Registered number: 00949411

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2019

29/6/20

COMPANY INFORMATION

Directors	J L Abbott
	T L Steel
	A D McGarel
Registered number	00949411
Registered office	South Essex College Luker Road Southend on Sea Essex SS1 1ND
Independent auditors	KPMG LLP Botanic House 100 Hills Road Cambridge CB2 1AR

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 JULY 2019

Introduction

The Foundation is a company limited by guarantee and is a not for profit organisation.

Business review

Prospects Learning Foundation Limited was acquired by South Essex College of Further & Higher Education on 1 February 2019 following the merger of the Foundation's parent company with the College. Funding contracts remained within the foundation until to the end of the financial year, after which they are to be included with South Essex College's funding allocations. Initially the Foundation will continue to provide staff so that the College can fulfil its contract to the ESFA. Moving forward, a business review will be undertaken to establish future delivery plans and appropriate levels of activity.

Principal risks and uncertainties

The key risks of the organisation are principally those facing the education sector in general and its parent company South Essex College. As at the balance sheet dates, these were specifically as follows:

Learner Success
Learner Recruitment
Student Retention
Recruitment of Apprenticeships

The impact of uncertainties due to the UK exiting the European Union

Uncertainties related to the effects of Brexit are relevant to understanding our financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of debtors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report the College and its subsidiary companies expects the UK to leave on 31st January. The effect of this on the College in the medium to long term is unknown and could affect future prospects and performance positively or negatively. As the effects are unknown it is extremely difficult for directors and their auditors to predict the outcomes.

The College recruits students and staff primarily from the UK and should see little impact in this regard. The College has benefitted from EU funding in the past for project based delivery and will work with DFE and other representatives to ensure we are able to access any future funding to replace this.

Financial key performance indicators

The Foundation is a not for profit entity and does not use traditional financial KPIs. The main indicators are income which decreased to £4,423,722 from £6,635,235 in the prior year; and operating out-turn. There was a substantial operating deficit of £884,866 for the year.

At the balance sheet date, the Foundation had net assets of £3,105,778 and cash in hand of £16,559.

Other key performance indicators

The key performance indications relevant to our funding and commissioning agencies are essentially:

- Learner number growth and achievement of funding targets;
- Learner success rates;
- Teacher qualifications;
- Employer engagement.

This report was approved by the board on and signed on its behalf by:

A McGarel

A McGarel
Director

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

DIRECTORS' REPORT

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

Principal activity

The main activity of the company is to provide vocational skills training, foundation training, apprenticeships training and learning support for those aged 16-19+ years.

Results and dividends

The loss for the year, after taxation, amounted to £884,866 *(2018 – loss £565,292)*.

Directors

The directors who served during the year were:

T L Steel
J L Abbott
R Parker (resigned 1 February 2019)
R Bhamidimarri (resigned 1 February 2019)
B Mahendran (resigned 1 February 2019)
A McGarel (appointed on 1 February 2019)

Future developments

Following the merger of the Foundation's parent company with South Essex College on 1 February 2019, a business review will be undertaken to establish future delivery plans and appropriate levels of activity.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the board and signed on its behalf by:

A·McGarel

A McGarel
Director

Date: 30 January 2020

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

A. M C

Anthony McGarel
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROSPECTS LEARNING FOUNDATION LIMITED

We have audited the financial statements of Prospects Learning Foundation Limited for the year ended 31 July 2019 which comprise the Profit and loss account and other comprehensive income for the period, Balance sheet, Statement of changes in Equity and related notes, including the accounting policies in note 1

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2019 and of its Loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of debtors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardized firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROSPECTS LEARNING FOUNDATION LIMITED

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.
Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROSPECTS LEARNING FOUNDATION LIMITED

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

SBeavis

Stephanie Beavis (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR
Date:

31 January 2020

PROSPECTS LEARNING FOUNDATION LIMITED
(A Company Limited by Guarantee)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2019

	Note	2019 £	*2018* £
Turnover	4	**4,432,722**	*6,635,235*
Cost of sales		**(3,162,904)**	*(4,829,820)*
Gross profit		**1,269,818**	*1,805,415*
Administrative expenses		**(2,153,203)**	*(2,366,621)*
Operating (loss)/profit	5	**(883,385)**	*(561,206)*
Interest payable and expenses	8	**(1,481)**	*(4,086)*
Loss before tax		**(884,866)**	*(565,292)*
Tax on ordinary activities		**-**	*-*
Loss after taxation for the financial year		**(884,866)**	*(565,292)*

The notes on pages 14 to 22 form part of these financial statements.

PROSPECTS LEARNING FOUNDATION LIMITED
(A Company Limited by Guarantee)
REGISTERED NUMBER:00949411

BALANCE SHEET
AS AT 31 JULY 2019

	Note	2019 £	2018 £
Fixed assets			
Tangible assets	10	1,406,360	1,449,381
Investments	11	2	2
		1,406,362	1,449, 383
Current assets			
Debtors: amounts falling due within one year	12	2,742,848	3,991,106
Cash at bank and in hand		16,559	286,967
		2,759,407	4,278,073
Creditors: amounts falling due within one year	13	(281,985)	(929,733)
Net current assets		2,477,422	3,348,340
		3,883,784	4,797,723
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	14	(778,006)	(807,079)
Net assets		3,105,778	3,990,644
Capital and reserves			
Profit and loss account		3,105,778	3,990,644
		3,105,778	3,990,644

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

A McGarel
Director

Date: 30 January 2020
The notes on pages 14 to 22 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2019

	Profit and loss account
	£
At 1 August 2017	**4,555,936**
Comprehensive income for the year	
Loss for the year	**(565,292)**
At 1 August 2018	**3,990,644**
Comprehensive income for the year	
Loss for the year	**(884,866)**
At 31 July 2019	**3,105,778**

1. General information

Prospects Learning Foundation Limited is a private company is limited by guarantee and incorporated in England and Wales. Its registered office and trading address is South Essex College ("the College").

The financial statements are prepared in pounds sterling and rounded to the nearest pound.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

Reduced disclosure

The company has taken advantage of the exemption from disclosing the following information:

- Section 7 'Statement of Cashflows' – Presentation of Statement of Cashflows and related notes and disclosure
- Section 33 'Related party disclosures' – Compensation for key management personnel.

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis. At the balance sheet date, the company's controlling party is South Essex College ("the College") following merger with Prospects College of Technology on 1st February 2019.

The directors are of the opinion that the Company will be able to continue trading and meet its liabilities as and when they fall due. The financial performance is forecast to improve in future periods to a breakeven position. The company does not currently have any loans outstanding with bankers.

The activities of the company are to provide staff to the controlling company to enable the controlling company to fulfil its funding contracts with the Education and Skills Funding Agency.

The company has received confirmation of continuing support by South Essex College of Further and Higher Education.

Therefore, the company 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.

2.3 Exemption from preparing consolidated financial statements

The Company is a parent Company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

The financial statements therefore present information about the company and not the group.

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using both straight line and reducing balance method.

Depreciation is provided on the following basis:

Freehold property	- 50 years straight line
Building improvements	- 10 years straight line
Plant and machinery	- 5 years straight line
Computer equipment	- 3 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.8 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.10 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.11 Operating leases: The Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

2.12 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Government revenue grants include finding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under of over achievement is adjusted for and reflected in the level of recurrent grant recognised in income and expenditure account. The final grant income is normally determined with conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits.

Grants from non-government sources are recognised in income when the Company 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.

4. Turnover

An analysis of turnover by class of business is as follows:

	2019 £	*2018 £*
Training	**4,172,128**	*6,424.050*
Rental and other incomes	**105,955**	*41,151*
Catering Income	**130,884**	*118,069*
Released of deferred capital grants	**20,521**	*51,966*
Refund of interest payable on loan	**3,234**	*-*
	4,432,722	*6,635,235*

All turnover is derived from the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2019 £	*2018 £*
Depreciation of tangible fixed assets	**260,615**	*265,311*
Fees payable to the Company's auditor for the audit of the Company's annual financial statements split as follows:		
6 months to 31 January 2019	**19,314**	*-*
12 months to 31 July 2019	**6,000**	*29,564*
Operating lease payments	**-**	*6,663*
Exceptional restructuring costs	**102,556**	*73,554*
Increase in provision of in inter-group debtor	**134,303**	*-*
Defined contribution pension cost	**70,601**	*81,811*

6. Employees

Staff costs were as follows:

	2019 £	2018 £
Wages and salaries	**2,314,303**	*3,456,301*
Social security costs	**231,108**	*332,612*
Cost of defined contribution scheme	**70,601**	*81,811*
	2,616,012	*3,870,724*

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Direct staff	**37**	*68*
Management and administration	**28**	*54*
	65	*122*

7. Directors' remuneration

Total remuneration to directors in the year was £nil (2018: £nil). Three of the directors of the company are appointed by the parent undertaking and do not receive a salary from the Foundation. During the year a proportion of their time was spent on activities of the company as follows:

	From	To	% of time spent on company activities	Actual % based on active duration in post
Director 1	01/08/2018	30/06/2019	75%	68.75%
Director 2 (resigned)	01/08/2018	01/02/2019	75%	37.50%
Director 3 (appointed)	01/02/2019	31/07/2019	20%	10.00%

The total value based on the percentages above was £150,142 for the year.

8. Interest payable and similar charges

	2019 £	2018 £
Finance leases and hire purchase contracts	**1,481**	*4,086*
	1,481	*4,086*

9. Taxation

	2018 £	*2018* £
UK corporation tax	-	-
The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19%. The differences are explained below:		
Loss for the year	**(688,024)**	*(561,206)*
Loss for the year multiplied by the standard rate of corporation tax in the UK of 19%	**(130,725)**	*(106,629)*
Tax losses carried forward not provided	**130,725**	*106,629*
	-	-

10. Tangible Assets

Cost	**Freehold Property** £	**Building Improvements** £	**Short-term leasehold property** £	**Plant and Machinery** £	**Total** £
At 1 August 2018	**1,087,666**	**43,698**	**125,246**	**2,191,429**	**3,448,039**
Additions	-	**168,505**	-	**61,471**	**229,976**
Disposals	-	-	-	**(12,382)**	**(12,382)**
At 31 July 2019	**1,087,666**	**212,203**	**125,246**	**2,240,518**	**3,665,633**
Depreciation					
At 1 August 2018	**83,655**	**8,182**	**59,102**	**1,847,719**	**1,998,658**
Change for the year	**22,455**	**13,663**	**66,144**	**158,353**	**260,615**
Disposals	-	-	-	-	-
At 31 July 2019	**106,110**	**21,845**	**125,246**	**2,006,072**	**2,259,273**
Net book value					
At 31 July 2019	**981,556**	**190,358**	-	**234,445**	**1,406,360**
At 31 July 2018	*1,004,011*	*35,516*	*66,144*	*343,711*	*1,449,381*

The net book value of plant and machinery includes £13,163 (2018: £257,437) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £8,848.74 (2018: £19,943).

11. Fixed asset investments

	Investments in subsidiary companies £
Cost	
At 31 July 2018	5
Disposals	(3)
At 31 July 2019	2

Subsidiary undertakings
The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity	
Prospects Training Solutions Ltd	Ordinary £1	100%	Education	
Prospects College Ltd	Ordinary £1	100 %	Education	Dissolved on 23 October 18

	Aggregate of share capital and reserves £	Profit/(loss) £
Prospects Training Solutions Ltd	(257,824)	85,721
	(257,824)	85,721

12. Debtors

	2019 £	*2018 £*
Trade debtors	107,691	*50,109*
Amounts owed by group undertakings	2,534,048	*3,694,653*
Other debtors	55,592	*171,375*
Staff Loans	615	*-*
Prepayments and accrued income	44,902	*74,969*
	2,742,848	*3,991,106*

13. Creditors: Amounts falling due within one year

	2019 £	*2018 £*
Trade creditors	**155,648**	*418,100*
Other taxation and social security	**29,726**	*101,953*
Obligations under finance lease and hire purchase contracts	**15,617**	*17,328*
Deferred capital grants	**20,521**	*25,937*
Staff loans	**-**	*501*
Accruals and deferred income	**60,473**	*365,914*
	281,985	*929,733*

14. Creditors: Amounts falling due after more than one year

	2019 £	*2018 £*
Net obligations under finance leases and hire purchase contracts	**11,528**	*25,496*
Deferred capital grants	**766,478**	*781,583*
	778,006	*807,079*

15. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2019 £	*2018 £*
Within one year	**17,328**	*17,328*
Between 1-2 years	**8,186**	*17,328*
Between 2-5 years	**-**	*8,186*
	25,514	*42,842*

16. Reserves

Profit and loss account

This reserve represents the accumulated surpluses of the company.

17. Company status

The company is a private company limited by guarantee and consequently does not have share capital.

18. Contingent liabilities

The company has entered into an unlimited cross guarantee with Prospect College of Advanced Technology, in favour of Barclays Bank Plc. As part of the merger of Prospects College of Advanced technology, South Essex College acquired Prospects Learning Foundation Limited on 1st February 2019. The borrowings at the acquisition date were paid in full as part of the condition of the merger. At the year-end there were borrowings of £Nil (2018: £912k).

19. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension scheme cost charge represents contributions payable by the Company to the fund and amounted to £70,601 (2018 - £81,811) were payable to the fund at the balance sheet date.

20. Commitments under operating leases

At 31 July 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	*2018* *£*
Not later than 1 year	**2,959**	*6,663*
Later than 1 year and not later than 5 years		*2,959*
	2,959	*9,622*

21. Related party transactions

The company has taken advantage of the exemption not to disclose related party transactions with 100% owned subsidiaries.

The company has made a provision of £242,497 (2018: £108,194) against amounts due from Prospects Training Solutions Services Limited, a subsidiary company.

The company has also taken advantage of the exemption under FRS 102 not to disclose remuneration relating to key management personnel as this is disclosed in the financial statements of the ultimate parent undertaking.

22. Controlling party

The company is controlled by South Essex College, a company incorporated in England and Wales. Consolidated financial statements can be obtained from the following address: South Essex College, Luker Road, Southend on Sea Essex SS1 1ND.

As at the year end, the company's immediate and ultimate controlling entity is South Essex College for which consolidated financial statements are prepared which contain Prospects Learning Foundation Limited.

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JULY 2019

	2019 £	*2018* *£*
Turnover	**4,432,722**	*6,635,235*
Cost of sales	**(3,162,904)**	*(4,829,820)*
Gross profit	**1,269,818**	*(1,805,415)*
Less: overheads		
Administration expenses	**(2,153,203)**	*(2,366,621)*
Operating (loss)/profit	**(883,385)**	*(561,206)*
Interest payable	**(1,481)**	*(4,086)*
Loss for the year	**(884,866)**	*(565,292)*

PROSPECTS LEARNING FOUNDATION LIMITED

(A Company Limited by Guarantee)

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 JULY 2019

	2019	2018
	£	£
Turnover		
Turnover	4,432,722	6,635,235
	4,432,722	6,635,235
Cost of sales		
Wages and salaries	1,495,931	2,530,278
National insurance	147,992	247,878
Staff pension costs	36,017	55,075
Consumables	193,002	226,372
Temporary staff costs	318,328	290,114
Office costs	425,663	939,924
Rent	23,455	29,263
JV	-	11,066
Equipment Hire	-	293
Trainer Fees	1,435	27,497
Rates	199,814	176,903
Repairs and maintenance	60,652	29,846
Depreciation	260,615	265,311
	3,162,904	4,829,820
Administration expenses		
Wages and Salaries	818,372	926,023
National Insurance	81,634	79,785
Staff Pension	36,066	31,685
Temp staff	60,100	79,477
Restructuring Costs	102,556	73,554
Provision against inter-group company debtor	242,497	108,194
Hotels, travel and subsistence	8,247	16,454
Legal and professional	109,540	207,243
Auditors' remuneration	47,619	33,413
Bank charges	5,288	11,866
Bad debts	-	307
Recruitment and staff related costs	28,398	173,647
Marketing and stationery	70,606	119,779
Canteen costs	82,059	70,350
Photocopier costs	39,626	34,681
Cleaning and other running costs	104,217	88,339
Utilities & Telephones	60,179	49,702
Uniforms - students	16,199	6,183
Irrecoverable VAT	240,000	255,939
	2,153,203	2,366,621
Interest payable		
Hire purchase interest payable	1,481	4,086
	1,481	4,086

GROUP ACCOUNTS FORM PART
OF THE ACCOUNTS OF
COMPANY...........................
949411

south essex college
SKILLS | EDUCATION

SOUTH ESSEX COLLEGE OF FURTHER AND HIGHER EDUCATION

Report and Financial Statements for the year ended 31 July 2019

Key management Personnel, Board of Governors and Professional advisers

Key management personnel

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

Angela O'Donoghue Principal and CEO; Accounting officer
Anthony McGarel Deputy Principal and Chief Executive
Sarah Lane Deputy Principal Curriculum & Quality (appointed 1/2/19)
Matthew Twitchett Vice Principal Curriculum & Quality (appointed 1/2/19)
Kathy Mulvey Vice Principal Student Support (left 31/8/19)
Steve Smith Vice Principal Corporate Resources

Board of Governors

A full list of Governors is given on page 20 of these financial statements.
Mr R Millea acted as Clerk to the Corporation throughout the period.

Professional advisers

Financial Statements auditor and reporting accountants:

KPMG LLP
Botanic House
100 Hills Road
Cambridge
CB2 1AR

Internal Auditor:
Scrutton Bland
Fitzroy House
Crown Street
Ipswich
Suffolk
IP1 3LG

Banker:
Barclays
PO Box 885
Mortlock House
Histon
Cambridge
CB24 9DE

Solicitor:
Irwin Mitchell
Thomas Eggar House
Priory Lane
Chichester
West Sussex
PO19 1LF

CONTENTS

Members' Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2019. South Essex College of Further and Higher Education, known as South Essex College, SEC or the College throughout this report.

On 1st February 2019 South Essex College merged with PROCAT and acquired the two subsidiary companies of Prospects Learning Foundation (PLF) and Prospects Training Solutions (PTS). PROCAT the college was dissolved as part of a type B merger with SEC.

These statements also include the result of the College's wholly owned subsidiary business, South Essex Commercial Services Ltd, PLF Ltd, PTS Ltd and 50% share of the assets and liabilities of Essex Shared Services Ltd.

Legal status

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

Strategic Plan

South Essex College is the largest provider of technical and vocational education and training for 16-18 year olds, adults and Apprenticeship provision within Greater Essex. The plan outlines the strategic direction and ambitions from 2017-2020 and follows on from our previous Strategic Plan which ended in 2016. The process for the new strategic plan from 2020 is underway.

Mission

The mission statement was updated to '***Your life, our college, your future***' and the core values were changed to align with the strategic plan and the new mission.

Core Values

Partnership
Respect
Outstanding
United
Determined

The college's strategic aims and objectives are:

1. Deliver high quality, inclusive teaching, learning and assessment

1.1 Support the delivery of high quality, innovative and inspiring Teaching and Learning which is celebrated and promoted.
1.2 Deliver effective study programmes for 16-18 year old learners including English and Maths, Personal Development and Employability Skills.
1.3 Continually improve student performance.
1.4 Raise the aspirations and ambitions of all our students.
1.5 Provide bespoke, effective and timely support for all our students.

2. **Develop and grow a sustainable, viable, innovative and responsive College**

2.1 Improve financial stability of the College by achieving a minimum 3% surplus by 2020.
2.2 Develop our Higher Education provision through continuous improvement of the student academic experience and student outcomes
2.3 Continually review College Services to produce ongoing efficiency savings while improving standards.

3. **Attract, develop and maintain a highly skilled, innovative flexible workforce**

3.1 Work in partnership with our staff to provide a supportive environment in which they can flourish and take pride.
3.2 Make use of digital technologies to establish integrated systems to reduce workload, and support curriculum delivery.
3.3 Improve the professional practice of our staff through structured professional development.

4. **Respect, Promote and Celebrate Diversity**

4.1 Actively challenge discrimination to foster a culture of social cohesion.
4.2 Foster relationships between individuals who share protected characteristics and those who do not.
4.3 Embed Diversity and British Values in our teaching, learning and training and foster tolerance and understanding.

5. **Develop our work with stakeholders to improve the economic prosperity of the South East**

5.1 Continue to maintain and develop partnerships with the Local Enterprise Partnership (LEP), the Employment and Skills Board (ESB), businesses and industry, Unitary Authorities and County Council.
5.2 Maintain effective relationships with appropriate funding and regulatory bodies.
5.3 Develop sustainable partnerships with employers to inform, support and develop our curriculum offer, and increase Apprenticeship opportunities.
5.4 Promote and develop sustainable partnership arrangements with a number of Higher Education Institutions.
5.5 Encourage our students and stakeholders to contribute to and inform College decision making.

6. **To provide high quality, fit for purpose, accommodation and resources**

6.1 Develop our Estate, to provide modern, high quality, state of the art facilities, resource and equipment.
6.2 Continue to develop the College IT infrastructure to take advantage of emerging new technologies.
6.3 Ensure a safe and secure environment for all.

Public Benefit

South Essex College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 20.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)

CURRICULUM REVIEW

The Curriculum Plan 2017-20 has been developed to build upon the Good Ofsted result and meet the College strategic aims and objectives.

Our key drivers for the curriculum are:

To continually improve outcomes for students choosing to study at South Essex College
The College made good progress and academic outcomes are shown below

To better reflect the needs of industry by being totally industry led
The College continues to build and develop its links with industry and local employers.

To increase and expand our Higher Education offer in both degree programmes and Higher and Degree Apprenticeships.
The College recognises that it cannot compete directly with Universities in the region with respect to research and will focus on delivery of taught degrees, which are technically and vocationally relevant to the local labour market. We offer local access to Higher and Degree qualifications which are predominantly vocational/technical degrees.

To address the need for Apprenticeship specialisation alongside growth to replace sub-contracted income
The College has made good progress on growing quality apprenticeship provision.

Improve Teaching, Learning and Assessment for all students
Teaching Learning and Assessment was graded Good by Ofsted.

Curriculum achievements

Curriculum performance is shown in the table below which was presented to the Curriculum & Quality Committee as well as the FE Corporation and supports the grade of 'Good' in the College Self Assessment Report (SAR).

Achievement Rates against Targets				Merged	
		Target	*National Rates*	Starts	2018-19
	Overall Achievement Rates	84%	84.4%	17,878	80.0%
	Overall Achievement Rates (excl. English and Maths)			12,804	84.8%
16-19 Study Programmes	Level 1	86%	80.8%	1,068	70.4%
	Level 2	83%	82.1%	1,336	70.8%
	Level 3	84%	85.8%	2,828	78.3%
	Overall	**80%**	**82.8%**	**5,232**	**74.8%**
Adult Programmes	Level 1		91.4%	3,415	94.4%
	Level 2		87.0%	3,765	90.4%
	Level 3		80.7%	303	81.2%
	Overall	**89%**	**89.1%**	**7,483**	**91.9%**
Functional Skills	16-18	60%	66.6%	699	30.6%
	19+	65%	79.3%	754	57.7%
	GCSE English	80%	82.0%	1,662	77.9%
	GCSE Maths	77%	81.7%	1,956	76.7%
	High Grades English*	31%	26.4%		17.7%
	High Grades Maths*	12%	18.5%		10.1%
	Apprenticeships Timely	56%	59.6%	956	50.9%
	Apprenticeships Overall	66%	68.7%	1,103	62.4%
	College Retention rate	93%	92.1%	17,876	93.2%

** high grades of passes*

Higher Education Outcomes

	Dist	First	Fail	Merit	Pass	2nd Lower	2nd Upper	Third	Grand Total
BA (Hons) Degree in Costume Construction		3	0			1	4	1	9
BA (Hons) in Business Studies		2	0			1	1		4
BA (Hons) in Counselling		2	0			5	6		13
BA (Hons) in Digital Animation		1	0			6	2	2	11
BA (Hons) in Early Years Education		3	0			10	5	3	21
BA (Hons) in Fashion Design		1				1	2	4	8
BA (Hons) in Fine Art		6	0			2	7	1	16
BA (Hons) in Graphic Design			0			2	8	1	11
BA (Hons) in Interior Design		3	0			5	4	2	14
BA (Hons) in Photography		3	0			2			5
BA (Hons) in Special Education Studies			0			2	3		5
BA (Hons) in Television and Screen Media		2	0			3	6	4	15
BSc (Hons) in Computer Games Design		3	0			2	5	1	11
BSc (Hons) in Criminology and Forensic Investigation		6	0			7	4	2	19
BSc (Hons) in Social Studies		1	0			2	5	2	10
BSc (Hons) in Sport Studies		4	0			4	2	2	12
BTEC HNC in Construction and the Built Environment	5		0	4	1				10
BTEC HNC in Engineering	3		0	2	8				13
BTEC HND Diploma in Performing Arts	6			9	1				16
Diploma in Education and Training			0		14				14
Foundation Degree in Counselling	2		0	9	3				14
PGCE	1		0	11	13				25
Grand Total	**17**	**40**	**0**	**36**	**41**	**55**	**64**	**25**	**278**

Apprenticeships - Timely

	Merged	
	2018-19 Leavers	2018-19 Fwrk Ach. %
16-18	478	52.3
19-23	268	51.9
24+	210	46.7
Total	**956**	**50.9**

Apprenticeships - Overall

	Merged	
	2018-19 Leavers	2018-19 Fwrk Ach. %
16-18	535	59.1
19-23	312	70.8
24+	256	59.0
Total	**1,103**	**62.4**

FINANCIAL REVIEW

Financial objectives

The college was issued with a financial notice of concern in November 2016 due to reporting inadequate financial health for the year ending 31st July 2016. The notice was lifted in October 2018 following assessment of the College financial plan. The financial strategy for this year was

- Maintain a financial health score of Requires Improvement under current ESFA methodology
- Improve cash flow and current ratio

A series of performance indicators were agreed by the board and monitored monthly. The year-end positions were:

Key performance Indicator	Measure/Target	Actual for FY19
Deficit as a % of Turnover	(2.1%)	(0.8%)
Deficit value (before effects of FRS102 and exceptional items)	(£0.9m)	(£2.0m)
Pay expenditure as a percentage of income	63.2%	61.3%
Minimum cash balance at year end	£3.0m	£3.5m
Financial health	Requires Improvement	Requires Improvement

The College is committed to observing the importance of sector measures and indicators. The College is required to complete the annual finance record for the Education and Skills Funding Agency (ESFA). The assessment for 2018/19 has been confirmed as "Requires Improvement" financial health.

Financial results

The Group generated a deficit before other gains and losses in the year of £2,698,000 (2017/18 – deficit of £2,704,000).

The Group has accumulated reserves of £74,439,000 and cash and short term investment balances of £3,480,000. The Group wishes to continue to accumulate reserves and cash balances in order to reduce the need for short term funding in the period January to March of each year.

Tangible fixed asset additions during the year amounted to £4,608,000. This was split between land and buildings acquired of £520,000 and assets under construction £3,479,000 relating to work in progress mainly on the new Basildon town centre campus with equipment and furniture purchased of £609,000. As part of the merger with PROCAT assets were acquired of £6,322,000 split between land and buildings of £5,992,000 and equipment of £330,000. These assets are shown at fair value.

All College buildings include learning resource centres and blended learning and tutorial suites, which has enabled the College to change its teaching methods, to make a greater use of information technology, and to become more efficient.

The restricted surplus funds arising from the disposal of the College's Basildon campus (Nethermayne) in 2017/18 continues to be re-invested in major capital projects to re-locate the activities at Nethermayne to new facilities.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/19 the FE funding bodies provided 73.0% of the Group's total income.

The College has three subsidiary companies, South Essex Commercial Services Ltd, Prospects Learning Foundation Ltd and Prospects Training Solutions Ltd. Their results are consolidated into this set of financial statements.

Treasury policies and objectives

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

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows and liquidity

Net cash outflow from operating activities was £2,680,000 (2017/18 £641,000 inflow), a decrease of £3,321,000. The College repaid debt of £1,200,000 and the net increase in cash and cash equivalents was £674,000 (2017/18 decrease £920,000).

The sales proceeds from the sale of the Nethermayne are received in stages until 2027. Receipts from the sale are controlled by the College on behalf of the partners through a trust account. The College applies for drawdowns from the trust as expenditure is committed/incurred. During the year, the College received £6.5m from the trust and made payments of £3.0m to acquire assets in relation to sale proceeds of the Nethermayne disposal. The sale proceeds must explicitly be reinvested in the College build projects and not utilised for general working capital/operating expenditure.

The merger with PROCAT improved the overall cash position for the College due to a closing cash balance of £0.5m which is now part of the College.

Reserves Policy

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisations, and ensures that there are adequate reserves to support the College's core activities.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

South Essex College allocation for the financial year ending 31 July 2019 was 5,010 and achieved 4,696, PROCAT allocation was 255 and achieved 341. The combined year end position for 16-18 ESFA learners was 5,037 against an allocation of 5,265. This under performance has resulted in an allocation for FY20 of 5,079.

Curriculum developments

The key drivers in the 2016-2020 Curriculum plan are:

- To continually improve outcomes for students choosing to study at South Essex College.
- To better reflect the needs of industry by being totally industry-led.
- To rationalise our curriculum offer across the College and focus on specialisation.
- To increase and expand our Higher Education offer in both degree programmes and Higher and Degree Apprenticeships.
- To plan for the Apprenticeship changes that will begin to be implemented in April 2017.
- To address the need for Apprenticeship specialisation alongside growth to replace sub-contracted income
- To provide education and training to upskill and retrain Adults through maximising adult loans and employers' Apprenticeship Levy.

- To grow our full cost provision to meet the identified need to increase high level professional skills in the workforce.
- Addressing our financial health to reach a 3% surplus in the next 3 years.

We will focus on our planned growth areas including Apprenticeships, Higher Level Skills and Degrees, and our key growth sectors.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2018 to 31 July 2019, the College paid 30% per cent of its invoices within 30 days, however the agreed terms with most suppliers is month following date of invoice. The College did not incur any interest charges in respect of late payments for this period.

Events after the end of the reporting period

There are no events after the reporting period.

Future prospects

The revised curriculum plan for South Essex College has been developed to clearly articulate the College ambition to be the main provider of Industry-led vocational education and training for South Essex. Our plans are all based on Labour Market Intelligence and the voice of employers in the region and our growth plans are concentrated on the key growth sectors identified by the South East Local Enterprise Partnership, the Essex Employment and Skills Board, Thames Gateway Partnership and the Business Boards of the three main towns we serve: Southend, Basildon and Thurrock.

The Curriculum Strategy over the next 5 years is to specialise in areas of provision which meet the needs of our local and regional employers, particularly at levels 3, 4 and 5 and to expand into some key areas of identified growth including:

- Transport and logistics
- Construction & Construction Management
- Creative & Cultural Skills
- IT & Digital Skills
- Health & Social Care
- Adult Professional Qualifications

South Essex College and PROCAT Merger

PROCAT, a college based in Basildon, was reviewed by the FE Commissioner and an intervention report published in March 2018 and recommended that an FE Commissioner-led Structure and Prospects Appraisal (SPA) be undertaken during the period April to May 2018. The SPA outcome was to recommend PROCAT found a merger partner as it was no longer considered financially viable as a standalone College.

The boards of South Essex College and PROCAT agreed to merge with effect from 1 February 2019. A type B merger was used and PROCAT dissolved transferring all assets and liabilities to SEC.

A restructuring fund application was made to the Transactions Unit to support the merger. The request was to assist with restructuring costs in order that the merged college was financially sustainable. A facility agreement was negotiated resulting in a conditional performance grant being provided to the College to draw down against agreed expenditure up to 31 March 2019 of £2.8m plus £3m working capital.

The College is now subject to ongoing monitoring from the ESFA Provider Market Oversight team using the CFADS (Cash flow available for debt financing) model. This is being superseded in FY20 by a revised financial monitoring model.

Capital Projects

The College has had a long term strategy to relocate to new state of the art premises in the towns of Southend, Basildon and Grays. The first phase was a new campus at Luker Road in Southend which opened in 2004. This was financed by a combination of sale proceeds, bank borrowing and government grants.

The existing site at Basildon, Nethermayne was disposed of together with Homes England and Basildon Borough Council. The site is now vacant and being replaced by three projects. The first opened in 2018 at Stephenson Road to provide Motor Vehicle, Construction and Engineering provision. The second is currently under construction in Basildon town centre, also on the Southend to London Fenchurch St Line. This campus will focus on Digital and Media provision. The third strand has recently received planning provision and is due to open in 2021. It is based in Southend opposite the Forum focussing on the creative and performing arts as well as Catering.

RESOURCES:

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

Financial

The College has £75.1 million of net assets (2017/18: £77.8 million). This is after providing for £22.2 million pension liability (2017/18: £18.0 million). Deferred capital grants £19.0 million have been moved to liabilities under FRS102. Debtors include £22.0 million in relation to the College asset sale that is being re-invested on College buildings and is split between current and long term debtors. The College has total bank debt of £20.0 million (2017/18: £21.2 million).

People

The College employed 726 people (expressed as full time equivalents), as at 31 July 2019, of which 336 are teaching staff. The remainder includes staff that support teaching and learning in Learning resource centres, student services, additional learning support and learning coaches as well as college overheads.

Reputation

The College has a good reputation locally and nationally and this was recognised by achieving Ofsted good status in June 2017. Maintaining a quality brand is essential for the College's success in attracting students and external relationships.

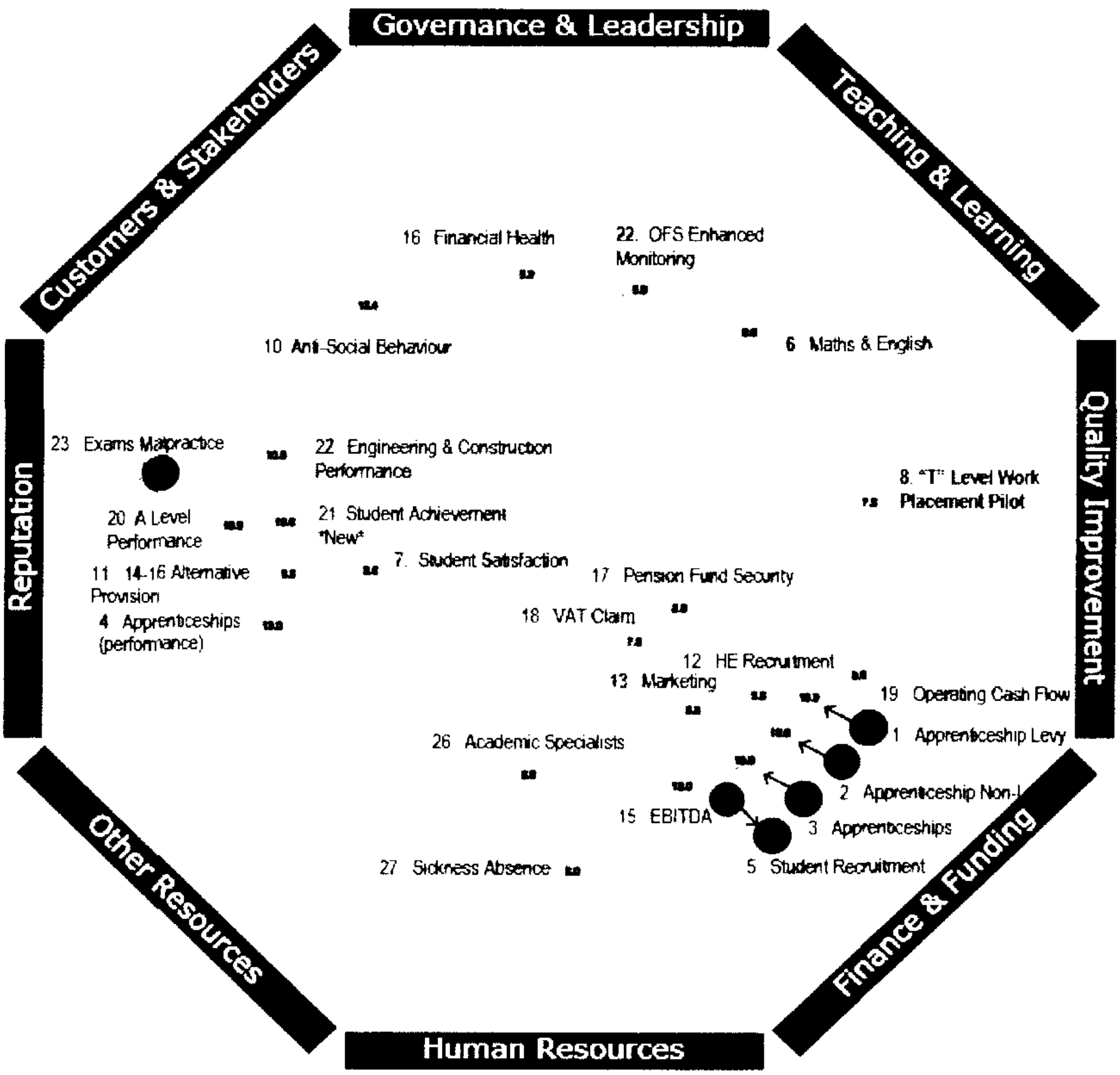
PRINCIPAL RISKS AND UNCERTAINTIES:

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions, which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is reviewed at each meeting of the Audit & Risk Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system and are RAG rated.

The risk dartboard below shows 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. The risks are split into different segments. The greatest risks surround financing and funding and mainly relate to recruitment and retention. A risk that is closer to the centre of the dartboard denotes a smaller financial impact and the further away towards the edges denote a bigger impact. An arrow illustrates the movement of the risk from the previous iteration of the risk register.



The impact of uncertainties due to the UK exiting the European Union
Uncertainties related to the effects of Brexit are relevant to understanding our financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of debtors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report the College and its subsidiary companies expects the UK to leave on 31st January. The effect of this on the College in the medium to long term is unknown and could affect future prospects and performance positively or negatively. As the effects are unknown it is extremely difficult for directors and their auditors to predict the outcomes.

The College recruits students and staff primarily from the UK and should see little impact in this regard. The College has benefitted from EU funding in the past for project based delivery and will work with DFE and other representatives to ensure we are able to access any future funding to replace this.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, South Essex College has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.

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

The College entered into a tripartite agreement with Basildon Council and the Homes England during 2015/16 to progress the disposal of the Basildon Campus to enable over 700 homes to be built over 5 years with the College relocating to Market Square in Basildon town centre. Basildon Council will relocate the market as part of the arrangement. This has resulted in the 'Basildon Landowners Trust Account' being established. The Trust Account is managed by South Essex College and all transactions are agreed by resolution of all parties.

Equal opportunities and employment of disabled persons

South Essex College is committed to the promotion of equality of opportunity for all learners, employees and all other users of the College.

Our ethos is to create and maintain the conditions whereby learners and staff are treated solely on the basis of their merits, abilities and potential, regardless of ethnic or national origin, disability, gender, age, religion or belief, sexual orientation, social class and background, or other distinction.

The College's Equality and Diversity Policy is published on the College's Internet site. The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. An Equality and Diversity plan is published each year and monitored by managers and governors.

The College actively promotes a culture of celebrating diversity and will take reasonable steps to prevent discrimination occurring. This includes promoting the significance of the Equality and Diversity Policy and what is expected of learners and staff while they study or work at the College.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010:

a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2007/08, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access.

b) The College has an Additional Learning Support Team, who provide information, advice and arranges support where necessary for learners with disabilities.

c) There is a list of specialist equipment which the College can make available for use by learners and staff and a range of assistive technology is widely available.

d) The College has an Admissions policy for all learners. Appeals against a decision not to offer a place are dealt with under the policy.

e) The College has made a significant investment in the appointment of specialist lecturers to support learners with learning difficulties and/or disabilities. There are a number of Learning Support Assistants who can provide a variety of support for access to learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for learners who have learning difficulties and/or disabilities.

f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.

g) Counselling, welfare and support services are described on the College website. Learners can access relevant policies and procedures (including the Compliments & Complaints and Behaviour Policy and Procedure) via Moodle and My Day (Student Intranet).

Trade union facility time

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

Numbers of employees who were relevant union officials during the relevant period	FTE employee number
9	1

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

Total cost of facility time	£33,020
Total pay bill	£26,040,000
Percentage of total bill spent on facility time	0.13%

Time spent on paid trade union activities as a percentage of total paid facility time	23%

Safeguarding and Child Protection

The College places significant importance on safeguarding children and vulnerable adults and meets fully the statutory requirements for safeguarding and child protection. Specifically, the College has:

a) Implemented statutory guidance contained within the revised Department for Education publication: 'Keeping Children Safe in Education September 2018 and ensured that staff are fully aware of their responsibilities in Part 1 through training and making the document available through the Intranet for everyone to read.

b) Key staff are designated WRAP trainers and have home office registration approved.

c) Ensured that all new staff receive training on safeguarding, child protection and PREVENT and that refresher training is carried out regularly for existing staff.

d) Maintained a Safeguarding Committee, designated senior leadership team member and designated governor with responsibility for safeguarding.

e) Audited its safeguarding practices through the 'Essex Schools & Colleges Safeguarding Audit' and maintained the outcome of "very high compliance".

f) Ensured that key Staff are appropriate trained as Designated Child Protection Officers and their training is regular updated as 'designated persons' for child protection purposes, which is regularly updated in accordance with statutory guidance.

g) Developed robust arrangements for the planning and approval of educational visits. We are planning the implementation of the use of EVOLVE, an online recording portal early 2017.

h) Student Supervisors are established across all sites to support in the management of safeguarding and learner behaviour and welfare.

i) Implemented a revised Recruitment and Retention Policy and Procedure incorporating safeguarding statutory guidance along with relevant employment legislation.

j) The College maintains a 'Single Central Record' of all vetting and barring checks for all individuals undertaking Regulated Activity.

The College ensures that all relevant individuals undertake appropriate Disclosure and Barring Service (DBS) checks and these are vetted and risk assessed by the Head of HR prior to individuals commencing work. This includes an Enhanced DBS check including the 'barred lists' check where appropriate. Well established arrangements exist to manage any issues arising and ensure that concerns about individuals who may pose a threat to children or vulnerable adults are reported to the DBS.

The College complies fully with its statutory PREVENT duties under the Counter Terrorism and Security Act 2015. The PREVENT strategy aims to stop people from being drawn into terrorism, including violent and non-violent extremism, by working with individuals and communities to support and challenge views and activities that may be conducive to terrorism, or that seek to popularise views which extremism may seek to exploit. Central to the College's strategy is the promotion of fundamental British values, including democracy, the rule of law, individual liberty and mutual respect and tolerance of different faiths and beliefs.

The 2017 Ofsted Inspection concluded that the arrangements for safeguarding were effective, and staff understand well the part they play in safeguarding learners. Learners feel safe, and are kept safe, in college.

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 29 January 2020 and signed on its behalf by:

Elizabeth Sipiere

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. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

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 of 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 and in particular the College has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the College complies with/exceeds all the provisions of the Code, and it has complied throughout the year ended 31 July 2019. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 6 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 have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

The Corporation

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

Name	Date of appointments	Term of office	Date of resignation	Status of appointment	Committees served	Board Attendance 2018/19
Mr R Launder	First Appointed 01/01/2010 Reappointed 01/01/2014;1/1/18	4 years		Clause 3 of the Instrument	Chair: Corporation until 31/07/2015, Policy & Resources; Remuneration; Search & Governance. Acting Chair: Corporation 01.01.19 to 31.07.19	100%
Ms A O'Donoghue CBE	13-Aug-12			Principal and Chief Executive	Curriculum & Quality; Policy & Resources;Search & Governance	100%
Ms O Buck	First Appointed 01/08/2012 Appointed 26/03/2013 Reappointed 18/3/2018	4 years 4 years	31/07/2019	External Member(Co-opted) Clause 3 of the Instrument	Policy & Resources	80%
Mr P Griffiths	First Appointed 16/10/2017	4 years		Clause 3 of the Instrument	Audit & Risk	0%
Dr R Gray	First Appointed 01/03/1998 Reappointed 15/07/1999;15/07/2003; 15/07/2007;15/07/2011; 15/07/2015: 15/07/19	2 years then 4 years		Clause 3 of the Instrument	Chair of Policy & Resources; Chair of Search & Governance; Remuneration	100%
Mrs A-L Harding	First Appointed 04/12/17	4 years		Staff	Audit & Risk	80%
Mr M Harrison	01/08/2019	4 years		Clause 3 of the Instrument	Policy& Resources	N/a
Mr T Knight	First Appointed 01/08/2012 Reappointed 01/08/16	4 years		Clause 3 of the Instrument	Curriculum & Quality; Search & Governance; Remuneration	100%
Ms E L Khoury	First Appointed 16/10/2017 Reappointed 15.1.18	4 years	(1) 04/12/2017 (2) 30/1/2019	Clause 3 of the Instrument	Audit & Risk	0%
Mrs J McGee	First Appointed 04/12/17	4 years		Staff	Curriculum & Quality	100%
Mr D O'Halloran	First appointed 15/07/1999 Reappointed 15/07/2003;15/07/2007; 15/07/2011; 15/07/2015: 15/07/2019	4 years		Clause 3 of the Instrument	Vice Chair: Corporation until 31/07/2015, Chair: Corporation 01/08/15 to 31/07/19, Curriculum & Quality; Remuneration; Policy & Resources (to 31/07/19): Audit & Risk (from 01/08/19)	50%
Mr G Ocen	First Appointed 05/10/2015	4 years	30/06/2019	Clause 3 of the Instrument	Audit & Risk	25%
Mr B Patterson	First Appointed 01/08/2012 Reappointed 01/08/16	4 years		Clause 3 of the Instrument	Chair: Audit & Risk; Search & Governance	40%
Ms E Rodriguez Ponce	First Appointed 15/10/18. Reappointed 08/07/19	to 31/7/20		Student (HE)	Curriculum & Quality	80%
Ms E Sipiere	25/03/2019	4 years		Clause 3 of the Instrument	Chair: Corporation from 01/08/19: Policy & Resources: Search & Governance: Remuneration	100%
Mrs S Stone	01/08/2019	4 years		Clause 3 of the Instrument	Audit & Risk	N/a
Ms J Twinning	First Appointed 03/12/2018	8 months	25/02/2019	Student (FE)	Curriculum & Quality	50%
Ms M West	First appointed 01/01/2014 Reappointed 1/1/2018	4 years		Clause 3 of the Instrument	Policy & Resources; Chair Curriculum & Quality	60%
Mrs G Williams	First Appointed 01/08/2012 Reappointed 01/08/16	4 years		Clause 3 of the Instrument	Vice Chair: Corporation wef 01/08/15, Curriculum & Quality; Search & Governance; Chair: Remuneration	100%

The Clerk to the Governing Body was Robert Millea FCA until 31st October 2019. The Clerk to the Governing Body with effect from 1st November 2019 was Melissa Drayson.

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 four times per year.

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 Search & Governance, Curriculum & Quality, Policy & Resources, Audit & Risk and Remuneration. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at southessex.ac.uk or from the Clerk to the Corporation at:

South Essex College
Luker Road
Southend
Essex
SS1 1NN

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 provided on an ad hoc basis.

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

There is a clear division of responsibility in that the roles of the Chairman and Accounting Officer 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 & Governance Committee, consisting of six 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.

Corporation performance

Corporation performance has been assessed as 'Good'.

Remuneration Committee

Throughout the year ending 31 July 2019, the College's Remuneration Committee comprised five members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

Details of remuneration for the year ended 31 July 2019 are set out in note 5 to the financial statements.

Audit & Risk Committee

The Audit & Risk Committee comprises five members of the Corporation (excluding the Accounting Officer and Chair), plus up to three external members (currently two). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit & Risk Committee meets three times per annum and provides a forum for reporting by the College's internal auditors, reporting accountants 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 & Risk Committee.

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

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

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between South Essex College and the funding bodies. 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 South Essex College for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

South Essex College has procured an internal audit service, which operates in accordance with the requirements of the ESFA's post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit & Risk Committee. At a minimum, annually, the Chair of the Audit & Risk Committee provides the governing body with a report on internal audit activity in the College. The report includes the Committee's opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements auditors, the reporting accountant for regularity assurance, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

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

The Senior Leadership 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 Leadership and the Audit & Risk Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit & Risk 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 Leadership team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its November 2018 meeting, the Audit & Risk Committee carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the Senior Leadership team and internal audit and other sources and taking account of events since 31 July 2018.

Based on the advice of the Audit & Risk Committee and the Accounting Officer, the Corporation is of the opinion that the College does have 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 their assets*".

Going concern

South Essex College has for the last two years been graded as "Requires Improvement" for its Financial Health. The Board of Governors recognise that it was a strategic decision to invest in its estate strategy. The Board of Governors and Senior Managers have done so in the full knowledge this would mean that the College would go through a period of being in "Requires Improvement" Financial Health according to the ESFA measures, this is primarily due to the high gearing ratio.

The merger of South Essex College and PROCAT helped cash flows as there was a working capital receipt in the form of a performance related grant from DFE to support the combined merged college. The grant is repayable if the college meets certain future performance criteria such as gearing ratio and EBITDA measures.

The College is confident it is still a going concern.

A 24 month cash flow is prepared and included in the management accounts. Cashflow is monitored on a daily basis with reports to SMT. A monthly update is then included in the management accounts for governors and senior managers. This cashflow forecast includes the receipt from the disposal of Nethermayne together with the expenditure on subsequent capital projects paid for as a result of the disposal. These receipts and payments are shown separately so that the College can review the underlying operating position and capital projects separately.

The assumptions in the forecast are:

- The College will achieve its income target or take action to reduce expenditure where necessary
- The College limits capital investment to build up cash reserves. This is separate from investment in major capital projects which are funded from the disposal of Nethermayne.
- A separate bank account is maintained for the Nethermayne funds and drawdowns are made to meet contractual payments once signed off by the partners.
- The College debt with Barclays is in a revolving credit facility which is interest only with limited capital repayments in order to manage cashflow.

Approved by order of the members of the Corporation on 29 January 2020 and signed on its behalf by:

Signed	**Signed**
Elizabeth Sipiere	**Angela O'Donoghue**
Chair	**Accounting Officer**

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

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

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are not able to identify any material irregularity or improper use of funds by the College, or any material non-compliance with the ESFA terms and conditions of funding under the College's financial memorandum.

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 the Skills Funding Agency.

Signed	**Signed**
Angela O'Donoghue	**Elizabeth Sipiere**
Accounting Officer	**Chair of Governors**
29 January 2020	**29 January 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 College's Funding Agreement with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2017 to 2018* issued by the ESFA, and which give a true and fair view of the state of affairs of the group and the parent College and the result for that year.

In preparing the group and parent College financial statements, the Corporation is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the group and parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent College or to cease operations, or have no realistic alternative but to do so.

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

The Corporation is responsible for keeping adequate accounting records which disclose with reasonable accuracy, at any time, the financial position of the parent College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Members of the 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 the ESFA are used only in accordance with the Funding Agreement with the ESFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the group and parent College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Corporation on 29 January 2020 and signed on its behalf by:

Elizabeth Sipiere (Chair)

Independent auditor's report to the Corporation of South Essex College

Opinion

We have audited the financial statements of South Essex College ("the College") for the year ended 31 July 2019 which comprise Group and College's balance sheets as at 31 July 2019, the Group and College Statements of Comprehensive Income, the Group and College Statements of Changes in Reserves, and the Group Statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2019, and of the Group's and the College's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education.*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of debtors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardized firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Corporation has prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the College or to cease their operations, and as they have concluded that the Group and the College's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Corporation's conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and the College's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the College will continue in operation.

Other information

The Corporation is responsible for the other information, which comprises the Members' Report and the Corporation's statement of corporate governance and internal control, Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding and the statement of Responsibilities of the Members of the Corporation. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Post-16 Audit Code of Practice 2018 to 2019 (February 2019) issued by the Education and Skills Funding Agency we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent College; or
- the parent College's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Corporation's responsibilities

As explained more fully in their statement set out on page 26, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 it either intends to liquidate the group or the parent College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

- 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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

- A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Corporation, in accordance with Article 22 of 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 for our audit work, for this report, or for the opinions we have formed.

SBeavis

Stephanie Beavis
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR

Date: 31 January 2020

Reporting Accountant's Report on Regularity to the Corporation of South Essex College and the Secretary of State for Education acting through Skills Funding Agency

In accordance with the terms of our engagement letter dated 16 August 2017 and further to the requirements and conditions of funding in ESFA 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 South Essex College during the period 1 August 2018 to 31 July 2019 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of South Essex 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 South Essex 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 South Essex College and the ESFA for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of South Essex College and the reporting accountant

The corporation of South Essex 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 Post-16 Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Post-16 Audit Code of Practice 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 Report on Regularity to the Corporation of South Essex College and the Secretary of State for Education acting through Skills Funding Agency (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 included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a limited assurance conclusion on regularity consistent with the requirements of the Post-16 Audit Code of Practice.

Conclusion

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

S Beavis

Stephanie Beavis

For and on behalf of KPMG LLP, Reporting Accountant

Botanic House
100 Hills Road
Cambridge
CB2 1AR

Date: 31 January 2020

South Essex College
Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2019 Group £'000	Year ended 31 July 2019 College £'000	Year ended 31 July 2018 Group £'000	Year ended 31 July 2018 College £'000
INCOME					
Funding body grants	2	34,451	34,441	35,141	35,141
Tuition fees and education contracts	3	6,769	6,769	6,902	6,902
Other income	4	5,904	4,970	1,977	1,525
Total income		**47,124**	**46,180**	**44,020**	**43,568**
EXPENDITURE					
Staff costs	5	28,804	27,499	26,013	25,830
Fundamental restructuring costs	5	61	50	139	139
Other operating expenses	6	17,584	17,887	15,591	15,322
Release of VAT Provision	6	(1,038)	(1,038)	-	-
Depreciation	9	3,248	3,098	3,607	3,606
Interest and other finance costs	7	1,163	1,163	1,374	1,374
Total expenditure		**49,822**	**48,659**	**46,724**	**46,271**
(Deficit)/surplus before other gains and losses		**(2,698)**	**(2,479)**	**(2,704)**	**(2,703)**
Gain on disposal of assets		-	-	35,497	35,497
Gain on assets and liabilities acquired on the merger with with Prospects College	24	1,446	(1,227)	-	-
Share of operating surplus/(deficit) in Essex Shared Services		(27)	-	(47)	-
(Deficit)/surplus before tax		**(1,279)**	**(3,706)**	**32,746**	**32,794**
Taxation	8	-	-	-	-
(Deficit)/surplus for the year		**(1,279)**	**(3,706)**	**32,746**	**32,794**
Actuarial (loss)/gain in respect of pensions schemes		(2,096)	(2,003)	7,573	7,386
Total Comprehensive Income for the year		**(3,375)**	**(5,709)**	**40,319**	**40,180**

The accompanying notes on pages 36 to 61 form part of these financial statements.

South Essex College
Consolidated and College Statement of Changes in Reserves

	Total
	£'000
Group	
Balance at 1st August 2017	37,495
Surplus/(deficit) from the income and expenditure account	32,746
Actuarial gain in respect of pension scheme	7,573
	40,319
Balance at 31st July 2018	77,814
Surplus/(deficit) from the income and expenditure account	(1,279)
Actuarial loss in respect of pension scheme	(2,096)
Total comprehensive income for the year	(3,375)
Balance at 31st July 2019	74,439
College	
Balance at 1st August 2017	37,473
Surplus/(deficit) from the income and expenditure account	32,794
Actuarial gain in respect of pension scheme	7,386
	40,180
Balance at 31st July 2018	77,653
Surplus/(deficit) from the income and expenditure account	(3,706)
Actuarial loss in respect of pension scheme	(2,003)
Total comprehensive income for the year	(5,709)
Balance at 31st July 2019	71,944

The accompanying notes on pages 36 to 61 form part of these financial statements.

South Essex College
Balance sheets as at 31 July

	Notes	Group	College	Group	College
		2019	2019	2018	2018
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	9	120,232	118,782	112,552	112,518
Investments	10	-	830	-	-
		120,232	**119,612**	**112,552**	**112,518**
Current assets					
Stocks		49	45	53	47
Trade and other receivables	11	14,277	13,980	9,423	9,539
Receivables due after more than one year	11	10,850	10,850	21,321	21,321
Cash and cash equivalents	16	3,480	2,937	2,806	2,441
		28,656	**27,812**	**33,603**	**33,348**
Less: Creditors – amounts falling due within one year	12	(7,473)	(9,495)	(8,538)	(8,505)
Net current assets		**21,183**	**18,317**	**25,065**	**24,843**
Total assets less current liabilities		**141,415**	**137,929**	**137,617**	**137,361**
Less: Creditors – amounts falling due after more than one year	13	(44,279)	(43,501)	(40,144)	(40,144)
Provisions					
Defined benefit obligations	15	(22,213)	(22,213)	(18,034)	(18,034)
Other provisions	15	(484)	(271)	(1,625)	(1,530)
Total net assets		**74,439**	**71,944**	**77,814**	**77,653**
Unrestricted reserves					
Income and expenditure account		74,439	71,944	77,814	77,653
Total unrestricted reserves		**74,439**	**71,944**	**77,814**	**77,653**
Total reserves		**74,439**	**71,944**	**77,814**	**77,653**

The financial statements on pages 32 to 61 were approved and authorised for issue by the Corporation on 29 January 2020 and were signed on its behalf on that date by:

Elizabeth Sipiere

Chair

Angela O'Donoghue

Accounting Officer

South Essex College
Consolidated Statement of Cash Flows

	Notes	2019 £'000	2018 £'000
Cash inflow from operating activities			
Surplus/(deficit) for the year		(1,279)	32,746
Adjustment for non cash items			
Depreciation		3,248	3,607
(Increase)/decrease in stocks		4	4
(Increase)/decrease in debtors		(718)	(1,217)
Increase/(decrease) in creditors due within one year		(861)	(140)
Increase/(decrease in creditors due after one year		2,151	(1,698)
Increase/(decrease) in provisions		(1,141)	(290)
Pensions costs less contributions payable		1,716	1,705
Fixed assets acquired on acquisition		(6,322)	-
Share of operating (surplus)/deficit in Essex Shared Services		27	47
Adjustment for investing or financing activities			
Interest payable		1,163	1,374
Interest receivable		(120)	
Cash acquired on acquisition		(548)	-
Gain on sale of fixed assets		-	(35,497)
Net cash flow from operating activities		**(2,680)**	**641**
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	12,022
Draw down from Basildon Landowners Trust Account		6,335	
Payments made to acquire fixed assets		(4,608)	(15,635)
Cash acquired on acquisition		548	-
		2,275	(3,613)
Cash flows from financing activities			
Interest paid		(675)	(721)
Interest element of finance lease rental payments		(28)	(47)
New unsecured loans		-	5,500
Recoverable grant		3,255	
Repayments of amounts borrowed		(1,200)	(2,300)
Capital element of finance lease rental payments		(273)	(380)
		1,079	2,052
Increase / (decrease) in cash and cash equivalents in the year		**674**	**(920)**
Cash and cash equivalents at beginning of the year		2,806	3,726
Cash and cash equivalents at end of the year		3,480	2,806

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* 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 use of previous valuations as deemed cost at transition for certain non-current assets.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, South Essex Commercial Services Ltd, Prospects Training Solutions Ltd and Prospects Learning Foundation Ltd controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2019.

Going concern

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

The College currently has £20.0m of loans outstanding with bankers on a revolving credit facility basis. The College's forecasts and financial projections indicate that it will be able to operate within these existing facilities and covenants for the foreseeable future.

The facility is due to mature in February 2021. The College will be looking to re-negotiate an extension to this date or apply for a new facility.

The College has set out a three-year financial strategy to the Corporation showing that a breakeven position, increased cash reserves and maintaining "Requires Improvement" financial health is achievable within this period.

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 include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for 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 end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Notes to the Accounts (continued)

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

Grants (including research 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 FRS 102. 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 stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

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

Accounting for post-employment benefits

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

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of 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 closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/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, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

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

Short term Employment benefits

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

Notes to the Accounts (continued)

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Thurrock and Southend Campuses – 60 years
- All other buildings – 50 years
- Refurbishments – 10 years

Freehold land is not depreciated.

The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 60 years.

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

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

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

Assets in the course of construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the 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 recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Notes to the Accounts (continued)

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

- technical equipment 5 years
- motor vehicles 5 years
- computer equipment 3 years
- furniture, fixtures and fittings 10 years

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred. However, the College elects to capitalise such costs which are directly attributable to the acquisition, construction or production of a qualifying asset.

Leased assets

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

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Investments

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Investments in joint ventures

The College accounts for its share of joint ventures using the equity method within the Group financial statements. Under the equity method in group accounts, if an investor's share of losses in a joint venture equals or exceeds the carrying amount of its investment, the investor shall discontinue recognising its share of further losses, unless it has incurred legal or constructive obligations or has made payments on behalf of the joint venture, in which case provision is required.

Inventories

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

Cash and cash equivalents

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

Notes to the Accounts (continued)

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

Financial liabilities and equity

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

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction

price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover circa 3% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

The College employed a VAT specialist company to challenge its Lennartz VAT position. The College has been successful in not having to repay future payments. In addition, there is still a possibility to reclaim old payments. If the case is successful a repayment of £755k will be received from HMRC, partly offsetting this is a £236k assessment from HMRC for VAT. The net provision is included in provisions.

The College's subsidiary company is subject to corporation tax and VAT in the same way as any commercial organisation.

Provisions and contingent liabilities

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 at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

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

Notes to the Accounts (continued)

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

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 of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- Determine whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

- Determine whether there are implications due to the acquisition of PROCAT and the fair value revaluation of assets and liabilities at the date of acquisition.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

  The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 21, 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 2013 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Accounts (continued)

2 Funding council grants

	Year ended 31 July 2019 Group £'000	Year ended 31 July 2019 College £'000	Year ended 31 July 2018 Group £'000	Year ended 31 July 2018 College £'000
Recurrent grants				
Education and Skills Funding Agency - adult	3,096	3,096	2,937	2,937
Education and Skills Funding Agency – 16 -18	25,028	25,028	26,086	26,086
Education and Skills Funding Agency - apprenticeships	3,922	3,922	3,676	3,676
Local Authorities	653	653	605	605
Specific Grants				
Access funds	1,121	1,121	1,240	1,240
Free meals in FE	140	140	182	182
Releases of government capital grants	456	446	373	373
HE grant	35	35	42	42
Total	**34,451**	**34,441**	**35,141**	**35,141**

3 Tuition fees and education contracts

	Year ended 31 July 2019 Group £'000	Year ended 31 July 2019 College £'000	Year ended 31 July 2018 Group £'000	Year ended 31 July 2018 College £'000
Adult education fees	417	417	490	490
Fees for FE loan supported courses	626	626	765	765
Fees for HE loan supported courses	4,610	4,610	4,503	4,503
International students fees	528	528	479	479
Full cost provision	168	168	74	74
Total tuition fees	6,349	6,349	6,311	6,311
Education contracts	420	420	591	591
Total	**6,769**	**6,769**	**6,902**	**6,902**

Notes to the Accounts (continued)

4 Other income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	806	406	662	353
Other income generating activities - Nursery (closed at end of 2015/16)	-	-	(2)	(2)
Other income generating activities	358	199	468	327
Other income generating activities - PTS income	344	-	-	-
Other grant income - Education Training Foundation	-	-	154	154
Non government capital grants	14	14	14	14
Transactions Unit merger funding	1,224	1,224	-	-
Repayment of PROCAT loan	902	902	-	-
PROCAT exceptional financial support	1,762	1,762	-	-
Miscellaneous income	494	463	681	679
Total	**5,904**	**4,970**	**1,977**	**1,525**

Notes to the Accounts (continued)

5 Staff costs - Group

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

	2019 No.	2018 No.
Teaching staff	336	306
Non teaching staff	390	378
	726	**684**

Staff costs for the above persons

	2019 £'000	2018 £'000
Wages and salaries	21,207	19,328
Social security costs	1,867	1,698
Pension costs, including FRS102 adjustment of £1,511k (2018 £1,705k)	4,602	4,580
Payroll sub total	**27,676**	**25,606**
Contracted out staffing services	1,084	694
	28,760	**26,300**
Increase/(Decrease) in employee leave	44	(287)
Fundamental restructuring costs	61	139
	28,804	**26,013**

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 Senior Leadership Team which comprises the Principal and Chief Executive, the Deputy Principal and Chief Executive and the Vice Principals.

Emoluments of Key management personnel, Accounting Officer and other higher paid sta

	2019 No.	2018 No.
The number of key management personnel including the Accounting Officer was:	5	5

Notes to the Accounts (continued)

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

	Senior post-holders		Other staff	
	2019	2018	2019	2018
	No.	No.	No.	No.
£40,001 to £45,000	1	-	*	*
£50,001 to £55,000	-	1	*	*
£60,001 to £65,000	-	-	3	2
£65,001 to £70,000	-	-	2	-
£70,001 to £75,000	-	-	1	-
£80,001 to £85,000	-	-	1	-
£85,001 to £90,000	-	1	-	-
£95,001 to £100,000	1	1	-	-
£100,001 to £110,000	-	1	-	-
£110,001 to £115,000	1	-	-	-
£120,001 to £125,000	1	-	-	-
£165,001 to £170,000	1	1	-	-
	5	5	7	2

* Disclosure not required.

One senior postholder in the above table also received cash payments in lieu of pension contributions in the band of £20,000 to £25,000 (£20,000 to £25,000 2018). This has not been included in the value the above table.

Notes to the Accounts (continued)

5 Staff costs - Group and College

Key management personnel compensation is made up as follows:

	2019 £'000	2018 £'000
Salaries - gross of salary sacrifice and waived emoluments	547	520
Employers National Insurance	56	56
	603	**576**
Pension contributions	31	28
Payments in lieu of pension contributions	21	21
Total emoluments	**655**	**625**

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

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

	2019 £'000	2018 £'000
Salaries	161	161
Employers National Insurance	25	25
Benefits in Kind	6	6
	192	192
Payments in lieu of pension contributions	21	21
Pension contributions	-	-

The remuneration package of the Principal and Chief Executive is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance. The Committee is content with the level of pay for the financial year.

The Principal and Chief Executive reports to the Chair of Governing Council, who undertakes an annual review of their performance against the college's overall objectives using both qualitative and quantitative measures of performance.

Median Pay Disclosure

	2019	2018
Principal's basic salary as a multiple of the median of all staff based on Salary	6.19	6.19
Principal's total emoluments as a multiple of the median of all staff based on total emoluments	6.3	6.3

Notes to the Accounts (continued)

6 Other operating expenses

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	5,972	7,033	4,099	4,111
Subcontracting costs	2,423	2,422	3,894	3,894
Non teaching costs	5,432	4,891	4,578	4,298
Premises costs	3,757	3,541	3,020	3,019
Release of VAT Provision	(1,038)	(1,038)	-	-
Total	16,546	16,849	15,591	15,322

Other operating expenses include:	2019	2018
	£'000	£'000
Auditors' remuneration:		
Financial statements audit*	60	30
Internal audit**	17	10
Other services provided by the financial statements auditors***	1	-
Other services provided by the internal auditors	-	1

* includes £49,000 in respect of the College (2017/18 £30,000)
** all relating to the College

7 Interest payable - Group and College

	2019	2018
	£'000	£'000
On bank loans, overdrafts and other loans:	675	721
	675	721
On finance leases	28	47
Net interest on defined pension liability (note 25)	460	606
Total	1,163	1,374

8 Taxation - Group only

	2019	2018
	£'000	£'000
Provision for deferred corporation tax in the accounts of the subsidiary company	-	-
Total	-	-

The members do not believe that the College was liable for any corporation tax arising out of its activities during either year. The tax charge above relates to its trading subsidiary companies.

Notes to the Accounts (continued)

9 Tangible fixed assets (Group)

	Freehold Land and buildings	Furniture	Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
At 1 August 2018	123,326	2,233	10,909	15,017	151,485
Additions	520	14	595	3,479	4,608
Transfers	8,554			(8,554)	-
Acquired on merger with Prospects College	5,992	-	330	-	6,322
Disposals	-	-	-	-	-
At 31 July 2019	**138,392**	**2,247**	**11,834**	**9,942**	**162,415**
Depreciation					
At 1 August 2018	27,536	1,648	9,749	-	38,933
Charge for the year	2,440	129	681	-	3,250
Elimination in respect of disposals	-	-	-	-	-
At 31 July 2019	**29,976**	**1,777**	**10,430**	**-**	**42,183**
Net book value at 31 July 2019	**108,416**	**470**	**1,404**	**9,942**	**120,232**
Net book value at 31 July 2018	95,790	585	1,160	15,017	112,552

9 Tangible fixed assets (College only)

	Freehold Land and buildings	Furniture	Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
At 1 August 2018	123,280	2,204	10,821	15,017	151,322
Additions	520	14	595	3,479	4,608
Transfers	8,554			(8,554)	-
Acquired on merger with Prospects College	4,755	-	-	-	4,755
Disposals	-	-	-	-	-
At 31 July 2019	**137,109**	**2,218**	**11,416**	**9,942**	**160,685**
Depreciation					
At 1 August 2018	27,524	1,619	9,661	-	38,804
Charge for the year	2,382	129	588	-	3,099
Elimination in respect of disposals	-	-	-		-
At 31 July 2019	**29,906**	**1,748**	**10,249**	**-**	**41,903**
Net book value at 31 July 2019	**107,203**	**470**	**1,167**	**9,942**	**118,782**
Net book value at 31 July 2018	95,756	585	1,160	15,017	112,518

Notes to the Accounts (continued)

10 Non current Investments

	College 2019 £'000	College 2018 £'000
Investments in subsidiary companies	830	-
Total	**830**	**-**

The College owns 100 per cent of the issued ordinary £1 shares of South Essex Commercial Services Limited, a company incorporated in England and Wales. The principal business activity of South Essex Commercial Services Limited is the operation of the car park, retail and conferencing activities. The interest in South Essex Commercial Services Limited was acquired on 22 July 2003 on its incorporation.

Prospects Learning Foundation Limited, a company incorporated in England and Wales is a wholly owned subsidiary of the College. The principal business activity of Prospects Learning Foundation Limited is to provide educational services to learners and to the College. The interest in Prospects Learning Foundation Limited was acquired on 1 February 2019 upon merger with Prospects College of Advanced Technology.

Prospects Learning Foundation Limited owns 100 per cent of the issued £1 shares of Prospects Training Solutions Limited, a company incorporated in England and Wales. The principal business activity of Prospects Training Solutions Limited is the provision of training services. The interest in Prospects Training Solutions Limited was acquired on 1 February 2019 upon merger with Prospects College of Advanced Technology.

The College owns 50% of the ordinary shares of Essex Shared Services Limited. The company is incorporated in England and Wales and its primary activity is to provide administrative support to educational institutions.

Ownership	Profit/ (Loss) for Year of Entity 2019 £'000	Net assets/ (Liabilities) of Entity 2019 £'000
South Essex College Commercial Services Ltd (100% owned by South Essex College)	1	(5)
Prospects Learning Foundation Ltd (100% owned by South Essex College)	(885)	3,106
Prospects Training Solutions Ltd (100% owned by Prospects Learning Foundation)	86	(258)

The registered address for the above entities is Luker Road, Southend on Sea, Essex. SS1 1ND

11 Trade and other receivables

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Amounts falling due within one year:				
Trade receivables	1,001	829	712	699
Amounts owed by group undertakings:				
Subsidiary undertakings	-	-	-	146
Prepayments and accrued income	965	907	758	741
*Amount owed from Basildon Trust account	11,146	11,146	7,010	7,010
Amounts owed by the ESFA	767	767	652	652
VAT	77	66	-	-
Joint Venture control - ESS	265	265		
Other debtors	56	-	291	291
Total	14,277	13,980	9,423	9,539
Other debtors due after more than one year:				
*Long term debtor	10,850	10,850	10,850	10,850
*Long term notes receivable	-	-	10,471	10,471
Total	**25,127**	**24,830**	**30,744**	**30,860**

*The Basildon Trust debtor along with long term debtors and notes receivable relate to the sale of Nethermayne and are designated to invest in major capital building projects.

Notes to the Accounts (continued)

12 Creditors: amounts falling due within one year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Bank loans and overdrafts	1,200	1,200	1,200	1,200
Obligations under finance leases	99	83	303	303
Trade payables	736	563	758	741
Amounts owed to group undertakings:				
Subsidiary undertakings	-	2,417	-	-
Corporation tax	-	-	-	-
Other taxation and social security	997	960	857	857
Accruals and deferred income	1,367	1,231	3,796	3,783
Employee leave accrual	707	703	662	659
Deferred income - government capital grants	602	581	403	403
Amounts owed to the ESFA	1,455	1,455	318	318
Other creditors	310	302	241	241
Total	**7,473**	**9,495**	**8,538**	**8,505**

13 Creditors: amounts falling due after one year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Bank loans	18,775	18,775	19,975	19,975
Obligations under finance leases	12	-	81	81
Pension liability to joint venture	207	207	207	207
Deferred income - government capital grants	18,353	17,587	16,381	16,381
Southend Borough Council loan	1,500	1,500	1,500	1,500
Essex County Council loan	2,000	2,000	2,000	2,000
Other creditors	177	177	-	-
Recoverable grant from Transactions Unit	3,255	3,255	-	-
Total	**44,279**	**43,501**	**40,144**	**40,144**

Notes to the Accounts (continued)

14 Maturity of debt

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
In one year or less	1,200	1,200	1,200	1,200
Between one and two years	18,775	18,775	19,975	19,975
Between two and five years	-	-	-	-
In five years or more	-	-	-	-
Total	**19,975**	**19,975**	**21,175**	**21,175**

The College's loan with Barclays has been converted into a revolving credit facility which allowed the refinancing of the Lloyds loan. This RCF of £19,975,000 is secured on the Southend Campus at Luker Road, the Thurrock Campus on Grays High Street and the Beauty Accademy on Queens Road, Southend. The current final maturity date is February 2021 and the rate of interest is a marginal rate of 2.00% on top of a variable base rate.

(b) Finance leases

The net finance lease obligations to which the institution is committed are:

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
In one year or less	99	83	303	303
Between two and five years	12	-	81	81
In five years or more	-	-	-	-
Total	**111**	**83**	**384**	**384**

Finance lease obligations are secured on the assets to which they relate.

Notes to the Accounts (continued)

15 Provisions

	Group and College		
	Defined Benefit Obligations	Other	Total
	£'000	£'000	£'000
At 1 August 2018	(18,034)	(1,625)	(19,659)
Acquired through merger	(195)	-	(195)
Transferred to/(from) income and expenditure account	(3,984)	1,141	(2,843)
At 31 July 2019	**(22,213)**	**(484)**	**(22,697)**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 21. An additional £195k has also been recognised following the in year merger.

Other Provisions relates to the liability for the pension deficit of the joint venture Essex Shared Services Limited (£213k) and the College's agreement of the Lennartz claim for VAT not paid (£271k).

16 Cash and cash equivalents

	At 1 August 2018	Cash flows	Other changes	At 31 July 2019
	£'000	£'000	£'000	£'000
Cash and cash equivalents	2,806	674	-	3,480
Overdrafts	-	-	-	-
Total	**2,806**	**674**	**-**	**3,480**

17 Capital commitments

	Group and College	
	2019	2018
	£'000	£'000
Commitments contracted for at 31 July	91	1,974

Notes to the Accounts (continued)

18 Lease Obligations

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

	Group and College	
	2019	2018
	£'000	£'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	48	77
Later than one year and not later than five years	92	140
later than five years	-	-
	140	217
Other		
Not later than one year	-	-
Later than one year and not later than five years	-	-
later than five years	-	-
	-	-
Total lease payments due	140	217

19 Contingent liabilities

The College is currently appealing against HMRC's decision in regard to a VAT Lennartz claim. The College's claim relates to £1.75m of VAT the College has paid which it is seeking to recover and to £0.236m of VAT which it has not paid. The College has accrued for the unpaid VAT and holds a VAT provision in this regard along with accrued interest of £271k (see note 15). If the College's appeal is not successful, the VAT could become payable and there is a risk that HMRC could impose penalties of up to 30% and further interest.

20 Events after the reporting period

There are no post balance sheet events that require separate disclosure in this report

Notes to the Accounts (continued)

21 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 Wessex Local Government Pension Scheme (LGPS) for non-teaching staff. Both are multi-employer defined-benefit plans.

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

Total pension cost for the year		**2019**		**2018**
		£'000		**£'000**
Teachers Pension Scheme: contributions paid		1,518		1,468
Local Government Pension Scheme:				
Contributions paid	1,573		1,407	
FRS 102 (28) charge	1,511		1,680	
Charge to the Statement of Comprehensive Income		**3,084**		3,087
Enhanced pension charge to Statement of Comprehensive Income		-		25
Total Pension Cost for Year		**4,602**		**4,580**

Teachers' Pension Scheme

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

The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

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

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

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

Notes to the Accounts (continued)

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 has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

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

The pension costs paid to TPS in the year amounted to £1,518,000 (2018: £1,453,000)

FRS 102 (28)

Under the definitions set out in FRS 102 (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.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Essex County Council. The total contribution made for the year ended 31 July 2019 was £2,094,000, of which employer's contributions totalled £1,571,000 and employees' contributions totalled £523,000. The agreed contribution rates for future years are 16.2% for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2017 by a qualified independent actuary

	At 31 July 2019	**At 31 July 2018**
Rate of increase in salaries	2.35%	2.35%
Future pensions increases	2.35%	2.35%
Discount rate for scheme liabilities	2.10%	2.65%
Inflation assumption (CPI)	2.35%	2.35%
Commutation of pensions to lump sums	50%	50%

Notes to the Accounts (continued)

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

	At 31 July 2019	At 31 July 2018
	years	years
Retiring today		
Males	21.30	22.30
Females	23.60	24.80
Retiring in 20 years		
Males	23.00	24.50
Females	25.40	27.10

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

	Split of assets held by the fund at 31 July 2019	Fair Value at 31 July 2019	Split of assets held by the fund at 31 July 2018	Fair Value at 31 July 2018
		£'000		£'000
Equities	63.00%	33,138	64.00%	30,307
Bonds	6.00%	2,958	6.00%	2,783
Property	8.00%	4,206	9.00%	4,245
Gilts	5.00%	2,891	5.00%	2,544
Cash	3.00%	1,534	3.00%	1,622
Alternative Assets	10.00%	5,147	9.00%	4,271
Other Managed Funds	5.00%	2,698	4.00%	1,830
Total market value of assets		**52,572**		**47,602**
Weighted average expected long term rate of return	**2.10%**		**2.65%**	
Actual return on plan assets		**2,471**		**2,975**

Notes to the Accounts (continued)

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

	2019 £'000	2018 £'000
Fair value of plan assets	52,572	47,602
Present value of plan liabilities	(74,763)	(65,636)
Present value of unfunded liabilities	(22)	-
Net pensions (liability)/asset (Note 19)	**(22,213)**	**(18,034)**

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

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	3,044	3,087
Adminstration costs	19	16
Past service cost	23	-
	3,086	**3,103**
Acquired on merger (Note 24)	203	-
Interest expense (Note 7)	460	606
Amount recognised in income and expenditure	**3,749**	**3,709**
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets in excess of interest	2,471	2,959
Experience losses arising on defined benefit obligations	-	-
Changes in assumptions underlying the present value of plan liabilities	(8,462)	4,427
Change in demographic assumptions	3,988	
Amount recognised in Other Comprehensive Income	**(2,003)**	**7,386**

Notes to the Accounts (continued)

Movement in net defined benefit (liability/asset during the year

	2019 £'000	2018 £'000
Surplus/(deficit) in scheme at 1 August	(18,034)	(23,109)
Movement in year:		
Current service cost	(3,044)	(3,087)
Employer contributions	1,573	1,407
Past service cost	(23)	(25)
Net interest on the defined (liability)/asset	(460)	(606)
Acquired on merger	(203)	-
Administration costs	(19)	-
Actuarial gain or loss	(2,003)	7,386
Net defined benefit (liability)/asset at 31 July	**(22,213)**	**(18,034)**

Asset and Liability Reconciliation

	2019 £'000	2018 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	65,636	65,826
Current Service cost	3,044	3,087
Interest cost	1,738	1,768
Contributions by Scheme participants	523	485
Experience gains and losses on defined benefit obligations	-	-
Changes in financial assumptions	8,462	(4,427)
Estimated benefits paid	(1,321)	(1,128)
Past Service cost	23	25
Liabilities assumed/(extinguished) on settlements	668	-
Change in demographic assumptions	(3,988)	-
Defined benefit obligations at end of period	**74,785**	**65,636**
Reconciliation of Assets		
Fair value of plan assets at start of period	47,602	42,717
Interest on plan assets	1,278	2,959
Return on plan assets	2,471	1,164
Employer contributions	1,573	1,407
Contributions by Scheme participants	523	485
Administration costs	(19)	-
Settlements prices received/ (paid)	465	-
Estimated benefits paid	(1,321)	(1,130)
Fair value of plan assets at end of period	**52,572**	**47,602**

Notes to the Accounts (continued)

22 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, transactions could take place with organisations in which a member of the board of governors may have an interest. There were no transactions that were identified that should be included.

South Essex College entered in to a 50:50 joint venture agreement with Chelmsford College and formed Essex Shared Services Limited in August 2014 with the purpose to provide back office shared services to both Colleges. The annual cost for these services were £683k (£625k 2017-18). The Statement of Comprehensive Income includes a cost of £27k (£47k 2017-18) relating to the share of operating deficit in Essex Shared Services Ltd. The group balance sheet includes a total provision for the deficit of Essex Shared Services Ltd of £213k (£93k 2017-18).

The College entered into a tripartite agreement with Basildon Council and the Homes and Communities Agency (HCA) during 2015/16 to progress the disposal of the Basildon Campus and HCA land to enable circa 700 homes to be built over 5 years. The College will relocate some provision to Market Square in Basildon town centre and the Council will relocate the market as part of the arrangement. This has resulted in the 'Basildon Landowners Trust Account' being established. The first phase of land has been sold to the developers and on account payments have been received, of which the College has withdrawn £18.75m to offset work up costs to date and for the Council to commence works to relocate the market.

As part of the merger with Prospects College of Advanced Technology, the College received a performance related grant of £3,255k from the Department of Education to provide the College with financial stability. Additionally £3,888k was provided for repayment of an oustanding loan, the repayment of exceptional financial support and merger related costs incurred (note 4). Should the College meet the performance criteria associated with the grant, repayments to the Department of Education will automatically be made.

23 Amounts disbursed as agent

Learner support funds

	2019 £'000	2018 £'000
Discretionary support funds - ESFA	156	291
ALL bursary - ESFA	265	292
	421	583
Disbursed to students	(290)	(419)
Administration costs	(25)	(29)
Balance unspent as at 31 July, included in creditors	106	135

Learner support funds provided by the ESFA are made available solely for the benefit of students. The administration costs are deducted in accordance with the ESFA regulations and represent a contribution towards the costs incurred by the College in disbursing these funds.

Notes to the Accounts (continued)

24 Business acquisition and mergers

Prospects College of Advanced Technology

On 1 February 2019, South Essex College merged with Prospects College. On that date, the Corporation of Prospects College was dissolved and its Assets and Liabilities were transferred to the Corporation of South Essex College. There was no consideration given.

Accordingly, the College considers that this is a public benefit entity combination that is in substance a gift aid, as such, it is accounted for using the acquisition method of accounting (in accordance with section 34 of FRS102).

The following amounts are therefore recognised in the accounts for the year ending 31 July 2019:

Group	**As at 31 January 2019**	**Fair Value Adjustment**	**As at 01 February 2019**
	£'000	**£'000**	**£'000**
Tangible Fixed Assets	14,607	(8,285)	6,322
Investments	-	-	-
Total Fixed Assets	**14,607**	**(8,285)**	**6,322**
Trade and other receivables	870	-	870
Cash and cash equivalents	548	-	548
Total current assets	**1,418**	**-**	**1,418**
Creditors - amounts falling due within one year	(4,367)	408	(3,959)
Net Current Liabilities	**(2,949)**	**408**	**(2,541)**
Total assets less current liabilities	**11,658**	**(7,877)**	**3,781**
Creditors - amounts falling due after more than	(8,963)	6,823	(2,140)
Provisions			
Defined Benefit Obligations	(195)	-	(195)
Total Net Assets	**2,500**	**(1,054)**	**1,446**
Gain recognised in Consolidated Statements of Comprehensive Income and Expenditure	**2,500**	**(1,054)**	**1,446**

Notes to the Accounts (continued)

24 Business acquisition and mergers (continued)

College	As at 31 January 2019 £'000	Fair Value Adjustment £'000	As at 01 February 2019 £'000
Tangible Fixed Assets	13,040	(8,285)	4,755
Investments	830	-	830
Total Fixed Assets	**13,870**	**(8,285)**	**5,585**
Trade and other receivables	-	-	-
Cash and cash equivalents	-	-	-
Total current assets	-	-	-
Creditors - amounts falling due within one year	(5,675)	408	(5,267)
Net Current Liabilities	**(5,675)**	**408**	**(5,267)**
Total assets less current liabilities	**8,195**	**(7,877)**	**318**
Creditors - amounts falling due after more than	(8,173)	6,823	(1,350)
Provisions			
Defined Benefit Obligations	(195)	-	(195)
Total Net Assets	**(173)**	**(1,054)**	**(1,227)**
Loss recognised in Consolidated Statements of Comprehensive Income and Expenditure	**(173)**	**(1,054)**	**(1,227)**