

South Thames Colleges Group

Report and Financial Statements For the year ended 31 July 2018

Contents

Report of the Governing Body	1 - 13
Statement of Corporate Governance and Internal Control	14 - 19
Statement of Regularity, Propriety and Compliance	20
Statement of the Responsibilities of the Members of the Corporation	21 - 22
Independent Auditor's Report to the Members of the Corporation of South Thames Colleges Group	23 - 25
Reporting Accountant's Assurance report on Regularity to the Corporation of South Thames Colleges Group and Secretary of State for Education acting through the Department for Education	26 - 27
Statements of Comprehensive Income	28
Statements of Changes in Reserves	29
Balance Sheets as at 31 July	30
Consolidated Statement of Cash Flows	31
Notes to the Accounts	32 - 57

South Thames Colleges Group

Strategic report

Report of the Governing Body

Nature, Objectives and Strategies

The governing body present their annual report together with the financial statements and auditor's report for South Thames Colleges Group for the year ended 31 July 2018.

Legal status

The Corporation was established under The Further and Higher Education Act 1992, originally for the purpose of conducting Kingston College, now renamed South Thames Colleges Group. The College is an exempt charity for the purposes of the Charities Act 2011.

On 1 August 2017 Kingston College merged with Carshalton College and South Thames College. South Thames and Carshalton College Corporations dissolved, and all assets and liabilities transferred to Kingston College Corporation on this date. The Kingston College Corporation subsequently changed its legal name to South Thames Colleges Group.

Previously, in December 2011, Kingston College entered into a federation with Carshalton College. Under this arrangement, the Colleges invested in a joint venture company (Kingston College's investment was 51% of the Company's share capital) that provided corporate services to both Colleges. The staff who provided these services were employed by the joint venture company (Kingston and Sutton Educational Partnership Ltd). The Colleges also shared the Accounting Officer who was directly employed by both Colleges. The federation enabled the Colleges to retain the services of specialist staff even though income levels have diminished. On 1 August 2017, Carshalton College's share of the joint venture transferred to South Thames Colleges Group and Kingston and Sutton Educational Partnership Ltd became a wholly owned subsidiary of the College. All staff employed by the Company transferred to the parent College on 1 August 2017, and the Company ceased trading on the same date.

Mission and values

Governors reviewed the College's mission during 2015/16 and in July 2016 adopted a revised mission statement as follows:

We will provide excellent learning and progression for students and support growth for employers around our region, working in close partnership within and beyond our Federation

The College's values, as set out in its revised Strategic Plan, are:

- **Versatility** – our and our students' ability to adapt to the world
- **Opportunity** – taking and making chances to progress and improve
- **Inclusion** – securing the best for everyone in our community
- **Choice** – knowing our students and partners choose us over others
- **Excellence** – doing what we do very very well
- **Safety** – the freedom for our students to learn and develop safely

This strategy continued in place following the merger and the Group remained bound by the mission and values adopted by Kingston College pre-merger. These mission and values are currently under review and will be replaced during 2018/19. The Group will also adopt a new strategic plan during the period 2018/19 to last for three years thereafter. The outline of the strategic plan will be based on the maintenance of four distinct and locally-rooted identities for the four Colleges in the Group and will position the development of the Group between the ongoing commitment to improve its fundamental operations, both in terms of finance and quality, and establish its sub-regional presence as a key economic and educational partner in south-west London. The new strategic plan will also give a renewed focus on wellbeing for both staff and students across the Group, responding to the high levels of referrals for mental health support, heightened levels of knife crime in London and workload pressure on staff.

Public Benefit

South Thames Colleges Group is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 14 and 15.

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

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

- High-quality teaching and excellent student outcomes
- Widening participation and tackling social exclusion
- High rates of progression for students into further learning or employment
- Strong student support systems
- Links with employers, industry and commerce

The College's approach to the delivery of public benefit is set out below in an extract from its 2013-16 Strategic Plan, 'Better Together':

The Federation of Kingston College and Carshalton College is committed to the delivery of tangible public value in its work.

The Federation's mission is to underpin employment, social mobility and economic inclusion through high quality Further and Higher Education. We understand that the provision of learning to the public has a distinct moral purpose and should make a difference to the futures of the people who study with us. We therefore see it as our duty to uphold this responsibility and make sure that all of our business operations are yoked to this purpose.

We will achieve this through two sets of practices:

- *Ethical, values-based work guided by clear principles of operation to ensure that we make choices that will lead to social benefit*

- *Management of resources and curriculum that has direct economic benefit to the Federation's institutions, our students, our partners and the wider community*

The first of these approaches is set out at the beginning of our new strategic plan, in which the Federation commits itself to managing the current challenges of the time in a way that continues deliver benefit to students and employers in our region. The strategic plan reaffirms the values of the Federation:

- *Versatility – our and our students' ability to adapt to the world*
- *Opportunity – taking and making chances to progress and improve*
- *Inclusion – securing the best for everyone in our community*
- *Choice – knowing our students and partners choose us over others*
- *Excellence – doing what we do very very well*

We wish to be held accountable for our adherence to these values in our work. The impact of these principles on our behaviour and decisions will be assessed by our Governors. Our own reviews of our activity will also focus on these attributes and we will now report on our success in securing these values in our self-assessment report each year.

The second approach is to ensure that we can quantify the financial through-put of public and private finances in enhancing the skills of our student, securing jobs and delivering meaningful capital investment to improve facilities for our stakeholders. It is our intention to secure good value for both public and private expenditure through the Federation and to demonstrate the worth of the Colleges' activities.

This way of working will enable us to measure the values of different streams of income coming into the Federation and those of its outputs, allowing us to consider issues of efficiency and student destinations in a more transparent way. It will also help us to understand where we can potentially secure greater value and improve the outcomes for the people using our services. We will also use satisfaction ratings gathered for us by the Government to evaluate the qualitative impact of our work.

In order to share this information with the Federation's stakeholders in a transparent and clear way, we will develop a scorecard to depict the Federations' success in attracting income and then using that income to generate progression and employment for our students. We will publish this as part of our self-assessment process in 2013 and link it to work in this and other public sectors in developing scorecards for our activity.

Despite dating five years from its original adoption and the reduced emphasis for explicit and separate public benefit statements, the spirit of this statement has held true for the Group during the period of the merger.

Since this statement was made, the College has worked on a number of projects to develop measures and examples of public value and social benefit, continuing through the merger to influence the operations of the Group and drawing on the work of the other colleges becoming part of the merged Group:

- *Participation in the national MIDES project designed to ascribe an economic value to the achievements delivered each year (the first experimental data from this process sets the College's Net Present Value at £138,821,000 and this will be reported on and analysed in more detail as the reporting for this measure becomes more refined, although no new data has been made available at the time of writing)*

- Increased focus on learner destinations and detailed metrics developed to report on students' economic participation post-College. This approach was noted and praised by Ofsted and is being developed further for 2016/17; 2017 data shows the proportion of students with a positive destination at 91% for the merged South Thames Colleges Group
- Strong emphasis on our enrichment curriculum to diversify students' experience and provide opportunities for volunteering, project activity, work experience and community engagement
- An active focus on the protection of students from safeguarding and radicalisation risks
- Contribution to significant public projects, such as the establishment of the new Free School in North Kingston, The Kingston Academy, in partnership with Kingston University and the Royal Borough of Kingston-upon-Thames
- Participation in skills competitions, such as World Skills
- Project activity, such as the pilot of the new T Level industrial placement scheme and significant European Social Fund projects, such as the Careers Cluster initiative, both led by South Thames College from before the merger
- The merger itself should generate public benefit by creating a consolidated institution, better able to reduce cost and invest in its key priorities and making for a more resilient organisation in the context of straitened public finances

Resources

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

The Group employs 974 people (expressed as full-time equivalents), of whom 590 are teaching staff.

The College enrolled approximately 5,000 students. The college's student population includes 1,800 16-to-18-year-old students, 550 apprentices, 350 higher education students, 40 international students and 2,000 adult learners

The Group has £59.8 million of net assets (including £37.6 million pension liability) and long-term debt of £15 million. Tangible resources include six main sites across South London.

The Group has a good reputation locally and nationally, evidenced by its ongoing strong recruitment, its extensive and well-developed relationships with employers and its regional and national partnership and project activity. It is the largest FE College in south-west London and currently the second largest in London.

Stakeholders

The College has many stakeholders including:

- its current, future and past students;
- its staff and their trade unions;
- the employers it works with;
- the professional organisation in the sectors where it works;
- its partner schools, especially the school or which it is a sponsor, The Kingston Academy
- its partner universities, especially Kingston University

- the wider college community through various associations and memberships, such as the AoC and Collab Group
- the four local borough councils in Kingston, Merton, Sutton and Wandsworth
- the Greater London Authority
- Government offices, such as the DfE and ESFA, with which the Group works closely
- regulatory bodies, such as Ofsted

DEVELOPMENT AND PERFORMANCE

Financial Results

The Group generated a deficit before other gains and losses of £8 million for the year ended 31 July 2018 (combined deficit of £5.3 million generated by the three Colleges and KSEP Ltd in 2016/17). The year ended 31 July 2018 is the College's first year of operations as a merged institution, and the comparative results for the year ended 31 July 2017 refer to Kingston, South Thames and Carshalton Colleges as well as Kingston and Sutton Educational Partnership Limited. Kingston and Sutton Educational Partnership Limited (KSEP Ltd) was a cost sharing vehicle for the joint venture between Kingston and Carshalton Colleges that became a wholly owned subsidiary of South Thames Colleges Group on 1 August 2017. The 2016/17 results and opening balances of the South Thames College, Carshalton College and the Company have been restated where the accounting policies applied by these institutions in arriving at these results were not aligned to the policies of the Successor Body.

The results for the year ended 31 July 2018 are stated after exceptional restructuring costs of £2 million. At the end of its first year of operations as a merged institution, the College underwent a major institutional review process in order to align staffing to activity levels. The financial plans for 2018/19 indicate that the staff cost ratio will improve significantly (62.3% before restructuring costs and FRS 102 pension adjustments compared to 65% in 2017/18) as a consequence of the measures taken at the end of 2017/18. The embedding of financial control measures across the Group is expected to deliver improved financial performance across all of the Colleges within the Group from 2018/19. The early forecasts for 2018/19 provide evidence of improved performance with an EBITDA of 7% (2017:3.1%).

Developments

The College developed its property strategy for all sites across the Group during 2017/18. No major capital projects were undertaken during the financial year and the College will seek to build reserves through the generation of operating cash flows as well as the disposal of surplus accommodation before it embarks on the next phase of its major investment programme. Capital investment during the year was mainly limited to refurbishment works and IT and other equipment purchases.

Reserves

The Group has accumulated reserves of £59,759,000 (Income and expenditure reserves of £48,723,000 and revaluation reserves of £11,036,000) and cash balance of £10,435,000. The Group seeks to continue to accumulate reserves and cash balances in order to retain a safety net as well fund capital development.

Sources of income

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18, the FE and HE funding bodies provided 70% of the Group's total income (71% in 2016/17).

Group companies

The Group has two subsidiary companies, Kingston and Sutton Educational Partnership Limited (KSEP) and KCTC Limited. The principal activity of KCTC Limited is the rental of property, whilst KSEP Limited did not trade during 2017/18.

Any surpluses generated by KCTC Limited are gift aided to the parent College. KCTC Limited generated a surplus of £121,000 for the year ended 31 July 2018.

KSEP Ltd previously employed a number of staff who provided business support services to Kingston and Carshalton Colleges. The Company was a joint venture between the two Colleges, neither of which had a controlling interest in the Company. All staff employed by the Company transferred to South Thames Colleges Group on 1 August 2017 and the Company ceased trading on this date. The pension liability of KSEP Ltd (£2,813,000) also transferred to the Group on this date.

Academic performance

At merger, the separate constituent Colleges that came together to form the Group had a range of inspection grades:

Kingston College	South Thames College	Carshalton College
Good (2016)	Requires Improvement (2016)	Requires Improvement (2016)

At merger, the Group self-assessed the quality of its provision as Requires Improvement. This was because:

- results across the different Colleges in the Group were too disparate
- English and Maths achievement and high grades were too low
- the quality of teaching and learning was too variable

In addition, the original silver rating for Kingston College's in the Teaching Excellence Framework reduced to bronze as the other Colleges' HE provision and its data were drawn together in the Group.

In 2017/18, significant focus was given to raising standards of teaching and the proportions of students achieving their outcomes. Considerable attention was given to assessment practice across the Group, with greater focus on students successfully completing their assignments to deadline and then being stretched to aspire to higher grades. This has led to an increase in the value-added scores at Kingston College using the ALPS measurement system, while results for the other Colleges are awaited. In Carshalton, Merton and South

Thames Colleges, student achievement rose substantially, coming much closer to the high achievement levels seen previously at Kingston College:

Group FE 2017/18 Achievement Rates

College	Age Grp	Leavers	Leavers	Starts	Retained	Ach	Ach	Ach	3 Year Trend	Nat Ach	Diff to
		Overall	Overall	Overall	Overall	Overall	Overall	Overall		Overall	National
		15/16	16/17	17/18	17/18	% 15/16	% 16/17	% 17/18		% 16/17	Ach %
Carshalton College	All	2,651	2,631	2,340	2,119	75.7	74.5	79.1	↑	84.4	-5.3
Merton College	All	3,330	3,553	3,337	3,122	67.0	79.8	84.9	↑	84.4	0.5
Kingston College	All	6,713	6,411	6,511	6,034	87.5	86.3	86.0	↓	84.4	1.6
South Thames College	All	11,284	11,760	12,791	11,981	82.6	84.5	89.4	↑	84.4	5.0
Group	All	25,284	24,888	24,979	23,256	81.0	83.2	87.0	↑	84.4	2.6

Of particular note is the progress made by the Group in the delivery of English and Maths. This is a requirement on all colleges and a condition of funding for their 16-18 Study Programmes, meaning that all young people attending an FE College must retake their English and Maths if they don't already have a grade C or grade 4 in the new grading methodology introduced in 2016. Most colleges struggle to do this well and the national average for the proportion of young people retaking their English and Maths and achieving a grade 4 or above is between 20% and 30%; the four Colleges drawn together in the merger are no exception, but a very concerted effort, combining changes in teaching methods and stricter approaches to exam attendance saw a very significant move forward, both in raw achievement rates and in high grades:

Group GCSE English & Maths 2017/18 Achievement Rates

College	Age Grp	Leavers	Leavers	Starts	Retained	Ach	Ach	Ach	3 Year Trend	Nat Ach	Diff to
		Overall	Overall	Overall	Overall	Overall	Overall	Overall		Overall	National
		15/16	16/17	17/18	17/18	% 15/16	% 16/17	% 17/18		% 16/17	Ach %
Carshalton College	16-18	416	566	459	401	72.1	66.8	87.4	↑	81.2	6.2
Merton College	16-18	469	468	391	314	74.4	79.7	80.3	↑	81.2	-0.9
Kingston College	16-18	1,125	1,089	1,176	1,038	88.5	86.4	88.3	→	81.2	7.1
South Thames College	16-18	336	499	383	335	75.3	82.2	87.5	↑	81.2	6.3
Group	16-18	2,346	2,622	2,409	2,088	80.9	80.2	86.7	↑	81.2	5.5

Group GCSE English & Maths High Grades 2017/18 Achievement Rates

College	Age Grp	Leavers	Leavers	Starts	Retained	Ach	Ach	Ach	3 Year Trend
		Overall	Overall	Overall	Overall	Overall	Overall	Overall	
		15/16	16/17	17/18	17/18	% 15/16	% 16/17	% 17/18	
Carshalton College	16-18	416	566	459	401	12.0	9.2	14.6	↑
Merton College	16-18	469	468	391	314	9.8	12.6	17.1	↑
Kingston College	16-18	1,125	1,089	1,176	1,038	21.8	20.8	33.5	↑
South Thames College	16-18	336	499	383	335	8.3	15.8	24.0	↑
Group	16-18	2,346	2,622	2,409	2,088	15.7	15.9	25.7	↑

Significant efforts are now being exerted to continue these positives trends, identifying and tackling those areas still under-performing and in need of further improvement. The Group adopted a matrix development and improvement structure over the Summer of 2018 to draw staff together from across the Group to share practice and ensure greater consistency for students. In Autumn 2018, the Group was successful in securing a Strategic College Improvement Fund allocation to help it invest in critical improvements in partnership with Chichester College, an outstanding college.

Disappointingly, the proportions of Apprentices achieving their qualification aims declined in all of the Group's Colleges during 2017/18. In part, this was due to the removal of some student records that had been left open and unresolved for some time, but the delivery of Functional Skills and some weak programme management also contributed to these issues. Nonetheless, the Group's overall position on Apprenticeship outcomes for 2017/18 is roughly in line with the national average.

FUTURE PROSPECTS

Developments

The college has invested in its facilities over a number of years, and engaged proactively with the Area Review Process that led to the merger of Kingston, South Thames and Carshalton Colleges on 1 August 2017. The merger was intended to secure a strategic solution to the strategic challenges faced by all three Colleges and eliminate some over-supply in the local FE marketplace. The merged College is continuously seeking to improve efficiency and resource utilisation across all its campuses and performance to date indicates that the College is on route to achieving this.

Financial plan

The College governors approved a two year financial plan in July 2018 which sets objectives for the period to 2020.

Treasury policies and objectives

The College has treasury management arrangements in place to manage cash flows, banking arrangements and the risks associated with those activities.

The College has a separate treasury management policy in place.

At the point of merger on 1 August 2017, the existing borrowings of South Thames and Kingston Colleges were consolidated into one loan. Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows and liquidity

At £1.7 million, the net cash flow from operating activities has reduced from the £3.2 million achieved in 2016/17 (Kingston: £3.2million, Carshalton: £1.7 million, South Thames: negative of £1.4 million, KSEP: negative of £0.28 million). The budgets and forecasts for 2018/19 indicate that the cash flow from operating activities will improve to £3.1 million in the second year of trading as a merged entity.

Other than the consolidation of the pre-merger borrowings of South Thames and Kingston Colleges on 1 August 2017, the Group has not entered into any new loan agreements during the year. The Loan facility agreement for the long term debt requires the Group to maintain a minimum cash balance of £5 million at the end of each year throughout the life of the loan. The Group has set its own minimum average cash balance target of £7.5 million in order to provide a safety net against cash flow risks.

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

Reserves

Though the Group did not have a reserves policy in place during 2017/18, a reserve target for 31 July is set at the time of setting budgets for each year along with a minimum percentage (of income) target for earnings before interest, tax, depreciation and amortisation (EBITDA). The general reserve target for 31 July 2018 was £47.1 million (actual £48.7 million), based on an EBITDA target of 7.83% (actual 3.1%) of Income for the year. The purpose of this target is to build up sufficient reserves to enable further investments in accommodation and teaching resources.

Going concern

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

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management

The Group has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance.

A risk register is maintained at the Group 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. Not all the factors which constitute or contribute to a risk may be within the College's control. Given the significant changes to funding systems, governance arrangements and public sector finances, other factors besides those listed within the risk register may also emerge which adversely affect the College and these are identified and incorporated in the Risk Register as they arise. The sub-committees of the Governing Body own a number of the College's risks and report on these and their levels of assurance at the end of each meeting.

The main risk factors affecting the College are outlined below along with the action taken to minimise them. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Funding and income levels

The Group has considerable reliance on funding for 16-18 year olds, and about 40% of total income in 2017-18 was derived from this student cohort. The Group recognises the risk that recruitment will be affected by competition from other providers including schools, and insufficient internal progression and retention. The risk is mitigated through curriculum planning, internal delivery targets set above funding targets, internal marketing targeted at improving progression and the development of curriculum clusters aimed at maintaining quality and reputation. The Group has seen gentle decline in 16-18 recruitment over the past three years and this has given the Group a considerable challenge in consolidating to a level of activity that is affordable and based on reliable and stable student numbers. HE recruitment continues to be a significant concern, but this pressure has been mitigated

successfully in 2017/18 through efficiency measures and contingency planning, although the withdrawal of some key collaborative programmes from Autumn 2018 has created further pressure on the Group to reduce costs and find growth elsewhere. Apprenticeship recruitment has also proven to be unreliable as the new levy system establishes itself slowly. The recruitment of High Needs Students is proving capable of generating growth, but the profitability of this work is limited and stronger Group systems to manage and claim funding for these students are needed to make this area fully effective.

2. Cost efficiency

Where income targets are not achieved, if fixed costs are not controlled, there is a risk that expenditure will exceed affordable levels and undermine efficiency. In order to mitigate the risk, the College sets an annual operating surplus target and a minimum contribution target for each delivery area. Annual budgets also contain an allowance for contingency. Monthly financial performance monitoring meetings are held to review the forecast outturn and lead to detailed monthly reports to SMT and Governors and the impact of these measures will be decisive in returning the Group's financial performance to a positive level.

3. Quality improvement

The progress seen in student achievement rates during 2017/18 are commendable, but there clearly remain a number of curriculum areas within the Group where performance is not yet at an acceptable level and the Group risks an adverse judgement from an inspection or other external review if this weak performance is not effectively and decisively addressed. Data for 2017/18 shows that Apprenticeships performed particularly badly and the risk of a critical opinion of this area of work carries with it the potential for funding to be withdrawn.

KEY FINANCIAL PERFORMANCE INDICATORS

Key financial performance Indicator	Actual	Target
Sector EBITDA as % of income	3.1%	7.8%
Staff costs (excluding restructuring) as % of income	64.8%	63.3%
Operating cash flow	£1.7M	£4.1M
Cash days in hand	57.3	54.2
Adjusted current ratio	1.14	1.53
Borrowing as % of income	23.8%	21.95%
Reliance on ESFA income	67.5%	67.52%
Financial Health Score	150	210

OTHER INFORMATION

Equality

South Thames Colleges Group is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, belief, gender, sexual orientation, disability, class and age.

At South Thames Colleges Group, we will continue our work to ensure wherever we can that:

- equality of opportunity is embedded in all policies, practices, decision making and evaluation processes;
- we actively promote access to learning programmes and services for all our learners and potential clients to enable them to improve their skills, to make progress and be successful in realising their ambitions;
- we create a visibly diverse environment which values and celebrates difference and raises the aspiration of existing and potential learners;
- we develop a staff profile, management team and governing body which are commensurate with the above;
- we provide services which are effective in recognising and assessing the specific needs of individuals and ensuring that the right kinds of support and interventions are provided to meet these needs;
- we tackle discrimination, whether direct or indirect, and ensure that we have well understood and well used procedures for challenging all forms of discrimination, harassment, bullying and other unacceptable behaviour;
- we promote an ethos within the Group whereby all learners and members of staff respect the views, values, culture and beliefs of others - regardless of ethnicity, national origin, gender, sexual orientation, marital status, religious beliefs, political affiliation, age, social class, disability, trade union membership or non-membership, employment status, role as a parent, guardian or carer, or whether someone has a criminal record;
- all governors and staff are clear about the Group's standards and strategies to meet diverse learner needs and are equipped to respond effectively;
- we undertake rigorous and open monitoring of learner and staff performance and experience to identify and act on equality gaps;
- we develop comprehensive feedback systems to capture the views and perceptions of learners, staff, governors and stakeholders about how well we do things and what we could improve. We will remain alert to patterns of inequality and related concerns which are not identified through statistical monitoring tools;
- we develop a systematic approach to assessing the impact of new and existing policies, procedures and processes to ensure that negative impacts on the equality of opportunity are identified and addressed.

The Group actively encourages applications from people with disabilities. Where an existing employee becomes disabled every effort is made to ensure that employment with the Group continues.

The Group endeavours to provide an environment that is free of discrimination to staff with disabilities and its policy is to provide training, career development and opportunities for promotion that are, as far as possible, identical to those for other employees.

1. DISABILITY STATEMENT

The Group seeks to achieve the objectives set down in the Disability Discrimination Act 2000 (and the subsequent Special Education Needs and Disability Acts 2001 and 2005) and the Equalities Act 2010 and in particular makes the following commitments:

- a) As part of the continuing redevelopment of the buildings all facilities will continue to ensure that there is ready access to people with a disability;
- b) The admissions procedure aims to ensure that no applicant will be denied the opportunity to apply for a course at the group on the grounds of having a disability and/or learning difficulty;
- c) Specialist equipment and accommodation adaptations will be provided, or made, whenever possible or practical;
- d) The admissions policy for all students is described in the Group policies. Appeals against a decision not to offer a place are dealt with under the complaints policy;
- e) The Group has made a significant investment in the appointment of staff to support students with learning difficulties and/or disabilities who can provide a variety of types of support for learning. The Group arrangements 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 programme information guides and achievements are recorded and published in the standard Group format;
- g) Counselling and welfare services, which are available to all learners, are described on the Colleges' websites;
- h) The Group has produced a Disability Equality Scheme and an associated action plan which seeks to eliminate discrimination and harassment, promote equality of opportunity, promote positive attitudes towards disability, take account of people's disabilities - even if this means treating someone more favourably, and encourage participation by disabled people in public life.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the Group to publish information on facility time arrangements for trade union officials at the Group. The trade union facility time for 1 April 2017 to 31 March 2018 is set out below. The data for the period between 1 April 2017 and 31 July 2017 refers to Kingston College only as the merger took effect on 1 August 2017.

Numbers of employees who were relevant period	FTE employee number
23	20.55

Percentage of time	Number of employees
0%	1
1-50%	22
51-99%	0
100%	0

Total cost of facility time	42,979
Total pay bill	31,029,591
Percentage of total bill spent on facility time	0.14%

Time spent on paid trade union activities as a percentage of total paid facility time	3.39
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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 2017 to 31 July 2018, the College paid 96 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

EVENTS AFTER THE REPORTING PERIOD

There are no significant post balance sheet events to report.

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 11 December 2018 and signed on its behalf by:



Godfrey Allen
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and
- iii. having due regard to the UK Corporate Governance Code 2014 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code.

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in July 2016.

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

The Corporation

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

Name	Date Appointed/ Re-Appointed	End date for Term of office	Date resigned	Committees served	Corporation & Committee Meeting attendance from 1/8/17 to 31/ 7/18
Chair					
Mr G. Allen	10.7.17	31.07.2020		Finance Planning & Resources, Search, (attends Remuneration)	16 of 17 : 94%
Two Vice-Chairs					
Dr. J Brumwell	01/04/17	31.07.2019		Finance Planning & Resources, Remuneration, Special, Safeguarding	20 of 21 : 95%
Mr R. Foulston	01/05/16	31.07.2019		Audit	9 of 11 : 82%
Other general members					
Mr D. Anderson	10.7.17	31.07.2021	26.03.2018	Quality Learning & Standards	6 of 6 : 100%

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

Name	Date Appointed/ Re-Appointed	End date for Term of office	Date resigned	Committees served	Corporation & Committee Meeting attendance from 1/8/17 to 31/7/18
Mr J. Azah	01.04.17	31.07.2021		Safeguarding, Quality Learning & Standards	8 of 14 : 57%
Mr M. Bristow	10.7.17	31.07.2021		Quality Learning & Standards	9 of 11 : 82%
Mr T. Byrne-Price	10.7.17	31.07.2021		Audit, Special	10 of 12 : 83%
Mr D. Cheema	06.07.14	31.07.2021		Finance Planning & Resources, Quality Learning & Standards, Special, Remuneration	19 of 21 : 90%
Ms K. Driver	10.7.17	31.07.2021		Audit	9 of 11 : 82%
Cllr B. Fraser	10.7.17	31.07.2019		Quality Learning & Standards, Remuneration	12 of 15 : 80%
Mr E. Gilbert	01.04.16	31.07.2019		Finance Planning & Resources	9 of 13 : 69%
Ms S. Gordon	10.7.17	31.07.2021		Search, Safeguarding	10 of 13 : 77%
Mr J. Hick	10.7.17	31.07.2020		Finance Planning & Resources, Search	12 of 15 : 80%
Mr K. Hossain	10.7.17	31.07.2021		Finance Planning & Resources, Search	3 of 15 : 20%
Dr J. McSherry	01.04.2018	31.03.2022		Safeguarding	2 of 4 : 50%
Mr N. Ratnavel	10.7.17	31.07.2021		Audit	9 of 11 : 82%
Ms Y. Stanley	10.7.17	31.07.2021	31.03.2018	Quality Learning & Standards, Safeguarding	5 of 8 : 63%
Cllr S. Thom	10.7.17	31.07.2019	05.05.2018	Search, Safeguarding	3 of 10 : 30%
Mr G. Willett	01.05.16	31.07.2019		Quality Learning & Standards	10 of 11 : 91%
Dr C. Wilks	29.09.2017	28.09.2021		Quality Learning & Standards	6 of 10 : 60%
Staff member					
Ms J. Murphy	25.09.17	4 years		Safeguarding	10 of 10 : 100%
Student member					
Vacancy					
Group Principal / CEO					
Mr P. Mayhew-Smith	01.04.10			Finance Planning & Resources, Search, Quality Learning & Standards, Safeguarding	21 of 21 : 100%
Head of Governance					
Mrs H. Meredith	(appointed 1 September 2017)				

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

Kingston College
Kingston Hall Road
Kingston upon Thames
KT1 2AQ

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

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

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search committee, consisting of six members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

Corporation performance

The Corporation carried out a self assessment of its own performance for the year ended 31st July 2018 and graded itself as "good" on the Ofsted scale

Remuneration Committee

Throughout the year ending 31 July 2018 the College's Remuneration Committee comprised three members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior post holders (who are also the College's key management personnel).

Details of remuneration for the year ended 31 July 2018 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee has a minimum of three and maximum of eight members. In addition, the Committee can appoint up to two co-opted members including a finance/audit specialist. The Corporation Chair, the Clerk, the Accounting Officer, Members of Finance Planning and Resources Committees and senior management staff may not be members of the Audit Committee. The Committee operates in accordance with written terms of reference approved by the Corporation.

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

The college's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to College management and the Audit Committee.

College 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, regularity and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the Corporation.

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the funding agreement between South Thames College Group and the funding bodies. 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 South Thames Colleges Group for the year ended 31 July 2018 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 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

South Thames Colleges Group has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit 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. His review of the effectiveness of the system of internal control is informed by:

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

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

The senior 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 and other sources of assurance, 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 December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for *"the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets"*.

Going concern

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, it continues to adopt the going concern basis in preparing the financial statements.

The College achieved Earning before Interest, Tax, Depreciation and Amortisation (EBITDA) of £2,070,000 and satisfactory financial health for the year ended 31 July 2018. The cash balance at year end is healthy at £10.4 million. 2017/18 is a transition year for the College, following the merger between Kingston, Carshalton and South Thames Colleges and KSEP Ltd on 1 August 2017. As the Successor Body to the merger, the College is in the process of embedding consistent financial management processes and controls across all areas, and improving the performance. The forecasts for 2018/19 indicate that the performance is improving and financial health at the end of 2018/19 will be good.

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:



Godfrey Allen
Chair
11 December 2018



Peter Mayhew-Smith
Accounting Officer
11 December 2018

Statement of Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the College's grant funding agreement and contract with the ESFA. As part of our consideration we have had due regard to the requirements of the funding agreement.

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's funding agreement and contract with the ESFA.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the Education and Skills Funding Agency



Godfrey Allen
Chair

11 December 2018



Peter Mayhew-Smith
Accounting Officer

11 December 2018

Statement of the Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the funding agreement with the Education and Skills Funding Agency, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2017 to 2018* issued by the Education and Skills Funding 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 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 Report of the Governing Body 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 ESFA are used only in accordance with the funding agreement with the ESFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Godfrey Allen', written in a cursive style.

Godfrey Allen
Chair

Independent auditor's report to the Members of the Corporation of South Thames Colleges Group

Opinion

We have audited the financial statements of South Thames Colleges Group (the 'College') and its subsidiaries (the 'group') for the year ended 31 July 2018 which comprise the group statement of comprehensive income, the group and parent college statement of changes in reserves and balance sheets, the group statement of cash flows, the principal accounting policies, and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the College's affairs as at 31 July 2018 and of the group's deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members of the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members of the Corporation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and the parent college's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The members of the Corporation are responsible for the other information. The other information comprises the information included in the report and financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with

the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Post 16 Code of Practice issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

Responsibilities of the members of the Corporation

As explained more fully in the statement of responsibilities of members of the Corporation, the members of the Corporation are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members of the Corporation are responsible for assessing the group's and the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members of the Corporation either intend to liquidate the group or the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Corporation, as a body, in accordance with the College's Articles of Government. Our audit work has been undertaken so that we might state to the members of the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the members of the Corporation as a body, for our audit work, for this report, or for the opinions we have formed



Buzzacott LLP
Statutory Auditor
130 Wood Street
London
EC2V 6DL

17 December 2018

Reporting Accountant's Assurance report on Regularity to the Corporation of South Thames Colleges Group and Secretary of State for Education acting through the Department for Education ("the Department")

In accordance with the terms of our engagement letter dated 16 June 2018 and further to the requirements of the funding agreement with the ESFA we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by South Thames Colleges Group during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the Corporation of South Thames Colleges Group and the Department in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of South Thames Colleges Group and the Department those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation of South Thames Colleges Group and the Department for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of the Corporation of South Thames Colleges Group and the reporting accountant

The Corporation of South Thames Colleges Group is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by the Department. We performed a limited assurance engagement as defined in that framework.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the College's income and expenditure.

The work undertaken to draw to our conclusion includes:

- An assessment of the risk of material irregularity and impropriety across all of the College's activities;
- Further testing and review of self-assessment questionnaire including enquiry, identification of control processes and examination of supporting evidence across all areas identified as well as additional verification work where considered necessary; and
- Consideration of evidence obtained through the work detailed above and the work completed as part of our financial statements audit in order to support the regularity conclusion.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Buzzacott LLP

Chartered Accountants
130 Wood Street
London
EC2V 6DL

17 December 2018

South Thames Colleges Group
Consolidated and College Statements of Comprehensive Income

	Notes	Year ended 31 July		Combined Year ended 31 July	
		2018 Group	2018 College	2017 Group	2017 College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2	47,718	47,718	51,258	51,258
Tuition fees and education contracts	3	17,194	17,194	18,446	18,446
Other income	4	3,534	3,399	2,778	2,665
Investment income	5	3	3	9	9
Donations	6	-	121	-	108
Total income		68,449	68,435	72,491	72,486
EXPENDITURE					
Staff costs	7	48,254	48,254	49,005	49,005
Other operating expenses	8	18,446	18,432	18,988	18,985
Depreciation	10	7,537	7,537	7,676	7,676
Interest and other finance costs	9	2,205	2,205	2,150	2,150
Total expenditure		76,442	76,428	77,819	77,816
Deficit for the year		(7,993)	(7,993)	(5,328)	(5,330)
Actuarial gain in respect of pension schemes	16	9,130	9,130	11,472	9,734
Total Comprehensive Income for the year		1,137	1,137	6,144	4,404
Represented by:					
Unrestricted Comprehensive Income		1,137	1,137	6,144	4,404

Kingston, South Thames and Carshalton Colleges merged on 1 August 2017, with Kingston College continuing as the Successor Body. The College changed its name to South Thames Colleges Group in December 2017. The College's income and expenditure for the year ended 31 July 2017 have been restated to include the income and expenditure of all three Colleges as adjusted for the alignment of accounting policies (see note 22).

South Thames Colleges Group
Statements of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1st August 2016 combined	39,952	12,526	52,478
Deficit from the income and expenditure account	(5,328)	-	(5,328)
Other comprehensive income	11,472	-	11,472
Transfers between revaluation and income and expenditure reserves	745	(745)	-
Total comprehensive income/(expenditure) for the year	6,889	(745)	6,144
Balance at 31st July 2017 combined and restated	46,841	11,781	58,622
Deficit from the income and expenditure account	(7,993)	-	(7,993)
Other comprehensive income	9,130	-	9,130
Transfers between revaluation and income and expenditure reserves	745	(745)	-
Total comprehensive income/(expenditure) for the year	1,882	(745)	1,137
Balance at 31st July 2018	48,723	11,036	59,759
College			
Balance at 1st August 2016 combined	44,069	12,526	56,595
Deficit from the income and expenditure account	(4,894)	-	(4,894)
Other comprehensive income	9,730	-	9,730
Transfers between revaluation and income and expenditure reserves	745	(745)	-
Total comprehensive income/(expenditure) for the year	5,581	(745)	4,836
Balance at 31st July 2017 combined and restated	49,650	11,781	61,431
Deficit from the income and expenditure account	(7,993)	-	(7,993)
Other comprehensive income	9,130	-	9,130
Transfer of pension liability brought forward by subsidiary	(2,813)		(2,813)
Transfers between revaluation and income and expenditure reserves	745	(745)	-
Total comprehensive expenditure for the year	(931)	(745)	(1,676)
Balance at 31st July 2018	48,719	11,036	59,755

South Thames Colleges Group
Balance sheets as at 31 July

	Notes	Group	College	Combined Group	College
		2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Tangible fixed assets	10	181,190	181,190	186,263	186,263
		181,190	181,190	186,263	186,263
Current assets					
Stocks	10	10	10	9	9
Trade and other receivables	12	3,089	3,921	2,387	2,631
Cash and cash equivalents	17	10,435	9,543	12,630	12,257
		13,534	13,474	15,026	14,897
Less: Creditors – amounts falling due within one year	13	(14,932)	(14,916)	(13,464)	(13,379)
Net current (liabilities)/assets		(1,398)	(1,442)	1,562	1,518
Total assets less current liabilities		179,792	179,748	187,825	187,781
Less: Creditors – amounts falling due after more than one year	14	(78,497)	(78,497)	(82,074)	(82,074)
Provisions					
Defined benefit obligations	16	(37,601)	(37,601)	(43,207)	(40,394)
Other provisions	16	(3,935)	(3,895)	(3,922)	(3,882)
Total net assets		59,759	59,755	58,622	61,431
Unrestricted reserves					
Income and expenditure account		48,723	48,719	46,841	49,650
Revaluation reserve		11,036	11,036	11,781	11,781
Total unrestricted reserves		59,759	59,755	58,622	61,431

Kingston, South Thames and Carshalton Colleges merged on 01 August 2017. South Thames and Carshalton Colleges dissolved on this date, with Kingston College continuing as the Successor Body. The College changed its name to South Thames Colleges Group in December 2017. Kingston and Sutton Educational Partnership Limited which was previously a joint venture between Kingston and Carshalton Colleges, became a wholly owned subsidiary of the College on 1 August 2017.

The comparative balances above have been restated to include the balances of the three Colleges as adjusted by the alignment of accounting policies (see note 22).

The financial statements on pages 28 to 57 were approved and authorised for issue by the Corporation on 11 December 2018 and were signed on its behalf on that date by:


Godfrey Allen
Chair


Peter Mayhew-Smith
Accounting Officer

South Thames Colleges Group
Consolidated Statement of Cash Flows

	Notes	2018 £'000	Combined 2017 £'000
Cash flows from operating activities			
Deficit for the year		(7,993)	(5,328)
Adjustment for non cash items			
Depreciation		7,537	7,676
(Increase)/decrease in debtors		(702)	191
Increase/(decrease) in creditors due within one year		1,518	1,181
Increase in creditors due after one year		(2,968)	(2,589)
Decrease in provisions		(120)	(229)
Pension costs less contributions payable		3,657	830
Adjustment for investing or financing activities			
Investment income		(3)	(9)
Interest payable		802	1,520
Net cash flow from operating activities		1,728	3,243
Cash flows from investing activities			
Investment income		3	9
Payments made to acquire fixed assets		(2,464)	(1,968)
		(2,461)	(1,959)
Cash flows from financing activities			
Interest paid		(802)	(650)
Repayments of amounts borrowed		(660)	(5,011)
		(1,462)	(5,661)
Increase in cash and cash equivalents in the year		(2,195)	(4,377)
Cash and cash equivalents at beginning of the year	17	12,630	17,007
Cash and cash equivalents at end of the year	17	10,435	12,630

South Thames Colleges Group

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2017 to 2018* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

Following the merger of Kingston, South Thames and Carshalton Colleges on 1 August 2017, the results of the three Colleges, have been combined to provide comparative results for the year ended 31 July 2017. Where the Colleges had differences in their accounting policies, the results for 2016/17 and balances at 31 July 2017 were restated applying common accounting policies. The accounting policies of the merged institution are those previously adopted by Kingston College, as South Thames and Carshalton College Corporations dissolved on 1 August 2017 and Kingston College (name changed to South Thames Colleges Group in December 2017) remains as the Successor Body. The key areas of accounting in which there were differences between the policies applied by the parties to the merger were the depreciation policy and the recognition of student fee income. Note 22 (Merger of Kingston, South Thames and Carshalton Colleges) sets out the details of these adjustments.

KSEP Ltd was a joint venture Company that existed as a cost sharing vehicle supporting the federation between Kingston and Carshalton Colleges. The Company was treated as a joint venture in the consolidated accounts of Kingston College as neither College held a controlling interest in the Company. When the Colleges merged, the Company became a wholly owned subsidiary of the merged College. The results for the year ended 31 July 2017 have been restated treating KSEP Ltd as a subsidiary in that year. Note 22 sets out the details of the adjustments.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, KCTC Limited and KSEP Ltd. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2018.

Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Report of the Governing Body. The financial position of the College, its cashflow and liquidity are presented in the financial statements and accompanying notes.

South Thames Colleges Group

The College had loans of £15.8 million outstanding with bankers as at 31 July 2018. The total borrowings of the merged College amounting to £16.6 million were financed by Barclays Bank at the point of merger. The borrowings are secured and made up of facilities of £7.7 million repayable over 13 years and £8.9 million over 20 years (with a termination date in 5 years) commencing 1 August 2017.

The College met the loan covenants for the year ended 31 July 2018 and the forecasts and financial projections indicate that it will be able to operate within this 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.

Although the College has net current liabilities at 31 July 2018, creditors include a holiday pay accrual and deferred capital grants (total of £3.1 million) for which payments are not required.

Recognition of income

Revenue Grant funding

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the statement of comprehensive income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

Grants (including research grants) from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital Grant Funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. The College does not have any capital grants from non-government sources. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

Fee Income

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

The debtor balance carried forward by South Thames College as at 31 July 2017 included all fees associated with enrolments in 2016/17 including enrolments for 2017/18 delivery that in some cases, did not convert to actual enrolments. Irrecoverable fees outstanding for a number of years were also included in the balance carried forward. The debtor balance and reserves brought forward on 1 August 2016 have been restated to exclude old irrecoverable debt. The fee income for 2016/17 as well as the debtor balance carried forward on 31 July 2017 have also been restated to recognise only the fees earned in 2016/17 as income and eliminate any overstatements. See note 22 for further details.

South Thames Colleges Group

Investment Income

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

Agency arrangements

The College acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

London Pension Fund Authority Local Government Pension Scheme (LGPS)

At the point of merger, a number of staff employed by the three Colleges and KSEP Ltd were members of the LGPS scheme administered by the Local Authority for the Colleges' location. On 1 August 2017, all staff were transferred to South Thames Colleges Group and approval was granted by the Secretary of State for the transfer of all LGPS memberships to the scheme administered by the London Pension Fund Authority. Before the merger, Kingston College and KSEP Ltd staff were members of the Royal Borough of Kingston scheme and Carshalton College staff were members of the London Borough of Sutton scheme. The transfer of funds from Royal Borough of Kingston and the London Borough of Sutton to the LPFA is yet to take place. On the transfer of KSEP Ltd staff to South Thames Colleges Group, the Company's pension liability also transferred to the College.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

South Thames Colleges Group

Short term Employment benefits

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

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

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

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets. Where the depreciation policies applied by South Thames and Carshalton Colleges prior to the merger were not aligned to the depreciation policy of South Thames Colleges Group, the 2016/17 depreciation charge for assets with a net book value as at 1 August 2016 has been recalculated. The accumulated depreciation and net book value carried forward on 31 July 2017 have been restated based on the revised depreciation charge for 2016/17. Note 22 provides details of the financial impact of accounting policy alignment.

Land and buildings

Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life as follows

- freehold land – not depreciated as it is considered to have an infinite useful life.
- freehold buildings – between 20 and 50 years
- leasehold buildings – over lower of 50 years and life of lease
- leasehold improvements – over lower of 50 years and life of lease
- building improvements – 10 years on a straight-line basis

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1993, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

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.

South Thames Colleges Group

The asset under construction at 31 July 2018 relates to a retail unit being constructed by a property developer under an agreement reached in 2015/16. The College is not liable for any costs while the unit is under construction.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to expenditure in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

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

Motor vehicles – 4 years on a straight-line basis

Computer equipment – 4 years on a straight-line basis

Other equipment – 6 years on a straight-line basis

Furniture, fixtures and fittings – 6 years on a straight-line basis

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. The College has no finance leases or hire purchase agreements

Investments in subsidiaries

Investment in subsidiaries is accounted for at cost less impairment in the individual financial statements.

Stocks

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

Cash and cash equivalents

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

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

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.

South Thames Colleges Group

Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 3% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature. The college's subsidiary company is subject to corporation tax and VAT in the same way as any commercial organisation.

Provisions and contingent liabilities

Provisions are recognised when

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of

South Thames Colleges Group

assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 20, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

South Thames Colleges Group
Notes to the Accounts (continued)

2 Funding Body grants

	Year ended 31 July		Combined	
	2018	2018	Year ended 31 July	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Education and Skills Funding Agency - adult	12,817	12,817	13,659	13,659
Education and Skills Funding Agency - 16 - 18	29,762	29,762	31,260	31,260
Education and Skills Funding Agency - apprenticeships	2,274	2,274	2,912	2,912
Higher Education Funding Council	878	878	1,418	1,418
Specific Grants				
Releases of government capital grants	1,987	1,987	2,009	2,009
Total	47,718	47,718	51,258	51,258

3 Tuition fees and education contracts

	Year ended 31 July		Combined	
	2018	2018	Year ended 31 July	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees (including full cost)	3,067	3,067	3,118	3,118
Apprenticeship fees and contracts	-	-	210	210
Fees for FE loan supported courses	1,621	1,621	2,637	2,637
Fees for HE loan supported courses	4,231	4,231	3,982	3,982
International students fees	534	534	480	480
Total tuition fees	9,453	9,453	10,427	10,427
Education contracts	7,741	7,741	8,019	8,019
Total	17,194	17,194	18,446	18,446

South Thames Colleges Group
Notes to the Accounts (continued)

4 Other income

	Year ended 31 July		Combined	
	2018	2018	Year ended 31 July	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	883	883	899	899
Other income generating activities	1,563	1,428	1,302	1,179
Other Grants	724	724	38	38
Miscellaneous income	364	364	539	549
Total	3,534	3,399	2,778	2,665

5 Investment income

	Year ended 31 July		Combined	
	2018	2018	Year ended 31 July	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Interest receivable	3	3	9	9
	3	3	9	9

6 Donations - College only

	Year ended 31 July	
	2018	2017
	£'000	£'000
Unrestricted donations (Gift Aid from subsidiary company KCTC Ltd)	121	108
Total	121	108

South Thames Colleges Group Notes to the Accounts (continued)

7 Staff costs - Group and College

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

	2018	Combined 2017
	No.	No.
Teaching staff	590	602
Non teaching staff	384	452
	<u>974</u>	<u>1,054</u>

Staff costs for the above persons

	2018	Combined 2017
	£'000	£'000
Wages and salaries	33,109	36,373
Social security costs	3,262	3,427
Other pension costs	7,060	7,153
	<u>43,431</u>	<u>46,953</u>
Payroll sub total	43,431	46,953
Contracted out staffing services	2,855	1,244
	<u>46,286</u>	<u>48,197</u>
Fundamental restructuring costs (contractual)	1,968	808
	<u>48,254</u>	<u>49,005</u>

Key management personnel

The College defines key management personnel as the Group Principal, Deputy Principals, College Principals, Vice Principal and Clerk to the Corporation. These staff were also the College's senior post holders during the year. South Thames College identified a number of other senior staff as Key management personnel in its accounts for the year ended 31 July 2017. The numbers for 2017 have been restated to include senior post holders only. Staff costs include compensation paid to key management personnel for loss of office.

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

	2018	Combined 2017
	No.	No.
The number of key management personnel including the Accounting Officer was:	<u>9</u>	<u>10</u>

South Thames Colleges Group
Notes to the Accounts (continued)

7 Staff costs - Group and College (continued)

The number of key management personnel (who are also Senior-post holders) and other staff who received annual emoluments, excluding pension contributions and employer's national insurance but including benefits in kind, in the following ranges was:

	Key management personnel		Other staff	
	2018	Restated 2017	2018	Combined 2017
	No.	No.	No.	No.
£20,001 to £30,000 p.a	2	1	n/a	n/a
£40,001 to £50,000 p.a.	1	-	n/a	n/a
£50,001 to £60,000 p.a.	-	-	n/a	n/a
£60,001 to £70,000 p.a	-	-	8	7
£70,001 to £80,000 p.a	-	1	1	7
£80,001 to £90,000 p.a	1	3	3	1
£90,001 to £100,000 p.a	1	1	1	2
£100,001 to £110,000 p.a	2	1	-	-
£110,001 to £120,000 p.a	-	1	-	-
£150,001 to £160,000 p.a	1	1	-	-
£180,001 to £190,000 p.a.	1	1	-	-
	<u>9</u>	<u>10</u>	<u>13</u>	<u>17</u>

Key management personnel emoluments are made up as follows:

	2018	Combined 2017
	£'000	£'000
Salaries	817	1,002
Employers National Insurance	104	152
Benefits in kind	3	9
	<u>924</u>	<u>1163</u>
Pension contributions	78	121
	<u>78</u>	<u>121</u>
Total emoluments	<u>1,002</u>	<u>1,284</u>

The pension contributions in respect of senior post-holders are employer's contributions to the Teachers' Pension Scheme and the LGPS and are paid at the same rate as that for other employees. No pension contributions were made in respect of the Accounting Officer in 2018 (2017: only payable for South Thames College Accounting Officer).

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

The above emoluments include amounts payable to the Accounting Officers (and highest paid officer) of:

	2018	Kingston & Carshalton	South Thames
	£'000	2017 £'000	2017 £'000
Salaries	182	182	154
Benefits in kind	-	-	3
	<u>182</u>	<u>182</u>	<u>157</u>
Pension contributions	-	-	25
	<u>-</u>	<u>-</u>	<u>25</u>

The expenditure disclosed for 2017 includes the two Accounting Officers who were in post throughout the year (one responsible for Kingston and Carshalton Colleges and the other for South Thames College)

Compensation for loss of office paid to former key management personnel and higher paid staff:

	2018	Combined 2017
	No.	No.
Number of key management personnel	2	3
Number of higher paid staff	4	-
	<u>2</u>	<u>3</u>
	2018	Combined 2017
	£	£
Compensation paid to former key management personnel	49,566	271,155
Estimated value of other benefits, including provisions for pension benefits	-	25,121
Compensation paid to former higher paid staff	130,172	-
Estimated value of other benefits, including provisions for pension benefits	10,000	-
	<u>190,738</u>	<u>296,276</u>

The severance payments were approved by the College's Remuneration Committee.

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

South Thames Colleges Group
Notes to the Accounts (continued)

8 Other operating expenses

	Year ended 31 July		Combined	
	2018	2018	Year ended 31 July	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	4,228	4,228	5,656	5,656
Non teaching costs	7,710	7,696	6,997	6,905
Premises costs	6,508	6,508	6,335	6,335
Total	18,446	18,432	18,988	18,896

Other operating expenses include:	2018	Combined
	£'000	2017
		£'000
Auditors' remuneration:		
Financial statements audit*	68	73
Internal audit**	58	67
Other services provided by the financial statements auditors***	-	50
Hire of asset under operating leases	456	456

* includes £66,000 in respect of the College (2016/17 restated £70,500)

** includes £58,000 in respect of the College (2016/17 restated £67,000)

*** Due diligence work carried out in 2016/17

South Thames Colleges Group
Notes to the Accounts (continued)

9 Interest payable - Group and College

	2018	Combined
	2017	
	£'000	£'000
On bank loans, overdrafts and other loans:	<u>802</u>	<u>650</u>
	802	650
Enhanced pension provision finance costs (note 16)	126	130
Net Interest on defined pension liability (note 20)	<u>1,277</u>	<u>1,370</u>
Total	<u>2,205</u>	<u>2,150</u>

South Thames Colleges Group
Notes to the Accounts (continued)

10 Tangible fixed assets (Group and College)

	Land and buildings		Assets under Construction	Equipment	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2017 (as restated)	242,042	3,101	699	25,776	271,618
Additions	1,825	-	-	639	2,464
At 31 July 2018	243,867	3,101	699	26,415	274,082
Depreciation					
At 1 August 2017 (as restated)	63,677	577	-	21,101	85,355
Charge for the year	5,641	70	-	1,826	7,537
At 31 July 2018	69,318	647	-	22,927	92,892
Net book value at 31 July 2018	174,549	2,454	699	3,488	181,190
Net book value at 31 July 2017 (as restated)	178,365	2,524	699	4,675	186,263

The College's policy is to carry all assets at historic cost, except for inherited assets which are included on the balance sheet based on a valuation existing at 31 July 1999 when the College first implemented FRS15. The depreciated value of these inherited assets is £8,706,000. They have not been revalued since incorporation.

South Thames Colleges Group
Notes to the Accounts (continued)

11 Non current Investments

	Group 2018 £	Group 2017 £	College 2018 £	College 2017 £
Investments in subsidiary companies	200	200	200	200
Total	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

The College owns 100 per cent of the issued ordinary £1 shares of KCTC Limited, a company incorporated in England and Wales. The principal business activity of KCTC Limited is the rental of college facilities.

Kingston College owned 51% of the issued share capital of Kingston and Sutton Educational Partnership Limited (KSEP Ltd) up to 31 July 2017. The other 49% of the share capital was owned by Carshalton College. A shareholders' agreement ensured that key decisions needed the consent of both shareholders and the investment was therefore accounted for as a joint venture by both Colleges in previous years. On 1 August 2017, following the merger of Kingston, Carshalton and South Thames Colleges, Kingston and Sutton Educational Partnership Limited became a wholly owned subsidiary of South Thames Colleges Group. All staff employed by the Company transferred to South Thames Colleges Group on this date. On the transfer of staff, the Company's pension liability also transferred to South Thames Colleges Group. The results for the year ended 31 July 2017 have been restated treating KSEP Ltd as a subsidiary.

South Thames Colleges Group
Notes to the Accounts (continued)

12 Trade and other receivables

	Group	College	Combined	
	2018	2018	Group	College
	£'000	£'000	2017	2017
			£'000	£'000
Amounts falling due within one year:				
Trade receivables	1,685	1,677	1,847	1,831
Amounts owed by Group undertakings:				
Subsidiary undertakings	-	843	-	274
Prepayments and accrued income	957	954	448	434
Amounts owed by the ESFA	447	447	92	92
Total	3,089	3,921	2,387	2,631

13 Creditors: amounts falling due within one year

	Group	College	Combined	
	2018	2018	Group	College
	£'000	£'000	2017	2017
			£'000	£'000
Bank loans and overdrafts	795	795	846	846
Trade payables	1,691	1,691	1,066	1,066
Amounts owed to subsidiary undertaking	-	-	-	321
Other taxation and social security	1,456	1,456	1,535	1,535
HMRC - Lennartz Agreement	939	939	750	750
Accruals and deferred income	5,770	5,754	5,230	4,927
Holiday pay accrual	1,112	1,112	1,181	1,078
Deferred income - government capital grants	1,987	1,987	1,997	1,997
Other creditors	-	-	81	81
Amounts owed to the ESFA	1,182	1,182	778	778
Total	14,932	14,916	13,464	13,379

14 Creditors: amounts falling due after one year

	Group	College	Combined	
	2018	2018	Group	College
	£'000	£'000	2017	2017
			£'000	£'000
Bank loans	15,011	15,011	15,620	15,620
HMRC - Lennartz Agreement	-	-	1,174	1,174
Deferred income - government capital grants	63,486	63,486	65,280	65,280
Total	78,497	78,497	82,074	82,074

South Thames Colleges Group
Notes to the Accounts (continued)

15 Maturity of debt

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group	College	Combined	
	2018	2018	Group	College
	£'000	£'000	2017	2017
			£'000	£'000
In one year or less	795	795	846	846
Between one and two years	1,590	1,590	1,142	1,142
Between two and five years	2,385	2,385	2,817	2,817
In five years or more	11,036	11,036	11,661	11,661
Total	<u>15,806</u>	<u>15,806</u>	<u>16,466</u>	<u>16,466</u>

Following the merger of Kingston, Carshalton and South Thames Colleges, the total borrowings of the merged institution amounting to £16.6m have been consolidated into two secured term loans from Barclays Bank. The fixed rate loan of £7.7m is repayable in instalments falling due monthly over a 13 year period commencing August 2017. The loan of £8.9m (including the refinancing of Kingston College's loan outstanding 31 July 2017 of £6.7m) is repayable monthly, with a 20 year repayment profile and has a review date of July 2022. The loans are secured on a portion of the freehold land and buildings of the merged College.

South Thames Colleges Group
Notes to the Accounts (continued)

16 Provisions

	Defined benefit Obligations £'000	Restructuring £'000	Enhanced pensions £'000	Dilapidation provision £'000	Total £'000
At 1 August 2017 combined (College)	40,394	54	3,628	200	44,276
Transferred from subsidiary company on 1 August	2,813	40	-	-	2,853
At 1 August 2017 combined (Group)	43,207	94	3,628	200	47,129
Payments in the period	(1,850)	-	(246)	-	(2,096)
Charge to expenditure:					
Current service cost	4,230	-	-	-	4,230
Net interest on pension liability	1,277	-	126	-	1,403
Actuarial (gains)/losses	(9,263)	-	133	-	(9,130)
At 31 July 2018 (Group and College)	37,601	94	3,641	200	41,536

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 20.

The enhanced pension provision relates to the cost of staff who have already left the College's employment and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

	2018	2017
Price inflation	1.30%	1.30%
Discount rate	2.30%	2.30%

The severance provision was set up to cover the costs associated with restructuring.

Dilapidation costs relate to a leasehold property occupied by the College. The lease is due to expire in November 2018.

17 Cash and cash equivalents

	At 1 August 2017 Combined £'000	Cash flows £'000	At 31 July 2018 £'000
Cash and cash equivalents	12,630	(2,195)	10,435
Total	12,630	(2,195)	10,435

18 Capital commitments

	Group and College 2018 £'000	2017 £'000
Commitments contracted for at 31 July	-	-

South Thames Colleges Group
Notes to the Accounts (continued)

19 Lease Obligations

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

	Group and College	
	2018	Combined
	£'000	2017
		£'000
Total future minimum lease charges payable:		
Land and buildings		
Not later than one year	116	425
Later than one year and not later than five years	-	106
	<u>116</u>	<u>531</u>

South Thames Colleges Group Notes to the Accounts (continued)

20 Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pensions Fund Authority. Both are multi-employer defined-benefit plans.

Total pension cost for the year

	2018 £'000	Combined 2017 £'000
Teachers Pension Scheme: contributions paid	2,830	3,008
Local Government Pension Scheme:		
Contributions paid	1,850	3,773
FRS 102 (28) charge	<u>2,380</u>	<u>305</u>
Charge to the Statement of Comprehensive Income	4,230	4,078
Enhanced pension charge to Statement of Comprehensive Income	-	67
Total Pension Cost for Year	<u>7,060</u>	<u>7,153</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

No lump sum contributions were outstanding at 31 July 2018 (2017: £202,000 in total was due to the LGPS from Kingston and Carshalton Colleges)

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and, from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

South Thames Colleges Group Notes to the Accounts (continued)

20 Defined benefit obligations (continued)

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- employer contribution rates were set at 16.48% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS was implemented in September 2015.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

Scheme Changes

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.

The pension costs paid to TPS in the year amounted to £2,830,000 (2017: £3,008,000)

South Thames Colleges Group Notes to the Accounts (continued)

20 Defined benefit obligations (continued)

FRS 102 (28)

Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by the London Pensions Fund Authority (LPFA). The total contribution made for the year ended 31 July 2018 was £2,599,000 of which employer's contributions totalled £1,850,000 (including capital contributions of £34,000) and employees' contributions totalled £767,000. The agreed contribution rate for future years is 15.2% for employers. Employee contribution rates will vary from 5.5% to 7.5% depending on salary. In addition to the employer contribution that is calculated as a percentage of salary, the College also makes a separate, lump-sum contribution into the pension scheme each year to reduce the deficit. The amount payable for the year ending 31 July 2019 is £35,000

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2018 by a qualified independent actuary

	At 31 July 2018	At 31 July 2017
Rate of increase in salaries	3.85%	4.20%
Rate of increase for pensions in payment / inflation	2.35%	2.70%
Discount rate for scheme liabilities	2.65%	2.70%

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 2018 years	At 31 July 2017 years
<i>Retiring today</i>		
Males	21.90	22.50
Females	24.70	24.80
<i>Retiring in 20 years</i>		
Males	24.30	24.20
Females	27.00	26.70

Sensitivity analysis	At 31 July 2018 £'000	Combined At 31 July 2017 £'000
Discount rate +0.1%	(3,889)	(4,767)
Discount rate -0.1%	4,079	4,822
Mortality assumption - 1 year increase	4,110	2,963
Mortality assumption - 1 year decrease	(3,860)	(2,841)
CPI rate +0.1%	8,062	7,083
CPI rate -0.1%	(7,872)	(7,059)

South Thames Colleges Group
Notes to the Accounts (continued)

20 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

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

	Fair Value at 31 July 2018 £'000	Combined Fair Value at 31 July 2017 £'000
Equities	58,274	59,791
Bonds	26,057	19,586
Property	7,378	6,101
Cash	4,409	4,842
Total market value of assets	<u>96,118</u>	<u>90,320</u>

Actual return on plan assets	<u>5.484</u>	<u>9.106</u>
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The amount included in the balance sheet in respect of the defined benefit pension plan and enhanced pensions benefits is as follows:

	2018 £'000	Combined 2017 £'000
Fair value of plan assets	96,118	90,320
Present value of plan liabilities	(133,719)	(133,527)
Present value of defined benefit liabilities (Note 16)	<u>(37,601)</u>	<u>(43,207)</u>
Present value of unfunded liabilities	(3,641)	(3,628)
Net pension liability	<u>(41,242)</u>	<u>(46,835)</u>

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

	2018 £'000	Combined 2017 £'000
Amounts included in staff costs		
Current service cost	(4,230)	(4,078)
Total	<u>(4,230)</u>	<u>(4,078)</u>

Amounts included in interest payable

Net interest payable	<u>(1,277)</u>	<u>(1,327)</u>
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Amounts recognised in Other Comprehensive Income

Return on pension plan assets	3,040	7,081
Experience losses arising on defined benefit obligations	-	9,803
Changes in assumptions underlying the present value of plan liabilities	6,223	(5,420)
Amount recognised in Other Comprehensive Income	<u>9,263</u>	<u>11,464</u>

South Thames Colleges Group
Notes to the Accounts (continued)

20 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

Movement in net defined benefit liability during the year

	2018	Combined
	£'000	£'000
Deficit in scheme at 1 August Combined	(43,207)	(53,039)
Movement in year:		
Current service cost	(4,230)	(4,078)
Employer contributions	1,850	3,773
Net interest on the defined liability	(1,277)	(1,327)
Actuarial gain	9,263	11,464
Net defined benefit liability at 31 July	<u>(37,601)</u>	<u>(43,207)</u>

Asset and Liability Reconciliation

	2018	Combined
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period Combined	133,527	132,316
Current Service cost	4,230	4,078
Interest cost	3,604	3,345
Contributions by Scheme participants	767	800
Experience gains and losses on defined benefit obligations	-	(9,803)
Changes in financial assumptions	(6,315)	5,644
Estimated benefits paid	(2,094)	(2,853)
Defined benefit obligations at end of period	<u>133,719</u>	<u>133,527</u>

Reconciliation of Assets

Fair value of plan assets at start of period Combined	90,320	79,277
Interest on plan assets	2,327	2,018
Return on plan assets	3,040	7,081
Other actuarial (losses)/gains	(92)	224
Employer contributions	1,850	3,773
Contributions by Scheme participants	767	800
Estimated benefits paid	(2,094)	(2,853)
Assets at end of period	<u>96,118</u>	<u>90,320</u>

The movements in the unfunded pension provision has been disclosed separately under note 16.
The fund was valued using the EPP calculator provided by the Funding Body.
The estimated value of employer contributions for the year ended 31 July 2019 is £1,733,000

Deficit Contributions

Following the most recent valuation of the scheme, the College has entered into an agreement with the LGPS to make additional contributions of £34,000 per annum in addition to normal funding levels until the next full valuation at which point the situation will be reviewed again.

South Thames Colleges Group Notes to the Accounts (continued)

21 Related party transactions

The total expenses paid to or on behalf of the Governors during the year was £828 in respect of one governor (2017 restated: £540; one governor). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College during the year (2017: None).

22 Merger of Kingston, South Thames and Carshalton Colleges

On 1 August 2017, Kingston, South Thames and Carshalton Colleges merged. On this date, South Thames and Carshalton College Corporations dissolved with Kingston College going forward as the successor Body. Kingston College changed its name to South Thames Colleges Group in December 2017. On the dissolution of Carshalton College Corporation, the College's shares in Kingston and Sutton Educational Partnership Ltd (KSEP Ltd) transferred to the Successor Body and KSEP Ltd became a wholly owned subsidiary of South Thames Colleges Group

The net assets of each College and the Company as at 1 August 2017 were as follows:

	Kingston *	Carshalton	South Thames	KSEP Ltd
	£'000	£'000	£'000	£'000
Non current assets	30,848	21,928	133,588	-
Investment in Joint Venture	(52)	-	-	-
Current assets	6,948	3,106	6,231	545
Current liabilities	(4,309)	(2,060)	(7,807)	(608)
Creditors falling due after more than one year	(10,396)	(5,244)	(66,434)	-
Provisions	(7,555)	(9,737)	(26,984)	(2,853)
Share of Joint Venture's provisions	(1,435)	-	-	-
Total Net Assets	14,049	7,993	38,594	(2,916)

*Kingston College treated KSEP Ltd as a joint venture and disclosed the College's share of the Company's assets and liabilities in its financial statements. Carshalton College did not include its share of the Joint Venture's balances as the College was not required to produce consolidated accounts.

Adjustments were made to the South Thames and Carshalton College balances brought forward in order to align accounting policies in respect of depreciation and the recognition of student fee debtors. On consolidation of KSEP Ltd as a subsidiary company, the balances disclosed by Kingston College as its share of joint venture balances were eliminated. The debtor and creditor balances brought forward by Kingston, Carshalton and KSEP Ltd were adjusted to exclude the amounts owed by Kingston to KSEP Ltd and the amounts owed by KSEP Ltd to Carshalton as these became intra-group balances on merger. The impact of these adjustments and transfers on net assets at 1 August 2017 is as follows:

	Kingston *	Carshalton	South Thames	KSEP Ltd	Total
	£'000	£'000	£'000	£'000	£'000
Adjustments for the alignment of depreciation policy:					
Non current assets	-	(35)	(66)	-	(101)
Adjustments for the consolidation of former joint venture:					
Investment in Joint Venture	52	-	-	-	52
Current assets	-	(215)	-	(322)	(537)
Current liabilities	322	-	-	215	537
Provisions	1,435	-	-	-	1,435
Adjustments for the alignment of policy on income recognition:					
Current assets	-	-	(1,268)	-	(1,268)
Current liabilities	-	-	784	-	784
	1,809	(250)	(550)	(107)	902

Net assets of South Thames College as at 1 August 2016 also reduced by £251,000 on the application of the Group policy for recognising fee income. The cumulative impact of this reduction is included in the changes in Net assets as at 1 August 2017.

South Thames Colleges Group
Notes to the Accounts (continued)

22 Merger of Kingston, South Thames and Carshalton Colleges (continued)

Total income, the net deficit for the year and total comprehensive expenditure for the year ended 31 July 2017 for each College and the Company were as follows:

	Kingston *	Carshalton	South Thames	KSEP Ltd*
	£'000	£'000	£'000	£'000
Total income	26,489	12,124	34,109	2
Surplus/(deficit) for the year	3	(182)	(4,602)	(434)
Total comprehensive income for the year	<u>3,884</u>	<u>751</u>	<u>1,204</u>	<u>1,304</u>

* KSEP Ltd.'s results exclude transactions within the Group (staff costs recharged to Kingston and Carshalton Colleges)

The impact of merger adjustments on total comprehensive income for the year ended 31 July 2017 is as follows:

	Kingston	Carshalton	South Thames	Total
	£'000	£'000	£'000	£'000
Adjustments for the alignment of policy on income recognition:				
Tuition fees and education contracts	-	-	(233)	(233)
Adjustments for the alignment of depreciation policy:				
Increase in depreciation charge	-	(35)	(66)	(101)
Adjustments for the consolidation of former joint venture:				
Share of joint venture's deficit for the year	221	-	-	221
Share of actuarial gain for the year	(886)	-	-	(886)
Net change in total comprehensive income for the year	<u>(665)</u>	<u>(35)</u>	<u>(299)</u>	<u>(999)</u>

KSEP Ltd.'s results for the year ended 31 July 2017 (excluding transactions within the Group) are unchanged. Total income, surplus for the year and comprehensive income for the year of South Thames College for the year ended 31 July 2016 also reduced by £251,000 on application of the Group policy for the recognition of fee income.

The combined Group comprehensive income for the year ended 31 July 2017 has been restated as follows:

	£'000
Comprehensive income for the year ended 31 July 2017:	
Kingston College	3,884
Carshalton College	751
South Thames College	1,204
KSEP Ltd	1,304
Total comprehensive income for the year	<u>7,143</u>
Net impact of merger adjustments	<u>(999)</u>
Combined comprehensive income for the year after merger adjustments	<u>6,144</u>

23 Amounts disbursed as agent

Learner support funds

	2018	2017
	£'000	£'000
Funding bodies grants - 16-19 Bursary	649	903
Advanced Learning Loan Bursary	792	112
Other Funding body grants	189	113
	<u>1,630</u>	<u>1,128</u>
Disbursed to students	(1,347)	(730)
Administration costs	(47)	(27)
Amount Consolidated in financial statements	-	(259)
Balance unspent as at 31 July, included in creditors	<u>236</u>	<u>112</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 Statement of Comprehensive Income.