



Southgate College

Annual Report 2008 – 2009



*Southgate College*  
*Report and Financial Statements*  
*for the year ended 31 July 2009*

## **Chairman's Introduction**

I am pleased to report on the College's financial statements for 2008/09.

The year was a watershed in many respects. Our long serving Principal of over twenty years retired in December 2008 and the start of 2009 saw a new approach to the College's strategic leadership and a more radical review of the management structure.

Significant developments occurred with the College's estate strategy, where a comprehensive masterplan was agreed and "Stage C" design signed off. Had it not been for the capital fiasco which unfolded in early 2009, the College would have submitted its Application in Principle. This did not proceed due the funding problems and the College has therefore written off over £1M in this year's accounts for abortive costs.

Student enrolments remained healthy with 16-18 enrolments once again achieving target and the College continued to respond to Government initiatives such as Train to Gain. Our success rates continued to rise.

During this year the efforts of our most successful students were recognised through many award ceremonies. Most notably, our ex-student Oswald Boateng, the leading British tailor and bespoke couturier, received the 2009 AoC Gold Award for Further Education Alumni.

I am thankful to my fellow Governors who have donated much of their time and contribute much expertise towards the strategic development of the College.

Finally, on behalf of the Governing Body, I wish to thank the management and staff of the College for their on-going support and commitment during a period of great uncertainty and for their desire to raise standards for all the College's learners.

**Andrew Nicholas**  
**Chairman**

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## **Operating and Financial Review**

### **NATURE, OBJECTIVES AND STRATEGIES:**

The members present their report and the audited financial statements for the year ended 31 July 2009.

#### *Legal status*

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Southgate College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2006.

The Corporation was incorporated as Southgate College..

#### **Mission**

The College's mission as approved by the Corporation is:

- To maintain Southgate College as a centre of excellence in education and training by providing opportunities for all who wish to benefit, whatever their age and abilities.
- To foster Southgate as a caring college by providing appropriate guidance and counselling for students so all may "Succeed at Southgate".
- To stimulate the economic, intellectual, cultural and social life of the community.

#### *Implementation of Strategic Plan*

The College reviews its development plans each year. This Development Plan includes a Property Strategy and financial forecasts. The Corporation monitors the performance of the College against these plans. The College's continuing strategic objectives are:

- To pursue actively all elements of the Southgate College Mission Statement through staged improvements to the Access, Process and Content phases of the curriculum offer.
- To continue to develop a high quality and cost-effective education and training service to the community served by Southgate College.
- To implement, wherever possible, the key findings of the "Priorities for Success" report, as well as other current Government Initiatives.
- To maintain the financial viability of Southgate College and its ability to operate as an independent body through the Southgate College Governing Corporation.

The College is on target for achieving these objectives.

#### **Our Objectives**

- To improve completion and achievement rates for all students
- To widen participation in education among under-represented social groups and communities
- To secure continuing, short and long term financial viability
- To increase non-LSC income streams
- To continue to invest in people
- To establish our customer and learning support services as centres of excellence
- To develop performance indicators, benchmarks and targets as key management tools to ensure continuing self-improvement.

## **Operating and Financial Review** *(continued)*

### **Financial objectives**

The College's financial objectives are:

- to achieve an annual operating surplus
- to pursue alternative sources of funding, on a selective basis, consistent with the College's core competencies, and the need for a financial contribution to the College's overall finances
- to generate sufficient levels of income to support the asset base of the College
- to further improve the College's shorter term liquidity
- to fund continued capital investment.

A series of performance indicators have been agreed to monitor the successful implementation of the policies.

### **Performance indicators**

Although the LSC continues to measure FE performance in terms of contribution to national targets, individual colleges are now required to submit three-year development plans which are reviewed each year. These development plans focus on four headline targets:

- learner number growth and achievement of LSC funding targets
- learner success rates
- teacher qualifications
- employer engagement

In 2008/09 the College exceeded learner number growth targets including sub-targets for 16 –18 learner volume growth. Success rates continued to rise when compared to 2007/08 and employer engagement targets were achieved.

From March 2009, a new system of Key Performance Indicators was adopted which gives the Governing Body a more robust method of scrutinising the performance of the College.

The LSC has also implemented a new system of performance measures for colleges, the "Framework for Excellence" replacing the old "ABC" framework for all providers in 2009/10. The Framework has three dimensions:

- Responsiveness
- Effectiveness
- Finance

each of which has two or three Key Performance Areas. These Areas are further broken down into Performance Indicators supported by Performance Measures which are absolute measures of performance such as the outcome from a learner survey or a qualification success rate. In deriving the overall performance rating, the Framework gives equal weighting to each of the three dimensions.

The College is committed to observing the importance of the measures and indicators within the Framework.

## **FINANCIAL POSITION**

### **Financial results**

The 2008/09 financial year has seen a deterioration in the College's financial health. The College Financial health Category is now graded 'Satisfactory' by the LSC. The chief contributing factor to this grading was the impact of writing off the abortive costs of the College's Capital Project.

The College has accumulated reserves of £10,341,000 and cash balances of £1,283,000. The College wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

## **Operating and Financial Review (continued)**

Tangible fixed asset additions of equipment during the year amounted to £438,000. The College incurred professional fees, net of a recovery of £232,000 from the LSC, of £1,111,000 in respect of the Capital building programme, which has been written off, due to the cessation of work on projects undertaken at the Application in Principal stage.

The overall deficit as a consequence is £1,333,000 (2007/08 - surplus £698,000).

The College has significant reliance on the LSC for its principal funding source, largely from recurrent grants. In 2008/09 the LSC provided 74% of the College's total income.

The College has a non-trading subsidiary company, Minchenden Business Centre Limited.

### ***Treasury policies and objectives***

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

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Principal. Such arrangements are restricted by limits in the Financial Memorandum with the LSC. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum of the LSC.

### ***Cash flows***

Due principally to the expenditure on the Capital building programme, and the operating deficit net cash outflow amounted to £1.23 million (2007/08 inflow £1.27 million).

### ***Liquidity***

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow.

## **CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**

### ***Student numbers***

In 2008/09 the College has delivered activity that has produced £13,832,000 in LSC main allocation funding (2007/08 – £14,403,000)

### ***Student achievements***

Students continue to prosper at the College. It is too early to make predictions about success rates for 2008/09, there is no reason to expect the upwards trend of the last few years to be reversed.

## **Curriculum developments**

The College has a reputation for curriculum innovation and change. It has introduced new courses in many areas of the curriculum in order to meet student needs better. A particular strength is in making students ready for the next stage in their lives.

## **Operating and Financial Review (continued)**

Many of our students have low levels of prior educational achievement and the College is growing the range of courses aimed at students who are returning to education and courses have been designed to ensure students are able to move securely into the labour market.

Other courses prepare students for university. These include:

- Aim Higher
- Access courses for adults
- Close liaison with a range of universities including Middlesex University
- Development of Level 4 courses including HNCs and degrees where they clearly fit the needs of our students.

### ***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 2008 to 31 July 2009, the College paid 96.4 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

### ***Post-balance sheet events***

There are no Post balance Sheet events.

### ***Future developments***

The College aims to significantly increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the LSC and is seeking opportunities particularly in the areas where the College currently performs well such as HEFCE and European Commission grants.

## **RESOURCES:**

The College has various resources that it can deploy in pursuit of its strategic objectives, including tangible resources of the main college site and £1.28 million in cash at bank.

### ***Financial***

The College has £10 million of net assets (including £3.8 million pension liability) and long term debt of £0.3 million.

### ***People***

The College employs 331 people (expressed as full time equivalents), of whom 231 are teaching staff.

### ***Reputation***

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

## Operating and Financial Review (continued)

### 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 least annually by the Audit Committee and more frequently where necessary. 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.

This is supported by a risk management training programme to raise awareness of risk throughout the College.

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

#### 1. Government funding

The College has considerable reliance on continued government funding through the LSC and HEFCE. In 2008/09, 91% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

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

- The demand led funding system applied to FE colleges and other providers in respect of adult provision from August 2008. The funding methodology applies a series of factors such as guided learning hours and success rates to calculate an amount of funding to be received for each learner. Such funding cannot be guaranteed though.
- The government is reviewing its priorities for the adult skills sector following the Leitch report into the skills needed for the UK to compete in the global economy.
- The "Machinery of Government" changes expected to come into force from April 2010 which will see the LSC dissolved and replaced with successor agencies such as the Young Persons Learning Agency (part of the DCSF) and the Skills Funding Agency (part of the DIUS)

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements
- By ensuring the College is rigorous in delivering high quality education and training
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue with the regional LSC and with the successor agencies in due course

#### 2. Tuition fee policy

The LSC intend to raise individual contributions. Ministers have confirmed that the fee assumption will increase from 42.5% in 2008/09, to 47.5% in 2009/10 and 50% in 2010/11. In line with the majority of other colleges, Southgate College will seek to increase tuition fees in accordance with the rising fee assumptions. The price elasticity of adult learning is not yet fully understood. The risk for the College is that demand falls off as fees increased. This will impact on the growth strategy of the College

## Operating and Financial Review (continued)

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses as prices change

### 3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 17.

## STAKEHOLDER RELATIONSHIPS

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

- Students;
- Funding Councils;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices/ Regional Development Agencies;
- 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.

### *Equal opportunities and employment of disabled persons*

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

The College's Equal Opportunities Policy, including its Race Relations and Transgender Policies, 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 equalities plan is published each year and monitored by managers and governors.

### *Disability statement*

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

- a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2006/07, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access.

## **Operating and Financial Review (continued)**

- b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

### **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 9 December 2009 and signed on its behalf by:**

**A Nicholas**  
**Chairman**

### **Professional advisers**

#### **Financial statement and regularity auditors:**

RSM Bentley Jennison,  
Cedar house, Breckland  
Linford Wood, Milton Keynes  
Bucks MK14 6EX

#### **Internal auditors:**

Macintyre Hudson  
Greenwood House  
4-7 Salisbury Court, London, EC4Y 8BT

#### **Bankers:**

Lloyds TSB Bank Plc  
7 Highland Parade, Cockfosters  
Barnet, Herts, EN4 0DA

#### **Solicitors:**

Breeze & Wyles  
114 Fore Street, Hertford, Herts, SG14 1AG

### Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2009.

#### *The Corporation*

The members who served the Corporation during the year and up to the date of signature of this report were as follows:

Name	Date of first appointment	Term of office	Date of resignation	Status of appointment	Committees served
Mr A Nicholas (Chairman)	1 <sup>st</sup> Oct 2000 Reappointed 1 <sup>st</sup> Oct 2004 1 <sup>st</sup> Oct 2008	4 years		Ordinary Member	Finance & Staffing Search (Chairman) Remuneration (Chairman)
Mr D Williamson Vice Chairman	1 <sup>st</sup> Dec 2002 Re-appointed 1 <sup>st</sup> Dec 2006	4 years		Ordinary Member	Search Remuneration
Mr M Blagden Principal until 31 <sup>st</sup> December 2008			31 <sup>st</sup> Dec 2008	Principal	Finance & Staffing Standards & Performance In attendance at Audit Observer: Search and Remuneration
Mr D Byrne Principal from 1 <sup>st</sup> January 2009	1 <sup>st</sup> Jan 2009			Principal	Finance & Staffing Standards & Performance In attendance at Audit Observer: Search and Remuneration
Ms R Bell	1 <sup>st</sup> July 2007 Re-appointed 1 <sup>st</sup> July 2009	2 years		Staff Member	Standards & Performance Audit
Mr P Camp	1 <sup>st</sup> May 2003 Re-appointed 1 <sup>st</sup> May 2007 1 <sup>st</sup> May 2009	1 year		Ordinary Member	Finance & Staffing
Mr J Edsberg	1 <sup>st</sup> Jan 2006	4 years		Ordinary Member	
Mr O Fadoju	1 <sup>st</sup> July 2005 Re-appointed 1 <sup>st</sup> July 2007	2 Years	Term ended 30th June 2009	Staff Member	Standards and Performance Audit
Mr C Gill	1st Feb 2001 Reappointed 1st Feb 2003 1st Feb 2007	4 years		Ordinary Member	Audit
Ms M Gottardi	Appointed 1 <sup>st</sup> Oct 2008 Re-appointed 1st Oct 2009	1 year		Student Member	
Mr N Levey	1st July 2006	4 years		Ordinary Member	Finance & Staffing
Mr R Lis	1 <sup>st</sup> Jan 2006 Reappointed 1 <sup>st</sup> Jan 2009	4 years		Ordinary Member	Finance & Staffing
Mr M Manjra	1 <sup>st</sup> Oct 2000 Reappointed 1 <sup>st</sup> Oct 2004 1 <sup>st</sup> Oct 2008	4 years		Ordinary Member	Audit (Chairman) Search
Mrs I Mustoe	1 <sup>st</sup> July 2009	2 years		Staff Member	Standards & Performance
Mr C Pehrson	1 <sup>st</sup> April 2005 Reappointed 1 <sup>st</sup> April 2009	4 years		Ordinary Member	Standards & Performance (Chairman) Search
Mr M Prescott	1 Dec 2002 Reappointed 1 <sup>st</sup> Dec 2006	4 years		Ordinary Member	
Mrs A Zinkin	1 Jul 2006 Reappointed 1 <sup>st</sup> July 2009	4 years		Ordinary Member	Finance & Staffing (Chairman) Standards & Performance Search Remuneration

## Statement of Corporate Governance and Internal Control (cont'd)

External Member of Committee					
Mrs S Dawson	2nd April 2009	Appointed annually		External Member	Audit Committee

Chaplin Frobisher Welling, Chartered Secretaries, are Clerks to the Corporation. (David Chaplin FCIS; Ana Lewis BSc)

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.

Agenda and full minutes of all meetings, except those deemed to be confidential by the Corporation, may be read at each of the College Resource centres and are published on the College Web-site.  
Copies are available from the Clerk to the Corporation at:

Chaplin Frobisher Welling  
St Ibbs  
London Road  
Hitchin  
Hertfordshire  
SG4 7NL      e-mail:cfw@idnet.co.uk

## **Statement of Corporate Governance and Internal Control (cont'd)**

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the College and at the above address by appointment. (Tel: 0208 982 5052)

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

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

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision making process. The Corporation considers that each of its non-executive members 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 of the Corporation and Principal of the College are separate.

### ***Appointments to the Corporation***

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee comprising of five members 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.

Ordinary Members of the Corporation are appointed for a term of office not exceeding 4 years, but are eligible for re-appointment.

External Members are appointed to Committees and are appointed for one year. They are eligible for re-appointment.

### ***Remuneration Committee***

Throughout the year ending 31 July 2009, the College's Remuneration committee comprised three members. The committee's responsibilities are to make recommendations to the Board on the appointment, conditions of service and remuneration of the Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2009 are set out in notes 6 and 7 to the financial statements.

### ***Audit Committee***

The Audit Committee comprises three members of the Corporation, plus an external member with audit experience (and excludes the Principal and Chairman). The committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the LSC or National Audit Office where they affect the College's business.

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

## Statement of Corporate Governance and Internal Control (cont'd)

### *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 he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the Learning and Skills Council (LSC). He is also responsible for reporting to the Corporation any material weaknesses or break-downs in internal control.

#### *The purpose of the system of internal control*

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Southgate College for the whole of the year ended 31 July 2009 and up to the date of approval of the annual report and financial statements.

#### *The risk and control framework*

The system of internal control is based on a framework of regular management information, administration 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 Corporation.
- Regular reviews by the Corporation 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.

The College has an internal audit service provided by an independent firm which operates in accordance with requirements of the LSC's Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee.

As a minimum, the Head of Internal Audit (HIA) annually provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

#### *Review of effectiveness*

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

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

### **Statement of Corporate Governance and Internal Control (cont'd)**

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

The 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 Leadership Team and Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Leadership Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2009 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2009 by considering a report from the Leadership Team, from internal audit, and from the Audit Committee, also taking account of any events since 31 July 2009.

#### ***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 2009 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Corporation.

#### **Going concern**

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

Approved by order of the members of the Corporation on 9 December 2009 and signed on its behalf by:

**A Nicholas**  
**Chairman**

**D Byrne**  
**Principal**

## Statement of the 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 Financial Memorandum agreed between the Learning and Skills Council (the Council) and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements, the 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; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

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

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

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

Approved by order of the members of the Corporation on 9 December 2009 and signed on its behalf by:

**A Nicholas**  
**Chairman**

## **Independent auditors' report to the corporation of Southgate College**

We have audited the financial statements of Southgate College for the year ended 31 July 2009 which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of historical cost surpluses and deficits and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

This report is made solely to the Corporation, as a body, in accordance with statutory requirements. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required to state to them in an auditors' 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, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the corporation and auditors**

As described in the Statement of Responsibilities the College's Corporation is responsible for preparing the financial statements in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law, United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education. We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We read the Members' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

### **Basis of our opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the Learning and Skills Council. An audit includes examination, on a test basis, of evidence relevant to amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the College's Corporation in the preparation of the financial statements, and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2009 and of the College's surplus of income over expenditure for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

RSM Bentley Jennison,  
Cedar house, Breckland  
Linford Wood, Milton Keynes  
Bucks MK14 6EX

Date:

### Income and Expenditure Account

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
<b>INCOME</b>					
Funding council income	2		15,436		15,724
Tuition fees and education contracts	3		2,175		1,783
Other grants and contracts	4		151		56
Other income			829		732
Endowment and investment income	5		67		160
<b>Total income</b>			18,658		18,455
<b>EXPENDITURE</b>					
Staff costs	6	12,781		11,871	
Exceptional restructuring costs	6	250		218	
Other operating expenses	8	4,830		4,659	
Depreciation	11	866		960	
Interest and other finance costs	9	121		47	
<b>Total expenditure</b>			18,848		17,755
(Deficit)/surplus on continuing operations prior to costs relating to the property strategy			(190)		700
Property strategy costs	25		(1,343)		-
Grant support for property strategy costs	25		232		-
<b>(Deficit)/surplus on continuing operations after depreciation of assets at valuation and before exceptional items and tax</b>			<b>(1,301)</b>		<b>700</b>
Loss on disposal of assets	11		(32)		(2)
<b>(Deficit)/surplus on continuing operations after depreciation of assets at valuation, exceptional items and disposal of assets but before tax</b>			<b>(1,333)</b>		<b>698</b>
Taxation			-		-
<b>(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax</b>	10		<b>(1,333)</b>		<b>698</b>
Transfer from accumulated income within specific endowments			-		-
<b>(Deficit)/surplus for the year retained within general reserves</b>			<b>(1,333)</b>		<b>698</b>

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

### Statement of Historical Cost Surpluses and Deficits

	Notes	2009 £'000	2008 £'000
(Deficit)/surplus on continuing operations before taxation		(1,333)	698
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount		342	343
<b>Historical cost (deficit)/surplus for the year before taxation</b>		<b>(991)</b>	<b>1,041</b>
<b>Historical cost (deficit)/surplus for the year after taxation</b>		<b>(991)</b>	<b>1,041</b>

### Statement of Total Recognised Gains and Losses

	Notes	2009 £'000	2008 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax		(1,333)	698
Actuarial loss in respect of pension scheme	26	(2,164)	(757)
<b>Total recognised losses since last report</b>		<b>(3,497)</b>	<b>(59)</b>
<b>Reconciliation</b>			
Opening reserves and endowments		13,162	13,221
Total recognised losses for the year		(3,497)	(59)
<b>Closing reserves and endowments</b>		<b>9,665</b>	<b>13,162</b>

### Balance Sheet as at 31 July 2009

	Notes	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Tangible assets	11	14,301	14,773
Investments	12	-	-
<b>Total fixed assets</b>		<u>14,301</u>	<u>14,773</u>
<b>Current assets</b>			
Debtors	13	400	189
Cash at bank and in hand		1,283	2,515
Total current assets		<u>1,683</u>	<u>2,704</u>
<b>Less: Creditors – amounts falling due within one year</b>	14	<u>(1,466)</u>	<u>(1,424)</u>
<b>Net current assets</b>		<u>217</u>	<u>1,280</u>
<b>Total assets less current liabilities</b>		<u>14,518</u>	<u>16,053</u>
Less: Creditors – amounts falling due after more than one year	15	(352)	(496)
<b>Net assets excluding pension liability</b>		<u>14,166</u>	<u>15,557</u>
Net pension liability	26	<u>(3,825)</u>	<u>(1,659)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u>10,341</u>	<u>13,898</u>
<b>Deferred capital grants</b>	17	<u>676</u>	<u>736</u>
Income and expenditure account excluding pension reserve	19	1,817	2,806
Pension reserve	26	<u>(3,825)</u>	<u>(1,659)</u>
Income and expenditure account including pension reserve	19	(2,008)	1,147
Revaluation reserve	18	11,673	12,015
<b>Total reserves</b>		<u>9,665</u>	<u>13,162</u>
<b>TOTAL</b>		<u>10,341</u>	<u>13,898</u>

The financial statements on pages 17 to 19 were approved by the Corporation on 09/12/2009 and were signed on its behalf on that date by:

**Andrew Nicholas**  
Chairman

**David Byrne**  
Principal

### Cash Flow Statement

	Notes	2009 £'000	2008 £'000
<b>Cash (outflow)/inflow from operating activities</b>	20	(920)	1,451
Returns on investments and servicing of finance	21	37	81
Capital expenditure and financial investment	22	(226)	(174)
Financing	23	<u>(123)</u>	<u>(92)</u>
<b>(Decrease)/increase in cash in the year</b>	24	<u><b>(1,232)</b></u>	<u><b>1,266</b></u>
 <b>Reconciliation of net cash flow to movement in net (debt)/funds</b>			
(Decrease)/increase in cash in the period		(1,232)	1,266
Change in net funds resulting from cash flows	23	<u>123</u>	<u>92</u>
Movement in net (debt)/funds in the period		(1,109)	1,358
Net funds at 1 August		<u>1,929</u>	<u>571</u>
<b>Net funds at 31 July</b>		<u><b>820</b></u>	<u><b>1,929</b></u>

## Notes to the Accounts

### 1. Accounting policies

Statement of accounting policies

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

Basis of preparation

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

#### *Basis of accounting*

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

#### *Basis of consolidation*

In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated because the College does not control those activities.

#### *Recognition of income*

The recurrent grant from the LSC is that receivable as determined by the results of the funding audit undertaken by the LSC. The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account.

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

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

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

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

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments

## Notes to the Accounts (continued)

### 1. Accounting policies (continued)

#### *Post retirement benefits*

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

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 26, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

#### *Enhanced Pensions*

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

#### *Tangible fixed assets*

##### *Land and buildings*

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

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

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

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.

## Notes to the Accounts (continued)

### 1. Accounting policies (continued)

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

#### *Subsequent expenditure on existing fixed assets*

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

#### *Buildings owned by third parties*

Where land and buildings are used, but the legal rights are held by a third party, for example a charitable trust, they are only capitalised if the College has rights or access to ongoing future economic benefit.

- These assets are then depreciated over their expected useful economic life.

#### *Equipment*

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment has been depreciated on a reducing balance basis at rates varying between 10%-25% per annum. All other equipment is depreciated on a straight line basis over its useful economic life as follows:

- motor vehicles – 4 years
- computer equipment – 4 years
- furniture, fixtures and fittings – 4 to 5.

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

#### *Leased assets*

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

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

## **Notes to the Accounts (continued)**

### **1. Accounting policies (continued)**

#### **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 the income and expenditure account in the period in which they arise.

#### **Taxation**

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 as amended by the Charities Act 2006 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA 1988). Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College receives no similar exemption in respect of value added tax. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

#### **Liquid resources**

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

#### **Provisions**

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

#### **Agency arrangements**

The College acts as an agent in the collection and payment of Learner Support Funds. Related payments received from the LSC and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 28, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

## Notes to the Accounts (continued)

### 2 Funding council income

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Recurrent grant - LSC	13,832	14,403
Recurrent grant - HEFCE	258	300
Non recurrent grants - LSC	-	304
Non recurrent grants - Other	75	35
Release of deferred capital grants (note 17)	260	238
Centre of Vocational Excellence	13	53
Train to Gain and Work Based Learning	998	391
<b>Total</b>	<b>15,436</b>	<b>15,724</b>

### 3 Tuition fees and education contracts

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Tuition fees	1,247	1,007
Education contracts	928	776
<b>Total</b>	<b>2,175</b>	<b>1,783</b>

#### Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £46,000 (2007/08 £40,000).

### 4 Research grants and contracts

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
European Commission	151	56
<b>Total</b>	<b>151</b>	<b>56</b>

### 5 Endowment and investment income

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Other interest receivable	67	128
Pension finance income (note 26)	-	32
<b>Total</b>	<b>67</b>	<b>160</b>

## Notes to the Accounts (continued)

### 6 Staff costs

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

	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>
		<b>As restated</b>
Teaching staff	231	218
Non teaching staff	100	101
	<u>331</u>	<u>319</u>

#### Staff costs for the above persons

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
		<b>As restated</b>
Wages and salaries	10,037	9,109
Social security costs	793	745
Other pension costs (including FRS 17 adjustments)	1,121	1,224
	<u>11,951</u>	<u>11,078</u>
<b>Payroll sub total</b>		
Contracted out staffing services	830	793
	<u>12,781</u>	<u>11,871</u>
Exceptional restructuring costs	250	218
	<u>13,031</u>	<u>12,089</u>

Comment [A1]: Does not cast

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

	<b>Senior post-holders</b>		<b>Other staff</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
£60,001 to £70,000	1	1	2	3
£70,001 to £80,000	-	-	-	2
£80,001 to £90,000	1	1	-	-
£90,001 to £100,000	1	-	-	-
£121,000 to £140,000	-	1	-	-
	<u>3</u>	<u>3</u>	<u>2</u>	<u>5</u>

## Notes to the Accounts (continued)

### 7 Senior post-holders' emoluments

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

	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>
The number of senior post-holders including the Principal was:	3	3
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	207	253
Benefits in kind	21	30
Pension contributions	32	35
	<hr style="border-top: 1px solid #000;"/>	<hr style="border-top: 1px solid #000;"/>
<b>Total emoluments</b>	<b>260</b>	<b>318</b>
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	78	111
Benefits in kind	4	15
	<hr style="border-top: 1px solid #000;"/>	<hr style="border-top: 1px solid #000;"/>
	82	126
	<hr style="border-top: 1px solid #000;"/>	<hr style="border-top: 1px solid #000;"/>
Pension contributions	14	16
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

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

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

**Notes to the Accounts (continued)**

<b>8 Other operating expenses</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
		<b>As restated</b>
Teaching costs	1,435	1,569
Non teaching costs	2,103	1,685
Premises costs	1,292	1,405
	<hr/>	<hr/>
<b>Total</b>	<b>4,830</b>	<b>4,659</b>
	<hr/>	<hr/>
<b>Other operating expenses include:</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Auditors' remuneration:		
Financial statements audit	23	23
Internal audit	21	21
Losses on disposal of tangible fixed assets	32	2
	<hr/>	<hr/>
<b>9 Interest and other finance costs</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
On bank loans, overdrafts and other loans:		
Repayable within five years, by instalments	30	47
Pension finance costs (Note 26)	91	-
	<hr/>	<hr/>
<b>Total</b>	<b>121</b>	<b>47</b>
	<hr/>	<hr/>
<b>10 (Deficit)/surplus on continuing operations for the period</b>		
The (deficit)/surplus on continuing operations for the year is made up as follows:		
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
(Deficit)/surplus for the period	(1,333)	698
	<hr/>	<hr/>
<b>Total</b>	<b>(1,333)</b>	<b>698</b>
	<hr/>	<hr/>

## Notes to the Accounts (continued)

### 11 Tangible fixed assets

	<b>Land and buildings Freehold £'000</b>	<b>Equipment £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>			
At 1 August 2008	19,888	5,811	25,699
Additions	-	438	438
Surplus on revaluation	-	-	-
Disposals	-	(87)	(87)
<b>At 31 July 2009</b>	<b>19,888</b>	<b>6,162</b>	<b>26,050</b>
<b>Depreciation</b>			
At 1 August 2008	5,912	5,014	10,926
Charge for the year	342	524	866
Revaluation	-	-	-
Elimination in respect of disposals	-	(43)	(43)
<b>At 31 July 2009</b>	<b>6,254</b>	<b>5,495</b>	<b>11,749</b>
<b>Net book value at 31 July 2009</b>	<b>13,634</b>	<b>667</b>	<b>14,301</b>
Net book value at 31 July 2008	13,976	797	14,773

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

Land and buildings were valued in 1994 at depreciated replacement cost by the London Borough of Enfield in accordance with the RICS Statement of Asset Valuation Practice and Guidance Notes. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £11,998,461 have been partly financed by exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the LSC, to surrender the proceeds.

Fixed assets include land and buildings with a net book value of £13,976,000, which will be partially funded by a grant from the LSC.

## Notes to the Accounts (continued)

### 12 Investments

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Investment in subsidiary company	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

The College owns 100 per cent of the issued ordinary £1 shares of Minchenden Business Centre Limited, (MBC Ltd) a company incorporated in England and Wales. MBC Ltd did not trade during the year.

### 13 Debtors

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year:		
Trade debtors	30	166
Prepayments and accrued income	370	23
Amounts owed by the LSC	-	-
<b>Total</b>	<b>400</b>	<b>189</b>

### 14 Creditors: amounts falling due within one year

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	111	90
Payments received in advance	106	146
Trade creditors	778	569
Other taxation and social security	246	241
Accruals	225	378
<b>Total</b>	<b>1,466</b>	<b>1,424</b>

### 15 Creditors: amounts falling due after one year

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans	352	496
<b>Total</b>	<b>352</b>	<b>496</b>

## Notes to the Accounts (continued)

### 16 Borrowings

#### Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
In one year or less	111	90
Between one and two years	118	96
Between two and five years	234	304
In five years or more	<u>-</u>	<u>96</u>
<b>Total</b>	<b><u>463</u></b>	<b><u>586</u></b>

Bank loans at 8.60 per cent repayable by instalments falling due between 1 August 2009 and 31 July 2013 and are unsecured.

### 17 Deferred capital grants

	<b>LSC</b> <b>grants</b> <b>£'000</b>	<b>Other</b> <b>grants</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
At 1 August 2008	731	5	736
Cash received	200	-	200
Released to income and expenditure account	<u>(256)</u>	<u>(4)</u>	<u>(260)</u>
<b>Total</b>	<b><u>675</u></b>	<b><u>1</u></b>	<b><u>676</u></b>

## Notes to the Accounts (continued)

### 18 Revaluation reserve

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
At 1 August	12,015	12,358
Transfer from revaluation reserve to general reserve in respect of: Depreciation on revalued assets	(342)	(343)
<b>At 31 July</b>	<b><u>11,673</u></b>	<b><u>12,015</u></b>

### 19 Movement on general reserves

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
<b>Income and expenditure account reserve</b>		
At 1 August	1,147	863
(Deficit)/surplus retained for the year	(1,333)	698
Transfer from revaluation reserve	342	343
Actuarial loss in respect of pension scheme	(2,164)	(757)
<b>At 31 July</b>	<b><u>(2,008)</u></b>	<b><u>1,147</u></b>
Balance represented by:		
Pension reserve	<b><u>(3,825)</u></b>	<b><u>(1,659)</u></b>
Income and expenditure account reserve excluding pension reserve	<b><u>1,817</u></b>	<b><u>2,806</u></b>
<b>At 31 July</b>	<b><u>(2,008)</u></b>	<b><u>1,147</u></b>

## Notes to the Accounts (continued)

<b>20 Reconciliation of consolidated operating (deficit)/surplus to net cash (outflow)/inflow from operating activities</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
(Deficit)/surplus on continuing operations after depreciation of assets at valuation	(1,333)	698
Depreciation (notes 1 and 11)	866	960
Deferred capital grants released to income (note 17)	(260)	(240)
Profit on disposal of tangible fixed assets	32	2
Interest payable (note 9)	121	47
Interest receivable (note 5)	(67)	(128)
FRS 17 pension cost less contributions payable (note 26)	(89)	95
FRS 17 pension finance income (note 5)	-	(32)
(Increase)/decrease in debtors	(211)	100
Increase/(decrease) in creditors	21	(51)
<b>Net cash (outflow)/inflow from operating activities</b>	<b><u>(920)</u></b>	<b><u>1,451</u></b>
<b>21 Returns on investments and servicing of finance</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Other interest received	67	128
Interest paid	(30)	(47)
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b><u>37</u></b>	<b><u>81</u></b>
<b>22 Capital expenditure and financial investment</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Purchase of tangible fixed assets	(438)	(384)
Sales of tangible fixed assets	12	10
Deferred capital grants received	200	200
<b>Net cash outflow from capital expenditure and financial investment</b>	<b><u>(226)</u></b>	<b><u>(174)</u></b>

## Notes to the Accounts (continued)

### 23 Financing

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Debt due beyond a year:		
Repayment of amounts borrowed	(123)	(92)
<b>Net cash outflow from financing</b>	<b>(123)</b>	<b>(92)</b>

### 24 Analysis of changes in net funds

	<b>At 1 August 2008</b>	<b>Cash flows</b>	<b>Other changes</b>	<b>At 31 July 2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash in hand, and at bank	2,515	(1,232)	-	1,283
	2,515	(1,232)	-	1,283
Debt due within 1 year	(90)	90	(111)	(111)
Debt due after 1 year	(496)	33	111	(352)
<b>Total</b>	<b>1,929</b>	<b>(1,109)</b>	<b>-</b>	<b>820</b>

### 25 Major non-cash transactions

#### Property strategy costs

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Professional fees incurred on the property strategy	1,343	-
Amounts recoverable from the LSC	(232)	-
<b>Net charge for the year</b>	<b>1,111</b>	<b>-</b>

In October 2008 the college applied to the LSC for consent and approval in principle for its property strategy. Application for relevant planning approvals had been made in January 2009, and indicative financing arrangements agreed, when Government funding was unilaterally withdrawn from all but a few new build projects. The strategy has been placed on hold pending clarification of Government funding policy and availability.

In line with accounting policies and guidance from the LSC the professional fees incurred have been written off against this year's income. In October 2009 grant support totalling £232,000 was received from the LSC in respect of these property strategy costs. Any further recoverability of these property strategy costs is deemed highly unlikely and therefore no further provision has been made.

## Notes to the Accounts (continued)

### 26 Pension and similar obligations

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

<b>Total pension cost for the year</b>	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Teachers Pension Scheme: contributions paid	725	716
Local Government Pension Scheme:		
Contributions paid	485	413
FRS 17 charge	(89)	95
	<u>          </u>	<u>          </u>
<b>Total Pension Cost for Year</b>	<b><u>1,121</u></b>	<b><u>1,224</u></b>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 July 2009.

#### Teachers' Pension Scheme

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

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

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

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 August 2008 to 31 July 2009 the employer contribution was 14.1 per cent. The employee rate was 6.4% for the same period. An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

## Notes to the Accounts (continued)

### 26 Pension and similar obligations (continued)

#### FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, 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 FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

#### Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 July 2009 was £656,333, of which employer's contributions totalled £485,772 and employees' contributions totalled £170,561. The agreed contribution rates for future years are 17.2 per cent for employers and 6 per cent for employees.

#### FRS 17

Principal Actuarial Assumptions	At 31 July 2009	At 31 July 2008
Rate of increase in salaries	5.2%	5.3%
Rate of increase for pensions in payment / inflation	3.7%	3.8%
Discount rate for scheme liabilities	6.0%	6.6%

The assets and liabilities in the scheme (of which the college's share is estimated to be 0.77%) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2009	Value at 31 July 2009	Long-term rate of return expected at 31 July 2008	Value at 31 July 2008
		£'000		£'000
Equities	8.0%	4,109	7.8%	4,076
Bonds	5.9%	2,055	5.6%	2,446
Property	7.2%	514	5.7%	678
Cash	4.5%	660	4.8%	377
<b>Total market value of assets</b>		<b>7,338</b>		<b>7,577</b>
Present value of scheme liabilities				
- Funded		(11,163)		(9,236)
- Unfunded		-		-
Related deferred tax liability		-		-
<b>Deficit in the scheme</b>		<b>(3,825)</b>		<b>(1,659)</b>

## Notes to the Accounts (continued)

### 26 Pension and similar obligations (continued)

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Employer service cost (net of employee contributions)	(89)	95
Past service cost	-	-
<b>Total operating charge</b>	<b><u>(89)</u></b>	<b><u>95</u></b>

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

Expected return on pension scheme assets	530	583
Interest on pension liabilities	(621)	(551)
<b>Pension finance (costs)/income</b>	<b><u>(91)</u></b>	<b><u>32</u></b>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial gains/losses on pension scheme assets	(239)	(805)
Actuarial gains/losses on scheme liabilities	(1,925)	1,184
Change in financial & demographic assumptions underlying the scheme liabilities	-	(1,136)
<b>Actuarial loss recognised in STRGL</b>	<b><u>(2,164)</u></b>	<b><u>(757)</u></b>

#### Movement in deficit during year

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Deficit in scheme at 1 August	(1,659)	(839)
Movement in year:		
Employer service cost (net of employee contributions)	(396)	(379)
Employer contributions	485	413
Impact of settlements and curtailments	-	(41)
Past service cost	-	(88)
Net interest/return on assets	(91)	32
Actuarial loss	(2,164)	(757)
<b>Deficit in scheme at 31 July 2009</b>	<b><u>(3,825)</u></b>	<b><u>(1,659)</u></b>

#### Asset and Liability Reconciliation

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Reconciliation of Liabilities</b>		
<b>Liabilities at start of period</b>	9,236	9,301
Service cost	396	379
Interest cost	621	551
Employee contributions	170	150
Actuarial loss/(gain)	965	(1,032)
Benefits paid	(225)	(242)
Past Service cost	-	88
Curtailments and settlements	-	41

<b>Liabilities at end of period</b>	<u><u>11,163</u></u>	<u><u>9,236</u></u>
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## Notes to the Accounts (continued)

### 26 Pension and similar obligations

#### Local Government Pension Scheme (Continued)

##### Reconciliation of Assets

<b>Assets at start of period</b>	7,577	8,462
Expected return on assets	530	583
Actuarial loss	(1,199)	(1,789)
Employer contributions	485	413
Employee contributions	170	150
Benefits paid	(225)	(242)
<b>Assets at end of period</b>	<u><u>7,338</u></u>	<u><u>7,577</u></u>

##### History of experience gains and losses

	2009	2008	2007	2006	2005
Difference between the expected and actual return on assets: Amount £'000		(805)	(123)	(478)	(78)
	(239)				
% of scheme assets	3.3%	10.6%	1.5%	6.4%	10.6%
Experience gains and losses on scheme liabilities: Amount £'000	(1,927)	1,184	1	(4)	1
% of scheme liabilities	17.3%	12.8%	0.0%	1.0%	0.00%
Total amount recognised in STRGL: Amount £'000	(2,164)	(757)	909	125	71
% of scheme liabilities	19.4%	8.2%	9.8%	1.4%	0.3%

### 27 Financial commitments

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

	<b>College</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Land and buildings		
Expiring within two and five years inclusive	<u>-</u>	<u>146</u>
	<u>-</u>	<u>146</u>
Other		
Expiring within one year	<u>66</u>	<u>-</u>
	<u>66</u>	<u>-</u>

## Notes to the Accounts (continued)

### 28 Amounts disbursed as agent

#### Learner support funds

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Balance unspent as at 1 August	25	-
LSC grants – hardship funds	340	285
LSC grants – childcare	103	91
Discretionary Fund	7	113
Interest earned	5	11
	480	500
Disbursed to students	(456)	(451)
Administration costs	(24)	(24)
	-	25
Balance unspent as at 31 July, included in creditors	-	25

LSC grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account.

**Independent Auditors' Report on Regularity to the Corporation of Southgate College ('the Corporation') and the Learning and Skills Council ('the LSC')**

In accordance with the terms of our engagement letter dated 21 March 2006 and further to the requirements of the LSC, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of Southgate College ('the College') for the year ended 31 July 2009 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

**Respective responsibilities of the Members of the Corporation of Southgate College and Auditors**

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

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the LSC. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2009 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Basis of opinion**

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

**Opinion**

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2009 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

RSM Bentley Jennison,  
Cedar house, Breckland  
Linford Wood, Milton Keynes  
Bucks MK14 6EX

Date: