)</u>
Balance as at 31 July 2020	<u>18,057</u>	<u>2,035</u>	<u>23</u>	<u>20,115</u>

BALANCE SHEET as at 31 July 2020

	Notes	2020 £'000	2019 £'000
Tangible fixed assets	13	<u>74,161</u>	<u>75,949</u>
Current assets			
Trade and other receivables	14	1,261	1,008
Cash and cash equivalents	19	<u>9,868</u>	<u>9,702</u>
		11,129	10,710
Less: creditors – amounts falling due within one year	15	(5,145)	(5,870)
Net current assets		<u>5,984</u>	<u>4,840</u>
Total assets less current liabilities		80,145	80,789
Less: creditors – amounts falling due after more than one year	16	(42,349)	(43,561)
Provisions			
Defined benefit obligations	18	(17,494)	(10,707)
Other provisions	18	<u>(187)</u>	<u>(187)</u>
		(17,681)	(10,894)
Total net assets		<u>20,115</u>	<u>26,334</u>
Restricted reserves		<u>23</u>	<u>23</u>
Unrestricted reserves			
Income and expenditure account		18,057	24,200
Revaluation reserve		<u>2,035</u>	<u>2,111</u>
		20,092	26,311
Total reserves		<u>20,115</u>	<u>26,334</u>

The financial statements on pages 33 to 57 were approved and authorised for issue by the Corporation on 10 December 2020 and were signed on its behalf on that date by:



Andrew Baird
Chair



Jayne Dickinson
Accounting Officer

STATEMENT OF CASH FLOWS
for the year ended 31 July 2020

	Note	2020 £'000	2019 £'000
Cash flow from operating activities			
Deficit for the year		(467)	(399)
Adjustment for non-cash items			
Depreciation	13	2,718	2,387
Deferred capital grants released to income	2	(1,440)	(1,399)
Increase in debtors	14	(253)	(174)
(Increase)/decrease in creditors due within one year	15	(448)	561
Pensions costs less contributions payable		801	498
Pension finance cost	11	234	182
Adjustment for investing or financing activities			
Interest payable	11	204	221
Investment Income	7	(44)	(51)
Net cash flow from operating activities		1,305	1,826
Cash flows from investing activities			
Acquired from the merger with John Ruskin College	28	-	2,139
Investment income	7	44	51
Deferred capital grants received		265	62
Payments made to acquire fixed assets	13	(944)	(367)
		(635)	1,885
Cash flows from financing activities			
Interest paid	11	(204)	(221)
Repayments of amounts borrowed	17	(300)	(300)
		(504)	(521)
Increase in cash and cash equivalents in the year		166	3,190
Cash and cash equivalents at beginning of the year	19	<u>9,702</u>	<u>6,512</u>
Cash and cash equivalents at the end of the year	19	<u>9,868</u>	<u>9,702</u>

Analysis of changes in net debt/funds	At 1 August 2019 £'000	Cash flows £'000	At 31 July 2020 £'000
Cash and cash equivalents	9,702	166	9,868
Loan	(3,600)	300	(3,300)

Total

6,102

466

6,568

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

1. Statement of Accounting Policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2018 (the 2018 FE HE SORP), the College Accounts Direction for 2019 to 2020 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 College's accounting policies.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Report of the Governing Body. The financial position of the College, its cash flow, liquidity and borrowings are described in the financial statements and accompanying Notes.

The College recognises the significant impact of the pandemic on its operations and is in the process of ensuring measures, like continued robust financial management are in place to ensure the long term sustainability of the College.

The Government's furlough scheme for its non funded activities and non reconciliation of the adult education budget has supported the College's financial health.

As at 31 July 2020 the College has a £3.3m fixed rate long term loan repayable over the remaining life of 11 years extendable to 20 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

Recognition of income

Government revenue grants including funding body recurrent grants and other grants are accounted for under the accrual model as permitted by FRS102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any over or under achievement of the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

end, and the result of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

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

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

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

Post-Retirement Benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS) which are externally funded defined benefit plans. The College also continued contributing to The People's Pension which is a defined contribution scheme.

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

The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

Short term Employment benefits

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

Tangible fixed assets

Land and buildings

Tangible fixed assets are stated at cost or deemed cost less accumulated depreciation and impairment losses. Land and buildings inherited from the Local Education Authority (LEA) that had been valued to fair value prior to the date of transition to the 2015 FE HE SORP are measured on the basis of deemed cost. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life which varies between 10 and 50 years.

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were valued in 1992, but not to adopt a policy of revaluations of these properties in the future.

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2020. They are not depreciated until they are brought into use.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless, it increases future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the year of acquisition. Equipment costing more than £1,000 is capitalised at cost. Equipment is depreciated on a straight line method over its useful economic life as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

Mobile plant, furniture and equipment	- 5 years;
Fixed plant	- 7 years;
Motor vehicles	- 3 years;
Computer equipment	- 3-7 years.

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

Taxation

The College is considered to pass the tests set out in paragraph 1 of schedule 6 to the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from tax in respect of income and capital gains received in categories covered by sections 478 – 488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Irrecoverable VAT on inputs is included in the cost of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Cash and cash equivalents

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

Provisions

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised as a finance cost in the statement of comprehensive income in the period it arises.

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

Judgement in applying accounting policies and key sources of estimation uncertainty

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

1. The present value of the Local Government Pension Scheme defined liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 20, 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 2019 has been used by the actuary in valuing the pensions liability at 31 July 2020. Any differences between the figure derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2. Funding Body Grants

	2020 £'000	2019 £'000
Recurrent Grants		
Education and Skills Funding Agency – Adult Education Budget	1,115	1,418
Education and Skills Funding Agency – 16-18	14,166	11,922
Education and Skills Funding Agency – Apprenticeships	2,075	1,816
Greater London Authority – Adult Education Budget	754	-
Office for Students	113	116
Specific Grants		
Education and Skills Funding Agency – Community Learning	697	753
Greater London Authority – Community Learning	57	-
Education and Skills Funding Agency - Teacher Pension Scheme Contribution Grant	379	-
Education and Skills Funding Agency - Strategic College Improvement Fund	199	-
Education and Skills Funding Agency - Area Transition Review	-	100
Release of government capital grants	1,440	1,399
Total	20,995	17,524

3. Tuition Fees and Education Contracts

	2020 £'000	2019 £'000
Adult education fees	70	109
Apprenticeship fees and contracts	27	38
Fees for FE loan supported courses	817	842
Fees for HE loan supported courses	606	540
Total tuition fees	1,520	1,529
Education contracts	291	297
Total	1,811	1,826

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

4. Grant and Fee Income – Level 4 and above (Office for Students requirement)

	2020 £'000	2019 £'000
Grant income from the OfS	113	116
Grant income from other bodies	550	510
Fee income for taught awards (exclusive of VAT)	717	646
Total grant and fee income for Level 4 and above	1,380	1,272

5. Other grants and contracts

	2020 £'000	2019 £'000
Other grants and contracts	1,234	1,475
Coronavirus Job Retention Scheme grant	95	-
Total	1,329	1,475

The corporation furloughed some staff in Administration, Estates and Student facing roles under the government's Coronavirus Job Retention Scheme. The funding received of £95k relates to staff costs which are included within the staff costs note below as appropriate.

6. Other income

	2020 £'000	2019 £'000
Other income generating activities	71	34
Miscellaneous income	55	16
Total	126	50

7. Investment Income

	2020 £'000	2019 £'000
Other interest receivable	44	51
Total	44	51

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

8. Staff Costs

The average number of persons (including key management personnel) employed during the year, expressed on an average headcount basis, was:

	2020 No.	2019 No.
Teaching staff	203	189
Teaching support services	116	103
Non-teaching staff	151	129
	470	421

Staff costs for the above persons

	2020 £'000	2019 £'000
Wages and salaries	10,903	9,358
Social security costs	1,032	867
Other pension costs	2,892	2,047
	14,827	12,272
Payroll sub total		
Contracted out staffing services	460	283
	15,287	12,555

9. 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 Leadership Team which comprises of the Chief Executive Officer (College Group) & Principal (ESC); Principal (JRC); Chief Operating Officer (College Group); and Executive Director HR & Professional Development (College Group).

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

	2020 No.	2019 No.
The number of key management personnel including the Accounting Officer was:	<u>4</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

9. Key Management Personnel (continued)

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

	2020		2019	
	Key Management Personnel No.	Other Staff No.	Key Management Personnel No.	Other Staff No.
£60,001 to £65,000 p.a.	-	1	-	1
£65,001 to £70,000 p.a.	-	-	-	1
£70,001 to £75,000 p.a.	-	2	-	-
£75,001 to £80,000 p.a.	-	-	1	-
£80,001 to £85,000 p.a.	1	-	-	-
£95,001 to £100,000 p.a.	-	-	1	-
£100,001 to £105,000 p.a.	1	-	-	-
£105,001 to £110,000 p.a.	-	-	1	-
£110,001 to £115,000 p.a.	1	-	-	-
£135,001 to £140,000 p.a.	-	-	-	-
£145,001 to £150,000 p.a.	-	-	1	-
£150,001 to £155,000 p.a.	1	-	-	-
	4	3	4	2

Including part time staff grossed up to full time equivalent, one additional member of Other Staff was paid in the £65,001 to £70,000 banding in 2020.

Key management personnel emoluments are made up as follows:

	2020 £'000	2019 £'000
Basic salary	435	419
Benefits in kind	12	12
Employer's National Insurance contributions	55	55
Pension contributions	94	74
Total key management personnel compensation	596	560

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

9. Key Management Personnel (continued)

The above emoluments include amounts payable to the Chief Executive Officer (College Group) & Principal (ESC), who is also the highest paid staff member, as follows:

	2020	2019
	£'000	£'000
Basic salary	148	143
Benefits in kind	4	4
Employer's National Insurance contributions	19	19
Pension contributions	34	23
Total compensation	205	189

Throughout the year ending 31 July 2020, the College's Senior Post Holder Employment Committee comprised 5 members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

The College endeavours to conduct its business in full accordance with the guidance to colleges in the Association of Colleges Senior Post Holders Remuneration Code, which was adopted in March 2019. The annual statement relating to the remuneration of Senior Post Holders can be found on the College website.

The remuneration package of key management staff, including the Chief Executive Officer (College Group) & Principal (ESC), is subject to annual review by the Senior Postholders' Employment Committee who make recommendations to the governing body. The committee justifies the remuneration through referencing the AoC Harmonised Pay Scales report and Senior Pay Survey results for the South East region, and the outcomes of annual appraisals and performance reviews.

Relationship of Chief Executive Officer (College Group) pay and remuneration expressed as a multiple

	2020	2019
CEO's basic salary as a multiple of the median of all staff	5.7	5.5
CEO's total remuneration as a multiple of the median of all staff	7.1	6.6

The Members of the Corporation other than the Chief Executive Officer (College Group) and the Staff Members did not receive any payment other than the reimbursement of travel and subsistence expenses incurred in the course of their official duties. No staff governors were paid in respect of their duties as governors of the College.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

10. Other Operating Expenses

	2020	2019
	£'000	£'000
Teaching costs	3,203	2,946
Non-teaching costs	1,584	1,707
Premises costs	1,542	1,327
Total	6,329	5,980

Other operating expenses include:

	2020	2019
	£'000	£'000
Auditor's remuneration:		
Financial statements audit	22	18
Internal audit	13	16
Other services provided by the financial statements auditor	13	1
Hire of assets under operating leases	44	43

11. Interest and other finance costs:

	2020	2019
	£'000	£'000
On bank loans, overdrafts and other loans:	204	221
Pension finance costs (note 20)	234	182
Total	438	403

12. Taxation

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

13. Tangible Fixed Assets

	Freehold Land and Buildings	Equipment	Assets in the Course of Construction	Total
Cost or valuation	£'000	£'000	£'000	£'000
At 1 August 2019	93,222	7,096	-	100,318
Additions	-	482	448	930
Disposals	-	(32)	-	(32)
At 31 July 2020	93,222	7,546	448	101,216
Depreciation				
At 1 August 2019	18,482	5,887	-	24,369
Charge for the year	2,270	448	-	2,718
Elimination in respect of disposals	-	(32)	-	(32)
At 31 July 2020	20,752	6,303	-	27,055
Net book value at 31 July 2020	72,470	1,243	448	74,161
Net book value at 31 July 2019	74,740	1,209	-	75,949

The College does not have any assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

14. Trade & Other Receivables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade receivables	450	308
Prepayments and accrued income	655	426
Amounts owed by the ESFA	156	274
Total	1,261	1,008

15. Creditors: Amounts Falling Due Within One Year

	2020 £'000	2019 £'000
Bank loan and overdrafts (note 17)	300	300
Trade payables	365	511
Other taxation and social security	499	443
Accruals and deferred income	2,806	2,881
Amounts owed to the ESFA	-	297
Deferred income – government capital grants	1,175	1,438
Total	5,145	5,870

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

	2020 £'000	2019 £'000
Bank Loan (note 17)	3,000	3,300
Deferred income – government capital grants	39,349	40,261
Total	42,349	43,561

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

17. Maturity of debt

(a) Bank loans and overdraft

Bank loans and overdraft are payable as follows:

	2020 £'000	2019 £'000
In one year or less	300	300
Between one and two years	300	300
Between two and five years	900	900
In five years or more	1,800	2,100
Total	3,300	3,600

The College has a £3.3m fixed rate long term loan with Barclays Bank repayable by instalments to 2031 at a fixed interest rate of 5.6674%.

18. Provisions

	Defined benefit obligations £'000	Other provisions £'000	Total £'000
At 1 August 2019	(10,707)	(187)	(10,894)
Expenditure in the period	928	-	928
Other movements	(7,715)	-	(7,715)
At 31 July 2020	(17,494)	(187)	(17,681)

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 20.

Other provisions comprise works ongoing within the College that could result in additional expenditure being incurred in the coming year.

19. Cash and cash equivalents

	At 1 August 2019 £'000	Cash flows £'000	At 31 July 2020 £'000
Cash and cash equivalents	9,702	166	9,868
Total	9,702	166	9,868

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

20. Defined benefit obligations

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

	2020 £'000	2019 £'000
Total pension cost for the year		
Teachers' Pension Scheme: contributions paid	1,123	701
Local Government Pension scheme		
Contributions paid	948	836
FRS 102 charge	<u>801</u>	<u>498</u>
Charge to the Statement of Comprehensive Income	1,749	1,334
The People's Pension	22	12
Total Pension Cost for Year	<u>2,894</u>	<u>2,047</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The formal actuarial valuation of the TPS was 31 March 2016 and of the LGPS 31 March 2019.

Contributions amounting to £241,000 (2019: £203,000) were payable at year end to the pension schemes and are included in creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' 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 below 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

20. Defined benefit obligations (continued)

Valuation of the Teachers' Pension Scheme

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 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 £196 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 2018/9). DfE paid a teacher pension employer contribution grant to cover the additional costs during the 2019-20 academic year and has committed to continue this grant up to 31 March 2021. 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 £1,123,000 (2019: £701,000).

Contributions of £131,000 (2019: £100,000) were payable to the scheme at the year end and are included in creditors.

FRS 102

Under the definitions set out in FRS102 (28.11), the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

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

The People's Pension

The People's Pension is a multi-employer, defined contribution occupational pension scheme that has master trust status. It is operated by B&CE, a not-for-profit organisation.

The pension costs paid to The People's Pension in the year amounted to £22,000 (2019: £12,000).

Contributions of £12,000 (2019: £4,000) were payable to the scheme at the year end and are included in creditors.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Surrey County Council. The total contribution made for the year ended 31 July 2020 was £1,197,000 (2019:£1,045,000), of which employer's contributions totalled £926,000 (2019: £825,000) and employees' contributions totalled £271,000 (2019: £220,000). The agreed contribution rates for future years are 24.3% for employers and range from 5.5% to 12.5% cent for employees, depending on salary.

Contributions amounting to £98,000 (2019: £99,000) were payable to the scheme at the year end and are included in creditors.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

20. Defined benefit obligations (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 July 2020 by a qualified independent actuary

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.10%	2.70%
Future pensions increases	2.20%	2.40%
Discount rate for scheme liabilities	1.40%	2.10%
Inflation assumption (CPI)	2.20%	2.40%
Commutation of pension to lump sums – pre-April 2008 service	25.00%	25.00%
Commutation of pension to lump sums – post-April 2008 service	63.00%	63.00%

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

	At 31 July 2020	At 31 July 2019
<i>Retiring today</i>		
Males	22.10	21.60
Females	24.30	23.60
<i>Retiring in 20 years</i>		
Males	22.90	22.50
Females	25.70	25.00

The College’s share of the assets in the scheme were:

	Long-term rate of return expected at 31 July 2020	Fair Value at 31 July 2020	Long-term rate of return expected at 31 July 2019	Fair Value at 31 July 2019
		£’000		£’000
Equities	1.4%	18,156	2.1%	18,788
Bonds	1.4%	4,603	2.1%	4,436
Property	1.4%	2,046	2.1%	2,088
Cash	1.4%	767	2.1%	783
Total market value of assets		<u>25,572</u>		<u>26,095</u>
Actual return on plan assets		<u>(1,570)</u>		<u>1,069</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

20. Defined benefit obligations (continued)

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

	2020 £'000	2019 £'000
Fair value of plan assets	25,572	26,095
Present value of plan liabilities	(43,062)	(36,790)
Present value of unfunded liabilities	(4)	(12)
Total pension liability	(17,494)	(10,707)

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

	2020 £'000	2019 £'000
Amounts included in staff costs		
Current service cost	1,729	1,194
Past service cost	-	75
Total operating charge	1,729	1,269

	2020 £'000	2019 £'000
Amounts included in interest payable		
Net interest cost	(234)	(182)
Total net interest	(234)	(182)

Amounts recognised in Other Comprehensive Income

	2020 £'000	2019 £'000
Expected return on pension plan assets	(1,570)	1,069
Experience gains and losses on defined benefit obligations	1,212	-
Changes in demographic assumptions	(4,374)	1,934
Changes in assumptions underlying the present value of plan liabilities	(1,020)	(4,998)
Amount recognised in Other Comprehensive Income	(5,752)	(1,995)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

20. Defined benefit obligations (continued)

Movement in net defined benefit liability during the year

	2020 £'000	2019 £'000
Deficit in scheme at 1 August	(10,707)	(4,923)
Movement in year:		
Current service cost	(1,729)	(1,194)
Employer Contributions	928	771
Past service cost	-	(75)
Net interest on the defined (liability)/asset	(234)	(182)
Actuarial gain or loss	(5,752)	(1,998)
Net transfer from John Ruskin College	-	(3,106)
Net defined benefit liability at 31 July	(17,494)	(10,707)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations	2020 £'000	2019 £'000
Defined benefit obligations at start of period	36,802	24,627
Current Service cost	1,729	1,194
Interest cost	788	799
Contributions by scheme participants	271	207
Experience gains and losses on defined benefit obligations	(1,212)	-
Changes in financial assumptions	1,020	5,001
Changes in demographic assumptions	4,374	(1,934)
Estimated benefits paid	(706)	(647)
Past service cost	-	75
Liabilities assumed from John Ruskin College	-	7,480
Liabilities at end of period	43,066	36,802

Reconciliation of Assets	2020 £'000	2019 £'000
Fair Value of Plan Assets at start of period	26,095	19,704
Interest on plan assets	554	617
Return on assets	(1,570)	1,069
Employer contributions	928	771
Contributions by scheme participants	271	207
Estimated benefits paid	(706)	(647)
Assets assumed from John Ruskin College	-	4,374
Assets at end of period	25,572	26,095

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

21. Post Balance Sheet Events

There are no post balance sheet events that require disclosure.

22. Capital Commitments

	2020 £'000	2019 £'000
Commitments contracted for at 31 July	2,166	49

Of the above expenditure, £1,975k relates to the Construction Skills Centre project at John Ruskin College combined with costs of conversion of a suite of classrooms into three additional construction and plumbing workshop spaces.

23. Financial Commitments

Under FRS 102, total minimum lease payments due over the lease term are shown.

At 31 July 2020 the total of the College's future minimum lease payments under non-cancellable operating leases is:

	2020 £'000	2019 £'000
In respect of land and machinery leases		
Expiring with one year	36	42
Expiring within two to five years	146	-
Total lease payments due	182	42

24. Contingent Liability

No material contingent liabilities exist at the balance sheet date.

25. 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.

The total expenses paid to or on behalf of the Governors during the year was £2,229; 6 governors (2019: £3,567; 7 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 has received any remuneration or waived payments from the College or its subsidiaries during the year.

All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under FRS102.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

26. Investments

The College has one subsidiary company, Surrey Skills Limited. The College invested £1 in the Company in 2016/17. The Company is expected to undertake Education, Training and related services. Any surpluses generated by the subsidiary are transferred to the College under a deed of covenant. However, for 2019/20, Surrey Skills Limited was dormant.

27. Amounts disbursed as agent

Learner support funds	2020 £'000	2019 £'000
Brought forward	58	149
Funding body grants – bursary support	385	219
Other Funding body grants	77	101
	<hr/>	<hr/>
	520	469
Disbursed to students	(261)	(396)
Administration costs	(17)	(15)
	<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors	<u>242</u>	<u>58</u>

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2020

28. HE Access and Participation Plan Expenditure

	2020 £'000
Access Investment	13
Financial support provided to students	1
	<hr/>
	<u>14</u>

Included within the Access investment costs above include £2k of staff costs which are included in the overall staff costs as per note 8.

The college has unspent committed financial support funds of £4k that will be available as financial support for students in future years.

Further details on the Corporation's Higher Education Access and Participation plan can be found here:

www.esc.ac.uk/HE-Access-and-Participation

29. Merger of East Surrey College Corporation and John Ruskin College

On 1 February 2019, the College merged with John Ruskin College receiving assets and liabilities amounting to £23,018,000 at fair value at the date of acquisition.