SOUTH EASTERN REGIONAL COLLEGE

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 JULY 2008

CONTENTS

SOUTH EASTERN REGIONAL COLLEGE
OPERATING AND FINANCIAL REVIEW 2007/08

COLLEGE MERGER

This is the first annual report of South Eastern Regional College. On 1st August 2007, East Down, Lisburn and North Down & Ards Institutes were merged to form South Eastern Regional College. Under the requirements of FRS 6, Acquisitions and Mergers, the accounts have been prepared on the basis of merger accounting (DEL Circular FE 03/07 also refers). Differences in the nominal values of assets and reserves have been shown in the accounts as adjustments to the income and expenditure reserve/ general reserve on the balance sheet. Merger / restructuring expenses have been shown on the face of the income and expenditure account. The statutory accounts for the 12-month period from 1 August 2007 to 31 July 2008 reflect the position of the new Regional College and the comparative figures for 2006/07 are the consolidated figures of the three former Colleges.

VISION AND VALUES STATEMENT

Purpose

The South Eastern Regional College (SERC) exists to promote learning and to foster the well-being of the students, employers and the community it serves, seeking always to maintain a commitment to excellence.

This will be achieved through:

- demonstrating integrity, openness and fairness at all times;
- adopting an assertive approach in promoting and affirming the worth of FE and the College;
- respecting diversity and promoting equality of opportunity for all;
- respecting staff, students and clients by contributing to their physical, mental and intellectual well-being;
- striving to secure value for money in everything it does;
- encouraging social responsibility and awareness of the global environment;
- seeking new opportunities for individuals, communities and companies

IMPLEMENTATION OF STRATEGIC PLAN

Summarised below are the Strategic Objectives of the College as detailed in the College Development Plan for 07/08 and the outcomes achieved during the year:-

Key aims and Objectives

Strategic Objective: 1

Curriculum: **–** To continue to be at the heart of lifelong learning in order to strengthen economic workforce development, to enhance social cohesion and to advance individuals' skills and learning.

Outcomes Achieved:

- Curriculum Policy agreed by Education Committee.
- Careers/tutorial programme in place.

Strategic Objective: 2

Information Learning Technology: - To use technology to enhance and transform learning processes and to manage the curriculum and business processes, in line with DEL's strategies.

Outcomes Achieved:

- Regional Support Centre Northern Ireland Skills Audit was completed.
- ILT Strategic and Operational Plan was completed and submitted to DEL.

Strategic Objective 3

Economic Engagement: – To contribute to the regional economy through the development of regional and local skills, encourage innovation and develop enterprise.

Outcomes Achieved:

- Four meetings of the Workforce Development Forum were held during the year. A set of short term actions were identified and progress was reported on in the February 2008 meeting along with progress in terms of activity in all WDF priority sectors. This was also disseminated at a DEL conference on WDF in March 2008.

- Management and staff structure with appropriate levels of staffing was completed

- Meetings were held with all economic development partners in the four councils and Local Enterprise Agencies. A formal partnership agreement was signed with Ards Business Centre and Ards Borough Council.

- 676 businesses were supported through training or provision of services covering 1,860 employees.

Strategic Objective: 4

Governance: – To support Government Policy and local stakeholder demand in ensuring that these are implemented efficiently and effectively and that the College acts within a framework of financial control and accountability.

Outcomes Achieved:

- The Governing Body developed a 16 theme Change Agenda to provide strategic change and direction to the College.

Strategic Objective: 5

Human Resources: – To introduce a new staffing and management structure for the College that will ensure that College aims, objectives and policies will be attained and to implement human resource management policies and agreements and align them to the College's activities.

Outcomes Achieved:

- A new Staffing Structure was developed and substantially populated by July 2008.

Strategic Objective: 6

Estates: - To develop and implement an integrated Estates Strategy informed by the curriculum offer that will bring the Capital Projects to completion; and to continue to maintain the existing estate to an acceptable level in the interim.

Outcomes Achieved:

- Project Boards were established for both PPP Projects at Downpatrick and Lisburn as well as for the conventionally procured Projects at Bangor and Ards.

- A SERC Health and Safety Policy were approved by the Governing Body.

- The PPP Projects achieved financial and commercial close.

Strategic Objective: 7

Finance and resources: – To continue to improve the financial viability of the College

Outcomes Achieved:

- The Budget was approved by the Governing Body in August 2007 and the actual financial performance was reviewed against budget every month by College Management Team and then presented to the Finance Committee.

- In addition, the Quarterly Financial Returns were submitted to DEL together with the required variance report within the prescribed deadlines.

- Detailed four year financial projections were prepared and submitted with the CDP in October 2007. Four year projections together with the affordability paper for the PPP Projects, ‘Bridging the Financial Gap’ were presented to the Governing Body in March 2008.

- A management accounts pack including year-end projections and financial KPIs were presented at each Finance Committee.

- KPMG reported to the Governors on the Value for Money and the affordability issues concerning the PPP projects in October 2007 and January 2008.

- A final Value for Money paper was issued by KPMG prior to financial close. In addition four year projections together with the affordability paper for the PPP Projects, Bridging the Financial Gap were presented to the Governing Body in March 2008.

Strategic Objective: 8

Quality: - To establish a culture of continuous improvement in the College for the benefit of stakeholders.

Outcomes Achieved:

- A Head of Quality, Innovation and Development was appointed in January and commenced work on developing a new Quality Strategy.

SUMMARY OF THE KEY ISSUES AND EVENTS

This has been a year of unprecedented change for the Sector and for the College in particular. The implementation of the change agenda continued throughout the year with the appointment of a new Principal Mr. Ken Webb on 1st August 2008. A new structure was approved for four directorates. The restructuring process has been completed with some staff leaving the College and others taking-up new posts within the College. This process was conducted in consultation with the recognised trade unions and all reasonable support and consideration was given to staff.

Overall enrolments to date were 28,994 with retention at 90% and achievement at 70%. Enrolments on part-time courses at levels 1 and below were lower than anticipated, due largely to the reduction in fee concessions and perceived increases in fees. As a result Funded Learning Units (FLUs) were 4,767 in July 2008. FLUs on Priority Skills courses exceeded the target of 1,367 and were 1, 411.

College managers are now focused on how the College will meet the targets for the 2008/09 year and the recruitment campaigns have been undertaken in further education, full-time higher education and Training for Success. A new Full-time Prospectus was produced and College wide Open Days have been held.

Whilst this year was a turbulent one for staff, given the ongoing period of change due to the merger and the sectoral industrial action, it was important to convey a consistent and strong image of the College at all times to its external stakeholders. To this end in the Spring of 2008, meetings were held with the school Principals in each of the four main Campuses along with the involvement of employer members of the Workforce Development Forum. A series of high level strategic briefings were also held with local councillors, MLAs and MPs across the four council areas. The purpose of these strategic briefings was to engage key influencers and to gain their commitment to the future work of the College.

After the appointment of the new Principal & Chief Executive in August 2008 a further round of briefing sessions for MPs and Council leaders were arranged. In addition regular updates are sent to all elected members to inform them of the major activities within the College.

The Acting Chief Executive/Principal and the Chairman signed the contracts for new campus buildings in Downpatrick, Lisburn, Newcastle and Ballynahinch in April 2008. Farrans Construction are constructing the Lisburn building and O’Hare and McGovern the other three. It is expected that all construction will be finished by 2011. The construction of the new workshops in the Ards Campus commenced in January 2009 and planning permission has been received for the Performing Arts Centre Bangor. Overall, the College is investing £80 million in new facilities, which demonstrates commitment to the communities that it serves and to the ongoing development of the College as a key player in economic development.

FINANCIAL OBJECTIVES

The College's Financial Strategy is to live within the budget set and have sound financial control systems in place to ensure that financial targets are achieved.

In order to ensure long term viability, the College prepares Financial Projections which underpin the Corporate Strategy which is set out in the College Development Plan and ensures that all strategic projects are financially sound.

There is a formal budget setting and financial reporting process and procedures in place. Within this process budget holders are challenged to maintain tight operating budgets to reduce inefficiency and to increase levels of income from a variety of sources.

The Finance Strategy will also support a culture of creativity and innovation by empowering staff through a devolved budget process combined with College investment in promoting new ideas.

PERFORMANCE INDICATORS

During 2007/08 the College has monitored its performance against the Key Financial Indicators which have been provided by DEL to the Sector. These indicators are prepared with the monthly management accounts and compared against the Sector position and against the College performance in 2006/07.

FINANCIAL POSITION

Financial Results

The College generated an operating deficit in the year of £7,431k (2006/07, deficit of £337k). The result in 2007/08 is stated after accounting for:-
Exceptional staff costs of £4,396k arising from a restructuring process which was approved by the Governing Body and non staff restructuring costs of £143k; depreciation of £2,692k arising from the accelerated depreciation on the buildings which are due to be demolished as part of the PPP Building Projects; £711k from the reclassification of assets in line with the Accounts Direction.

The College's Historic Cost Outturn for the year is a deficit of £3,063k compared with the College's original estimated outturn as per the College Development Plan of £325k. This variation is mainly due to merger related redundancy costs of £4,396k counteracted by a reduction in staff costs of £866k, a DEL Premature Retirement Grant of £508k, and increased income of £449k from completed Projects and investment interest.

DEL had been informed at the end of June that a historic deficit of £3,118k was anticipated so the final Financial Outturn of £3,063k shows an improvement of £55k on that position. This improvement is mainly due to increased income from Projects.

Land and buildings were subject to a professional valuation by Land and Property Services (LPS) on 1 August 2007 resulting in an upward revaluation of £43,170k. These valuations were then adjusted by indices provided by LPS to establish valuations at 31 July 2008 for the financial statements. In a difficult market and with limited sales evidence, the indices were determined using a consensus of valuer opinion and it was agreed that a reduction in land value of 40% between 1 August 2007 and 31 July 2008 was appropriate for the values placed on the sites of Further Education Colleges. This resulted in a downward revision of £21,504k. LPS had no evidence to show any differential geographical changes in value and these indices have therefore been applied to all of the Further Education Colleges in Northern Ireland for their 2007/08 financial statements. It was agreed that buildings be increased by 3.31% between 1 August 2007 and 31 July 2008, resulting in an upward revaluation of £907k. The net result of all revisions is an upward revaluation of £22,573 which has been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve.

The FRS17 Retirement Benefit charge is based on the latest actuarial valuation of the NILGOSC scheme as at 31 March 2007 which was updated to the 31st July 2008 by a qualified independent actuary.

Capital Investments

This financial year has seen significant financial investment in the buildings in which the College operates, this major investment has been welcomed by staff, students and other key stakeholders alike.

The Acting Chief Executive/Principal and the Chairman signed two PPP Contracts for new campus buildings in Downpatrick, Lisburn, Newcastle and Ballynahinch in April 2008. Farrans Construction will construct the Lisburn building and O'Hare and McGovern the other three. It is expected that the major construction phase will be finished by 2011. The accounting opinion of our professional advisors is that these two Contracts will be treated as "On Balance Sheet" having regard to factors prevalent at the date the Contracts were signed.

The Project to construct new workshops at the Ards Campus has completed its procurement phase and the final contract was signed before Christmas 2008 and the building work commenced in January 2009. Delays had been experienced to the Project to construct a new Performing Arts Centre in Bangor while planning permission was awaited. This has now been obtained.

Overall, the College is investing £80 million in new facilities, which demonstrates commitment to the communities that it serves and to the ongoing development of the College as a key player in economic development.

Investments

One of the legacy Institutes, East & Down Institute formed a subsidiary company in the early 1990s, East Down Enterprises Limited. This Company has been dormant for many years and has now been removed from the Company's Registry.

Diversity of Income

The College has still significant reliance on the DEL for its principal funding source, largely from recurrent grants. In 2007/08, DEL provided over 72% of the College's total income through allocated recurrent grant. The College is committed to reducing this percentage by growing both the value in monetary terms of the other income generated by the College and also the diversity of sources of income.

Reserves

The College has accumulated reserves of £6,741k (excluding the FRS 17 Pension Reserve) and Cash balances of £11,769k as at 31 July 2008.

The College is striving to bring these balances in line with those identified by DEL in its Key Performance Indicators for the Sector and has plans to use these reserves. A College Development Fund has been established to invest in Projects which will either increase the short to medium term income of the College or increase efficiency and thus drive down costs. Several cross College Projects have now been established.

The reserves will also be used to invest in Quality and ILT in line with the Strategic Aims of the College.
The cash balances will be reduced in the 08/09 Financial Year by the redundancy payments arising from the restructuring process which were accrued but not yet paid out at 31 July 2008.

Treasury policies and objectives

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

The Further Education Order 1997 gives the College power to invest its funds. The Finance and General Purposes Committee approved a Treasury Management Policy during 2007/08 to ensure that appropriate controls were put in place to regulate cash funds.

The purpose of this policy is to provide for the College cash funds to ensure all investments are held with major UK financial institutions and the requirement for any borrowings are fully evaluated and approval sought from the Finance and General Purposes Committee.

STUDENT ACTIVITIES AND ACHIEVEMENTS

The College's enrolments and performance in 2007-08 was as follows:

- Part-time enrolments were 23,493.
- Full-time FE enrolments were 2,212
- Full-time HE enrolments were 580.
- Full-time Training for Success enrolments were 1,098.

There were 18,971 enrolments at Level 0-3 in 2006-07 against 14,934 in 2007-08 earning 5,087 FLUs and 4,767 FLUs respectively.

Between 2006-07 and 2007-08:

- Priority skills enrolments fell from 5,856 to 5,076
- Externally Regulated provision fell from 14,965 to 11,570
- Vocational provision fell from 12,863 to 9,699
- Essential skills enrolments increased from 1,728 to 1,834.

CURRICULUM DEVELOPMENTS

Major developments included the creation of the Directorate of Teaching and Learning and the populating of a structure to support teaching, learning and curriculum development within the College.

New Curriculum and Essential Skills policies were written and approved by the Governing Body.

Work commenced on curriculum aimed at 'Developing the Whole Person' with a view that students will receive a more rounded learning experience and prepare them better for work and life.

International links were enhanced through staff and student exchanges with partners in the USA, South Africa, Germany, France and Hungary.

PAYMENT PERFORMANCE

The College is committed to the prompt payment of suppliers of goods and services in accordance with the Confederation of British Industry's prompt payer's code and British Standard BS 7890.

Unless otherwise stated in the contract, payment is due within 30 days of receipt of the goods or services, on presentation of a valid invoice or similar demand, which ever is later.

The College currently is unable to measure the average number of days taken to pay invoices.

POST BALANCE SHEET EVENTS

Planning Permission for the building of the Performing Arts Centre at the Bangor Campus was obtained on 4th November 2008.The agreed procurement vehicle for this conventionally procured building was to be through the CPD Frameworks process. A legal challenge on the CPD Frameworks process rendered this process unavailable to the Project Board. An alternative procurement method had to be considered.

The Bangor/ Ards Project Steering Group presented three options to the Bangor/ Ards Project Board at the meeting of the Project Board on 20 November 2008. The Project Steering Group using a Procurement Scoring Matrix recommended to the Board to proceed with the Third Option - NEC3 Option A; The Separation of Design and Construction. This route and Contract Strategy was considered to provide the best Value for money in whole life terms.

In December 2008 the Bangor / Ards Capital Project Board approved the appointment of Mascott Construction to construct the new Construction and Engineering Centre at the Newtownards Campus. Construction works commenced on site by Mascott Construction on 5 January 2009.

Land and Property Services (LPS) completed a full valuation of land and buildings in the FE sector at 1 August 2007. At the year end, a subsequent indexation of those assets was provided at 31 July 2008 for the financial statements which led to a reduction in land value of 40% between 1 August 2007 and 31 July 2008 and an increase in buildings by 3.31% for the same period. From 1 August 2008, land and property values have declined further. Due to continued uncertainty in the land and property market and a lack of market data, it has not been possible to reliably estimate the extent of this continued decline.

A claim has been received in March 2009 from an external service provider in relation to retrospective salary payments following the completion of a job evaluation exercise. Legal advice is currently being sought by the College on the validity of this claim which relates to the period from 1 January 2002 to date. An amount of £212k has been provided for in the accounts in respect of this claim.

FUTURE DEVELOPMENTS

In the last year there have been significant changes to the external environment and in particular a down-turn in the building industry and associated services, along with the effects of the credit crunch, market turmoil, and rising prices. These factors directly impact upon the College on a number of ways, for example:

- Apprenticeships in the construction industry are very hard to establish and maintain as firms are laying-off apprentices due to the economic downturn.
- Potential part-time students' levels of disposable income have been vastly reduced and members of the public are becoming more cautious in their spending.
- There is considerable competition for students from other education providers
- Increasing costs particularly energy costs
- The College was informed in the funding letter of 31st July 2008 that funding for 2008/09 from DEL was to be based upon 5,000 FE FLUs, 380 Essential Skills FLUs and 1,030 HE FLUs a total allocation of £21,756k. During the year the College staff and Management team worked hard to increase the FLUs generated by the College and this was reflected in the fact the College was awarded 5,573 FE FLUs, 551 Essential Skills FLUs and 1,001 HE FLUs, a total allocation of £24,170K, for 2009/10.
- EU Funding Programmes came to an end in 2007. The focus now needs to be wider than EU funding and other sources of income are also to be investigated including full cost recovery work.

To address the challenges there are number of areas that require prioritised action, namely:

- Maximising enrolment income this year and going forward.
- Embedding quality and continuous improvement.
- Developing staff to deliver in a flexible and changing environment.
- Maximising value for money, community and business links.

RESOURCES

The College has various resources at its disposal that it can deploy in pursuit of its objectives, namely Estate, Financial and People

Estate

The next three years will see the demolition or disposal of existing campus buildings in Ballynahinch, Downpatrick, Lisburn and Newcastle and the construction of new campus buildings in these locations. A new build Performing Arts Centre and an Innovation and Technology Centre are to be located at the Bangor campus and an extension to the Newtownards building will provide a new Construction Skills Centre.

The new College is spread over a wide geographical area with each of the campuses offering a range of courses. The College also delivers courses in a number of out centres in partnership with a number of voluntary bodies.

Listed is a description of each of the main existing campus buildings:-

Ballyboley

Manse Road, Carrowdore

This is a single storey former state school and comprises of two teaching rooms and associated facilities. The site also accommodates a mobile classroom. The property is leased until June 2010.

Ballynahinch

47 Church Road

This split level building is used mostly for the craft skills sector of carpentry & joinery, machine woodworking, plumbing and painting & decorating. This property is a freehold property.

Bangor

Castle Park Road

This building was constructed in 1967 and an extension added in 1995. It is a mainly four storey concrete framed building with a tiled pitched roof on the extension and a flat roof on the original structure.

There are single storey workshops housing Engineering and Joinery, which formed part of the original construction, and a former guide hall and mobile class rooms provide accommodation for music students and staff.

Downpatrick

Ardglass Road

These facilities are leased from Downshire hospital estate as an adult education centre.
The property is leased until the new campus is operational.

Ballydugan Road

This single storey prefabricated building is used primarily for the wet trades. It will remain in use until the new campus buildings are completed, at which stage the land will be disposed of. The property is a freehold property.

36 Church Street

This is a single storey building constructed in brickwork is used mostly for electrical installation and music courses. The building will remain operational until completion of the PPP development, following which it will be surplus to requirements and sold. The property is a freehold property.

110 Market Street, Downpatrick

The main campus building in Downpatrick is a 2 storey reinforced concrete frame clad in brickwork. Following completion of phase 1 of the new build this structure will be demolished. The property is a freehold property.

Holywood

Located on the Old Holywood Road close to Redburn Country Park and within easy reach of Belfast, this campus consists of a single storey building and 4 mobile classrooms. The property is a freehold property.

Lisburn

38 Castle Street

This property is a listed 3 storey building of traditional masonry construction dating from mid 1800's and has had several extensions added throughout the years. One of the extensions was severely damaged by fire in 2006 and was subsequently demolished. The building has not been used in recent years and is currently in the Public Sector Trawl disposal process. The property is a freehold property.

Lisburn (cont)

<u>39 Castle Street</u>

This Campus comprises 2 main properties:

- Castle House – a listed 2½ storey building of traditional masonry construction dating back to approximately 1870.
- A number of single and multi storey buildings constructed in the 60’s and 70’s.

The property is a freehold property.

<u>Knockmore Road</u>

Located approximately 3 miles from the main Castle Street Campus on the outskirts of Lisburn, this property is a single storey portal framed building constructed in the mid 1980’s and formally known as the Lisburn Training Centre (LTC).The property is a freehold property.

Newcastle

<u>Donard Street</u>

This complex consists of 3 storey brick buildings which will be disposed of when a new campus is constructed. The property is a freehold property.

Newtownards

Located on Victoria Road at the periphery of the town centre, this 1960’s campus is next to a residential area. The accommodation consists of a three storey red brick building with adjacent single storey wings. Part of the main car park area is the location for 18 mobile classrooms, accounting for a sizable portion of the accommodation.

Financial

Net assets at 31 July 2008 were £62,703k (including £3,568k pension liability) and long term debt of £73k.

People

The College employed approximately 819 people on average during the year (expressed as full time equivalents), of whom 509 were teaching staff.

PRINCIPAL RISKS AND UNCERTAINTIES

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College’s assets and reputation.

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year’s appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is reviewed by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

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

As of 26th August 2008, the Risk Register contained 16 Active Risks; 14 Category A & 2 Category B.
There have been 24 risks identified since Sept 07, with 8 risks having been removed.

As of 18th May 2009, the Risk Register contained 21 Active Risks; 17 Category A, 3 Category B & 1 Category C.
There have been 39 risks identified since Sept 07, with 18 risks having been removed

STAKEHOLDER RELATIONSHIPS

The Acting Chief Executive / Principal and College Management Team met with political representatives from the four council areas, the Members of Parliament and MLAs to outline the progress made within SERC on the merger and to explain the strategic direction being taken by the College.

Meetings were also held with the Principals of the main secondary and grammar schools to introduce key staff from SERC and to outline how the College work with local schools could be developed.

The South Eastern Regional Workforce Development Forum provides a means of engaging with employers and sectors at a high level to inform the College curriculum. The Forum is employer led and provides a means whereby employers' skills requirements can be articulated to government and the local FE sector. The sectors represented in the Forum as local priority skills areas include software engineering, construction/civil engineering, crafts/design, retail/distribution/commerce, electronics, health and social care, hospitality and tourism, ICT services, financial services and manufacturing.

In addition the College was represented on the following external networks:

- Business Alliance/HE/FE Forum
- Business in the Community Leadership programme
- CITB N.I.
- City and Guilds Advisory Panel
- Down Community Arts
- Down Strategy Partnership
- Downpatrick Neighbourhood Renewal Committee
- Institute of Directors
- Knockevin Special School
- Laganside Rural Development Agency
- Lisburn City Centre Management Committee
- Lisburn City Council – Vocational Training Committee
- Lisburn Strategy Partnership
- LSDA Advisory Panel
- NIRAN
- OCR Regional Forum
- PSNI Learning Advisory Council
- Resurgem (Economic Regeneration Forum in Lisburn)
- University of Ulster Management Committee of PGCFHE
- Court of the University of Ulster
- The Well Project, Downpatrick.
- Management Committee of North Down Community Development Group
- Kilcooley Forum member
- Kilcooley Neighbourhood Regeneration Committee
- North Down Business Village
- North Down Neighbourhood Regeneration Committee

STAFF AND STUDENT INVOLVEMENT

The College considers good communication with its staff to be very important and regular meetings are held. All staff were involved in briefing and induction meetings in June 2008 and again in August 2008 as part of the newly restructured College. Further Staff Development days and events are planned in February 2009. Quarterly newsletters were provided to staff through 'Staff Express'. College managers engaged with the Students' Union throughout the year. Written communication with the student body took place through the publication of 'Student Xpress' which was issued four times throughout the year. The College also encourages staff and student involvement through membership of the Governing Body.

EQUALITY OF OPPORTUNITY AND EMPLOYMENT OF DISABLED PERSONS

By virtue of Section 75 of the Northern Ireland Act 1998 the (South Eastern Regional College) in carrying out all its functions, powers and duties as required to have due regard to the need to promote equality of opportunity:

a) between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
b) between men and women generally;
c) between persons with a disability and persons without; and
d) between persons with dependants and persons without.

Without prejudice to its obligations above, the College has, in carrying out its functions, had regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group. The College has included the promotion of good relations as part of the corporate planning process.

The College is committed to the fulfilment of its Section 75 obligations in all parts of its organisation. The College is committed to allocating necessary resources to ensure that the statutory duties are complied with and that the measures within the Equality Scheme to promote equality of opportunity are implemented effectively and on time.

FINANCES AND GOING CONCERN

The Governing Body is satisfied that the College is a going concern on the basis that it has a reasonable expectation that the College will continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

DISCLOSURE OF INFORMATION TO AUDITORS

These accounts are subject to audit under legislation by the Comptroller and Auditor General for Northern Ireland.

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.

CHARITABLE AND TAXATION STATUS

The College has charitable status with the Inland Revenue and is not liable to corporation tax.

CHARITABLE/POLITICAL DONATIONS

The College made no charitable or political donations during the year.

PROFESSIONAL ADVISERS

External Auditors: Northern Ireland Audit Office
Internal Auditors: PricewaterhouseCoopers LLP
Bankers: Bank of Ireland
Solicitors: Carson McDowell

Members

The members who served for and on behalf of the Governing Body during the year were as follows:

Members	Position
Mr Brian Acheson	Chair of the Governing Body & Group Information Systems Director, SHS Group
Mr Russell Andrews	Staff Representative
Mr Norman Bennett	Director of Finance, Queen's University, Belfast
Mr John Ferris	Former Headmaster of Down High School
Mr Samuel Gallaher	Bid Director, Balfour Beatty Capital
Mr James Hunt	Director of Progressive Building Society & Golf Holdings Ltd
Mr David Lamb	Assistant Director of Finance, Northern Ireland Housing Executive
Mrs Linda Martin	Staff Representative
Dr Denis McBrinn	Development Director, Action for Employment
Mr Alistair McDowell OBE	Former Head of Business Affairs, Northern Ireland Policing Board
Mr Laurence O'Neill	Co-Director of Accounting & Financial Service, Belfast Health and Social Care Trust
Mr Tom Place	Principal and Chief Executive (Resigned 31 July 2008)
Mrs Beth Porter	Chief Librarian, South Eastern Education and Library Board
Professor Deirdre Vincent	Former Professor in the Department of German, University of Toronto
Mrs Suzanne Walsh	Senior Consultant, PricewaterhouseCoopers (Resigned 20 November 2008)
Mr Ken Webb	Principal and Chief Executive (Appointed 1 August 2008)
Mr Simon Wragg	Student Representative (Resigned 30 September 2008)

27/4/09

Chairman **Date**

SOUTH EASTERN REGIONAL COLLEGE
CORPORATE GOVERNANCE AND ACCOUNTABILITY

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the Governance procedures applied by the Governing Body of the College.

The College is an autonomous body established under the Further Education (Northern Ireland) Order 1997. Like most public bodies it operates within a strong framework of regulation. Not only does the College comply with all mandatory requirements but it also strives to operate that guidance which represents best practice.

SUMMARY OF THE COLLEGE'S STRUCTURE OF CORPORATE GOVERNANCE

Governing Body

The College's Governing Body comprises lay and academic persons appointed under the articles of the College, the majority of whom are non-executive. The role of the Chairman of the Governing Body is separate from the role of the College Principal/ Chief Executive. The Governing Body is responsible for the ongoing strategic direction of the College whilst the Executive Officers are responsible for the operational management of the Institution. The Governing Body approves all major developments and receives regular reports on the activities of the College. The Governing Body met 7 times during the 2007/08 year and has several committees, including a Finance Committee, an Education Committee, a Staffing Committee and an Audit Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Governing Body.

Audit Committee

The Audit Committee operates as an advisory body to the College's Governing Body and the Accounting Officer. The Audit Committee is responsible for reviewing the effectiveness of the College's accounting procedures and systems of internal control. It also must satisfy itself that adequate arrangements are in place to promote economy, efficiency and effectiveness. The Committee met 6 times during the 2007/08 year to discuss reports from the External and Internal Auditors and the relevant responses. It also receives and considers reports from the Department for Employment and Learning. It reviews the College's annual financial statements to ensure compliance with legislation and accounting standards. Whilst Executive Officers and other officials attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee can meet with Auditors on their own for independent discussions.

Education Committee

The Education Committee is responsible for overseeing College curricular provision, especially the nature, quality and performance of the provision and the extent to which it meets the needs of the community that the College seeks to serve.

Finance Committee

The Finance Committee inter alia supervises all matters relating to the finance and accounts of the College, the investment of its funds, the receipt of its income and the expenditure thereof, and the management of trust funds. The Committee also advises the Governing Body on the raising and guaranteeing of loans. It is the duty of the Finance Committee to present a report to each meeting of the Governing Body.

Staffing Committee

The Staffing Committee is responsible for carrying out procedures in relation to the recruitment, appointment, promotion and grading of all staff. It ensures that all procedures, and their application, in relation to the recruitment, appointment, promotion and remuneration of staff comply with industrial relations and equal opportunity legislation.

	27th Nov 08
Accounting Officer	**Date**

SOUTH EASTERN REGIONAL COLLEGE
STATEMENT OF THE RESPONSIBILITIES OF THE GOVERNING BODY
FOR THE YEAR ENDED 31 JULY 2008

The Governing Body of the College is required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum agreed between the Department for Employment and Learning (the Department) and the Governing Body of the College, the Governing Body through its chairman, is required to prepare financial statements for each financial year 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 Governing Body is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

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

The Governing Body is responsible for ensuring that funds from the Department are used only in accordance with the Financial Memorandum agreed with the Department and other conditions which the Department may from time to time prescribe. The Governing Body must ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available. In addition, the Governing Body is responsible for securing the economic, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the Department are not put at risk.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the College's aims and objectives set by the Governing Body, whilst safeguarding the public funds and College assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting Northern Ireland.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

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 the principle strategic risks which could prevent the achievement of College policies, aims and objectives, and to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The system of internal control has been in place in South Eastern Regional College for the year ended 31 July 2008 and up to the date of approval of the annual report and accords with DFP guidance. I have fully embedded the processes which the Department for Employment and Learning has agreed should be established and confirmed their robustness.

Capacity to handle risk

We have carried out appropriate procedures to ensure that we have identified the College's objectives and risks and determined a control strategy for each of the significant risks. As a result, risk ownership is allocated to the appropriate staff and the College has set out its attitude to risk to the achievement of the College objectives. Staff are trained and equipped to manage risk in a way appropriate to their authorities and duties.

The risk and control framework

The Governing Body has instructed that procedures are in place for verifying that aspects of risk management and internal control are regularly reviewed and reported on. There has been a full risk and control assessment before reporting on the year ending 31 July 2008. Risk management has been incorporated fully into the corporate planning and decision making processes of the College.

The Governing Body has received periodic reports concerning internal control. The appropriate steps have been taken to manage risks in significant areas of responsibility and progress on key projects has been monitored.

Following the identification of the College's key objectives and risks, further work has been done to bring about more consistency in the way in which the College treats risks.

In addition to the actions mentioned above, in the coming year the College plans to:

- regularly review and update the record of risks facing the organisation;
- maintain the system of key performance and risk indicators;
- arrange for regular reports from the Heads of Departments on internal activities.
- hold regular budget meetings with budget holders
- hold regular meetings looking at enrolments, retention and achievement reports
- hold regular quality meetings

The College has an internal audit service, the work of which concentrates on areas of key activities determined by an analysis of the areas of greatest risk and in accordance with the annual internal audit plan approved by the Governing Body. The Internal Auditors report to the Accounting Officer and to the Audit Committee on a regular basis and have direct access to the Governing Body and to the Chairman of the Audit Committee. The Head of Internal Audit has issued an Assurance Statement to me who provides his/her opinion on the adequacy and effectiveness of the internal control system and the extent to which it can be relied upon. On the basis of the audit work performed during the year the Internal Auditors were able to provide an overall Satisfactory Assurance in relation to the adequacy of the systems of control in place within the College and their operation during the period under review.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the College who have responsibility for the development and maintenance of the internal control framework, and comments made by the External Auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant internal control problems

The following weaknesses in internal controls have been identified:-

Training for Success Programme

The College received a “limited assurance” from its Internal Auditor, PricewaterhouseCoopers following the internal audit review of the Training for Success Programme (TfS) 07/08 which was carried out in January 2008. The audit identified two priority one recommendations and these have been addressed. The new TfS Programme was introduced by DEL in September 2007 and these points arose during the implementation and embedding of this new scheme. An action plan was put into place and reported to the Audit Committee during the year.

The College has implemented appropriate actions to address any weaknesses by any audit reports during the year. It has received an overall “satisfactory assurance” for the Financial Year 07/08 from its Internal Auditors on the basis of the audit work performed during the year in relation to the adequacy of the systems of control in place and their operation throughout the period under review.

PPP Professional Fees

The College signed two PPP Contracts for new buildings at Ballynahinch, Downpatrick, Lisburn and Newcastle in April 2008 with a capital cost of £58,306k. The original Business Case as agreed by the Department of Finance & Personnel in May 2003 for the professional fees for technical, design, financial and legal advice to the two legacy Colleges, East Down and Lisburn Institutes amounted to £400k in value. However this value has been exceeded due to a number of key variations.

The original project timetable envisaged completion of the Procurement Phase by April 2005. However due to a number of significant issues (eg planning delays, the acquisition of a new site at Lisburn, the financial difficulties of one of the Bidders and changes to Government Policy) the project experienced delays and the Procurement Phase was not completed until April 2008. These delays led to additional costs being incurred.

A letter seeking approval to pay these additional costs was submitted in January 2009 to the Department for Employment & Learning (DEL). DEL sought approval from the Department of Finance & Personnel (DFP) for an uplift of £947k from the original Business Case of £400k to a revised figure of £1,347k.

Approval was rejected by DFP as they considered it to be a retrospective application.

A Due Diligence exercise has been carried out on the additional fees to ensure that the amount requested was due and that Value for Money has been obtained. Advice was sought from the College legal advisors, the Department for Employment & Learning (DEL) and Central Procurement Directorate (CPD) to assist College staff in this process. This Due Diligence process resulted in reducing the original invoice to the final agreed figure of £1,205k (inc VAT).

The professional advice required to deal with these variations to the Contract has therefore resulted in irregular expenditure of £805k being incurred over the original Business Case of £400k.

The Department for Employment and Learning confirmed, in April 2009, their approval to the College to make the payment and that they would fund 90% of this amount.

The College has been determined to learn from the issues arising from this legacy project and has sought to ensure that this situation could not arise again. It has already learned lessons arising from this process for the Governance of PPP/Capital Projects and has already had an Internal Audit review undertaken by PwC to look at the Governance of the PPP Contracts in the post procurement phase. This Audit Review has received a 'Substantial' rating on the robust post procurement process and procedures which are in place to manage the contract going forward.

Investigations into whistle blowing allegations

DEL conducted an investigation into whistle blowing allegations made against North Down and Ards Institute. It concluded that of the three specific alleged complaints those relating to potential double funding and inappropriate purchase and use of ICT equipment required no further action. On the remaining issue in relation to the rental of premises, DEL asked the College to formally investigate the matter further and provide them with the outcome. The College acquired the services of Land and Property Services to determine the average market rental value for the premises referred to in the whistle blowing allegation. LPS determined an amount that was in line with that paid by the College for the rental of the premises. The findings were reported to DEL as requested.

Recommendations for improvement arising from the work done to investigate the allegations were identified by Internal Audit and by the College and were communicated to and agreed by the Audit Committee on 13th May 2009.

Key lessons were learned in regard to formalising written procedures and agreements with third parties whom the College is working with and improving systems for recording information on students.

Standard Operating Procedures have been developed and approved to provide guidance on these areas.

Accounting Officer | **Chairman**

27th Nov 09 | 27/11/09

Date | **Date**

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the South Eastern Regional College for the year ended 31st July 2008 under the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Governing Body and auditor

The Governing Body is responsible for preparing the Annual Report and the financial statements in accordance with the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and the Department for Employment and Learning direction made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Corporate Governance and Accountability Statement.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and the Department for Employment and Learning direction made thereunder. I report to you whether, in my opinion, the information included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

In addition, I report to you if South Eastern Regional College has not kept proper accounting records, if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal control reflects South Eastern Regional College's compliance with the Department of Finance and Personnel's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of South Eastern Regional College's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Governing Body in the preparation of the financial statements, and of whether the accounting policies are most appropriate to South Eastern Regional College's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and directions made thereunder by the Department for Employment and Learning, of the state of South Eastern Regional College's affairs as at 31st July and of its deficit, cash flows and total recognised gains and losses for the year then ended;

- the financial statements have been properly prepared in accordance with the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and the Department for Employment and Learning directions made thereunder; and

- information included within the Annual Report, is consistent with the financial statements.

Qualified opinion on regularity arising because of payments made where the proper approval for expenditure was not obtained

In 2007-08, the College capitalised expenditure of £821,754 in respect of services received from an advisory team of consultants, in relation to the procurement phase of a public private partnership project for the development of new college campuses. These services were commissioned in 2003 by the legacy further education colleges which now form the College. This expenditure was in addition to £382,785 previously paid by the legacy further education colleges. Taken together these amounts total £1,204,539 and exceed the expenditure limit of £400,000 that the Department of Finance and Personnel has approved for these costs. The College has therefore not obtained appropriate approval for £804,539 of this expenditure over the lifetime of this project.

Full details of the circumstances relating to this matter are included in the Statement of Internal Control.

In my opinion, except for the expenditure on PPP procurement advisory fees made without proper approval, in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Report

My detailed observations on this matter are included in my report attaching to these financial statements.

K J Donnelly

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

30 *November 2009*

SOUTH EASTERN REGIONAL COLLEGE
INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2008

	Notes	**2008 £'000**	2007 £'000
INCOME			
Department for Employment and Learning Grants	2	**26,344**	26,274
Education contracts	3	**6,734**	6,762
Tuition fees and charges	4	**1,226**	1,500
Other grant income	5	**393**	654
Other operating income	6	**756**	1,145
Investment income	7	**693**	546
Total income		**36,146**	36,881
EXPENDITURE			
Staff costs	8	**23,476**	23,846
Other operating expenses	10	**9,402**	9,740
Depreciation	13	**6,125**	2,572
Total expenditure before exceptional items		**39,003**	36,158
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and before tax and before exceptional items		**(2,857)**	723
EXCEPTIONAL ITEMS			
FRS 17 retirement benefit charge		**35**	508
Exceptional restructuring costs (staff)	8	**4,396**	146
Exceptional costs (non staff restructuring costs)	10	**143**	406
Deficit on continuing operations after depreciation of assets at valuation and before tax		**(7,431)**	(337)
Taxation	11	**-**	-
Deficit on continuing operations after depreciation of assets at valuation and tax	12	**(7,431)**	(337)

All amounts above relate to the continuing operations of the College.

The results for the year ended 31 July 2007 have been restated to the College merger and uniformity in accounting policies as required by FRS 6: Acquisitions and Mergers

SOUTH EASTERN REGIONAL COLLEGE
STATEMENT OF HISTORICAL SURPLUSES AND DEFICITS
for the year ended 31 July 2008

	Notes	**2008 £'000**	2007 £'000
Deficit on continuing operations after depreciation of assets at valuation and tax		**(7,431)**	(337)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	19	**4,368**	1,609
Historical cost (deficit)/surplus for the year		**(3,063)**	1,272

The accompanying accounting policies and notes form an integral part of these financial statements.

SOUTH EASTERN REGIONAL COLLEGE
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2008

	Notes	**2008 £'000**	2007 £'000
Deficit on continuing operations after depreciation of assets at valuation and tax		**(7,431)**	(337)
Revaluation of fixed assets	19	**22,573**	-
Transferred from deferred capital grants	19	**2,572**	-
Actuarial (losses)/gains in respect of pension scheme	21	**(983)**	2,234
Total recognised gains for the year		**16,731**	1,897

Reconciliation of movement in reserves	**2008 £'000**	2007 £'000
Reserves at 1 August	**41,929**	40,032
Total recognised gains for the year	**16,731**	1,897
Closing Reserves	**58,440**	41,929

The accompanying accounting policies and notes form an integral part of these financial statements.

SOUTH EASTERN REGIONAL COLLEGE
BALANCE SHEET
for the year ended 31 July 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	13	**60,264**	41,679
Total fixed assets		**60,264**	41,679
Current assets			
Debtors	14	**2,166**	2,592
Cash at bank and in hand		**11,769**	11,063
Total current assets		**13,935**	13,655
Creditors - amounts falling due within one year	15	**(7,643)**	(4,709)
Net current assets		**6,292**	8,946
Total assets less current liabilities		**66,556**	50,625
Creditors – amounts falling due after more than one year	16	**(73)**	(198)
Provision for liabilities and charges	17	**(212)**	-
NILGOS: pension fund creditor	21	**(3,568)**	(2,552)
Net assets		**62,703**	47,875
Deferred capital grants	18	**4,263**	5,947
Reserves			
Revaluation reserve	19	**55,267**	34,710
Income and expenditure account excluding pension deficit	20	**6,741**	9,770
Pension deficit	21	**(3,568)**	(2,552)
Income and expenditure account including pension deficit		**3,173**	7,218
Total reserves		**58,440**	41,928
Total funds		**62,703**	47,875

The financial statements on pages 21 to 47 were approved by the Governing Body of South Eastern Regional College on 27 November 2009 and were signed on its behalf on that date by:

Chairman **Accounting Officer**

The accompanying accounting policies and notes form an integral part of these financial statements.

SOUTH EASTERN REGIONAL COLLEGE
CASH FLOW STATEMENT
for the year ended 31 July 2008

	Notes	**2008 £'000**	2007 £'000
Cash inflow from operating activities	23	**112**	1,437
Returns on investments and servicing of finance	24	**693**	546
Capital expenditure and financial investment	25	**26**	84
Financing	26	**(125)**	(125)
Increase in cash in the year		**706**	1,942

Reconciliation of net cash flow to movement in net funds/(debt)

	2008 £'000	2007 £'000
Increase in cash in the year	**706**	1,942
Movement in net funds in the year	**706**	1,942
Net funds at 1 August	**11,063**	9,121
Net funds at 31 July	**11,769**	11,063

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

The accompanying accounting policies and noted form an integral part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

Statement of Accounting Policies

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

Basis of Preparation

These financial statements have been prepared on the going concern basis in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable Accounting Standards under the historical cost convention except that certain freehold properties are shown at their re-valued amounts. They also conform to the Accounts Direction issued by the Department for Employment and Learning (the 'Department').

Basis of accounting

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

Merger Accounting

On 1st August 2007 East Down, Lisburn and North Down & Ards Institutes were merged to form South Eastern Regional College. Under the requirements of FRS 6, Acquisitions and Mergers, the accounts have been prepared on the basis of merger accounting (DEL Circular FE 03/07 also refers). The statutory accounts for the 12-month period from 1 August 2007 to 31 July 2008 reflect the position of the new regional College and the comparative figures for 2006/07 are the consolidated figures of the three former Colleges. Further details are provided in Note 21.

Recognition of Income

The recurrent grant from DEL represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

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

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

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

All income from short-term deposits is credited to the income and expenditure account in the year in which it is earned.

Pension Scheme

The two Principal/ Director pension schemes for the College's staff are the Northern Ireland Teacher's Superannuation Scheme (NITSS) and the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) defined benefit schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme.

The NITSS is an unfunded contributory, voluntary membership scheme administered by the Department of Education. The current regulations under which the scheme operates are the *Teachers' Superannuation Regulations (NI) 1998 (as amended).* The NITSS 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 NITSS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

NILGOSC is a defined benefit schemes which is externally funded and contracted out of the second state Pension Scheme. The Funds are valued every three years by actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Pension costs are assessed on the basis of the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the College benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes after making allowances for future withdrawals. The College has fully adopted FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the College's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the College's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the College is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the College are charged to the income & expenditure account or the statement of total recognised gains and losses, in accordance with FRS 17.

Tangible Fixed Assets

Land and buildings

Land and buildings (including those inherited from the Education and Library Board) are stated in the balance sheet at valuation on the basis of depreciated replacement cost, as the open market value for existing use is not readily obtainable. Land and buildings acquired since the last valuation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College as advised by Land and Property Services (LPS). Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis which is consistent with the depreciation policy.

Assets other than land and buildings

Assets other than land and buildings costing less than £3,000 per individual item are written off to the income and expenditure account in the period of acquisition. Assets other than land and buildings inherited from the Education and Library Board are included in the balance sheet at valuation. All other assets are capitalised at cost.

These assets are depreciated over their useful economic lives as follows:

Computers	33 1/3% per annum on a straight line basis
Motor vehicles	25% per annum on a straight line basis
Plant and equipment	20% per annum on a straight line basis
Fixtures and fittings	15% per annum on a straight line basis

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

Assets in the course of 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. PPP fee costs incurred in prior years, and before the contracts were signed, have been expensed and not capitalised. Additional construction costs in relation to the PPP contracts will be capitalised and added to assets in the course of construction as and when incurred.

Private Finance Initiative Partnerships

The College will recognise the properties when they come into use unless it bears significant construction risk, in this case the property will be recognised as it is constructed. At present it is considered that the College does not bear significant construction risk with the main PPP contracts and therefore has not recognised these properties in the accounts as they have not yet come into use.

However, all advance works and post contract signing professional fee costs have been capitalised.

Where it is concluded that the College has an asset of the property and a liability to pay for it, these are recorded on the balance sheet. The initial amount recorded for each is the fair value of the property. Subsequently, the asset is depreciated over its useful economic life and the associated liability is reduced as payments for the property are made. An imputed finance charge on the liability is recorded in subsequent years using a property-specific rate. The remainder of the PFI payments (i.e. the full payments, less the capital repayment and the imputed financing charge) are recorded as an operating cost. Other College obligations in relation to the PFI contract are accounted for in accordance with FRS 12 Provisions, Contingent Liabilities and Contingent Assets.

Leased Assets

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

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

Investments

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

Foreign Currency Translation

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

As an exempt charity the College benefits by being broadly exempt from corporation tax on income it receives from tuition fees, interest and rents.

The College is exempted from levying VAT on most of the services it provides to students. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

Agency Arrangements

The College acts as an agent in the collection and payment of Support Funds and the administration of the educational maintenance allowances and New Deal Payments. Related payments received from DEL and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 33, except for £24k received which is available to the College to cover administration costs relating to the grant. The College employs the equivalent of three members of staff for the administration of Learner Support Fund applications and payments.

2. DEPARTMENT FOR EMPLOYMENT AND LEARNING GRANTS

	2008	2007
	£'000	£'000
Recurrent grant	**21,009**	21,789
Release of deferred capital grants	**868**	1,168
Educational Maintenance Allowance (EMA)	**25**	33
Minor Works	**155**	133
Information, Communication and Technology (ICT – Recurrent)	**627**	39
Special Learning Difficulties & Disabilities (SLDD)	**120**	142
Essential Skills	**1,190**	666
Health & Safety	**221**	198
Foundation degrees	**628**	622
Merger support fund	**-**	110
Premature Retirement Grant	**508**	-
Teacher's superannuation contributions	**541**	564
Public Private Partnership (PPP)	**20**	499
Additional Support Funds (ASF)	**304**	139
Care to Learn	**38**	-
Other	**90**	172
	26,344	26,274

3. EDUCATIONAL CONTRACTS

	2008	2007
	£'000	£'000
School Link Courses	**1,047**	735
Jobskills/Training for Success	**4,091**	4,538
New Deal	**444**	488
Training Organisation – Other	**352**	183
Higher Education (HE) income	**800**	818
	6,734	6,762

4. TUITION FEES AND CHARGES

	2008	2007
	£'000	£'000
Home and other European Union	**1,226**	1,500
Non-European Union	**-**	-
	1,226	1,500

5. OTHER GRANT INCOME

	2008 £'000	2007 £'000
European funds	**292**	654
Other funds	**101**	-
	393	654

6. OTHER OPERATING INCOME

	2008 £'000	2007 £'000
Catering and residence operations	**150**	143
Other income generating activities	**223**	435
Profit on sale of land	**-**	123
Other income	**383**	444
	756	1,145

7. INVESTMENT INCOME

	2008 £'000	2007 £'000
Other interest receivable	**693**	546
	693	546

8. STAFF COSTS

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

	2008 Number	2007 Number
Teaching	**509**	476
Non-teaching	**310**	313
	819	789

Staff costs for the above persons

	2008 £'000	2007 £'000
Teaching	**15,978**	15,873
Non-teaching	**7,498**	7,973
	23,476	23,846
Wages and salaries	**19,692**	19,822
Social Security costs	**1,426**	1,383
Other pension costs	**2,358**	2,286
Redundancy costs	**-**	355
	23,476	23,846
Exceptional staff costs (redundancy)	**4,396**	146
	27,872	23,992

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

	Senior Post Holders		Other Staff	
	2008 Number	2007 Number	2008 Number	2007 Number
£60,001 to £70,000	**-**	2	**1**	3
£70,001 to £80,000	**-**	1	**-**	1
£80,001 to £90,000	**4**	2	**-**	-
£90,001 to £100,000	**-**	1	**-**	-
£100,001 to £110,000	**-**	1	**-**	-
£110,001 to £140,000	**1**	-	**-**	-
	5	7	**1**	4

9. SENIOR POST HOLDERS' EMOLUMENTS

Senior post-holders are defined as the Chief Executive/Principal and College Directors' whom the Governing Body has selected for the purposes of the Articles of Government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2008	2007
	Number	Number
The number of senior post-holders including the Chief Executive/Principal(s) was:	**6**	6

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

	2008	2007
	£'000	£'000
Salaries	**418**	435
Benefits in kind	**-**	-
Pension contributions	**54**	60
Total emoluments	**472**	495

The above emoluments include amounts payable to the Chief Executive/Principal(s) who were also the highest paid senior post-holders in the period of:

	2008	2007
	£'000	£'000
Salaries	**128**	241
Benefits in kind	**-**	-
	128	241
Pension contributions	**18**	33
	146	274

The pension contributions in respect of the Chief Executive/Principal and senior post-holders are in respect of employer's contributions to the Teachers' Superannuation Scheme and the Northern Ireland Local Government Officers' Superannuation Scheme and are paid at the same rate as for other employees.

The members of the College other than the Chief Executive/Principal and the staff members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Senior staff or Governors did not engage in any overseas activities during the year.

10. OTHER OPERATING EXPENSES

	2008	2007
	£'000	£'000
Direct teaching	**979**	773
Direct support	**3,440**	3,805
Administration	**1,900**	2,537
Premises	**3,083**	2,625
	9,402	9,740
Exceptional costs (merger expenses)	**143**	406
	9,545	10,146

Other operating expenses include:

	2008	2007
	£'000	£'000
Auditors' remuneration:		
Financial statements audit	**21**	26
Internal audit	**25**	30
Other services provided by the financial statements auditor	**-**	3
Other non-audit services provided by the internal auditors	**75**	15

11. TAXATION

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

12. DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR

	2008	2007
	£'000	£'000
The deficit on continuing operations for the year is made up as follows:		
College's deficit for the year	**(7,431)**	(337)

13. TANGIBLE FIXED ASSETS

	Freehold land	Freehold buildings	Buildings under construction	Plant and equipment	Computers	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation								
At 1 August 2007	16,258	27,091	1,693	2,488	3,270	368	173	51,341
Additions	-	-	1,519	140	468	-	10	2,137
Disposals	-	(700)	-	-	-	-	-	(700)
Surplus on revaluation	15,998	2,000	-	-	-	-	-	17,998
Reclassified assets	-	-	-	(1,194)	(3,342)	(161)	(29)	(4,726)
At 31 July 2008	**32,256**	**28,391**	**3,212**	**1,434**	**396**	**207**	**154**	**66,050**
Depreciation								
At 1 August 2007	-	4,791	-	2,031	2,479	224	137	9,662
Charge for the year	-	1,766	-	275	621	44	16	2,722
Accelerated depreciation	-	2,692	-	-	-	-	-	2,692
Disposals	-	(700)	-	-	-	-	-	(700)
Revaluation	-	(4,575)	-	-	-	-	-	(4,575)
Reclassified Assets	-	-	-	(1,094)	(2,755)	(139)	(27)	(4,015)
At 31 July 2008	**-**	**3,974**	**-**	**1,212**	**345**	**129**	**126**	**5,786**
Net book value at 31 July 2008	**32,256**	**24,417**	**3,212**	**222**	**51**	**78**	**28**	**60,264**
Net book value at 31 July 2007	16,258	22,300	1,693	457	791	144	36	41,679

Buildings under Construction

The amounts under this heading are in respect of costs incurred in 2007/08 for Advanced Contract Works and associated professional fees related to the PPP Projects. These have been capitalised in line with FRS15. When the buildings are completed and brought into use these amounts will be depreciated. The anticipated completion dates of the buildings are; Downpatrick June 2009, Newcastle June 2009, Lisburn April 2010, Ballynahinch February 2011.

The original project timetable envisaged completion of the Procurement Phase by April 2005. However due to a number of significant issues (eg planning delays, the acquisition of a new site at Lisburn, the financial difficulties of one of the Bidders and changes to Government Policy) the project experienced delays and the Procurement Phase was not completed until April 2008. These delays led to additional costs being incurred.

A letter seeking approval to pay these additional costs was submitted in January 2009 to the Department for Employment & Learning (DEL). DEL sought approval from the Department of Finance & Personnel (DFP) for an uplift of £947k from the original Business Case of £400k to a revised figure of £1,347k.

Approval was rejected by DFP as they considered it to be a retrospective application.

A Due Diligence exercise has been carried out on the additional fees to ensure that the amount requested was due and that Value for Money has been obtained. Advice was sought from the College legal advisors, the Department for Employment & Learning (DEL) and Central Procurement Directorate (CPD) to assist College staff in this process. This Due Diligence process resulted in reducing the original invoice to the final agreed figure of £1,205k (inc VAT).

The professional advice required to deal with these variations to the Contract has therefore resulted in irregular expenditure of £805k being incurred over the original Business Case of £400k.

The Department for Employment and Learning confirmed, in April 2009, their approval to the College to make the payment and that they would fund 90% of this amount.

Disposals

This relates to a demolished building on a site at Castlewellan Road, Newcastle. Building work for the new PPP Newcastle Campus commenced on this site in April 2008 and is due for completion in June 2009.

Surplus on Revaluation

Land and buildings were subject to a professional valuation by Land and Property Services (LPS) on 1 August 2007 resulting in an upward revaluation of £43,170k. These valuations were then adjusted by indices provided by LPS to establish valuations at 31 July 2008 for the financial statements. In a difficult market and with limited sales evidence, the indices were determined using a consensus of valuer opinion and it was agreed that a reduction in land value of 40% between 1 August 2007 and 31 July 2008 was appropriate for the values placed on the sites of Further Education Colleges. This resulted in a downward revision of £21,504k. LPS had no evidence to show any differential geographical changes in value and these indices have therefore been applied to all of the Further Education Colleges in Northern Ireland for their 2007/08 financial statements. It was agreed that buildings be increased by 3.31% between 1 August 2007 and 31 July 2008, resulting in an upward revaluation of £907k. The net result of all revisions is an upward revaluation of £22,573 which has been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve.

Reclassified Assets

The Accounts Direction from DEL for 2007/2008 instructed Colleges to only capitalise those assets with an individual valuation greater than £3,000. In previous years each of the 3 pre-merged Institutes had grouped or “bundled” assets and capitalised the bundle when the value of the bundle was over £3,000. These assets have now been unbundled and the original cost and cumulative depreciation have been released.

Depreciation Charge for the Year

The depreciation charge for the year includes accelerated depreciation of £2,692k on buildings in Downpatrick, Lisburn and Ballynahinch which are due to be demolished as part of the PPP building projects. These buildings have been depreciated in 2007/08 in line with their useful economic life. The dates of demolition are scheduled to be as follows; Downpatrick June 2009, Lisburn April 2010, Ballynahinch February 2011. The accelerated depreciation is matched by an equal and opposite release from the Revaluation Reserve.

Income & Expenditure Account – Depreciation

The depreciation shown in the Income & Expenditure Account is analysed below:-

	2008	2007
	£’000	£’000
Charge for the year	**2,722**	2,572
Accelerated depreciation on buildings	**2,692**	-
	5,414	2,572
Original cost of reclassified assets	**4,726**	-
Cumulative depreciation on declassified assets	**(4,015)**	-
Charge in the Income & Expenditure Account	**6,125**	2,572

14. DEBTORS

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Amounts due from the Department	**1,554**	2,162
Trade debtors	**340**	255
Prepayments and accrued income	**272**	175
	2,166	2,592

15. CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR

	2008 £'000	2007 £'000
DEL Loan	**125**	125
Payments received in advance	**171**	154
Trade creditors	**1,009**	1,010
Taxation and social security	**4**	650
Trade accruals	**1,218**	1,268
Redundancy accruals	**4,177**	434
Amounts owed to DEL	**939**	1,068
	7,643	4,709

16. CREDITORS:AMOUNTS FALLING DUE AFTER 1 YEAR

	2008 £'000	2007 £'000
DEL Loan	**73**	198
	73	198

The DEL Loan was in respect of Lisburn Institute and will be fully repaid by February 2010.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Other £'000	Total £'000
At 1 August 2007	-	**-**
Provision for additional TUPE costs	212	**212**
At 31 July 2008	212	**212**

18. DEFERRED CAPITAL GRANTS

	DEL grants £'000	**Total £'000**
At 1 August		
Land and buildings	4,858	**4,858**
Other assets	1,090	**1,090**
	5,948	**5,948**
Cash received		
Land and buildings	1,431	**1,431**
Other assets	732	**732**
	2,163	**2,163**
Released to Income and Expenditure Account		
Land and buildings	(33)	**(33)**
Other assets	(1,463)	**(1,463)**
	(1,496)	**(1,496)**
Transferred to Revaluation Reserve		
Land and buildings	(2,352)	**(2,352)**
Other assets	-	**-**
	(2,352)	**(2,352)**
At 31 July		
Land and buildings	3,904	**3,904**
Other assets	359	**359**
Total	4,263	**4,263**

The Deferred Grant of £2,352,000, which has been transferred to the Revaluation Reserve, relates to land in Lisburn which was acquired under a grant from DEL.

19. REVALUATION RESERVE

	2008 £'000	2007 £'000
At 1 August	**34,710**	36,319
Revaluations in the period (as per note 13)	**22,573**	-
Transferred from deferred capital grants	**2,352**	-
Transfer from revaluation reserve to general reserve in respect of depreciation on revalued assets	**(4,368)**	(1,609)
At 31 July	**55,267**	34,710

20. INCOME AND EXPENDITURE ACCOUNT

Income and expenditure account reserve

	2008	2007
	£'000	£'000
At 1 August	**7,219**	3,713
Deficit retained for the year	**(7,431)**	(337)
Transfer from revaluation reserve	**4,368**	1,609
Actuarial (losses)/gain in respect of pension scheme	**(983)**	2,234
At 31 July	**3,173**	7,219

Balance represented by :

	2008	2007
Pension reserve	**(3,568)**	(2,551)
Income and expenditure account reserve excluding pension reserve	**6,741**	9,770
At 31 July	**3,173**	7,219

21. PENSION AND SIMILAR OBLIGATIONS

The College's employees belong to two Principal/Director pension schemes: the Northern Ireland Teachers' Superannuation Scheme (NITSS) for academic and related staff; and the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) for non-teaching staff. Both are defined-benefit schemes.

Total pension cost for the year

	2008	2007
	£'000	£'000
NITSS: contributions paid	**1,775**	1,574
NILGOSC: charge to the income and expenditure account (staff costs)	**583**	525
Enhanced pension charge to income and expenditure account (exceptional items)	**35**	508
Total pension cost for the year	**2,393**	2,607

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the NITSS was as at 31 March 2004 and NILGOSC was as at 31 March 2007.

NITSS

The NITSS is an unfunded contributory, voluntary membership scheme administered by the Department of Education. The current regulations under which the scheme operates are the Teachers' Superannuation Regulations (NI) 1998 (as amended).

Further information about the scheme is given in the explanatory booklet dated November 2007, which is issued to all members.

The Government Actuary's Department values the scheme every 4 years with an interim valuation in the intervening 2-year period using the projected accrued benefit method. The latest full valuation to be completed was as at 31 March 2004, with an interim valuation completed as at 31 March 2007. The interim actuarial valuation as at 31 March 2007 valued the accrued pension scheme liability at £6.35 billion.

From 1 April 2007 the employers' contribution rate is 13.6% and the employees' contribution rate is 6.4% of pensionable pay. This is to account for changes introduced to the NITSS from this date. These rates still apply in this financial year

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the NITSS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

NILGOSC

NILGOSC is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations (Northern Ireland) 2002, as amended. It is contracted out of the state pension scheme.

FRS 17

The following information is based upon a full actuarial valuation of the fund at 31 March 2007 updated to 31 July 2008 by a qualified independent actuary.

	2008	2007	2006
	%	**%**	**%**
Pension increase rate	**3.8**	3.3	3.1
Salary increase rate	**5.3**	4.8	4.6
Expected return on assets	**7.3**	7.3	7.0
Discount rate	**6.7**	5.8	5.1

The current mortality assumptions include sufficient allowance for the future improvements of mortality rates. The assumed life expectations on retirement age 65 are:

	2008	2007
Retiring today		
Males	**19.6**	18.4
Females	**22.5**	21.3
Retiring in 20 years		
Males	**20.7**	19.6
Females	**23.6**	22.5

	Long term rate of return expected at 31 July 2008	**Value at 31 July 2008**	Long term rate of return expected at 31 July 2007	Value at 31 July 2007	Long term rate of return expected at 31 July 2006	Value at 31 July 2006
		£'000		£'000		£'000
Equities	**7.80%**	**9,113**	8.00%	9,460	7.70%	8,057
Bonds	**5.70%**	**1,608**	5.20%	2,066	4.70%	1,693
Property	**5.70%**	**953**	6.00%	1,067	5.70%	962
Cash	**4.80%**	**232**	5.10%	229	4.80%	224
Market value of assets		**11,906**		12,822		10,936
Present value of liabilities		**(15,474)**		(15,374)		(15,214)
Deferred tax liability		**-**		-		-
Deficit in the scheme		**(3,568)**		(2,552)		(4,278)

Recognition in the Income and Expenditure account

	2008	2007
	£'000	£'000
Current service cost	**647**	888
Interest cost	**909**	805
Expected return on employer assets	**(961)**	(788)
Losses on curtailments and settlements	**23**	125
Total	**618**	1,030
Actual return on plan assets	**(772)**	1,232

Analysis of pension finance income/(cost)

	2008	2007
Expected return on employer assets	**961**	788
Interest cost	**(909)**	(805)
Pension finance income/(cost)	**52**	(17)

Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2008	2007
	£'000	£'000
Actuarial (losses)/gains	**(983)**	2,234
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	**-**	-
Actuarial (losses)/gains recognised in STRGL	**(983)**	2,234

Movement in deficit during year

	2008	2007
	£'000	£'000
Deficit in scheme at 1 August	**(2,552)**	(4,278)
Current service cost	**(647)**	(888)
Employer contributions	**584**	521
Contributions in respect of unfunded benefits	**1**	1
(Losses) on curtailments and settlements	**(23)**	(125)
Pension finance income/(cost)	**52**	(17)
Actuarial (losses)/gains	**(983)**	2,234
Deficit in scheme at 31 July	**(3,568)**	(2,552)

Reconciliation of Defined Benefit Obligation

	2008	2007
	£'000	£'000
Liabilities at 1 August	**15,374**	15,213
Current service cost	**647**	888
Interest cost	**909**	805
Employee contributions	**260**	269
Actuarial (losses)	**(1,447)**	(1,789)
Estimated unfunded benefits paid	**(1)**	(1)
Estimated benefits paid	**(291)**	(136)
Losses on curtailments and settlements	**23**	125
Liabilities at 31 July	**15,474**	15,374

Reconciliation of Fair Value of Employer Assets

	2008	2007
	£'000	£'000
Assets at 1 August	**12,822**	10,936
Expected return on employer assets	**961**	788
Actuarial (losses)/gains	**(2,430)**	444
Employer contributions	**584**	521
Contributions in respect of unfunded benefits	**1**	1
Employee contributions	**260**	269
Estimated unfunded benefits paid	**(1)**	(1)
Estimated benefits paid	**(291)**	(136)
Assets at 31 July	**11,906**	12,822

History of Experience Gains and Losses

	2008	2007
	£'000	£'000
Difference between the expected and actual return on assets:		
Difference between the expected and actual return on employer assets	**(1,733)**	444
Fair value of employer assets	**11,906**	12,822
Percentage of employer assets	**(14.6%)**	3.5%
Experience gains on scheme liabilities:		
Experience gains on liabilities	**546**	26
Present value of liabilities	**15,474**	15,374
Percentage of the total present value of liabilities	**3.5%**	0.2%
Total amount recognised in STRGL:		
Actuarial (losses)/gains recognised in STRGL	**(983)**	2,234
Present value of liabilities	**15,474**	15,374
Percentage of the total present value of liabilities	**(6.4%)**	14.5%

22. MERGER ACCOUNTING

East Down Institute, Lisburn Institute and North Down and Ards Institute merged on 1 August 2007 to form South Eastern Regional College. This has been accounted for as a merger.

An analysis of the principal components of the Income and Expenditure Account and a STRGL for the previous financial period is shown below for each college:

College Income and Expenditure accounts for the year ended 31 July 2007

	NDAI	EDI	Lisburn	**Total**
	£'000	£'000	£'000	**£'000**
Total income	18,155	10,071	8,655	**36,881**
Total expenditure before exceptional items	(17,058)	(9,697)	(8,639)	**(35,394)**
Exceptional items	(609)	(278)	(173)	**(1,060)**
Depreciation on demolished buildings	-	-	(720)	**(720)**
Surplus/(deficit) on continuing operations after depreciation of assets at valuation and before tax	488	96	(877)	**(293)**
(Loss)/profit on disposal of fixed assets	-	(134)	90	**(44)**
Surplus/(deficit) on continuing operations after depreciation of assets at valuation and disposal of assets but before tax	488	(38)	(787)	**(337)**
Taxation	-	-	-	**-**
Surplus/(deficit) on continuing operations after depreciation of assets at valuation and tax	488	(38)	(787)	**(337)**

College Statement of Total Recognised Gains and Losses for the year ended 31 July 2007

	NDAI	EDI	Lisburn	**Total**
	£'000	£'000	£'000	**£'000**
Surplus/(deficit) on continuing operations after depreciation of assets at valuation and tax	488	(38)	(787)	**(337)**
Unrealised surplus on revaluation of fixed assets	491	124	994	**1,609**
Actuarial gain in respect of pension scheme	1,017	738	479	**2,234**
Total recognised gains since last report	1,996	824	686	**3,506**

The Aggregate Book Value of the Net Assets of each merging College at the date of the Merger:

	NDAI	EDI	Lisburn	**Total**
	£'000	£'000	£'000	**£'000**
Net assets at 31 July 2007	25,880	8,579	13,416	**47,875**

There have been no significant accounting adjustments made to the net assets of the College to achieve consistency of accounting policies

23. RECONCILIATION OF OPERATING DEFICIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008	2007
	£'000	£'000
Deficit on continuing operations after depreciation of assets at valuation	**(7,431)**	(337)
Depreciation (note 13)	**5,414**	2,572
Reclassification of tangible fixed assets (note 13)	**711**	-
Loss on disposal of fixed assets	**-**	44
Deferred capital grants released to income (note 18)	**(1,496)**	(1,263)
Interest receivable (note 7)	**(693)**	(546)
Pension cost less contributions payable (note 21)	**35**	508
Decrease/(increase) in debtors	**426**	(1,439)
Increase in creditors	**2,934**	2,036
Increase/(decrease) in provisions	**212**	(138)
Net cash inflow from operating activities	**112**	1,437

24. RETURN ON INVESTMENT AND SERVICING OF FINANCE

	2008	2007
	£'000	£'000
Other interest received	**693**	546
Net cash inflow from returns on investment and servicing of finance	**693**	546

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2008	2007
	£'000	£'000
Purchase of tangible fixed assets	**(2,137)**	(1,889)
Deferred capital grants received	**2,163**	1,834
Proceeds on sale of fixed assets	**-**	139
Net cash inflow from capital expenditure and financial investment	**26**	84

26. FINANCING

	2008	2007
	£'000	£'000
Debt repaid during year:		
DEL Loan	**(125)**	(125)
Net cash outflow from financing	**(125)**	(125)

27. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Aug 2007 £'000	Cash flows £'000	**At 31 July 2008 £'000**
Cash in hand and at bank	11,063	706	**11,769**
	11,063	706	**11,769**
Financing	(323)	125	**(198)**
	10,740	831	**11,571**

28. CASH FLOW RELATING TO AN EXCEPTIONAL ITEM - REDUNDANCY

	2008 £'000	2007 £'000
Accrual as at 1 August	**45**	-
Income and expenditure account charge	**4,549**	1,060
Operating cash outflow	**(403)**	(1,015)
Accrual as at 31 July	**4,191**	45

29. POST BALANCE SHEET EVENTS

Land and Property Services (LPS) completed a full valuation of land and buildings in the FE sector at 1 August 2007. At the year end, a subsequent indexation of those assets was provided at 31 July 2008 for the financial statements which led to a reduction in land value of 40% between 1 August 2007 and 31 July 2008 and an increase in buildings by 3.31% for the same period. From 1 August 2008, land and property values have declined further. Due to continued uncertainty in the land and property market and a lack of market data, it has not been possible to reliably estimate the extent of this continued decline.

A claim has been received in March 2009 from an external service provider in relation to retrospective salary payments following the completion of a job evaluation exercise. Legal advice is currently being sought by the College on the validity of this claim which relates to the period from 1 January 2002 to date. An amount of £212k has been provided for in the accounts in respect of this claim.

30. CAPITAL COMMITMENTS

	2008 £'000	2007 £'000
Commitments contracted for at 31 July	**58,306**	**-**

In April 2008 the College signed two PPP contracts with the East Down & Lisburn Educational Partnership (EDLEP) to design, build and maintain, for 25 years, new College buildings on sites in Ballynahinch, Downpatrick, Lisburn and Newcastle. Capital repayments will be made over a 25 year period and will be funded by DEL.

31. FINANCIAL COMMITMENTS

At 31 July the College had no annual commitments under non-cancellable operating leases.

32. RELATED PARTY TRANSACTIONS AND TRANSACTIONS INVOLVING GOVERNING BODY MEMBERS AND SENIOR MANAGEMENT

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

Organisation	**Governor/Director & Position in Organisation**	**Paid to the Company 2008 £'000**	**Outstanding at 31 July 2008 £'000**
Construction Industry Training Board	Eleanor Ross *Board Member, CITB*	**12**	**-**
	Michael Malone *Standards Committee Member, CITB*		
	Thompson Keating *Board Member, CITB*		
Council for the Curriculum, Examinations & Assessments - CCEA	Eleanor Ross *Regulation/Quality Committee Member, CCEA*	**34**	**1**
Open College Network	David Smith *Board Member, OCN*	**45**	**-**
PricewaterhouseCoopers LLP	Suzanne Walsh *Consultant, PwC LLP*	**100**	**-**
Queens University, Belfast	Norman Bennett *Director of Finance, QUB*	**7**	**2**
South Eastern Education and Library Board	Beth Porter *Chief Librarian, SEELB*	**3**	**-**
	James Hunt *Audit Committee Member, SEELB*		

The transactions with PricewaterhouseCoopers were in respect of Internal Audit and Consultancy associated with the College Merger Process including specialist advice on staff selection and appointments. Transactions with QUB, CITB, CCEA and OCN all relate to student tuition and examination costs. The transactions with SEELB are for the purchase of protective clothing.

33. SUPPORT FUNDS

	2008	2007
	£'000	£'000
Balance at 1 August	**105**	23
DEL grants	**241**	440
	346	463
Disbursed to students	**(167)**	(358)
Balance unspent at 31 July	**179**	105

Access funds are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

Qualification arising from irregular expenditure incurred in respect of advisory fees on a Public Private Partnership project

1. The South Eastern Regional College (SERC) was formed on 1 August 2007 from the merger of three Further Education Colleges. Prior to this in 2003 two of the legacy Colleges[1] undertook a single procurement approach for the delivery of two capital investment projects with a total capital value of £58.4 million for the development of 4 new college campuses, at Downpatrick, Ballynahinch, Lisburn and Newcastle. This combined project was procured as a public private partnership (PPP).

2. In May 2003 the two legacy Colleges jointly appointed a team of technical, legal and financial advisors for this large scale procurement exercise. In accordance with the delegated limits for approval of expenditure, the legacy Colleges' sponsor department, the Department for Employment and Learning (the Department) sought Department of Finance and Personnel (DFP) approval for the legacy Colleges to appoint the advisors. DFP approved expenditure up to a limit but not exceeding £400,000.

3. The procurement process was managed by the Government Purchasing Agency (now known as the Central Procurement Directorate). The contract for the appointment of the consultancy advisors was awarded in December 2003 on a fixed price basis. The accepted bid was for 394.5 consultancy days at a cost of £357,508 (excluding VAT). This cost included any overrun risk where the management of that risk was considered to be within the contractor's control. The Department agreed to reimburse the legacy Colleges 90 per cent of the expenditure incurred.

[1] The two former colleges undertaking this procurement were East Down Institute of Further and Higher Education and Lisburn Institute of Further and Higher Education. North Down and Ards Institute of Further and Higher Education, the other legacy college, was not involved in this procurement.

4. At the time of the appointment, the advisory team's tender proposal envisaged that the procurement phase of the PPP project would be completed within sixteen months, by April 2005. However the PPP procurement project, once it was underway, was subject to a series of issues that led to delays and variations to the PPP contract. Additional time was incurred by the advisory team which they considered to be outside of their control, leading to additional costs over and above the original PPP consultancy contract. Issues included:

- one of the bidders experienced financial difficulties and was taken over by another company leading to a new pre-qualification submission;
- the Lisburn development was originally to be built over two sites but the unexpected availability of adjacent land led to a more favourable solution becoming available that required assessment by the advisory team;
- the imposition of planning conditions at the Lisburn site led to the need for a new design solution;
- new statutory sustainability requirements were introduced during the procurement phase requiring elements of the buildings to be redesigned;
- car parking numbers at the Downpatrick campus were underestimated, leading to a redesign to accommodate the greater need and any impact on planning conditions.

5. As a result of these changes, the PPP procurement phase was not completed by the advisory team until April 2008, three years after the date envisaged at the time of the appointment of the advisors. The advisory team submitted an invoice to SERC in January 2008, six months after the college was formed, for 1,155 consultancy days at a cost of £1,325,436 (excluding VAT), an increase of £967,928, almost three times higher than the agreed time and bid price. SERC conducted a due diligence review of the costs billed. This led to 206 consultancy days being omitted and a reduction in the invoiced costs of £282,529 to £1,042,907 (excluding VAT). As SERC can only reclaim two per cent of VAT incurred, the total PPP consultancy cost is actually £1,204,539. SERC told me that £382,785 of this amount was expensed by the legacy colleges pre-merger when no extension to the PPP consultancy contract had been agreed. The balance of £821,754 was accounted for by SERC in 2007-08 as part of the cost of buildings under construction. SERC advised me that £601,232 of the £934,358 buildings under construction costs were incurred pre-merger, but not accounted for by the legacy Colleges at that time.

6. The due diligence process noted above was conducted to verify the validity of the total hours claimed and the fee rates applied. This process was endorsed by the Department which acknowledged the obligation of SERC to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity. SERC experienced difficulties in obtaining relevant supporting evidence. As a result the process took one year to complete. The £282,529 reduction in the advisory team's fee was mainly due to a reduction in project management costs when SERC challenged the reasonableness of claiming for the numbers of consultants attending meetings, SERC's liability for certain tasks billed and the applicability of certain fee rates.

7. I am concerned that a large contract overrun was incurred. I refer to a July 2008 Public Accounts Committee 'Report on the Use of Consultants'[2] where the Committee make reference to such a circumstance when it said:

'Frequent and large-scale increases in contract costs raise doubts about the standard of project appraisal, management and control; are often non-competitive in nature; and can hinder the achievement of value for money.

8. In February 2009 SERC submitted a revised business case to the Department for the advisory fees overrun. In March 2009 the Department wrote to DFP seeking retrospective approval for an uplift in the advisory fees for the College PPP project from the original limit of £400,000 approved in May 2003 to £1,347,000 (an increase of £947,000). This request was made using the best estimates available at the time.

[2] Report: 16/07/08R Public Accounts Committee

9. In its reply, DFP noted that retrospective approval could only be granted in line with the rules contained in 'Managing Public Money Northern Ireland' (MPMNI)[3]. MPMNI states that 'where resource consumption of expenditure is irregular, DFP may be prepared to give retrospective approval if it is satisfied that:

- it would have granted approval had it been approached properly in the first place; and
- the Department is taking steps to ensure there is no reoccurrence.

10. DFP recognised that the Minister for the Department had asked for a paper to be prepared on the lessons learned from this experience and that the Department had partly satisfied the second condition. However, DFP refused the Department's request as a revised business case had not been submitted to support the approval request for the additional consultancy costs.

11. In April 2009 the Department notified SERC that DFP had declined to grant retrospective approval for the uplift in PPP procurement advisory fees. It acknowledged the obligation of the College to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity and confirmed that it would uphold the agreement with the two legacy Colleges to reimburse 90% of the advisory fees incurred.

[3] Managing Public Money Northern Ireland issued by DFP is the authoritative guide to the principles for dealing with resources used by public sector organisations in Northern Ireland.

Conclusion

12. As part of my audit of SERC's Annual Accounts, I am required to satisfy myself, in all material respects, that the expenditure and income shown in SERC's accounts have been applied to the purposes intended by the NI Assembly and that the financial transactions conform to the authorities[4] which govern them, that is, that they are "regular". As DFP approval had only been received for consultancy costs of £400,000 and as £1,204,539 in costs had been incurred, the overspend of £804,539 is irregular expenditure. I have therefore decided to qualify my audit opinion on the regularity of this expenditure.

13. The project governance arrangements required the appointed advisory team to report through the Project Team to the PPP Project Board, made up of members of the legacy Colleges' Board of Governors, the legacy Colleges' Senior Management and representatives from the Department. The Department and SERC have advised me that while it became apparent that additional work was required, the extent of this work proved difficult to quantify and therefore the financial, propriety and accountability implications were not adequately controlled. This breakdown in controls has not only led to SERC incurring irregular expenditure but also the Department, through its funding of it[5]. Although SERC did achieve a level of abatement in the additional costs, the lack of contract management control, particularly during the legacy period of the project, makes it difficult to assess whether value for money has been obtained in terms of the consultancy costs incurred.

14. I asked the Department and SERC to explain how the failure to obtain approval for this expenditure had arisen and what lessons had been learnt. They told me that the procurement had been complex and subject to significant delays which meant that the envisaged timescale of sixteen months for the project extended to five years. Given the complexities of the project it would not have been practicable to change advisers during the procurement. Unfortunately during this long procurement advisory fees were not monitored against approvals and hence the legacy Colleges, SERC and the Department did not seek approval for increased costs. As part of a "lessons learned" exercise in respect of this procurement SERC and the Department will be taking steps to ensure no reoccurrence of this oversight.

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[4] authorities include the legislation authorising the expenditure, the regulations issued to comply with that legislation, Parliamentary authority and DFP authority

[5] DELs 2008-09 resource accounts were also qualified for funding the College's irregular expenditure and similar irregular expenditure incurred by another College.

15. The legal advisors assisting SERC as part of the due diligence process noted that the contract required either the Department or the legacy Colleges' advisory team to request any variation in the contract and agree the associated pricing implications. They noted that as far as they were aware this did not happen. This placed the public sector in a weak position legally as the Department, the legacy Colleges and SERC knew that such additional costs were being performed and allowed them to continue. I asked the Department why the variation in contract terms and conditions were not followed. The Department told me that, while the legal advisors were correct in stating that the contract said "either the Department or the legacy Colleges' advisory team should request variations", it should be noted that the contract was an off-the-shelf Government Purchasing Agency contract that was used between the advisory team and the legacy Colleges, and in this case the references to 'the Department' in the contract should be taken to be 'the College'. As the Department was not a signatory to the contract they had no authority to make any such requests. The Department also said that the advisory team was asked on numerous occasions to quantify these additional costs but failed to do so properly. On assuming responsibility for the project in August 2007 the only sanction available to SERC would have been to stand the consultants down but this was considered not to have been practicable. The Department noted that to have done so could have led to the abandonment of the process losing all the time, resources and funding that had been expended to date, leaving SERC with an urgent need that would still have to be addressed and risked a claim from the bidder for recovery of its bidding costs.

K J Donnelly

K J Donnelly
Comptroller and Auditor General

30 **November 2009**