



 **Southgate
College**

Southgate College
Annual Report 2005 – 2006

Southgate College
Annual Report and Financial Statements
2005/06

Chairman's Introduction

The academic and financial year 2005/06 was a crucial year with the College experiencing its second full inspection in two years in October 2005. Since the previous inspection in 2003 the College had made significant investments in additional staffing, upgraded accommodation and specialist equipment, and in student support procedures all of which were aimed at producing demonstrable improvements in quality, and student achievement.

The Inspection outcome confirmed that the College had made significant improvements over the two years and was satisfactory overall and in leadership and management and satisfactory or better in all curriculum areas but one.

Ofsted also made their Annual Assessment Visit to the College in June 2006. The report of their visit confirmed that improvements in retention and achievement had continued, that there were highly successful strategies in place which have reduced instances of unsatisfactory teaching and that there was effective financial management.

In 2005/06 there have been further improvements in College success rates following on from the seven percent improvement in 2004/05. The College continued to make great strides in widening participation and attracting students from previously unrepresented groups. Age is no barrier to study at Southgate with the oldest College student being aged 90+ and with over 600 students in the 14 to 16 year age group attending the Young College programme. Young College provision at Southgate is considered by Ofsted inspectors as being amongst the best examples in the country of partnership arrangements between an FE college and schools and local authorities.

Students achieved some notable successes. Catering students were invited to provide hospitality to the House of Lords on the occasion of the State Opening of Parliament. Sports students won the 2006 Middlesex Schools FA Senior League and were runners up in the English Colleges Football League Championship. At an individual level two students from our football academy were signed up by Tottenham Hotspur as young professionals.

College recruitment was buoyant with student enrolments exceeding both the targets agreed with the London North Learning and Skills Council and the targets set for full-cost courses. However it remains increasingly difficult to appoint suitably qualified staff to both lecturing and management positions as pay in colleges continues to fall behind pay for comparable positions in schools and universities.

During the year the College has appointed a number of new Governors who have successful careers in industry, commerce or education. Their influence is already having a positive effect on the operation of the Governing Body and I am thankful to them and to all my fellow Governors who donate so 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 for their on-going dedication and commitment, ensuring that Southgate College remains one of the leading institutions in north London

Andrew Nicholas
Chairman of Governors

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Members' report

The Members present their report and the audited financial statement for the year ended 31 July 2006.

Corporation

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.

Corporation Name

The Corporation was incorporated as Southgate College.

Mission

The College's mission as approved by the Governing Body is:

- To maintain Southgate College as a centre of excellence in education and training by providing opportunities for all who wish to benefit, what ever 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.

Strategic Objectives

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

1. 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.
2. To continue to develop a high quality and cost-effective education and training service to the community served by Southgate College.
3. To implement, wherever possible, the key findings of the "Priorities for Success" report, as well as other current Government Initiatives.
4. To maintain the financial viability of Southgate College and its ability to operate as an independent body through the Southgate College Governing Corporation.

Our Aims

- 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.

Members' report (continued)

Our Core Values

- The needs and aspirations of all students, clients and staff
- The continuous commitment to improving quality within all operations in the pursuit of institutional excellence
- Equality of opportunity for all students and staff
- The richness of communities and commerce within north London
- The widening of participation among members of these communities and organisations
- Clear systems of communication to ensure information flows freely and purposefully to the benefit of all
- Planning, monitoring and review as key strategies within all operations and delivery to achieve our Vision and Mission
- The emphasis on and investment in teamwork to ensure that all staff contribute to our success and that this is recognised as crucial to continuous improvement
- Financial stability as the platform on which high staff and student achievement can be based

Curriculum Report

In 2005-06 academic year the College received LSC funding of £13.69m to deliver learning to 1700 16-18 year olds and 5775 adults. The College curriculum offer delivers a broad range of activity, covering all academic disciplines areas except hairdressing and horticulture. The curriculum offer provides courses at craft, technical and professional level together with a range of vocational and academic courses leading to university entrance from level 3. There has been a significant increase in **16-18** learner numbers on foundation programmes. The College is the main providing partner of **14 to 16** provision in the joint arrangements between colleges in Enfield and the LEA secondary schools. It also provides a large number of places for young learners from neighbouring boroughs. In addition **higher education** level courses are offered through Foundation degrees/Higher National Diplomas/Professional courses in:

Motor Vehicle Engineering;
ICT and business network support;
Applied Sports Science (Coaching);
Business and management;
Certificate in Education;
Certificate in Further Education Teaching Stages 1 and 2;
Certificate in English language Teaching to Adults.

The College has one **CoVE** in ICT and Business Network Support providing work-related training in the areas of Professional Information and Communication Technology and in Networking and Systems Support Skills. The CoVE has developed strategies and a development plan to be responsive to the skills needs for London and aims to increase its work with employers. The CoVE provides non-traditional learners opportunities in this specialism.

During 2005-06 the college had representation on the following **employer engagement**/workforce development groups: Business Development Unit and Human Resources Forum of the North London LSC; North London chamber of Commerce; Delta Plus Project; Enfield Arts Partnership including a newly established Print Sector sub-group; Four Greens Strategy Group; Community Business Enfield; Enfield Education Business Partnership; Community Learning Forum; Brimsdown Business Association and NLSA Olympics Group.

Training programmes are delivered to a large number of employers and the College is committed in its 3 Year Development Plan to improving its employer links and has bid for 74 'Train to Gain' learners in 2006-07. In addition, the college commissioned a research project with J2 Profit to analyse the needs of employers across north London in the motor vehicle trade and IT industries. This is likely to result in much closer links with these industries in the coming year.

Members' report *(continued)*

Re-inspection October 2005

Following the OfSTED/ALI Inspection of October 2003, the College responded vigorously and openly to the challenges of making major and sustainable improvements at all levels. A re-inspection of the College was carried out in October 2005, the inspection focused on the following aspects:

- Overall effectiveness of the college and its capacity to improve further
- Achievements and standards
- Quality of provision
- Leadership and management
- Specialist provision in: health and social care and early years; science and mathematics; motor vehicle engineering; ICT; hospitality and catering; sport, leisure, recreation and travel and tourism; visual and performing arts and media; English and modern foreign languages; literacy and numeracy and English for speakers of other languages (ESOL).

Overall Judgement

Effectiveness of provision	Satisfactory: grade 3
Capacity to improve	Satisfactory: grade 3
Achievements and standards	Satisfactory: grade 3
Quality of provision	Satisfactory: grade 3

Curriculum areas

Health and Social Care	Inadequate: grade 4
Science and Mathematics	Satisfactory: grade 3
Motor Vehicle Engineering	Satisfactory: grade 3
Information and Communications Technology	Satisfactory: grade 3
Hospitality and Catering	Satisfactory: grade 3
Sport, Leisure and Recreation, Travel and Tourism	Satisfactory: grade 3
Visual and Performing Arts and Media	Satisfactory: grade 3
English and Modern Foreign Languages	Satisfactory: grade 3
Literacy and Numeracy	Satisfactory: grade 3
English for Speakers of Other Languages	Good: grade 2

Other areas not inspected but assessed in the self-assessment report

Business Studies	Good: grade 2
Construction	Good: grade 2
English as a Foreign Language	Good: grade 2

Members' report (*continued*)

Key strengths of the College

Strengths

- Prompt and effective action to bring about improvement
- Good development of learners' practical skills
- Effective communications
- Good guidance and support for learners
- Extensive and well conceived programme of staff development
- Good provision for ESOL

Areas for improvement

1. Under developed management of literacy and numeracy across the College
2. The risks attached to its on-going capacity to improve (due to financial health)
3. The quality of provision in health and social care and early years
4. Less effective teaching
5. Level 1 success rates
6. The further development of industrial and commercial links, especially the provision of work experience.

The following actions have been carried out post inspection

1. The management of literacy and numeracy is now much more coherent and strategically led with the appointment of a new Deputy Director Skills for Life (SfL) post working directly to the Vice Principal Curriculum and Quality and there is now a policy in place and a full implementation plan. A literacy trainer has been appointed and the college is seeking to achieve ambitious training targets for all staff as identified in the 3 yr Development Plan. All Level 1 courses will have SfL embedded from September 2006. The summer staff conference provided an opportunity for teams to work with the SfL team and an outside consultant to enable to begin to plan their programmes for the coming year.

The College will seek to maintain its commitment to meeting the needs of a wide range of learners through inclusive approaches, full adherence to DDA requirements and greater provision of entry and level 1 courses. Vocational provision at craft level in construction, motor vehicle and catering will be further developed. Quality Assurance priorities will include a focus on improving student success rates on long level 1 and 3 courses in particular, further developing the lesson observation system and staff development follow up through use of database systems, embedded management development at all levels and particularly course leadership linked to effective self assessment strategies.

2. The College had a coherent strategy planned for post-inspection 2005. The College budget, agreed in July 2005, had already set the scene. 2005/06 was year one in a four year plan to return to Category Health "A". The Annual Assessment Visit by Ofsted in May 2006 recognised that "the College has a clear strategy to increase its income and drive down costs". Heads of Division received training in budgeting and planning and are more confident in identifying and articulating the resources required to maintain and improve the quality of provision. Senior Managers have reviewed the pay and non-pay budgets for 2005-06, including the re-negotiation of supplier contracts and staff utilisation has been monitored more effectively. The College re-negotiated a new contract for teaching staff which will result in significant savings and efficiency gains. A planned increase in the delivery of full-cost provision will provide an alternative source of additional funding.
3. Health and Social Care provision was found to be unsatisfactory in two consecutive inspections. Consequently the College decided to discontinue full-time Health and Social Care provision and continue only part-time provision related to employer engagement such as NVQ Care L2 and 3, NVQ CCLD L2 and 3. The provision is now carefully monitored through on-going tracking of learners' progress and close scrutiny of EV reports. Both of these have demonstrated marked improvements and the end of year External Verifiers report for CCLD required 'no actions'. The pass rates for CCLD are showed significant improvement and retention rates for both Health & Social Care and Early Years were significantly above benchmark. The management of the NVQ provision was completely restructured as a NVQ work-based learning within the Business Development Unit. The only full-time course to continue is the Level 1 provision (formerly BTEC Foundation in H&SC now BTEC Introductory Diploma in Health & Social Care) and this will become a 50:50 ESOL course managed within the Skills for Life Centre.

Members' report (continued)

- The College implemented a number of strategies to support improvements in the quality of teaching and learning. Subject learning coaches in mathematics, science, ICT, business and construction have delivered staff conferences on whole-college staff development days. Best practice workshops were delivered in a flexible way to allow for quick follow up where weaknesses were identified in lesson observation. The college's analysis of grades awarded for lessons observed in -year were in line with those at inspection and the college recognised the need to shift the emphasis from unsatisfactory to satisfactory to concentrate in the coming year on improving the number of good or better grades. Performance management systems are more closely linked to lesson observation outcomes and it is intended to strengthen these links in the coming academic year.
- When all the achievement data was entered it showed that Success Rates for long level 1 courses had moved considerably from the time of inspection in October and were in line with national benchmarks. Plans to improve these further are closely linked to the plans to embed SfL across the provision.
- The College has developed strategies to ensure that all vocational learners level 2 and 3 have access to high quality work experience placements. Enfield Business partnership has been extremely helpful in helping the college to find placements for learners on courses in: Applied Science, IT, Computer Maintenance, Fashion and Clothing, Media Studies, Catering and Hospitality, Sports and Travel and Tourism.

Success Rates

		2003/04	2004/05	2005/06
Long	Starts	9163	8385	7551
	Success Rate	50%	60%	61%
Short	Starts	4664	4415	2600
	Success Rate	84%	87%	87%
Total	Starts	13827	12800	10151
	Success Rate	62%	69%	68%

Key Improvements since Inspection in October 2003

- Significant improvements in success rates across the College;
- Staffing levels improved across the College.

Centre of Vocational Excellence

The Colleges CoVE in ICT had been suspended following the 2003 OFTED inspection. Following the successful re-inspection in October 2005 the CoVE has now been re-instated.

Key Strategic Drivers

The key strategy is to continue to focus on improving teaching and learning, and the effectiveness of arrangements for sharing good practice and promoting and assuring quality within curriculum areas.

Senior management are fully committed to continue to improve the learning outcomes for all learners and move the College to the next stage of its improvement plan. The coming academic year will focus on shifting satisfactory provision to good and implementing rigorous approaches to monitoring these improvements.

Members' report (continued)

In achieving our vision and mission, the development and operation of Southgate College is based on the following strategic drivers:

- Increased number of good or better lesson observations;
- Continued year-on-year improvement in Success Rates at all levels;
- The successful delivery of the Three Year Development Plan;
- Improved management performance to meet the needs of learners;
- Continue to strengthen the collaboration with other Colleges, Schools, LEA, Employers and LSC to contribute to the delivery of the Strategic Plan for London North.

The College agreed the following financial objectives for 2005/06:

Objective	Target	Actual
Cash Days in Hand	12 - 50	0.05
Current ratio	0.5 - 3	0.34
Pay Expenditure as a percentage of Income	67- 72%	68%
General Reserve (exc pension adjustment)	5 - 13%	7%

The College also discharged its duties under the Race Relations Amendment Act by monitoring targets developed under the Ethnicity and Diversity Impact Measure (EDIMs) framework agreed with the Local LSC.

Student Numbers

The College is funded according to the level of learner activity that it generates each year. In 2005/06, the College achieved an overall total of 3,726 FTE learners against a target of 3,843. Total student funding performance was 101% of whole year target. In specific full time equivalent terms, both 16-18 and adult learner recruitment were 3% below target.

Transparency Arrangements

The Governing Body conducts its business through a number of committees. Each committee has terms of reference that have been approved by the full Corporation. These committees are Finance & Staffing, Audit, Remuneration, Standards and Performance and Academic Board. In addition, the College also operates a Search Committee to assist in the identification of new members.

The full Governing Body generally meets seven times a year. The Finance & Staffing Committee meets ten times per year. The Audit Committee meets 3 or 4 times a year. Standards and Performance Committee meets termly. The Remuneration Committee meets annually. The Academic Board meets termly.

Copies of Agendas and Minutes from relevant meetings are available from the Clerk to the Corporation at: Southgate College, High Street, Southgate, London N14 6BS.

The Clerk to the Corporation maintains a register of financial and personal interests of the Governors and senior budget holders. The register is available for inspection at the above address. The minutes of the Corporation meetings and sub-committee meetings are also posted on the College website at <http://www.southgate.ac.uk/>.

Finances

The College accounts report an operating deficit but a historical cost surplus position. Restructuring costs have been met without the need to incur borrowing. Such investment places the College in a stronger position to compete and attract new students in future years.

The College generated an operating deficit in the year of £212K (2005 deficit: £1,134K) and a historical cost surplus of £134K (2005 deficit: £786K). The College has accumulated reserves of £1,175K and cash balances of £2K.

The College has one subsidiary company, Minchenden Business Centre Limited. During the year the subsidiary remained dormant.

Members' report *(continued)*

Post balance sheet events

There are no Post Balance Sheet items.

Staff and student involvement

The College considers good communication with its staff to be very important and to this end the College encourages staff and student involvement through membership of formal committees and ensures wider communication through the publication of a staff bulletin and the continued development of a College Intranet.

Taxation

The College is an exempt charity for the purposes of the Charities Act 1993 and its activities are not liable to corporation tax.

New staff contract

The College renegotiated and implemented a new academic staff contract during 2005/06. The new contract will give the college greater flexibility in the utilisation of staff teaching hours.

Employment of disabled persons

The College considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which are, as far as possible, identical to those for other employees.

Disability Statement

The College seeks to achieve the objectives set down in the Disability Discrimination Act 2000 and in particular makes the following commitments:

- As part of its Property Strategy and Disability action plan the College will consider the feasibility and practicality of a range of adaptations, such as the installation of lifts and ramps etc, so that eventually most of the facilities will allow access to people with a mobility or physical disability.
- There is a list of specialist equipment, such as lighting or audio facilities etc, which the College can make available for use by students.
- 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 procedure.
- The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and 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.
- Specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard College format.
- Counselling and welfare services are described in the College Charter.

Members' report (continued)

Planned maintenance programme

The cost of the College's planned maintenance programme over a period of five years is estimated to be £1,510K, resulting in an average annual charge of £250k. The programme was developed following a survey of the College's estate and is reviewed each year.

The College plans to carry out the works, which were outstanding at 31 July 2005, together with the works planned for future years and has allocated funds within the budget for this purpose.

Planned maintenance allocation:

	2005-06	2006-07	2007-08	2008-09	2009-10
	£000s	£000s	£000s	£000s	£000s
Planned Maintenance Works outstanding At 1 August 2004	7	6	6	(4)	(14)
Average Annual Charge	150	340	340	340	340
Actual or Planned Expenditure	151	340	350	350	326
Planned Maintenance Works outstanding At 31 July 2005	6	6	(4)	(14)	-

* Refer to Note 9 in the Financial Statements

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 96%. During the accounting period 1 August 2005 to 31 July 2006, the College paid 98% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Members' report (continued)

Members' appointments and resignations

The members who served the Corporation during the 2006/07 year were as follows:

Name	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees served
Reshma Bell	Appointed Jul '06	2 yrs		Staff Governor	Standards & Performance Audit
Paul Camp	Reappointed May. '07	1 yr		Co-opted	Finance & Staffing
James Edsberg	Appointed Jan '06	4 yrs		Business	-
Ola Fadoju	Reappointed Jul '06	2 yrs		Staff Governor	Standards & Performance Audit
Chris Gill	Appointed Jan '06	2 yrs		Community	Audit
Usama Ismail	Appointed Sep '06	1 yr		Student Governor	-
Nigel Levey	Appointed Jul '06	4 yrs		Business	Finance & Staffing
Ron Lis	Appointed Jan '06	3 yrs		Community	Finance & Staffing
Mohamed Manjra	Reappointed Oct. '04	4 yrs		Business	Audit
Andrew Nicholas	Reappointed Oct. '04	4 yrs		Business	Finance & Staffing Remuneration. Search
Claude Pehrson	Apr. '05	4 yrs		Business	Standards & Performance
Martin Prescott	Reappointed Dec '06	3 yrs		Co-opted	-
Derrick Southon	Reappointed Nov '02	4 yrs	Nov'06	Business	Finance & Staffing. Standards & Performance. Remuneration Search
David Williamson	Reappointed Dec '06	3 Yrs		Co-opted	Finance & Staffing, Remuneration Search
Ann Zinkin	Appointed Jul '06	3 yrs		Local Authority	Standards & Performance Committee

* Not a member of the Remuneration Committee when the remuneration of the Principal is under consideration.

Members' report *(continued)*

Mr D Byrne, Vice Principal, acted as Clerk to the Corporation.
Mrs M Medien acted as Clerk to the Audit Committee.

The following persons also acted as Directors of the College's wholly owned dormant subsidiary, Minchenden Business Centre Limited:

Mr A Nicholas
Mr D Williamson
Mr M Blagden

Registered Address:

Southgate House
High Street
Southgate
London N14 6BS

Professional advisors

External auditors (Financial Statements) 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,
Hertfordshire,
EN4 0DA

Solicitors: Breeze & Wyles, 114 Fore Street, Hertfordshire, SG14 1AG

Corporate Governance

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 Corporation, 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 2006.

The Corporation

The composition of the Corporation is set out on page 11. 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 full Corporation is scheduled to meet seven times a 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 Finance and Staffing, Standards and Performance, Remuneration, Search and Audit.

All Governors are able to take independent professional advice in furtherance of their duties at the College's expense and have direct 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 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. Such documents are also posted on the College's website for public scrutiny. 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 and Principal 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 which is comprised of five members and 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.

Remuneration Committee

Throughout the year ending 31 July 2006, the College's Remuneration Committee comprised four members. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2006 are set out in note 8 to the financial statements.

Audit Committee

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

The Audit Committee meets three to four times a year and provides a forum for reporting by the College's internal and external 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 Learning and Skills Council as they affect the College's business.

The College's internal auditors monitor the systems of internal control in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management are responsible for the implementation of agreed 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 external auditors and their remuneration for both audit and non-audit work. The Audit Committee also monitors the College's Risk Management Plan.

Internal Control

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 mis-statement or loss.

The Corporation has delegated the day to day responsibility to the Principal, as Accounting Officer, for reviewing the adequacy of the system of internal financial control and making any appropriate amendments. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal financial control.

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 and operational for the period from the beginning of August 2002 up to the date of approval of the annual report and accounts. 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.

Signed

Chairman

Date

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 Southgate 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;
- 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.

Members of the Corporation are responsible for ensuring that funds from the Council are used only in accordance with the Financial Memorandum with the Council 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 Council are not put at risk.

Signed on behalf of the Corporation

Chairman

Date

Corporate governance statement on the system of internal financial control

As accounting officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by Southgate College.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial 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.

Southgate College has an internal audit service, which operates in accordance with the requirements of the Council'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 College's Governing Body on the recommendation of the Audit Committee. At least annually, the Head of Internal Audit (HIA) provides the Governing Body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditors, the executive managers within the College who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

Signature

Date

Principal

Independent Auditors' report to the Corporation of Southgate College

We have audited the financial statements of Southgate College for the year ended 31 July 2006, which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses 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 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 Members of the Corporation of Southgate College and Auditors

As described in the Statement of Responsibilities the College's Corporation is responsible for preparing the Members Report and financial statements in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Accounting (UK and Ireland).

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 mis-statement within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the College as at 31 July 2006 and of the College's surplus of income for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

Bentley Jennison

Chartered Accountants Registered Auditors

Cedar House

Breckland

Linford Wood

Milton Keynes, MK14 6EX

Date

Income and Expenditure Account

	Notes	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Income			
Funding Council Grants	2	14,407	14,426
Tuition fees and education contracts	3	1,438	1,303
Research grants and contracts	4	105	109
Other income	5	584	561
Endowment and Investment income	6	46	69
Total Income		16,580	16,468
Expenditure			
Staff costs	7	10,645	10,469
Other operating expenses	9	5,118	6,101
Depreciation	13	959	931
Interest payable	10	74	101
Total Expenditure		16,796	17,602
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before tax		(216)	(1,134)
Gain on disposal of assets		4	-
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		(212)	(1,134)
Taxation	11	-	-
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax	12	(212)	(1,134)
Transfer from accumulated income within specific endowments		-	-
Deficit for the year retained within general reserves		(212)	(1,134)

The income and expenditure account is in respect of continuing activities

The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see Note 28).

Statement of Historical Cost Surpluses and Deficits

	Notes	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Deficit on continuing operations before taxation		(212)	(1,134)
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount	21	346	348
Historical cost surplus/(deficit) for the period before taxation		134	(786)
Historical cost surplus/(deficit) for the period after taxation		134	(786)

Statement of the Total Recognised Gains and Losses

	Notes	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Deficit on continuing operations after depreciation of assets at valuation and disposal of assets and tax		(212)	(1,134)
Actuarial gain in respect of pension scheme	27	125	22
Total recognised losses relating to the period		(87)	(1,112)
Prior year adjustments*	28	-	(1,657)
Total recognised losses since last report		(87)	(2,769)
Reconciliation			
Opening reserves and endowments		12,293	15,062
Prior year adjustments	28	-	(1,657)
Total recognised losses for the year		(87)	(1,112)
Closing reserves and endowments		12,206	12,293

* Net pension asset at 1 August 2004 less SSAP 24 provision at 1 August 2004

Balance Sheet

	Notes	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Fixed assets			
Tangible assets	13	15,883	16,086
Investments	14	-	-
Total fixed assets		15,883	16,086
Current assets			
Debtors	15	281	470
Cash at bank and in hand		2	61
		283	531
Creditors: amounts falling due within one year	16	(821)	(961)
Net current liabilities		(538)	(430)
Total assets less current liabilities		15,345	15,656
Less: Creditors - amounts falling due after more than one year	17	(677)	(762)
Net assets excluding pension liability		14,668	14,894
Net pension liability	27	(1,670)	(1,718)
NET ASSETS INCLUDING PENSION LIABILITY		12,998	13,176
Deferred capital grants	19	792	883
Income and expenditure account excluding pension reserve		1,175	964
Pension reserve	27	(1,670)	(1,718)
Income and expenditure account including pension reserve	21	(495)	(754)
Revaluation reserve	20	12,701	13,047
Total reserves		12,206	12,293
TOTAL		12,998	13,176

The financial statements on pages 19 to 44 were approved by the governing body on 14 December 2006 and were signed on its behalf by:-

.....
Chairman

.....
Principal

Cash Flow Statement

	Notes	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Cash inflow/(outflow) from operating activities	22	596	(1,166)
Returns on investments and servicing of finance	23	(44)	(6)
Capital expenditure and financial investment	24	(552)	(530)
Financing	25	(77)	(70)
Decrease in cash in the period	26	<u>(77)</u>	<u>(1,772)</u>

Reconciliation of net cash flow to movement in net debt

Decrease in cash in the period		(77)	(1,772)
Change in net debt resulting from cash flows	25	<u>77</u>	<u>70</u>
Movement in net debt in period		-	(1,702)
Net debt at 1 August		(778)	924
Net debt at 31 July	26	<u>(778)</u>	<u>(778)</u>

In this statement, figures in brackets refer to cash outflows and all other figures are cash inflows to the College.

Notes

(forming part of the financial statements)

1 Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2003 (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published by the LSC, in the Accounts Direction Handbook.

Prior Year Adjustment

The College has adopted FRS 17 Retirement Benefits, in the financial statements. The full adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are given in Note 28.

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

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 2006.

Recognition of income

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.

Recurrent grants from the LSC and HEFCE are recognised in line with the latest estimates of grant receivable for the academic year. The final grant allocation from the LSC is determined in the subsequent November, following an audit of the College's activity.

Pension schemes

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 charged to the income and expenditure 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.

Notes (continued)

1 Statement of accounting policies (continued)

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. Land and buildings acquired 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 30 and 39 years. Leasehold land and buildings are amortised over the period of the lease.

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.

On adoption of FRS15, 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 FRS11.

Equipment

Equipment costing less than £2,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority is included in the balance sheet at valuation.

Inherited equipment is 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 and general equipment	-	Four to five years
Computer equipment	-	Four years

Notes *(continued)*

1 Statement of accounting policies (continued)

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. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Investments

Fixed asset investments are carried at historical cost less any provision for impairment in their value.

Current asset investments are included in the balance sheet at the lower of their original cost and net realisable value.

Stocks

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

Maintenance of premises

The cost of routine corrective maintenance is charged to the income and expenditure account in the period that it is incurred.

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 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act (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 the 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.

Notes (*continued*)

1 Statement of accounting policies (continued)

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks.

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 39, 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 Grants

	LSC	HEFCE	Year ended 31 July 2006	Year ended 31 July 2005
	£'000	£'000	£'000	£'000
Recurrent grant	13,490	198	13,688	13,506
Work Based Learning	30	-	30	24
Releases of deferred capital grants less	288	-	288	280
Ethnic minority student achievement grant (section 11)	32	-	32	32
Centres for Vocational Excellence	120	-	120	43
Other Funds	249	-	249	541
	14,209	198	14,407	14,426

3 Tuition Fees and Education Contracts

	Year ended 31 July 2006	Year ended 31 July 2005
	£'000	£'000
UK Higher Education students	12	15
UK Further Education students	715	583
European Union (EU) (excluding UK) students	9	10
Non-EU students	117	173
Total fees paid by or on behalf of individual students	853	781
Education contracts:		
Local Education Authorities	554	517
Higher education income	31	5
	1,438	1,303

4 Research Grants and Contracts

	Year ended 31 July 2006	Year ended 31 July 2005
	£'000	£'000
European Commission	105	109
Total	105	109

Notes (continued)

5 Other Income

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Residencies, catering and conferences	53	56
Other income generating activities	207	201
Releases from deferred capital grants (non Funding Council)	3	3
Other income	321	301
	<u>584</u>	<u>561</u>

6 Endowment and Investment Income

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Pension finance income (note 27)	16	-
Other interest receivable	30	69
	<u>46</u>	<u>69</u>

7 Staff Costs

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

	Year ended 31 July 2006 Number	Year ended 31 July 2005 Number
Teaching departments - teaching staff	217	226
Teaching departments - other staff	69	69
Teaching support services	16	14
Other support services	16	19
Administration and central services	65	69
Premises	13	15
Other	7	11
	<u>403</u>	<u>423</u>

Staff costs for the above persons:

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Wages and salaries	8,736	8,790
Social security costs	691	695
Other pension costs (including FRS 17 adjustments)	1,218	984
	<u>10,645</u>	<u>10,469</u>

Notes (continued)

7 Staff Costs (continued)

	Year ended 31 July 2006	Year ended 31 July 2005 As restated
	£'000	£'000
Teaching departments -staff	6,329	6,332
Teaching departments -other staff	1,242	1,185
Teaching support services	263	272
Other support services	421	396
Administration and central services	1,861	1,868
Premises	270	285
Other income-generating activities	111	131
Catering and residences	-	-
Staff restructuring per schedule	148	-
Total	10,645	10,469

Total staff costs, split by type of contract were:

Employment costs for staff on permanent contracts	10,052	8,847
Employment costs for staff on short-term and temporary contracts	445	695
Restructuring costs	148	927
	10,645	10,469

The restructuring costs were approved by the College's Governing Body.

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

	Senior Post--holders		Other staff	
	2006 Number	2005 Number	2006 Number	2005 Number
£ 50,001 to £ 60,000	-	-	-	2
£ 60,001 to £ 70,000	-	-	3	-
£ 70,001 to £ 80,000	2	2	1	-
£ 110,001 to £ 120,000	-	1	-	-
£ 121,001 to £ 130,000	1	-	-	-
	3	3	4	2

A pay award of 2% was approved by the Corporation with effect from 1 August 2006 and a further 1% from 1 February 2007 to all staff.

Notes (continued)

8 Senior Post-holders' Emoluments

Senior postholders 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.

	2006	2005
	Number	Number
The number of senior post-holders including the principal was:	<u>3</u>	<u>3</u>

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

	2006	2005
	£	£
Salaries	240,677	224,688
Benefits in kind	25,587	20,758
Pension contributions	31,818	29,967
Total emoluments	<u>298,082</u>	<u>275,413</u>

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

	Year ended	Year ended
	31 July 2006	31 July 2005
	£	£
Salary	102,334	96,850
Benefits in kind	<u>12,243</u>	<u>9,824</u>
	<u>114,577</u>	<u>106,674</u>
Pension contributions	<u>13,815</u>	<u>13,075</u>

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

No compensation for loss of office has been paid to any former senior post holder.

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.

Senior post-holders, including the Principal and other higher paid staff received a pay increase of 3% in line with the general pay award. No bonuses or other salary enhancements were awarded to senior post-holders or other higher paid staff.

Notes (continued)

8 Senior Post-holders' Emoluments (continued)

Overseas activities

There were no overseas activities during the year.

9 Other Operating Expenses

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Teaching departments	1,370	1,362
Contracted-out lecturing services	616	738
Teaching support services	137	122
Other support services	60	87
Administration and central services	603	568
General education	621	528
Premises costs - running costs	893	862
- maintenance	146	714
- rents & leases	82	85
Planned maintenance	151	576
Other income generating activities	25	13
Catering and residence operations	162	146
Franchised provision	252	300
Total	<u>5,118</u>	<u>6,101</u>
Other operating expenses include:	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Auditors' remuneration:		
financial statements audit	18	14
internal audit	<u>20</u>	<u>19</u>

Notes (continued)

10 Interest Payable

	Year ended 31 July 2006	Year ended 31 July 2005 As restated
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	-	-
Repayable within 5 years, by instalments	74	75
Repayable wholly or partly in more than 5 years	-	-
	<hr/> 74	<hr/> 75
Pension finance costs (note 27)	-	26
	<hr/>	<hr/>
Total	<u>74</u>	<u>101</u>

11 Taxation

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

12 Deficit on continuing Operations for the Period

The deficit on continuing operations for the period is made up as follows:

	Year ended 31 July 2006	Year ended 31 July 2005 As restated
	£'000	£'000
College's deficit for the period	(212)	(1,134)
	<hr/>	<hr/>
Total	<u>(212)</u>	<u>(1,134)</u>

Notes (continued)

13 Tangible Fixed Assets

	Freehold land and buildings £'000	Equipment £'000	Total £'000
Cost or Valuation			
At 1 August 2005	19,503	4,689	24,192
Additions	382	382	764
Surplus on revaluation	-	-	-
Disposals	-	(36)	(36)
At 31 July 2006	<u>19,885</u>	<u>5,035</u>	<u>24,920</u>
Depreciation			
At 1 August 2005	4,625	3,481	8,106
Charge for year	428	531	959
Revaluation	-	-	-
Eliminated in respect of disposals	-	(28)	(28)
At 31 July 2006	<u>5,053</u>	<u>3,984</u>	<u>9,037</u>
Net book value			
At 31 July 2006	<u>14,832</u>	<u>1,051</u>	<u>15,883</u>
Net book value			
At 31 July 2005	<u>14,878</u>	<u>1,208</u>	<u>16,086</u>
Inherited	12,675	27	12,702
Financed by capital grant	363	436	799
Other	1,794	588	2,382
Net book value			
At 31 July 2006	<u>14,832</u>	<u>1,051</u>	<u>15,883</u>

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 for the purpose of the 1994 financial statements 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 Local Education Authority at incorporation on a depreciated replacement costs basis with the assistance of independent professional advice.

Land and buildings with a net book value of £12,675,000 have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Finance Memorandum with the Council, to surrender the proceeds.

Fixed assets include land and buildings with a net book value of £14,832,000, which will be partially funded by a grant from the LSC.

Notes (continued)

If inherited land and buildings had not been valued they would have been included at the following amounts:

	£'000
Cost	2,333
Aggregate depreciation based on cost	(176)
Net book value based on cost	<u><u>2,157</u></u>

14 Investments

	Year ended 31 July 2006	Year ended 31 July 2005
Investments in subsidiary companies	3	3
	<u><u>3</u></u>	<u><u>3</u></u>

The College owns 100% of the issued ordinary shares of Michenden Business Centre Limited (MBC Limited), a company incorporated in Great Britain and registered in England and Wales. The MBC Limited did not trade during the year.

Notes (continued)

15 Debtors

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Amounts falling due within one year:		
Trade debtors	251	441
Prepayments and accrued income	30	29
Total	281	470

16 Creditors: Amounts Falling Due Within One Year

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Bank loans and overdrafts	103	77
Payments received in advance	104	67
Trade creditors	252	290
Other taxation and social security	241	222
Accruals	121	305
Total	821	961

17 Creditors: Amounts Falling Due After More Than One Year

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Bank loans	677	762
Total	677	762

Notes (continued)

18 Borrowings

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Bank loans and overdrafts		
Bank loans and overdrafts are repayable as follows:		
In one year or less or on demand	103	77
Between one and two years	91	83
Between two and five years	309	285
In five years or more	277	394
Total	<u><u>762</u></u>	<u><u>839</u></u>

Bank loans at 8.60% repayable by instalments falling due between September 1998 and May 2013 and are unsecured.

19 Deferred Capital Grants

	LSC/FEFC grants £'000	Other grants £'000	Total £'000
At 1 August 2005			
Land and buildings	375	-	375
Equipment	497	11	508
Cash received			
Land and buildings	-	-	-
Equipment	200	-	200
Released to income and expenditure account			
Land and buildings	(12)	-	(12)
Equipment	(276)	(3)	(279)
Total	<u><u>784</u></u>	<u><u>8</u></u>	<u><u>792</u></u>
At 31 July 2006			
Land and buildings	363	-	363
Equipment	421	8	429
Total	<u><u>784</u></u>	<u><u>8</u></u>	<u><u>792</u></u>

Notes (continued)

20 Revaluation Reserve

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
At 1 August	13,047	13,395
Transfer from revaluation reserve to general reserve in respect of: Depreciation on revalued assets	(346)	(348)
At 31 July	<u>12,701</u>	<u>13,047</u>

21 Movement on General Reserves

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Income and Expenditure Account Reserve		
At 1 August as previously stated	(754)	1,667
Prior year adjustment in respect of FRS 17	-	(1,657)
At 1 August as restated	(754)	10
Deficit retained for the year	(212)	(1,134)
Actuarial gain in respect of pension scheme	125	22
At 31 July	<u>(495)</u>	<u>(754)</u>
Balance represented by:		
Pension reserve	(1,670)	(1,718)
Income and expenditure reserve excluding pension reserve	1,175	964
At 31 July	<u>(495)</u>	<u>(754)</u>

Notes (continued)

22 Reconciliation of Consolidated Operating Deficit to Net Cash Inflow from Operating Activities

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 As restated £'000
Deficit on continuing operations after depreciation of assets at valuation	(212)	(1,134)
Depreciation (note 13)	959	931
Profit on disposal of tangible fixed assets	(4)	(12)
Interest payable (note 10)	74	101
Pension cost less contributions payable (notes 7 and 27)	93	57
Decrease in creditors	(166)	(403)
Interest receivable (note 6)	(46)	(69)
Net cash inflow from operating activities	596	(1,166)

23 Returns on Investments and Servicing of Finance

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Other interest received	30	69
Interest paid	(74)	(75)
Net cash inflow from returns on investment and servicing of finance	(44)	(6)

24 Capital Expenditure and Financial Investment

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Purchase of tangible fixed assets	(764)	(714)
Sales of tangible fixed assets	12	-
Deferred capital grants received	200	184
Net cash outflow from capital expenditure and financial investment	(552)	(530)

Notes (continued)

25 Financing

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Debt due beyond a year:		
Repayment of amounts borrowed	(77)	(70)
Net cash outflow from financing	<u>(77)</u>	<u>(70)</u>

26 Analysis of Changes in Net Funds

	At 1 August 2005 £'000	Cashflows £'000	Other changes £'000	At 31 July 2006 £'000
Cash in hand, and at bank	61	(59)	-	2
Overdrafts	-	(18)	-	(18)
	<u>61</u>	<u>(77)</u>	<u>-</u>	<u>(16)</u>
Debt due within 1 year	(77)	77	(85)	(85)
Debt due after 1 year	(762)	-	85	(677)
Total	<u>(778)</u>	<u>-</u>	<u>-</u>	<u>(778)</u>

Notes (continued)

27 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 London Borough of Enfield. Both are defined benefit schemes.

Total pension cost for the year	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Teachers Pension Scheme: contributions paid	861	577
Local Government Pension Scheme: Charge to the Income and Expenditure Account (staff costs)	330	306
Total Pension Cost for Year	1,191	883

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuations of the TPS was 31 March 2001 and the LGPS 31 March 2004.

Teachers' Pension Scheme

The Teachers' Pension Scheme 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 purposes of determining contribution rates.

The pensions cost is assessed every five 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	31 March 2001
Actuarial method	Prospective Benefits
Investment returns per annum	7.0% per annum
Salary scale increases per annum	5.0% per annum
Market value of assets at date of last valuation	£142,880 million

Proportion of members' accrued benefits covered by the actuarial value of the assets	100%
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Following the implementation of Teachers' Pensions (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 2005 to 31 July 2006 the employer contribution was 13.5%. An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

Under the definitions set out in Financial Reporting Standard 17 (FRS17) 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 deficit in the scheme and the implications for the College in terms of the anticipated contribution rates.

Notes (continued)

27 Pension and similar obligations (continued)

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 2006 was £471,336 of which employer's contributions totalled £329,462 and employees contributions totalled £141,874. The agreed contribution rates for future years are 15.6% for employers and 6% for employees.

FRS 17

The following information is based upon a full actuarial valuation of the Fund at 31 March 2005 updated to 31 July 2006 by a qualified independent actuary.

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Rate of increase in salaries	4.6%	4.3%	4.9%
Rate of increase for pensions in payment/inflation	3.1%	2.8%	2.9%
Discount rate for liabilities	5.1%	5.0%	5.8%

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	7.7%	5,210	7.3%	4,458	7.9%	3,363
Bonds	4.7%	1,238	4.7%	1,063	5.4%	911
Property	5.7%	852	5.4%	679	6.7%	591
Cash	4.8%	190	4.5%	95	4.5%	120
Total market value of assets		7,490		6,295		4,985
Present value of scheme liabilities		(9,160)		(8,013)		(6,642)
Related deferred tax liability		-		-		-
Deficit in the scheme		(1,670)		(1,718)		(1,657)

Year Ended 31 July 2006	Year ended 31 July 2005
£'000	£'000

Analysis of the amount charged to income and expenditure account

Employer service cost (net of employee contributions)	93	57
Past service cost		
Total operating charge	93	57

Notes (continued)

Analysis of pension finance income/(costs)

Expected return on pension scheme assets	426	369
Interest on pension liabilities	<u>(410)</u>	<u>(395)</u>
Pension finance income/(costs)	16	(26)

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

Actual return less expected return on pension scheme assets	478	668
Experience gains and losses arising on the scheme liabilities	(4)	79
Change in financial and demographic assumptions underlying the scheme liabilities	<u>(349)</u>	<u>(725)</u>
Actuarial gain recognised in STRGL	<u>125</u>	<u>22</u>

Movement in deficit during year

Deficit in scheme at 1 August	(1,718)	(1,657)
Movement in year:		
Current employer service charge	(423)	(359)
Employer contributions	330	302
Net return on assets/(interest)	16	(26)
Actuarial gain	<u>125</u>	<u>22</u>
Deficit in scheme at 31 July	<u>(1,670)</u>	<u>(1,718)</u>

Notes (continued)

27 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

History of experience gains and losses

	2006	2005	2004	2003	2002
Difference between the expected and actual return on assets:					
amount £'000	478	668	78	(29)	(895)
% of scheme assets	6.4%	10.6%	1.6%	(0.7%)	(23.6%)
Experience gains and losses on scheme liabilities:					
amount £'000	(4)	79	1	(69)	(37)
% of scheme liabilities	0.0%	1.0%	0.0%	(1.2%)	(0.8%)
Total amount recognised in STRGL					
amount £'000	125	22	71	(849)	(602)
% of scheme liabilities	1.4%	0.3%	1.1%	(14.3%)	(13.3%)

28 Prior year adjustment note

The prior year adjustment relates to the full implementation of FRS 17.

FRS 17 requires the assets of defined benefit pension schemes, such as the local government scheme, to be measured at market value at each balance sheet date, and the liabilities to be measured using a specific valuation method and to be discounted using a corporate bond rate. Any resulting share of the pension scheme surplus or deficit is recognised on the college balance sheet. Any resulting gains and losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the income and expenditure account.

The adoption of FRS 17 has resulted in the following impact on the income and expenditure account and statement of total recognised gains and losses. In accordance with the transitional arrangements of FRS 17, these figures have been reported in the Notes to Southgate College's accounts since the year ending 31 July 2002.

	2005 £'000
Income and expenditure account reserve as previously stated	964
Pension liability at 1 August 2004	(1,657)
Movement during 2004/05:	
Employer service cost	(359)
Employer contributions	302
Net interest	(26)
Actuarial gain or loss	22
Income and expenditure account reserve as restated at 31 July 2005	(754)

Notes (continued)

Analysis of prior year adjustment

Adjustment to opening Income and Expenditure Account Reserve at 1 Aug 2004	(1,657)
Adjustment to Income and Expenditure Account for year ended 31 Jul 2005	(83)
Adjustment to Statement of Total Recognised Gains and Losses for the year ended 31 July 2005	22
	<u>(1,718)</u>

29 Financial Commitments

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

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Land and Buildings		
Expiring within one year	-	-
Expiring within two and five years inclusive	57	53
Expiring in over five years	-	-
	<u>57</u>	<u>53</u>

30 Related Party Transactions

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

31 Learner Support Funds

	Year ended 31 July 2006 £'000	Year ended 31 July 2005 £'000
Access Funds		
Learning and Skills Council Grants - Hardship funds	283	341
Learning and Skills Council Grants - Childcare	91	120
Interest earned	<u>5</u>	<u>4</u>
	379	465
Disbursed to students	(361)	(438)
Administration costs	(19)	(23)
	<u>(380)</u>	<u>(461)</u>
Balance unspent as at 31 July, included in creditors	<u>(1)</u>	<u>4</u>

Learning and Skills Council 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 the 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 25 April 2005 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 2006 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 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 2006 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 2006 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Bentley Jennison

Chartered Accountants Registered Auditors

Cedar House

Breckland

Linford Wood

Milton Keynes, MK14 6EX

Date