

KENSINGTON AND CHELSEA COLLEGE  
REPORT AND FINANCIAL STATEMENTS

For the year ended

31st July 2009

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## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009

### Nature, Objectives and Strategies

#### Legal Status

Kensington & Chelsea College is a Further Education Corporation established under The Further and Higher Education Act 1992. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2006.

#### Mission and Objectives

##### **Mission**

Kensington and Chelsea College (KCC) aims to be a first class, first choice provider of Further Education for learners and employers in a wide range of skills.

##### **Implementation of Strategic Plan**

The Strategic Plan 2009-2014, produced in May 2009, identified the following strategic priorities/objectives for the College:

- Skills for Life - extend delivery of Basic Skills, ESOL and IT in college, community, workplace and for ex-offenders.
- Community regeneration and employability support - expand activities across south and west London.
- Develop curriculum in local centres involving learners and employers in design and content.
- Employer engagement - expand apprenticeships and Train to Gain, addressing the Skills Strategy and London Skills and Employment Board strategy.
- Increase 16-19 delivery - partnership and vocational development, including Diplomas, Foundation Learning Tier and young adults with learning difficulties and disabilities..
- Reducing offending and re-offending - use lead provider status to increase other sources of funding for provision in south and west London.
- Quality Improvement - raise success rates, develop staff, develop quality assurance, action on diversity and internal communications
- Investment in Learning
  - Create and sustain a strong financial base, producing an annual surplus for reinvestment in learning and strengthening the workforce to underpin growth and sustain quality.
  - Develop and sustain a healthy and proactive Human Resources framework to attract and recruit professional, flexible and committed staff focused on learning and learners.
  - Develop and maintain learning and teaching accommodation which is fit for purpose.

Progress against these areas during 2008/09 was as follows:

- Skills for Life. 2008/09 saw development of functional skills provision and the recovery of ESOL after the major change in funding/fee policy the previous year.
- Community regeneration and employability. The College was successful in attracting new ESF funding for a range of projects in this area. All of the projects - which run for up to 2 years - have been successfully started. Employability has been given a higher profile in a far reaching management restructure.
- Employer Engagement and Work Based Learning. The College has continued the development of provision in this area. However, recruitment to programmes has been adversely affected by the economic downturn.
- Growth in provision for 16-19 year olds. The College succeeded in sustaining the higher numbers of students in this age group recruited in the previous year. Improvements were made in pastoral care arrangements and retention and achievement. The addition of the 14-16 operations of a partner organisation, Cognitive Studies Trust, and the start of an Entry to Employment programme during the year have further enhanced the College's capacity with younger learners. KCC continues to deliver the Construction Diploma and has now started delivering the Media Diploma.
- Prisons and ex-offenders. The College took on delivery at Brixton and Belmarsh prisons in November 2008 and following success in the OLASS 3 tendering round, added Pentonville and Holloway to its portfolio in October 2009. OLASS contract targets were met in full for the 2008/09 academic year and an additional £1.2m of mainstream FE funded provision was delivered in prisons. This was mainly in support of construction training programmes and a new motorcycle training workshop in Wandsworth prison.
- Quality improvement. KCC sustained improvements in success rates for the 7th successive year. Further improvements have been made to quality assurance processes and to systems for managing absence and punctuality during the year. OLASS quality assurance has been integrated with the College's main QA processes.
- Investment in Learning - Financial Strength. The College broke even for the year. Cash and investments not designated for reinvestment in buildings are now overdrawn. An overdraft facility has been arranged to cover this in the unlikely event that the Learning and Skills Council required the repayment of funds designated for reinvestment in buildings.
- Investment in Learning - Accommodation. Work on the College's new £14m new building at Hortensia Road started in October 2009 and is due to complete in April 2010. During the year major improvements have been made to Maxilla Walk (hair and beauty salon, motorcycle workshop) and at Wandsworth prison (motorcycle workshop).

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009 (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 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 and to indicate the College's financial health status as assessed by the LSC. KCC's status is currently classified as Financial Health Category 2 - Good.

### **Performance Indicators**

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

- Learner number growth and achievement of LSC funding targets,
- Learner success rates,
- Teacher qualifications,
- Employer engagement,

In 2009/09 the College exceeded all its learner number growth targets including sub-targets for 16 –18 FTE growth and adult basic skills learner number growth. Data is not currently available for the other targets but the College is confident that all will be met.

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 2009/09. 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 draft Framework and is monitoring these through the completion of the annual Finance Record for the LSC. As benchmarks develop so the College will be better placed to take appropriate action in the light of the overall performance rating. The current rating of Good is considered an acceptable outcome.

## **Financial Position**

### **Financial Results**

The College made an operating surplus of £20,000 (2007/08 £282,000 deficit) and has accumulated reserves of £19,614,000 (2007/08 £21,104,000) and cash balances of £11,144,000 (2007/08 12,863,000). The College aims to accumulate reserves and cash balances in order to help finance future capital development and create a contingency fund.

The surplus was £56,000 below the budgeted surplus of £76,000. The main reasons for this were that fee income was below expectations and more was spent on partnership working than planned.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009 (continued)

Tangible fixed asset additions during the year amounted to £2,817,000. This was split between buildings improvements of £2,038,000 and equipment purchased of £779,000. The major buildings costs related to design work for the new building on Hortensia Road.

This project has been funded by the proceeds from the disposal of the Edge Street centre in 1999 and the disposal of the Sloane Building in early 2008.

The College is heavily reliant on LSC funding which accounts for 76% of KCC's income.

The College has no subsidiary companies.

### **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**

At £217,000 inflow (2007/08 £609,000 outflow), operating cash was improved. This was due to a combination of factors detailed in note 19: the small operating surplus for the year, a rise in debtors, pension contributions exceeding pension costs and a smaller contribution to the operating position from investment income (excluded from operating cash).

### **Liquidity**

In early 2008 the College received £13m from the sale of the Sloane Building and adjoining land. These funds are designated to be reinvested in the College's new building on Hortensia Road. When these funds are excluded, the College has a small cash balance. The disposal proceeds will be exhausted in early 2011. A bank loan facility for £1.2m has been agreed, which will meet the remaining cost of the Hortensia building project. KCC also has a £900,000 overdraft facility which can be used if required.

The planned size of the College's total borrowing and its approach to interest rate have been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded since the College had no debt.

## **Current and Future Development and Performance**

### **Student numbers**

In 2008/09 the College exceeded most of its main learner number growth targets. The College has delivered activity that has produced £9m in LSC main allocation funding (2008: £8.1m). The College had 12,220 enrolments (2008: 13,205) equating to 2,903 full-time equivalent students (2008 2,707). In addition there were 7,886 OLASS enrolments (2008: 5,203), equivalent to 686 full-time equivalent students (2008 557).

### **Student achievements**

Students continue to prosper at the College. Success rates rose again in 2007/08 to 74% (2006/07: 73%). Early indications are that the overall success rate in 2008/09 for non-OLASS provision will match or marginally exceed the previous year.

### **Curriculum Developments**

The main curriculum developments during the past year and the coming year are:

- The College has continued to develop curriculum and enrichment activities for 16-18 year olds.
- Delivery of Motorcycle Maintenance courses started at Maxilla Walk and Wandsworth Prison.
- Further development of Level 2 and 3 courses to contribute to targets for Full Level 2s and Full Level 3s.
- Development of Level 1 and Entry Level courses to address the Foundation Learning Tier agenda.
- We continue to develop our employer responsive curriculum.

### **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 52% of its invoices within 30 days (2007/08 39%). The College did not incur any interest charges in respect of late payment for this period. An online purchasing invoice authorisation system has now been fully implemented. It is anticipated that performance will improve as a result.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009 (continued)

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

The College took over the North London Offender Learning and Skills Service on 1st October 2009. This contract is expected to be worth £2.2m in 2009/10.

Construction work commenced on a new £14m building on Hortensia Road in October 2009. The building is expected to be completed in April 2011. A £1.2m loan agreement was signed in September 2009, required to meet part of the cost.

### **Future developments**

Major changes take place in arrangements for the funding of Colleges in April 2010. Under 'Machinery of Government' changes, the Learning and Skills Council is due to be replaced by the Skills Funding Agency and funding for 16-18 year old learners transfers to the local authority. In order to continue to secure current levels of funding, the College's focus will be on continuing to attract students and employers to our courses and continuing to raise the standard of our delivery.

Plans for affordable improvements to the Wornington site are being progressed.

The College has plans for the continued expansion and improvement of OLASS delivery, aimed at reducing re-offending.

### **Resources**

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

Tangible resources include freehold interests in property on Hortensia Road and Wornington Road and long leases on several other buildings. The College also has cash reserves to meet most of the cost of a new building at Hortensia Road. The remainder will be funded by loan finance.

### **Financial**

The College has £20.6 million of net assets (including £2.2 million pension liability) and no long term debt.

### **People**

The College employs 520 people (expressed as full time equivalents), of whom 318 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.

### **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, procedures and 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.

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, 88% 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.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009 (continued)

- 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, Kensington and Chelsea 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

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.

### **4. Risks arising from the College's property strategy**

The College faces a number of significant risks arising from the implementation of property improvement plans. In the worst case, the College could suffer a large financial loss or lose the use of teaching accommodation.

These risks are mitigated through careful monitoring and management with the assistance of a team of property and legal specialists.

## **Stakeholder Relationships**

In line with other colleges and with universities, KCC 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**

KCC 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.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2009 (continued)

### **Disability statement**

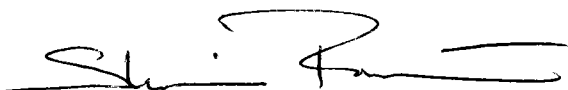
The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Act 2001 and 2005.

- a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2007/08, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access.
- b) The College has 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 26th January 2010 and signed on its behalf by:



Sheila Porritt, Chair of Governors

### **Professional Advisors**

Financial statement and regularity auditors:  
Buzzacott LLP  
12 New Fetter Lane  
London EC4A 1AG

Internal auditors:  
MacIntyre Hudson  
New Bridge Street House  
30-34 New Bridge Street  
London EC4V 6BJ

### **Bankers:**

Barclays Bank PLC  
Business Banking  
1 Churchill Place  
London E14 5HP

### **Solicitors:**

Mills & Reeve  
Francis House  
112 Hills Road  
Cambridge CB2 1PH

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL for the year ended 31 JULY 2009

The College is committed to achieving best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in July 2006. 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 on the Corporation during the year and subsequent to the year end were as listed in Table 2.

Table 2: Governors serving on the College board during 2008/09

Name	Category of membership	Date First Appointed	Expiry of term of office	Date of Reappointment	Committee
Sheila Porritt	Chair	November 1996	March 2010	Re-appointed March 2006.	Finance & General Purposes, Remuneration, Building Committee
Mike Jutsum	Principal & Chief Executive	May 2004			Finance & General Purposes, Curriculum & Quality, Search, Remuneration, Building Committee
Krystyna Ruskiewicz		May 2002	July 2010	Resigned April 2009	Finance & General Purposes, Remuneration
Judith Waters		December 2000	November 2008	Resigned Oct 2009	Audit
Alan Edwards	Vice Chair	May 2006	May 2010		Finance & General Purposes, Search, Remuneration, Building Committee
Tiffany Hall		July 2004	July 2012	Resigned Oct 2009	Finance & General Purposes
Elizabeth Arnold		June 2001	March 2013	Re-appointed March 2009	Curriculum & Quality, Search
Reg Kerr-Bell		July 2006	July 2010		Finance & General Purposes
Colin Matheson		November 1998	October 2010	Re-appointed October 2006	Curriculum & Quality, Search
Walter Thorpe		March 1997	February 2009	Resigned February 2009	Finance & General Purposes, Search
Vikki Keilthy		July 2004	July 2012	Re-appointed May 2008	Audit
Mahejabeen Ismail		May 2008	May 2012		Curriculum & Quality
Cllr Andrew Lamont		December 2007	December 2011		Finance & General Purposes
Don Nicholls	Academic staff	May 2006	May 2010		Audit, Curriculum & Quality
Robert Underwood	Support Staff	October 2005	October 2009	Resigned Oct 2009	Audit, Curriculum & Quality
Veronica Corben		July 2009	July 2013		Curriculum & Quality
Andre Mullins	Student	October 2008	July 2009		Curriculum & Quality
Regan Hiley	Student	October 2008	July 2009		Curriculum & Quality

The duties of Clerk to the Corporation were performed by John Fowl.

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

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are finance and general purposes, curriculum and quality, remuneration, search, audit and the new building project board. Full minutes of all meetings are available from the Clerk to the Corporation at: Kensington & Chelsea College, Hortensia Road, London SW10 0QS. The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL for the year ended 31 JULY 2009 (continued)

### ***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 members of the Corporation as shown in the table on page 7, 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***

The College's remuneration committee comprised members of the Corporation as shown in the table on page 7. 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 2009 are set out in note 7 to the financial statements.

### ***Audit Committee***

The audit committee comprises five members of the Corporation (who exclude the Principal and Chair). 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 systems of internal control and its arrangements for risk management, control and governance processes.

The audit committee normally meets at least once a term 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, as 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 of input and report their findings to management and the audit committee.

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

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

## **Internal Control**

### ***Scope of responsibility***

The 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 breakdowns in internal control.

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

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

### ***Capacity to handle risk***

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2009 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL for the year ended 31 JULY 2009 (continued)

### **The risk and control framework**

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

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

The College has an internal audit service, which operates in accordance with the requirements of the LSC's Interim 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. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the college. The report includes the HIA's independent opinion on the adequacy and effectiveness of the college's system of risk management, controls and governance processes.

### **Review of effectiveness**

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

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

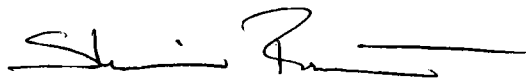
The Principal has been advised on the implications of the result of his or her review of the effectiveness of the system of internal control by the audit committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The College Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its November 2009 meeting, the Corporation, through its Audit Committee, carried out the annual assessment for the year ended 31 July 2009 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2009. This was confirmed by the full Corporation at its December meeting.

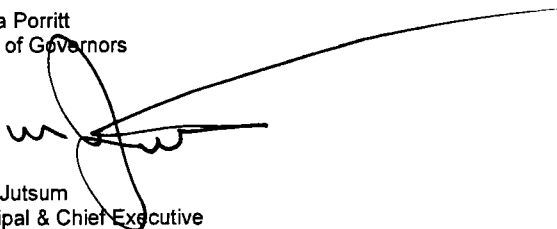
### **Going Concern**

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 26th January 2010 and signed on its behalf by:



Sheila Porritt  
Chair of Governors



Mike Jutsum  
Principal & Chief Executive

## RESPONSIBILITIES OF MEMBERS OF THE CORPORATION

The members of the Corporation of the College 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 LSC) 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 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction issued by the Learning and Skills Council, 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 then 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 also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

Members of the Corporation are responsible for ensuring that funds from the LSC are used only in accordance with the Financial Memorandum with the LSC and any other conditions that the LSC may prescribe from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the 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 26th January 2010 and signed on its behalf by:



Sheila Porritt  
Chair of Governors

## REPORT OF THE INDEPENDENT AUDITORS TO THE CORPORATION OF KENSINGTON & CHELSEA COLLEGE

We have audited the financial statements of Kensington & Chelsea College for the year ended 31 July 2009, which comprise the principal accounting policies, the income and expenditure account, the other primary statements, the balance sheet, the cash flow statement and notes 1 to 27. These financial statements have been prepared under 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 Members of the Corporation of Kensington & Chelsea College and Auditors**

As described in the Statement of governing body's responsibilities, on page 10, the College's Corporation is responsible for preparing the Report of the Members and financial statements in accordance with the Accounts Direction issued by the Learning and Skills Council, the 2007 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 Auditing (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 2007 Statement of Recommended Practice – Accounting for Further and Higher Education. We also report to you if, in our opinion, the Report of the Members 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 Report of the Members and consider the implications for our report if we become aware of any apparent misstatement within it.

### **Basis of Audit Opinion**

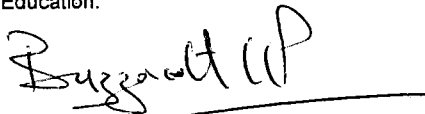
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Learning and Skills Council. An audit includes examination, on a test basis, of evidence relevant to amounts and disclosures 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 2009 and of the College's deficit for the year then ended, and are properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.
- the financial statements have been properly prepared in accordance with the 2008/09 Accounts Direction issued by the Learning and Skills Council and the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.



Buzzacott LLP  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS

27 January 2010

## REPORT OF THE INDEPENDENT AUDITORS TO THE CORPORATION OF KENSINGTON & CHELSEA COLLEGE AND THE LEARNING & SKILLS COUNCIL

In accordance with the terms of our engagement letter dated 5 June 2009 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 disbursed and income received of Kensington & Chelsea College ('the College') during 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 College's members and the LSC. Our review work has been undertaken so that we might state to the College's members 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 College's members 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 Kensington & Chelsea College and Auditors**

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

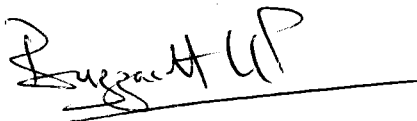
Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the LSC. We report to you whether, in our opinion, in all material respects, expenditure disbursed and income received during 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 all material respects the expenditure disbursed and income received during 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.



Buzzacott LLP  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS

27 January 2010

## INCOME AND EXPENDITURE ACCOUNT

### for the year ended 31 JULY 2009

	Notes	2009 £000s	2008 £000s
<b>Income</b>			
Funding Council Income	2	19,518	16,251
Tuition fees and education contracts	3	2,328	2,136
Other grant income	4	766	1,987
Other operating income		445	584
Investment income	5	676	785
		<hr/>	<hr/>
<b>Total Income</b>		<b>23,733</b>	<b>21,743</b>
		<hr/>	<hr/>
<b>Expenditure</b>			
Staff Costs	6	16,988	15,739
Exceptional restructuring costs	6	242	191
Other operating expenses	8	5,546	5,305
Depreciation	11	937	790
		<hr/>	<hr/>
<b>Total Expenditure</b>		<b>23,713</b>	<b>22,025</b>
		<hr/>	<hr/>
Surplus/(Deficit) on continuing operations after depreciation of fixed assets at valuation and tax		20	(282)
Profit on disposal of assets	11	-	10,324
		<hr/>	<hr/>
Surplus for the year retained within general reserves		20	10,042
		<hr/> <hr/>	<hr/> <hr/>

The income and expenditure account is in respect of continuing activities.  
The accompanying accounting policies and notes 1 to 27 form an integral part of the accounts.

**STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS  
for the year ended 31 JULY 2009**

	Notes	2009 £000s	2008 £000s
Surplus for the year before taxation		20	10,042
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	15	108	133
Realisation of property revaluation gains of previous years	15	-	2,644
		<hr/>	<hr/>
Historical cost surplus for the year before taxation		128	12,819
		<hr/> <hr/>	<hr/> <hr/>

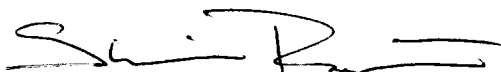
## STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 JULY 2009

	Notes	2009 £000s	2008 £000s
Surplus for the year after depreciation of assets at valuation and disposal of assets and tax		20	10,042
Actuarial loss in respect of pension scheme	22	(1,510)	(608)
		<hr/>	<hr/>
Total recognised (losses)/gains relating to the year		(1,490)	9,434
		<hr/>	<hr/>
<b>Reconciliation</b>			
Opening reserves at 1st August		21,104	11,670
Total recognised (losses)/gains for the year		(1,490)	9,434
		<hr/>	<hr/>
Closing reserves at 31st July		19,614	21,104
		<hr/>	<hr/>

## BALANCE SHEET as at 31 JULY 2009

	Notes	2009 £000s	2008 £000s
<b>Fixed Assets</b>			
Tangible assets	11	12,532	10,652
		<u>12,532</u>	<u>10,652</u>
<b>Current Assets</b>			
Debtors	12	1,607	1,114
Investments - General		-	-
Investments - Designated		11,038	12,891
Cash at bank and in hand		106	-
		<u>12,751</u>	<u>14,005</u>
Creditors: amounts falling due within one year	13	(2,521)	(2,117)
<b>Net Current Assets</b>		<u>10,230</u>	<u>11,888</u>
<b>Total Assets less Current Liabilities</b>		<u>22,762</u>	<u>22,540</u>
<b>Net assets excluding pension liability</b>		22,762	22,540
<b>Net pension liability</b>	22	(2,158)	(766)
<b>Net assets including pension liability</b>		<u>20,604</u>	<u>21,774</u>
<b>Deferred Capital Grants</b>	14	990	670
<b>Revaluation reserve</b>	15	4,114	4,222
<b>General reserve excluding pension reserve</b>	16	5,940	4,688
<b>Pension Reserve</b>	22	(2,158)	(766)
<b>General reserve including pension reserve</b>		3,782	3,922
<b>Designated reserve</b>	17	11,718	12,960
<b>Total Reserves</b>		<u>19,614</u>	<u>21,104</u>
<b>Total</b>		<u>20,604</u>	<u>21,774</u>

The financial statements on pages 13 to 32 were approved by the governing body on 26th January 2010 and were signed on its behalf by:



Sheila Porritt, Chair



Mike Jutsum, Principal & Chief Executive

The accompanying accounting policies and notes 1 to 27 form an integral part of the accounts.

## CASH FLOW STATEMENT for the year ended 31 JULY 2009

	Notes	2009 £000s	2008 £000s
Cash inflow/(outflow) from operating activities	18	217	(609)
Returns on investments and servicing of finance	19	355	437
Capital expenditure and financial investment	19	(2,291)	10,240
		<hr/>	<hr/>
Cash (outflow)/inflow before use of liquid resources and financing		(1,719)	10,068
Management of liquid resources	19	1,853	(10,288)
		<hr/>	<hr/>
Increase/(decrease) in cash in the year	20	134	(220)
		<hr/> <hr/>	<hr/> <hr/>

**Reconciliation of net cash flow to movement in net funds**

Increase/(decrease) in cash in the year		134	(220)
Cash flow from liquid resources	20	(1,853)	10,288
		<hr/>	<hr/>
Movement in net funds in year		(1,719)	10,068
Net funds at 1 August		12,863	2,795
		<hr/>	<hr/>
Net funds at 31 July	20	11,144	12,863
		<hr/> <hr/>	<hr/> <hr/>

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

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009

### 1 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 2007 (the SORP) and in accordance with applicable accounting Standards. They conform to guidance published by the Learning and Skills Council ("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.

#### 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 in respect of 16-18 learner and adult learner responsive funding. Employer Responsive funding is receivable based on latest ILR returns in respect of the current financial year, but subject to consideration of the College's performance relative to maximum contract values.

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.

Non-recurrent grants from Funding Councils or other bodies received in respect of the acquisition or construction 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 in which the course is taking place. It 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 that it is earned.

#### 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 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.

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.

In addition to the above schemes the College makes contributions to one employee's Private Pension scheme.

#### Tangible Fixed Assets

##### Land and buildings

Land and buildings inherited from the Local Education Authority (LEA) are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account on an annual basis.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

### 1 Accounting Policies (continued)

The revaluation was performed in July 1999 by Drivers Jonas, chartered surveyors and was done on an 'existing use' basis. In accordance with the provisions of FRS 15 (Tangible Fixed Assets) the College has elected not to continue with regular revaluations of inherited land and buildings but to freeze their value at the 1999 level. 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 40 years. Leasehold buildings are amortised over 50 years, or, if shorter, 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.

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, 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.

#### **Buildings owned by third parties**

Where the College enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, if practicable, a value is attributed to this benefit and capitalised, with a corresponding credit to deferred capital grants which are subsequently released to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the related asset(s). Values have not been attributed to these buildings as it is not considered practicable to do so.

#### **Assets under construction**

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

#### **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 LEA is included in the balance sheet at valuation.

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

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**1 Accounting Policies (continued)**

Motor vehicles and general equipment	20% per year
Computer equipment	25% per year
Building Additions	4% to 20% per year

Buildings in course of construction are not depreciated.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy. The related grant is 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.

**Investments**

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

**Maintenance of premises**

The cost of routine corrective maintenance is charged to the Income and Expenditure account in the period it is incurred.

**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 and 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 possible 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 27, 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 FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**2 Funding Council Grants**

	Total 2009 £000s	Total 2008 £000s
Recurrent Grant - LSC	17,942	14,837
Recurrent Grant - HEFCE	306	350
Non-recurrent grants - LSC	1,064	937
Release of deferred capital grants (note 14)	206	127
	<b><u>19,518</u></b>	<b><u>16,251</u></b>

**3 Tuition Fees and Education Contracts**

	2009 £000s	2008 £000s
Tuition fees	1,458	1,615
Education contracts	870	521
	<b><u>2,328</u></b>	<b><u>2,136</u></b>

Included within the above amounts are tuition fees funded by bursaries of £79,000 (2007/08 £101,000)

**4 Other Grant Income**

	2009 £000s	2008 £000s
European Commission	534	1,940
Other grants and contracts	232	47
	<b><u>766</u></b>	<b><u>1,987</u></b>

**5 Investment Income**

	2009 £000s	2008 £000s
Interest receivable	355	437
Pension finance income (note 22)	321	348
	<b><u>676</u></b>	<b><u>785</u></b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**6 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:

	2009 Number	2008 Number
Teaching staff	318	276
Non-teaching staff	202	214
	<u>520</u>	<u>490</u>

**Staff costs for the above persons:**

	2009 £000s	2008 £000s
Wages and salaries	14,685	13,539
Social security costs	1,018	991
Other pension costs (including FRS 17 adjustments of (£146,000), 2008 (£198,000), see note 22)	1,294	1,218
Payroll sub-total	<u>16,997</u>	<u>15,748</u>
Contracted out lecturing services	88	81
	<u>17,085</u>	<u>15,829</u>
Deduct: Capitalised staff costs included above	(97)	(90)
	<u>16,988</u>	<u>15,739</u>
Exceptional restructuring costs	242	191
	<u>17,230</u>	<u>15,930</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**6 Staff Costs (continued)**

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

	Year ended 31 July 2009		Year ended 31 July 2008 - Restated	
	Number senior post-holders	Number Other Staff	Number senior post-holders	Number Other Staff
£ 60,001 to £ 70,000	-	4	-	1
£ 70,001 to £ 80,000	-	1	3	-
£ 80,001 to £ 90,000	3	-	-	-
£ 130,001 to £ 140,000	1	-	1	-
	<u>4</u>	<u>5</u>	<u>4</u>	<u>1</u>

A general pay award of 2.5% was made with effect from 1 August 2008, approved by the Corporation.

**7 Senior Post-holders' Emoluments**

Senior post-holders are defined as the Principal (or chief executive) and holders of the other senior posts whom the board have selected for the purposes of the articles of government of the institution relating to the appointment and promotion of staff who are appointed by the board of governors.

	Number 2009	Number 2008
The number of senior post-holders including the Principal was:	4	4
Senior post-holders' emoluments are made up as follows:	£	£
Salaries	321,845	310,532
Benefits in kind	2,992	2,848
Pension contributions	51,334	55,581
<b>Total emoluments</b>	<u><b>376,171</b></u>	<u><b>368,961</b></u>

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

	2009	2008
	£	£
Salary	114,193	111,416
Benefits in kind	1,032	928
	<u>115,225</u>	<u>112,344</u>
Pension contributions	<u>16,102</u>	<u>15,710</u>

The pension contributions in respect of the Principal and Vice-Principal are in respect of employer's contributions to the Teachers 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.

Senior post-holders, including the Principal and other higher paid staff received a pay increase of 2.5% from 1st August 2008 in line with the general pay award.

No bonuses or other salary enhancements were awarded to senior post-holders or other higher paid staff.

**Overseas activities**

No costs were incurred during 2008/09 in respect of overseas activities (2008: Nil).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**8 Other Operating Expenses**

	2009 £000s	2008 £000s
Teaching costs	2,495	2,263
Non-teaching costs	2,069	2,203
Premises costs	982	839
<b>Total</b>	<b><u>5,546</u></b>	<b><u>5,305</u></b>

**Other operating expenses include:**

	2009 £000s	2008 £000s
Auditors' remuneration:		
financial statements audit	18	18
internal audit	32	29
other services from either external or internal audit	14	17
Hire of Plant & Machinery - operating leases	21	-
Hire of other assets - operating leases	60	46

**9 Interest Payable**

	2009 £000s	2008 £000s
Pension finance costs (note 22)	349	297
	<b><u>349</u></b>	<b><u>297</u></b>

**10 Taxation**

The members do not believe the College was liable for any corporation tax arising from its activities during this period (2008: Nil).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

## 11 Tangible Fixed Assets

	Land and Buildings				Equipment	Total
	Freehold	Long Leasehold	Under Construction			
Cost or Valuation	£000s	£000s	£000s	£000s	£000s	£000s
At 1 August 2008	7,856	3,003	1,355	2,952	15,166	
Additions	663	165	1,210	779	2,817	
<b>At 31 July 2009</b>	<b>8,519</b>	<b>3,168</b>	<b>2,565</b>	<b>3,731</b>	<b>17,983</b>	
<b>Depreciation</b>						
At 1 August 2008	1,777	695	-	2,042	4,514	
Charge for year	357	159	-	421	937	
<b>At 31 July 2009</b>	<b>2,134</b>	<b>854</b>	<b>-</b>	<b>2,463</b>	<b>5,451</b>	
<b>Net book value</b>						
<b>At 31 July 2009</b>	<b>6,385</b>	<b>2,314</b>	<b>2,565</b>	<b>1,268</b>	<b>12,532</b>	
<b>Net book value</b>						
<b>At 1 August 2008</b>	<b>6,079</b>	<b>2,308</b>	<b>1,355</b>	<b>910</b>	<b>10,652</b>	

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS15. Accordingly, the book values at implementation have been retained.

Land and buildings inherited from the Local Education Authority were revalued as at 31 July 1999. The revaluation was performed by Drivers Jonas, Chartered Surveyors and was done on an "existing use" basis. The freehold land element of the property was estimated at £1,556,500 for depreciation purposes. Some of this land has now been disposed of.

The College has 99 year leases at a peppercorn rent on three premises that were the property of the local education authority but are used by the College.

All freehold land and buildings 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 Learning and Skills Council, to surrender the proceeds. Funds designated for reinvestment in this way currently exceed the value of cash and investments. However, with LSC agreement, the College has arranged a bank overdraft facility to cover the shortfall in the unlikely event that the LSC require disposal proceeds to be surrendered.

The amount shown as under construction relates to the planned redevelopment of the Hortensia site. A development agreement has been signed with Trevor Osborne/Manhattan Loft Corporation under the terms of which part of the site was sold for residential development in January 2008. The proceeds of £13,000,000 are being reinvested in a new building on the car park site. A surplus of £10,324,000 arose from the disposal in the year ended 2007/08.

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

	£000s
Cost	Nil
Aggregate depreciation based on cost	Nil
<b>Net book value based on cost</b>	<b>Nil</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**12 Debtors**

	2009 £000s	2008 £000s
Amounts falling due within one year:		
Trade debtors	659	728
Prepayments and accrued income	309	356
Amounts owed by the LSC	571	10
Other debtors	68	20
	<u>1,607</u>	<u>1,114</u>

**13 Creditors: Amounts Falling Due Within One Year**

	2009 £000s	2008 £000s
Overdrawn bank balances*	-	28
Trade creditors	152	148
Employee taxation and social security	354	318
Accruals and deferred income	1,774	1,334
Other creditors	241	289
	<u>2,521</u>	<u>2,117</u>

**14 Deferred Capital Grants**

	£000s
At 1 August 2008	
Land and buildings	305
Equipment	365
Cash received	
Land and buildings	8
Equipment	518
Released to income and expenditure account	
Land and buildings	(105)
Equipment	(101)
	<u>990</u>
At 31 July 2009	
Land and buildings	208
Equipment	782
	<u>990</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**15 Revaluation Reserve**

	2009 £000s	2008 £000s
<b>At 1 August</b>	4,222	6,999
Transfer from revaluation reserve to general reserve in respect of:		
Disposals	-	(2,644)
Depreciation on revalued assets	(108)	(133)
<b>At 31 July</b>	<b>4,114</b>	<b>4,222</b>

**16 General Reserve - Income and Expenditure Account Reserve**

	2009 £000s	2008 £000s
<b>At 1 August</b>	3,922	3,707
Surplus on continuing operations after depreciation of assets at valuation, disposal of assets and tax	20	10,042
Transfer from revaluation reserve (note 15)	108	2,777
Transfer to designated reserve (note 17)	1,242	(11,996)
Actuarial loss in respect of pension scheme (note 22)	(1,510)	(608)
<b>At 31 July</b>	<b>3,782</b>	<b>3,922</b>
Balance represented by:		
Pension Reserve	(2,158)	(766)
General Reserve excluding pension reserve	5,940	4,688
<b>At 31 July</b>	<b>3,782</b>	<b>3,922</b>

**17 Designated Reserve**

	2009 £000s	2008 £000s
<b>At 1 August</b>	12,960	964
Transfer (to)/from general reserve	(1,242)	11,996
<b>At 31 July</b>	<b>11,718</b>	<b>12,960</b>
Balance represented by:		
Investments	11,038	12,891
Amount due from General Reserve	680	69
<b>At 31 July</b>	<b>11,718</b>	<b>12,960</b>

The designated reserve represents the proceeds from the sale of the College's Sloane building. It is held in reserve for future reinvestment in fixed assets.

**18 Reconciliation of Consolidated Operating Surplus/(Deficit) to Net Cash In/(Out)flow from Operating Activities**

	2009 £000s	2008 £000s
Surplus/(deficit) on continuing operations after depreciation of assets at valuation	20	10,042
Depreciation (note 1 & 11)	937	790
Deferred capital grants released to income	(206)	(127)
(Profit)/loss on disposal of tangible fixed assets	-	(10,324)
Interest receivable (note 5)	(355)	(437)
Pension cost less contributions payable (notes 6, 9 and 22)	(146)	(198)
Pension finance expenditure/(income) (note 22)	28	(51)
(Increase)/decrease in debtors	(493)	(692)
Increase/(decrease) in creditors	432	501
Increase/(decrease) in provisions	-	(113)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>217</b>	<b>(609)</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**19 Analysis of Cash Flows**

	2009 £000s	2008 £000s
<b>Returns on Investments and Servicing of Finance</b>		
Other interest received	355	437
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b><u>355</u></b>	<b><u>437</u></b>

**Capital Expenditure and Financial Investment**

Purchase of tangible fixed assets	(2,817)	(3,151)
Sales of tangible fixed assets	-	13,000
Deferred capital grants received	526	391
<b>Net cash (out)/inflow from capital expenditure and financial investment</b>	<b><u>(2,291)</u></b>	<b><u>10,240</u></b>

**Management of Liquid Resources**

Withdrawal/(placing) of deposits	1,853	(10,288)
<b>Net cash in/(out)flow from management of liquid resources</b>	<b><u>1,853</u></b>	<b><u>(10,288)</u></b>

**20 Analysis of Changes in Net Funds**

	At 1 August 2008 £000s	Cashflows £000s	At 31 July 2009 £000s
Cash in hand, and at bank	-	106	106
Bank overdraft	(28)	28	-
	<u>(28)</u>	<u>134</u>	<u>106</u>
Current Asset Investments	12,891	(1,853)	11,038
<b>Total</b>	<b><u>12,863</u></b>	<b><u>(1,719)</u></b>	<b><u>11,144</u></b>

**21 Major non-cash transactions**

There were no major non-cash transactions during the year (2008: Nil).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**22 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 Royal Borough of Kensington & Chelsea Pension Fund (RBK&CPF) for non-teaching staff. Both are defined benefit schemes.

Total pension costs for the year	2009 £000s	2008 £000s
Teachers Pension Scheme: contributions paid	822	780
Royal Borough of Kensington & Chelsea Pension Fund		
Contributions paid	618	636
FRS 17 Charge	(146)	(198)
	<hr/>	<hr/>
Charge to the Income and Expenditure Account (staff costs)	472	438
Total Pension Cost for Year	<u>1,294</u>	<u>1,218</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuations of the TPS was 31 March 2004 and the RBK&CPF 31 March 2007. Contributions amounting to £75,000 (2008 £64,000) were payable to the scheme at 31st July and are included within creditors.

**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 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	31 March 2004
Actuarial method	Prospective Benefits
Investment returns per annum	6.5% per annum
Salary scale increases per annum	5.0% per annum
Market value of assets at date of last valuation	£162,650 million

Proportion of members' accrued benefits covered by the actuarial value of the assets: 98.88%

Following the implementation of Teachers' Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the year ended 31 July 2009 the employer contribution was 14.1% and the employee rate was 6.4%.

**FRS 17**

Under the definitions set out in Financial Reporting Standard 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 accounted for its contributions 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**22 Pension and similar obligations (continued)****The Royal Borough of Kensington & Chelsea Pension Fund**

The RBK&CPF 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 £857,000 of which employer's contributions totalled £618,000 and employees' contributions totalled £239,000. The current contributions rates are 18.8% for employers and 5.9% - 7.2% for employees (depending on salary level).

**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%	6.7%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement age 65 are:

	At 31 July 2009
Retiring today	
Males	19.6 years
Females	22.5 years
Retiring in 20 years	
Males	20.7 years
Females	23.6 years

The College's share of the assets in the scheme (estimated to be 0.79% of the total) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2009	Value at 31 July 2009 £000s	Long-term rate of return expected at 31 July 2008	Value at 31 July 2008 £000s
Equities	7.3%	3,126	7.8%	2,843
Bonds	5.3%	770	5.7%	910
Property	5.3%	136	5.7%	159
Cash	4.3%	498	4.8%	222
Total Market Value of assets		<u>4,530</u>		<u>4,134</u>
Present value of scheme liabilities - funded		(6,688)		(4,889)
- unfunded		0		(11)
Deficit in the scheme		<u>(2,158)</u>		<u>(766)</u>

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

	2009 £000s	2008 £000s
Employer service cost (net of employee contributions)	472	368
Past service cost	-	70
Total operating charge	<u>472</u>	<u>438</u>

**Analysis of pension finance income**

Expected return on pension scheme assets	321	348
Interest on pension liabilities	(349)	(297)
Pension finance income	<u>(28)</u>	<u>51</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**22 Pension and similar obligations (continued)****The Royal Borough of Kensington & Chelsea Pension Fund (continued)**

<b>Amount recognised in the statement of total recognised gains and losses (STRGL)</b>	2009 £000s	2008 £000s
Actual return less expected return on pension scheme assets	(699)	(1,397)
Experience gains and losses arising on the scheme liabilities	12	491
Change in financial and demographic assumptions underlying the scheme liabilities	(823)	298
Actuarial loss recognised in STRGL	<u>(1,510)</u>	<u>(608)</u>

**Movement in deficit during year**

Deficit in scheme at 1 August	(766)	(407)
Movement in year:		
Current service charge	(472)	(368)
Employer contributions	618	636
Past service costs	-	(70)
Net interest / (return) on assets	(28)	51
Actuarial loss	(1,510)	(608)
Deficit in scheme at 31 July	<u>(2,158)</u>	<u>(766)</u>

**Asset and liability reconciliation**

	2009 £000s	2008 £000s
<b>Reconciliation of Liabilities</b>		
Liabilities at 1 August	4,900	4,864
Service cost	472	368
Interest cost	349	297
Employee contributions	239	148
Experience gains and losses on scheme liabilities	(12)	(491)
Actuarial (gain)/loss	823	(298)
Benefits paid	(83)	(58)
Past Service cost	-	70
Liabilities at 31 July	<u>6,688</u>	<u>4,900</u>

**Reconciliation of Assets**

Assets at 1 August	4,134	4,457
Expected return on assets	321	348
Actuarial gain/(loss)	(699)	(1,397)
Employer contributions	618	636
Employee contributions	239	148
Benefits paid	(83)	(58)
Assets at 31 July	<u>4,530</u>	<u>4,134</u>

The estimated value of employer contributions for the year ended 31<sup>st</sup> July 2010 is £690,000.

**History of experience gains and losses**

	2009 £000s	2008 £000s	2007 £000s	2006 £000s	2005 £000s
Difference between the expected and actual return on assets:					
Amount £000s	(699)	(1,397)	137	282	356
% of scheme assets	15.4%	33.8%	3.1%	8.0%	13.0%
Experience gains and losses on scheme liabilities:					
Amount £000s	12	491	1	(4)	(141)
% of scheme liabilities	0.0%	10.0%	0.0%	(0.1%)	(3.6%)
Total amount recognised in STRGL					
Amount £000s	(1,510)	(608)	616	76	(333)
% of scheme liabilities	22.5%	12.4%	12.7%	1.7%	(8.6%)

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2009 (continued)

**23 Post Balance Sheet Events**

The College took over the North London Offender Learning and Skills Service on 1st November 2009. This contract is expected to be worth £2.2m in 2009/10. Construction work commenced on the the College's £14m new building in October 2009.

**24 Capital Commitments**

	2009 £000s	2008 £000s
Commitments contracted for at 31 July	<u>194</u>	<u>1,376</u>
Commitments under finance leases entered into but not yet provided for in the financial statements	<u>-</u>	<u>-</u>

**25 Financial Commitments**

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

	2009 £000s	2008 £000s
<b>Land and Buildings</b>		
Expiring within two and five years inclusive	140	140
Expiring in over five years	104	104
	<u>244</u>	<u>244</u>
<b>Other</b>		
Expiring within one year	-	-
Expiring between two and five years inclusive	49	34
	<u>49</u>	<u>34</u>

**26 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. Governors are entitled to up to 4 hours a week of free courses. Fees waived during the year were less than £500. No other transactions were identified which should be disclosed under Financial Reporting Standard 8, Related Party Disclosures.

**27 Amounts Disbursed as Agent****Learner Support Funds**

	2009 £000s	2008 £000s
Learning and Skills Council grants - hardship funds	157	370
Learning and Skills Council grants - childcare	369	113
Other funding bodies grants	20	2
Interest earned	-	4
	<u>546</u>	<u>489</u>
Disbursed to Students	(520)	(465)
Administration costs	(26)	(24)
Balance unspent at 31 July	<u>-</u>	<u>-</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 the circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account.