

**KENSINGTON AND CHELSEA COLLEGE**  
**REPORT AND FINANCIAL STATEMENTS**

**For the year ended**

**31st July 2011**

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## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2011

### Nature, Objectives and Strategies

#### Legal Status

Kensington & Chelsea College (KCC) 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 2011/12, produced in February 2011, identified the following strategic priorities/objectives for the College for the period 2010-2014:

- Skills for employability and life.
- Community regeneration and sustained employability and in-work support across London.
- Develop curriculum in appropriate centres to serve local need.
- Employer responsiveness - workforce development and work-based learning. Focus on Apprenticeships and employer designed training and enterprise and business start up.
- 14-18 Delivery - including programmes for young people Not in Education, Employment or Training (NEETs). This includes increased provision to young adult Learners with Learning Difficulties and Disabilities (LLDD) age 16-24.
- Reducing offending and re-offending - delivering education and training in all 9 London prisons and related community provision.
- Measurable quality improvement.
- Sustained investment in learning.

Progress against these areas during 2010/11 was as follows:

- Skills for employability and life. 2010/11 saw further development of functional skills provision, delivery of work-skills courses as part of tutorials and the expansion of online testing.
- Community regeneration and employability. The College completed several projects funded from the European Social Fund. Training programmes for Job Centre Plus clients started in May.
- Employer responsiveness. The College has continued the development of provision in this area - with a shift of emphasis to delivering through freelance assessors and partner organisations.
- Growth in provision for 14-18 year olds. Delivery of the Creative and Media diploma continued and other provision for 14-16 year olds remained strong. However, 16-18 enrolments were a little lower than the previous year.
- Reducing reoffending. The College opened a new centre in HMP Isis. Delivery targets were substantially met and achievement rates showed a dramatic improvement, mainly thanks to a complete redesign of the curriculum. The Offender Learning & Skills Service (OLASS) is currently being retendered following a government review of the service.
- Measurable quality improvement. New reporting systems were introduced which improved monitoring of attendance rates and swift intervention where required. Attendance rates showed a marked improvement. Termly Performance Review Boards were introduced which have significantly added to the rigour of the quality assurance process. Provisional figures show an improvement in retention rates for the year, particularly for 16-18 year olds. Improvements have also been made to e-learning systems. A minimum course content on the College's virtual learning environment was introduced.
- Investment in learning. The College completed the construction of its new Hortensia Building and moved out of the old Sloane Building. A major refurbishment of classrooms at the Wornington Centre was completed in the summer of 2011. The lease on the Marlborough premises was surrendered and additional space was leased in the Carlyle Building. The College's finances have been affected by public expenditure cuts. Although cost savings have been achieved, further savings will be needed to ensure that the College continues to break-even.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2011 (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 Skills Funding Agency. KCC's status is currently classified as Financial Health Category 2 - Good.

### **Performance Indicators**

The "Framework for Excellence" has four key performance indicators:

- Success rates
- Learner destinations
- Learner views
- Employer views

The financial indicators (Financial Health and Financial Management and Control) will continue to be graded and will be reported to providers directly by the relevant funding body. As this direct reporting occurs earlier than Framework for Excellence reporting, these performance indicators will no longer be included in the Framework for Excellence Application.

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 Skills Funding Agency. The current rating of good is considered an acceptable outcome.

## **Financial Position**

### **Financial Results**

The College made an operating surplus before exceptional items of £42,000 (2009/10 £116,000 deficit) and a deficit after exceptional items of £2,344,000 (2009/10: £116,000 deficit). The College has accumulated reserves of £18,142,000 (2009/10 £20,035,000) and cash balances of £2,707,000 (2009/10 £6,740,000). The College aims to accumulate reserves and cash balances in order to help finance future capital development and create a contingency fund.

The operating surplus before exceptional items was £10,000 below the budgeted surplus of £52,000 and represented 0.15% of income. Although the overall surplus was close to budget, there were variances on the income side. Adult learner funding was £280,000 below budget due to lower than expected enrolments on further education courses and fee income was also less than expected. However, other sources of income largely compensated for these shortfalls.

Tangible fixed asset additions during the year amounted to £8,944,000 (note 11). This was split between buildings improvements of £7,741,000 and equipment purchased of £1,203,000. The major buildings costs related to the construction of 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 building was officially opened on 30th June 2011 by the Chief Executive of the Skills Funding Agency.

The College is reliant on the education sector funding bodies for its funding. In 2010/11 the funding bodies provided 90% of the College's income.

The College has no subsidiary companies.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2011 (continued)

### **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 College's Financial Memorandum previously agreed with the LSC and subsequently transferred to the Skills Funding Agency. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

### **Cash flows**

A £2,525,000 inflow (2009/10 £168,000 outflow) (see note 20), increased operating cash during the year. This was due to a combination of factors detailed in note 20 including a significant rise in creditors and a reduction in debtors.

### **Liquidity**

In early 2008 the College received £13m from the sale of the Sloane Building and adjoining land. These funds were designated to be reinvested in the College's new building on Hortensia Road. The disposal proceeds were exhausted in May 2011 and a bank loan facility of £1.2m was drawn down in the same month to meet the remaining costs of the project. A £1.5m overdraft facility has also been put in place (of which £1.3m can be drawn without further Skills Funding Agency approval) to ensure that working capital requirements can be met.

The planned size of the College's total borrowing and its approach to interest rates 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.

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

### **Student numbers**

In 2010/11 the College has delivered activity that has produced £9.7m in funding body main allocation funding (2009/10: £9.4m) and £13.4m in OLASS funding (2009/10: £11.4m). The College had 16,299 enrolments (2009/10: 17,227) equating to 3,477 full-time equivalent students (2009/10: 4,004). In addition there were 17,867 OLASS enrolments (2009/10: 29,867), equivalent to 1,252 full-time equivalent students (2009/10: 2,062).

### **Student achievements**

Students continue to prosper at the College. Success rates improved in 2010/11 at 78% (2009/10: 74%).

### **Curriculum Developments**

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

- Extensive redesign of programmes on implementation of the Qualifications and Credit Framework.
- Development of Functional Skills provision.
- Delivery of work-skills courses during tutorials.
- Development of programmes for unemployed people in partnership with Job Centre Plus.
- Development of Level 1 and Entry Level courses to address the Foundation Learning Tier agenda.
- Ending of non-OLASS provision of Dance, and Motorcycle Maintenance courses due to funding cuts.
- Ending of courses at the Marlborough Centre.

### **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 2010 to 31 July 2011, the College paid 63% of its invoices within 30 days (2009/10: 51%). The College did not incur any interest charges in respect of late payment for this period. Work will continue in this area to try and raise this percentage.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2011 (continued)

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

The College vacated the Sloane and Marlborough Buildings in October 2011, as planned. The financial implications are reflected in the 2010/11 financial statements since terms were agreed before the end of the financial year.

### **Future developments**

The College faces a further reduction in funding as a consequence of public expenditure cuts. A range of options are being considered for scaling back funded activities and identifying alternative sources of funding. The College also faces the re-tendering of OLASS contracts during 2011/12.

### **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.

### **Financial**

The College has £19.4 million of net assets (including £1.3 million pension liability) and long term debt of £1.2m.

### **People**

The College employs 648 people (expressed as full time equivalents), of whom 415 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 Skills Funding Agency, the YPLA and HEFCE. In 2010/11, 90% 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 which 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.
- Changes to rules concerning eligibility of students to concessionary fees and support for 16-18 year old students through allowances and bursaries.

## OPERATING AND FINANCIAL REVIEW for the year ended 31 JULY 2011 (continued)

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 funding bodies.

### **2. Tuition fee policy**

In 2010/11 the fee assumption underlying funding rates was increased to 50%. In line with the majority of other colleges, Kensington and Chelsea College increased tuition fees in accordance with the rising fee assumptions. This resulted in a reduction in enrolments from students who were not entitled to a concessionary fee. Although the fee assumption remains at 50% in 2011/12, funding rates have been reduced. The College has increased fees to partly compensate but faces a risk of further reductions in enrolments from learners who are not entitled to a concession.

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**

Although major property improvement projects have been completed and the College no longer faces the associated risks, further property improvement plans will continue to involve risk. In the worst case, the College could suffer a financial loss or lose the use of some teaching accommodation.

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

## **Stakeholder Relationships**

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

- Students;
- Funding bodies;
- 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 2011 (continued)

### **Disability statement**

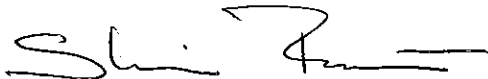
The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Act 2001 and 2005.

- 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 21st December 2011 and signed on its behalf by:



Sheila Porritt, Chair of Governors

### **Professional Advisors**

Financial statements and regularity auditors:  
Buzzacott LLP  
130 Wood Street  
London EC2V 6DL

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

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

Internal auditors:  
MacIntyre Hudson LLP  
New Bridge Street House  
30-34 New Bridge Street  
London EC4V 6BJ  
(up to 2010/11)

KPMG LLP  
Canary Wharf (12th Floor)  
15 Canada Square  
London E14 5GL  
(from 2011/12)

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL for the year ended 31 JULY 2011

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 UK Corporate Governance Code issued by the London Stock Exchange in June 2010. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the members of the Corporation, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2011.

### 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 2010/11

Name	Category of membership	Date First Appointed	Expiry of term of office	Date of Reappointment	Committee
Sheila Porritt	Chair	November 1996	March 2014	Re-appointed March 2010	Finance & General Purposes, Remuneration, Building Project Board
Mike Jutsum	Principal & Chief Executive	May 2004			Finance & General Purposes, Quality Improvement, Search, Remuneration, Building Project Board
David Adams		December 2009	December 2013		Audit
Elizabeth Arnold		June 2001	March 2013	Re-appointed March 2009	Quality Improvement, Search
Tunde Banjoko		July 2010	July 2014		Finance & General Purposes
Margaret Butler		December 2009	December 2013		Finance & General Purposes
Veronica Corben		July 2009	July 2013	Resigned December 2010	Quality Improvement
Alan Edwards	Vice Chair	May 2006	May 2014	Re-appointed May 2010	Audit, Search, Remuneration, Building Project Board
Alicia Holiday		December 2009	December 2013		Finance & General Purposes
Vikki Keilthy		July 2004	July 2012	Re-appointed May 2008	Audit
Reg Kerr-Bell		July 2006	July 2014	Re-appointed July 2010	Finance & General Purposes
Cllr Andrew Lamont		December 2007	December 2011		Finance & General Purposes
Colin Matheson		November 1998	October 2010	Re-appointed July 2010	Quality Improvement, Search, Audit
Khalid Ben Tahar	Academic Staff	July 2010	July 2014		Audit, Quality Improvement
Don Nicholls	Academic Staff	May 2006	July 2014	Re-appointed July 2010	Audit, Quality Improvement
Wendy Charles-Marlin	Support Staff	December 2009	December 2013		Audit, Quality Improvement
Jodi Miller	Student	December 2010	July 2011		
Jaleesa Stewart	Student	December 2010	July 2011		

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, Quality Improvement, Remuneration, Search, Audit and the Building Project Board (until May 2011). 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 members of the Corporation. 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 2011 (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 2011 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 the 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 main FE funding bodies, 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 Skills Funding Agency. 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 at KCC for the year ended 31 July 2011 and up to the date of approval of the annual report and financial statements.

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

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ended 31 July 2011 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Corporation.

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL for the year ended 31 JULY 2011 (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 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, the regularity auditors in their management letters 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 senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, 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 2011 meeting, the Corporation, through its Audit Committee, carried out the annual assessment for the year ended 31 July 2011 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2011. This was confirmed by the full Corporation at its December 2011 meeting.

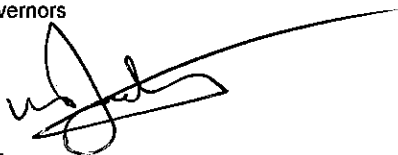
### **Going Concern**

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 21st December 2011 and signed on its behalf by:



Sheila Porritt  
Chair of Governors



Mike Jutsum  
Principal & Chief Executive

## RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION for the year ended 31 JULY 2011

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 Skills Funding Agency 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 jointly by the Skills Funding Agency and the Young People's Learning Learning Agency, 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 expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency and YPLA are used only in accordance with the Financial Memorandum with the Skills Funding Agency and the YPLA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency and the YPLA are not put at risk

Approved by order of the members of the Corporation on 21st December 2011 and signed on its behalf by:



Sheila Porritt  
Chair of Governors

## INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF KENSINGTON & CHELSEA COLLEGE

We have audited the financial statements ("the financial statements") of Kensington & Chelsea College for the year ended 31 July 2011 set out on pages 13 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Corporation of Kensington & Chelsea College and the Auditor**

As explained more fully in the Statement of the Corporation's responsibilities set out on page 10, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the College's affairs as at 31 July 2011 and of the College's deficit of expenditure over income for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions

### **Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the YPLA and the Audit Code of Practice issued by the Learning and Skills Council**

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.



Buzzacott LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

4 January 2012

## INDEPENDENT AUDITOR'S REPORT ON REGULARITY TO THE CORPORATION OF KENSINGTON & CHELSEA COLLEGE ('THE CORPORATION') AND THE CHIEF EXECUTIVE OF THE SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter and further to the requirements of the Chief Executive of Skills Funding Agency, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of Kensington & Chelsea College ('the College') for the year ended 31 July 2011 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Corporation and the Chief Executive of the Skills Funding Agency. Our review work has been undertaken so that we might state to the Corporation and the Chief Executive of Skills Funding Agency those matters we are required to state to the Corporation 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 Chief Executive of Skills Funding Agency, 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 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 Skills Funding Agency. We report to you whether, in our opinion, in all material respects, expenditure and income for the year ended 31 July 2011 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 Skills Funding Agency. 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 and income for the year ended 31 July 2011 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

*Buzzacott LLP*

Buzzacott LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

*4 January 2012*

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 JULY 2011

	Notes	2011 £000s	2010 £000s
<b>Income</b>			
Funding body grants	2	24,567	22,447
Tuition fees and education contracts	3	2,089	2,518
Other grant income	4	(315)	1,433
Other operating income		429	334
Investment income	5	457	504
		<hr/>	<hr/>
<b>Total Income</b>		<b>27,227</b>	<b>27,236</b>
		<hr/>	<hr/>
<b>Expenditure</b>			
Staff Costs	6	21,691	19,972
Exceptional restructuring costs	6	158	103
Other operating expenses	8	4,330	6,247
Depreciation	11	1,006	1,030
		<hr/>	<hr/>
<b>Total Expenditure</b>		<b>27,185</b>	<b>27,352</b>
		<hr/>	<hr/>
Surplus/(deficit) on continuing operations after depreciation of fixed assets at valuation before exceptional items		42	(116)
<b>Exceptional Items</b>			
Surplus on surrender of Marlborough Centre lease	11	668	-
Impairment review write down of Hortensia Road development	11	(3,054)	-
		<hr/>	<hr/>
<b>Deficit for the year retained within general reserves</b>		<b>(2,344)</b>	<b>(116)</b>
		<hr/> <hr/>	<hr/> <hr/>

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

**STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS  
for the year ended 31 JULY 2011**

	Notes	2011 £000s	2010 £000s
Deficit on continuing operations		(2,344)	(116)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	17	108	108
		<hr/>	<hr/>
Historical cost deficit for the year		(2,236)	(8)
		<hr/> <hr/>	<hr/> <hr/>

## STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 JULY 2011

	Notes	2011 £000s	2010 £000s
Deficit for the year after depreciation of assets at valuation		(2,344)	(116)
Actuarial gain in respect of pension scheme including the CPI adjustment of £nil (2010: £361,000)	24	451	537
		<hr/>	<hr/>
Total recognised (losses)/gains relating to the year		(1,893)	421
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation</b>			
Opening reserves at 1st August		20,035	19,614
Total recognised (losses)/gains for the year		(1,893)	421
		<hr/>	<hr/>
Closing reserves at 31st July		18,142	20,035
		<hr/> <hr/>	<hr/> <hr/>

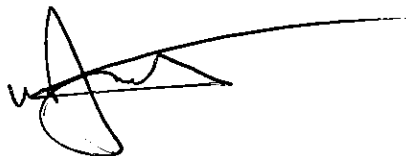
## BALANCE SHEET as at 31 JULY 2011

	Notes	2011 £000s	2010 £000s
<b>Fixed Assets</b>			
Tangible assets	11	20,372	15,970
		<u>20,372</u>	<u>15,970</u>
<b>Current Assets</b>			
Debtors	12	2,127	1,994
Investments - designated		-	5,937
Investments - non designated		2,070	-
Cash at bank and in hand		637	803
		<u>4,834</u>	<u>8,734</u>
Creditors: amounts falling due within one year	13	(3,123)	(2,145)
		<u>1,711</u>	<u>6,589</u>
<b>Net Current Assets</b>			
		<u>22,083</u>	<u>22,559</u>
Creditors: amounts falling due after more than one year	14	(1,423)	(145)
		<u>20,660</u>	<u>22,414</u>
<b>Net assets excluding pension liability</b>			
Net pension liability	24	(1,254)	(1,633)
		<u>19,406</u>	<u>20,781</u>
<b>Net assets including pension liability</b>			
Deferred capital grants	16	1,264	746
		<u>3,898</u>	<u>4,006</u>
Revaluation reserve	17	3,898	4,006
General reserve excluding pension reserve	18	15,498	10,641
Pension reserve	24	(1,254)	(1,633)
		<u>14,244</u>	<u>9,008</u>
General reserve including pension reserve	18	14,244	9,008
Designated reserve	19	-	7,021
		<u>18,142</u>	<u>20,035</u>
<b>Total Reserves</b>			
		<u>19,406</u>	<u>20,781</u>
<b>Total Funds</b>			
		<u>19,406</u>	<u>20,781</u>

The financial statements on pages 13 to 32 were approved by the governing body on 21st December 2011 and were signed on its behalf by:



Sheila Porritt, Chair



Mike Jutsum, Principal &amp; Chief Executive

The accompanying accounting policies and notes 1 to 30 form an integral part of the financial statements.

## CASH FLOW STATEMENT for the year ended 31 JULY 2011

	Notes	2011 £000s	2010 £000s
Cash inflow/(outflow) from operating activities	20	2,525	(168)
Returns on investments and servicing of finance	21	54	184
Capital expenditure and financial investment	21	(7,922)	(4,420)
Management of liquid resources	21	3,867	5,101
Financing	21	1,310	-
		<hr/>	<hr/>
(Decrease)/increase in cash in the year	22	(166)	697
		<hr/> <hr/>	<hr/> <hr/>

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

(Decrease)/increase in cash in the period		(166)	697
Cash inflow from new secured loan	21	(1,200)	-
Cash inflow from liquid resources	21	(3,867)	(5,101)
		<hr/>	<hr/>
Movement in net funds in the period		(5,233)	(4,404)
Net funds at 1 August		6,740	11,144
		<hr/>	<hr/>
Net funds at 31 July	22	1,507	6,740
		<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011

### 1 Accounting Policies

#### Statement of Accounting Policies

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

#### Basis of Preparation

These Financial Statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP) and in accordance with applicable accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the YPLA in the 2010/11 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 and in accordance with the applicable United Kingdom accounting standards.

#### Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes. The College currently has £1.2m of loans outstanding with bankers on terms negotiated in 2009. The terms of the existing agreement is for up to another 25 years. A £1.5m bank overdraft facility is in place and will be maintained. Up to £1.3m of this facility can be drawn without approval from the Skills Funding Agency. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

#### Recognition of Income

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

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

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

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service. Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which 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 (deficit). 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

### 1 Accounting Policies (continued)

#### 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.

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 up to 75 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. Since the Hortensia Building is considered to have a useful economic life of 75 years, an annual impairment review is carried out in accordance with FRS15 (see note 11). No depreciation was charged on the Hortensia Building for the year ended 31 July 2011 as the building was brought into use from August 2011.

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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

### 1 Accounting Policies (continued)

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. Some core computer and communications infrastructure is depreciated over ten years. All other equipment is depreciated over its useful economic life as follows:

Motor vehicles and general equipment	20% per year on a straight-line basis
Computer and IT equipment	10% to 25% per year on a straight-line basis
Building additions	Over 5 to 75 years on a straight-line basis

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 body 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 considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

#### 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 discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in note 29, 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 2011 (continued)

**2 Funding Body Grants**

	2011 £000s	2010 £000s
SFA recurrent grant	19,764	17,975
YPLA recurrent grant	3,861	3,094
HEFCE recurrent grant	444	385
SFA non recurrent grants	193	701
YPLA non recurrent grants	10	-
Release of deferred capital grants (note 16)	295	292
	<u>24,567</u>	<u>22,447</u>

**3 Tuition Fees and Education Contracts**

	2011 £000s	2010 £000s
Tuition fees	1,421	1,690
Education contracts	668	828
	<u>2,089</u>	<u>2,518</u>

Included within the above amounts are tuition fees funded by bursaries of £70,000 (2009/10: £68,000).

**4 Other Grant Income**

	2011 £000s	2010 £000s
European Commission *	(315)	1,176
Other grants and contracts	-	257
	<u>(315)</u>	<u>1,433</u>

\* European Social Fund grants of £257,000 were clawed back in 2010/11 following an audit of funding claims. In addition, grants stated as receivable in 2010 were overestimated by £58,000.

**5 Investment Income**

	2011 £000s	2010 £000s
Interest receivable	54	184
Pension finance income (note 23)	403	320
	<u>457</u>	<u>504</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (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:

	2011 Number	2010 Number
Teaching staff	415	339
Non-teaching staff	233	228
	<u>648</u>	<u>567</u>

**Staff costs for the above persons:**

	2011 £000s	2010 £000s
Wages and salaries	18,456	17,058
Social security costs	1,363	1,241
Other pension costs (including FRS 17 charge of £81,000, 2010 £86,000 credit, see note 24)	1,934	1,691
Payroll sub-total	<u>21,753</u>	<u>19,990</u>
Contracted out lecturing services	33	88
	<u>21,786</u>	<u>20,078</u>
Deduct: Capitalised staff costs included above	(95)	(106)
	<u>21,691</u>	<u>19,972</u>
Exceptional restructuring costs	158	103
	<u>21,849</u>	<u>20,075</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**6 Staff Costs (continued)**

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

	Year ended 31 July 2011		Year ended 31 July 2010	
	Number senior post-holders	Number Other Staff	Number senior post-holders	Number Other Staff
£ 60,001 to £ 70,000	-	9	-	7
£ 70,001 to £ 80,000	-	1	-	1
£ 80,001 to £ 90,000	3	-	3	-
£ 130,001 to £ 140,000	1	-	1	-
	<u>4</u>	<u>10</u>	<u>4</u>	<u>8</u>

No general pay award was made in August 2010.

**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 Governing Body have 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.

	Number 2011	Number 2010
The number of senior post-holders including the Principal was:	4	4
Senior post-holders' emoluments are made up as follows:	£	£
Salaries	322,095	323,914
Benefits in kind	2,208	2,064
Pension contributions	50,635	51,929
<b>Total emoluments</b>	<u><b>374,938</b></u>	<u><b>377,907</b></u>

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

	2011 £	2010 £
Salary	114,201	114,313
Benefits in kind	<u>1,104</u>	<u>1,032</u>
	<u>115,305</u>	<u>115,345</u>
Pension contributions	<u>16,102</u>	<u>16,102</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 members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**8 Other Operating Expenses**

	2011 £000s	2010 £000s
Teaching costs	1,303	3,084
Non-teaching costs	2,120	2,165
Premises costs	907	998
<b>Total</b>	<b><u>4,330</u></b>	<b><u>6,247</u></b>

**Other operating expenses include:**

	2011 £000s	2010 £000s
<b>Auditors' remuneration:</b>		
financial statements audit	26	21
internal audit	32	30
Hire of plant & machinery - operating leases	-	8
Hire of other assets - operating leases	<u>75</u>	<u>51</u>

**9 Interest and Other Finance Costs**

	2011 £000s	2010 £000s
Interest on bank loan repayable wholly or partly in more than 5 years	12	-
Pension finance costs (note 24)	394	418
	<b><u>406</u></b>	<b><u>418</u></b>

**10 Taxation**

The members do not believe the College was liable for any corporation tax arising from its activities during this period (2010: Nil).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

## 11 Tangible Fixed Assets

	Land and Buildings			Equipment £000s	Total £000s
	Freehold £000s	Long Leasehold £000s	Under Construction £000s		
<b>Cost or Valuation</b>					
At 1 August 2010	8,732	3,351	6,054	4,314	22,451
Additions	185	307	7,249	1,203	8,944
Disposals	(49)	(691)	-	(628)	(1,368)
Transfers	13,303	-	(13,303)	-	-
Impairment write down	(3,054)	-	-	-	(3,054)
<b>At 31 July 2011</b>	<b>19,117</b>	<b>2,967</b>	<b>-</b>	<b>4,889</b>	<b>26,973</b>
<b>Depreciation</b>					
At 1 August 2010	2,455	1,032	-	2,994	6,481
Charge for year	268	187	-	551	1,006
Eliminated on disposal	(34)	(224)	-	(628)	(886)
<b>At 31 July 2011</b>	<b>2,689</b>	<b>995</b>	<b>-</b>	<b>2,917</b>	<b>6,601</b>
<b>Net book value At 31 July 2011</b>	<b>16,428</b>	<b>1,972</b>	<b>-</b>	<b>1,972</b>	<b>20,372</b>
<b>Net book value At 31 July 2010</b>	<b>6,277</b>	<b>2,319</b>	<b>6,054</b>	<b>1,320</b>	<b>15,970</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 had 99 year leases at peppercorn rent on three premises that were the property of the local education authority but were used by the College. The lease on one of these properties, the Marlborough Centre, was surrendered in July 2011. This has been shown as a disposal and the net proceeds of this surrender of £668,000 as a surplus on disposal in the year ended 31 July 2011. Additional space is being taken under the same terms in the Carlyle Building. The cost of this is shown as an addition under long leasehold costs during the year ended 31 July 2011.

Most of the freehold land and buildings based at Hortensia and Worrington have ultimately been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Finance Memorandum with the Skills Funding Agency, to surrender the proceeds.

A development agreement was signed with Trevor Osborne/Manhattan Loft Corporation under the terms of which part of the Hortensia site was sold for residential development in January 2008. The proceeds of £13,000,000 were reinvested in the new Hortensia Building. A surplus of £10,324,000 arose from the disposal in the year 2007/08. The new building was completed in June 2011 and costs capitalised under assets under construction were transferred to freehold land and buildings at the end of the year. The new building was assigned a useful economic life of 75 years and an impairment review was carried out following a professional valuation by Drivers Jonas during 2010/11. The review has resulted in a write down in the value of the Hortensia Building of £3,054,000 of freehold costs during the year.

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>

## 12 Debtors

	2011 £000s	2010 £000s
Amounts falling due within one year:		
Trade debtors	214	216
Prepayments and accrued income	979	441
Amounts owed by the Skills Funding Agency	896	1,288
Other debtors	38	49
	<b>2,127</b>	<b>1,994</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

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

	2011 £000s	2010 £000s
Trade creditors	885	586
Employee taxation and social security	456	432
Accruals and deferred income	1,024	868
Amounts owed to the SFA	344	-
Amounts owed to YPLA	118	-
Other creditors	243	259
Amount due to Her Majesty's Revenue and Customs (VAT Lennartz)	21	-
Bank loan (note 15)	32	-
	<u>3,123</u>	<u>2,145</u>

**14 Creditors: Amounts Falling Due After One Year**

	2011 £000s	2010 £000s
Amount due to Her Majesty's Revenue and Customs (VAT Lennartz)	255	145
New unsecured loan repayable by 2036 (note 15)	1,168	-
	<u>1,423</u>	<u>145</u>

The bank loan is repayable over a period of 25 years (see note 15).

**15 Borrowings**

Bank loan is repayable as follows:

	2011 £000s	2010 £000s
In one year or less	32	-
Between one and two years	66	-
Between two and five years	169	-
In five years or more	933	-
	<u>1,200</u>	<u>-</u>

An unsecured bank loan of £1.2m repayable over 25 years was drawn down in May 2011. £1m of the loan is subject to a fixed interest rate of 6.9% until 2026. The remainder is subject to a variable rate of interest.

**16 Deferred Capital Grants**

	£000s
At 1 August 2010	
Land and buildings	113
Equipment	633
Cash received	
Land and buildings	225
Equipment	588
Released to income and expenditure account	
Land and buildings	(95)
Equipment	(200)
	<u>1,264</u>
At 31 July 2011	
Land and buildings	243
Equipment	1,021
	<u>1,264</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**17 Revaluation Reserve**

	2011 £000s	2010 £000s
<b>At 1 August</b>	4,006	4,114
Transfer from revaluation reserve to general reserve in respect of: Depreciation on revalued assets (note 18)	(108)	(108)
<b>At 31 July</b>	<u><u>3,898</u></u>	<u><u>4,006</u></u>

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

	2011 £000s	2010 £000s
<b>At 1 August</b>	9,008	3,782
Deficit on continuing operations after depreciation of assets at valuation and disposal of assets	(2,344)	(116)
Transfer from revaluation reserve (note 17)	108	108
Transfer from designated reserve (note 19)	7,021	4,697
Actuarial gain in respect of pension scheme (note 24)	451	176
Past service cost in respect of pension scheme (note 24)	-	361
<b>At 31 July</b>	<u><u>14,244</u></u>	<u><u>9,008</u></u>
Balance represented by:		
Pension reserve (note 24)	(1,254)	(1,633)
General reserve excluding pension reserve	15,498	10,641
<b>At 31 July</b>	<u><u>14,244</u></u>	<u><u>9,008</u></u>

**19 Designated Reserve**

	2011 £000s	2010 £000s
<b>At 1 August</b>	7,021	11,718
Transfer to general reserve (note 18)	(7,021)	(4,697)
<b>At 31 July</b>	<u><u>-</u></u>	<u><u>7,021</u></u>
Balance represented by:		
Current asset investments	-	5,937
Amount due from general reserve	-	1,084
<b>At 31 July</b>	<u><u>-</u></u>	<u><u>7,021</u></u>

The designated reserve represented residual proceeds from the sale of the College's Sloane Building. It has been reinvested in the construction of the new Hortensia Building.

**20 Reconciliation of Operating Deficit to  
Net Cash inflow (outflow) from Operating Activities**

	2011 £000s	2010 £000s
Deficit on continuing operations after depreciation of assets at valuation	(2,344)	(116)
Depreciation (note 11)	1,006	1,030
Impairment write down (note 11)	3,054	-
Deferred capital grants released to income (note 16)	(295)	(292)
Surplus on disposal of tangible fixed assets	(668)	-
Interest receivable (note 5)	(54)	(184)
FRS17 Pension cost less contributions payable (note 24)	81	(86)
FRS17 Pension finance (income)/expenditure (note 24)	(9)	98
(Increase)/decrease in debtors	1,017	(387)
Increase/(decrease) in creditors	737	(231)
<b>Net cash inflow (outflow) from operating activities</b>	<u><u>2,525</u></u>	<u><u>(168)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**21 Analysis of Cash Flows**

	2011 £000s	2010 £000s Restated
<b>Returns on Investments and Servicing of Finance</b>		
Interest received (note 5)	54	184
<b>Net cash inflow from returns on investments and servicing of finance</b>	<u>54</u>	<u>184</u>
<b>Capital Expenditure and Financial Investment</b>		
Purchase of tangible fixed assets (note 11)	(8,735)	(4,468)
Deferred capital grants received (note 16)	813	48
<b>Net cash outflow from capital expenditure and financial investment</b>	<u>(7,922)</u>	<u>(4,420)</u>
<b>Management of Liquid Resources</b>		
Withdrawal of deposits (note 22)	3,867	5,101
<b>Net cash inflow from management of liquid resources</b>	<u>3,867</u>	<u>5,101</u>
<b>Financing</b>		
Debt due beyond a year:		
Amount due to Her Majesty's Revenue and Customs (VAT Lennartz)	110	-
New unsecured loan repayable by 2036 (note 15)	1,200	-
<b>Net cash inflow from financing</b>	<u>1,310</u>	<u>-</u>

**22 Analysis of Changes in Net Funds**

	At 1 August 2010 £000s	Cashflows £000s	At 31 July 2011 £000s
Cash in hand and at bank	803	(166)	637
	<u>803</u>	<u>(166)</u>	<u>637</u>
Debt due within 1 year	-	(32)	(32)
Debt due after 1 year	-	(1,168)	(1,168)
Current Asset Investments	5,937	(3,867)	2,070
<b>Total</b>	<u>6,740</u>	<u>(5,233)</u>	<u>1,507</u>

**23 Major non-cash transactions**

There were no major non-cash transactions during the year (2010: Nil).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**24 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	2011 £000s	2010 £000s
Teachers Pension Scheme: contributions paid	1,238	1,124
Royal Borough of Kensington & Chelsea Pension Fund		
Contributions payable	615	653
FRS 17 Charge	81	( 86)
Charge to the income and expenditure account (staff costs)	696	567
Total Pension Cost for Year (note 6)	1,934	1,691

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 2010. Contributions amounting to £225,309 (2009 £187,507) 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 normally assessed no less than every four years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	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 2011 the employer contribution rate 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 2011 (continued)

**24 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 2011 was £881,000 of which employer's contributions totalled £615,000 and employees' contributions totalled £228,000. 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 2011	At 31 July 2010
Rate of increase in salaries	5.0%	4.7%
Rate of increase for pensions in payment/inflation	2.7%	2.7%
Discount rate for scheme liabilities	5.3%	5.4%

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 2011	At 31 July 2010
Retiring today		
Males	18.9 years	19.6 years
Females	23.0 years	22.5 years
Retiring in 20 years		
Males	20.9 years	20.7 years
Females	24.9 years	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 2011	Value at 31 July 2011 £000s	Long-term rate of return expected at 31 July 2010	Value at 31 July 2010 £000s
Equities	7.0%	4,667	7.3%	4,273
Gilts	4.0%	0	4.3%	585
Property	6.0%	292	5.3%	293
Cash	3.0%	146	3.0%	702
Target Return Portfolio	6.5%	2,187	0	0
<b>Total Market Value of assets</b>		<b>7,292</b>		<b>5,853</b>
Present value of scheme liabilities - funded		(8,546)		(7,486)
- unfunded		0		0
<b>Deficit in the scheme</b>		<b>(1,254)</b>		<b>(1,633)</b>

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

	2011 £000s	2010 £000s
Employer service cost (net of employee contributions)	695	546
Total operating charge	<u>695</u>	<u>546</u>

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

Expected return on pension scheme assets	403	320
Interest on pension liabilities	(394)	(418)
Pension finance / (costs)	<u>9</u>	<u>(98)</u>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**24 Pension and similar obligations (continued)****The Royal Borough of Kensington & Chelsea Pension Fund (continued)****Amount recognised in the statement of total recognised gains and losses (STRGL)**

	2011 £000s	2010 £000s
Actuarial gain on pension scheme assets	211	344
Actuarial gain on scheme liabilities	709	-
Change in financial and demographic assumptions underlying the scheme liabilities	(469)	(168)
Past service gain	-	361
Actuarial gain and past service cost recognised in STRGL	<u>451</u>	<u>537</u>

**Movement in deficit during year**

Deficit in scheme at 1 August	(1,633)	(2,158)
Movement in year:		
Current service charge	(695)	(546)
Employer contributions	615	653
Past service gain	-	361
Settlements and curtailments	(1)	(21)
Net interest on assets	9	(98)
Actuarial gain	451	176
Deficit in scheme at 31 July	<u>(1,254)</u>	<u>(1,633)</u>

**Asset and liability reconciliation**

	2011 £000s	2010 £000s
<b>Reconciliation of Liabilities</b>		
Liabilities at 1 August	7,486	6,688
Service cost	695	546
Interest cost	394	418
Employee contributions	228	228
Settlements and curtailments	1	21
Actuarial (gain)/loss	(146)	168
Benefits paid	(112)	(222)
Past service gain	-	(361)
Liabilities at 31 July	<u>8,546</u>	<u>7,486</u>

**Reconciliation of Assets**

Assets at 1 August	5,853	4,530
Expected return on assets	403	320
Actuarial gain	305	344
Employer contributions	615	653
Employee contributions	228	228
Benefits paid	(112)	(222)
Assets at 31 July	<u>7,292</u>	<u>5,853</u>

The estimated value of employer contributions for the year ended 31<sup>st</sup> July 2012 is £690,000.

**History of experience gains and losses**

	2011 £000s	2010 £000s	2009 £000s	2008 £000s	2007 £000s
Difference between the expected and actual return on assets:					
Amount £000s	211	344	(699)	(1,397)	137
Experience gains and losses on scheme liabilities:					
Amount £000s	615	0	12	491	1
Total amount recognised in STRGL					
Amount £000s	451	537	(1,510)	(608)	616

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2011 (continued)

**25 Post Balance Sheet Events**

The Marlborough Centre and the Sloane Buildings were vacated in October 2011. The terms of the surrender of the Marlborough lease were agreed before the year end and have therefore been included in the 2010/11 accounts. Further detail is included in note 11.

**26 Capital Commitments**

	2011 £000s	2010 £000s
Commitments contracted for at 31 July	<u>910</u>	<u>6,060</u>
Commitments under finance leases entered into but not yet provided for in the financial statements	<u>-</u>	<u>-</u>

**27 Financial Commitments**

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

	2011 £000s	2010 £000s
<b>Land and Buildings</b>		
Expiring within two and five years inclusive	218	140
Expiring in over five years	115	107
	<u>333</u>	<u>247</u>
<b>Other</b>		
Expiring between two and five years inclusive	45	50
	<u>45</u>	<u>50</u>

**28 Related Party Transactions**

Due to the nature of the College's operations and the composition of the Members of the Corporation (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 Corporation may have an interest. During 2010/11, the College paid £174,000 to Deep Recording Studios and £78,000 to Leonard Cheshire Disability. Deep Recording Studios were a client of Alan Edwards, the Vice Chair, who is a local solicitor. Mike Jutsum, the Principal, is married to one of the directors of Leonard Cheshire Disability. All transactions involving organisations in which a member of the Corporation may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. Members of the Corporation are entitled to up to 4 hours a week of free courses at the College. 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.

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

	2011 £000s	2010 £000s
Funding body grants - hardship support	54	51
Funding body grants - childcare	245	272
Other funding bodies grants	2	20
	<u>301</u>	<u>343</u>
Disbursed to students	(286)	(327)
Administration costs	(15)	(16)
Balance unspent at 31 July	<u>-</u>	<u>-</u>

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

**30 Contingent Liability**

The College faced a claim from a neighbour arising from an infringement of Rights of Light connected with the Hortensia building project. A settlement was reached valuing the claim at £140,000 as part of the surrender of the Marlborough lease. The financial effects are reflected in the 2010/11 financial statements within capital expenditure on the new Hortensia Building.