

St Mary's College
Shear Brow
Blackburn
Lancashire
BB1 8DX



MEMBERS' REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD
1 AUGUST 2015 TO 31 JULY 2016

Tel (01254) 580464
Fax (01254) 665991

www.stmarysblackburn.ac.uk

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2015/16:

Francis J Dixon - Principal; Accounting officer

Grant Birchby - Vice-Principal; Quality and Curriculum, Ofsted Internal Nominee

Board of Governors

A full list of Governors is given on page 9 of these financial statements. Mrs C Holmes acted as Clerk to the Governing Body throughout the period.

Professional Advisors

Financial Statement

and Regularity Auditors:

Mazars LLP
The Lexicon
Mount Street
Manchester
M2 5NT

Bankers:

Barclays Bank plc
Corporate Banking Centre
1ST Floor
3 Hardman Street
Spinningfields
Manchester
M3 3HF

Solicitors:

Farleys
22-27 Richmond Terrace
Blackburn
Lancashire
BB1 7AQ

Donald Race & Newton
5/7 Hargreaves Street
Burnley
Lancashire
BB11 1EN

Report of the Governing Body for the Year from 1 August 2015 to 31 July 2016

Operating and Financial Review

Nature, Objectives and Strategies

The members present their report and the audited financial statements for the year ended 31 July 2016.

Legal Status

The College became designated under the Further and Higher Education Act 1992. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011 and from 1 September 2013 is regulated by the Secretary of State for Education for Sixth Form Colleges.

Mission Statement

St Mary's College is a Roman Catholic College operating under the trusteeship of the Marist Fathers. We base our philosophy on the true Christian values proclaimed in the gospel and seek to provide challenging, high quality education whereby all members of the College community can grow as balanced individuals, morally, intellectually and spiritually.

Mission

The College aims to fulfil its mission by providing nationally accredited learning programmes at levels 1,2 and 3 for full-time, 16-19 year old students and part-time adults.

A range of schedule 2 and non-schedule 2 courses is provided for the local community on a part-time basis.

The College is linked with Liverpool Hope University and the University of Central Lancashire in the delivery of Degree and PGCE courses.

Essential Skills courses are provided in the St Mary's College Essential Skills Centre and various local centres in the community.

The College operates three nurseries in Blackburn. All three nurseries provide excellent quality and are financially sustainable.

Public Benefit

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

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

- High quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

Operating and Financial Review (continued)

Implementation of Strategic Plan

The Governing Body monitors the performance of the College against its strategic objectives. The College updated its strategic aims at the Board meeting of July 2016.

The 4 Key Strategic Aims are:

- To ensure that the College achieves sustainable recruitment to safeguard future viability and accommodate changes to the funding methodology
- To ensure the highest quality educational provision
- To develop and consolidate a curriculum offer that attracts high-achieving 16 year old students while providing appropriate opportunities for learners across the College's catchment area. This will take account of the raising of the participation age and the local economic landscape
- To continue to develop the campus to provide first rate facilities to support teaching and learning.

The College is on target for achieving these objectives.

The College's specific objectives for 2015-18 and achievement of these objectives is addressed below:

1. To remain true to our Mission and proudly demonstrate our Marist Catholic Ethos
2. To ensure college organisation, leadership and management that is fit for purpose in a rapidly changing educational climate resulting in Ofsted Good to Outstanding Leadership and Management
3. To increase our market share of 16-19 learners in East Lancashire, growing to 920 - 950 learners by September 2018
4. To invest in Community, Higher and Nursery Education, increasing volumes in each by 20% by September 2018
5. To strive for 'Outstanding' in Ofsted and QAA Inspections from 2015
6. To achieve 'good' or better in financial performance in 2017/18 and future years

During the past three years, we have reviewed our areas of activity, our mission and our values both as a staff and as a governing body. In an uncertain economic climate, we have considered and implemented ways to better position ourselves as a provider of 16-19 education and to establish ourselves as a Catholic College for our local community with increased diversification for 0 – 4 year olds and 19+ students. We have modified our curriculum and our teaching, learning and achievement methods to meet the changing needs of learners and to respond to radical changes in government funding of sixth form colleges. We have also refined our leadership and management structures to enable the College to respond to the many opportunities and challenges with increased clarity of direction and with a strong sense of purpose.

Sixth Form Colleges are at a critical point with more colleges nationally likely to close. The number of SFCs has fallen from 115 to 92 in the past ten years. The quality of some sixth form colleges has decreased over the past few years with more being graded 'requires improvement' or 'inadequate'. Such judgements are arrived at by Ofsted and/or the Education Funding Agency in relation to a college's quality of provision and/or its financial health, although much strong provision still exists. This is starting to have an adverse effect on the national credibility of SFCs as 'gold standard' organisations.

Quality of provision is of paramount importance. Prospective students are increasingly selective in their choice of further education provider. Such students will only travel further and/or resist the temptation of financial inducements for the guarantee of a high quality education within a supportive and caring environment that results in value added and the best possible achievements.

Operating and Financial Review (continued)

Performance Indicators

The College is committed to observing the importance of the measures and indicators and is monitoring these through its Business Development Plan 2015-18. OFSTED judged the College to be Good in its inspection of the overall effectiveness of provision in September 2013 and the College has self-assessed as Good in 2015.

The College is required to complete the annual Finance Record for the Education Funding Agency. The Finance Record produces a financial health grading. The current rating is Satisfactory.

Reserves Policy

As part of the financial scrutiny provided by the Governing Body, the reserves are reviewed in conjunction with the College treasury policy. This ensures that the level of reserves are in line with the strategic objectives of the College. It is the College's intention that reserves are increased in the coming years by the generation of annual operating surpluses.

FINANCIAL POSITION

Financial results

The College generated a deficit after disposal of assets in the year of (£232,434), (2014/15 surplus £41,519). The total comprehensive loss for the year after actuarial loss is £816,434 (2014/15 loss £353,481).

The College has accumulated reserves of £2,353,803 and cash balances and short term deposits of £586,845.

Tangible fixed asset additions during the year amounted to £652,049. This referred to works under the Building Condition Fund addressing category C & D improvements.

Treasury policies and objectives

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

The College has a separate treasury management policy in place.

Any borrowing requires the authorisation of the Governing Body and shall comply with the requirements of the Financial Memorandum.

Cash flows

Operating cash outflow is £363,534 (2014/15 inflow £803,774).

Liquidity

The College currently has outstanding loans amounting to £3,290,370. The size of the College's total borrowing and its approach to interest rates have been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was exceeded.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student Numbers

The College had approximately 861 funded students by the EFA. In 2015/16 the College has delivered activity that had produced £3,649,591 in Funding Body main allocation funding (2014/15 £3,732,617).

Operating and Financial Review (continued)

Student achievements

Achievement rates remained high and above benchmarks in all areas, A2 Level 3 remains at 99% as it has for the last few years, and with all Level 2+ vocational areas recorded achievement rates of 100%. Success rates for the College are estimated at 89%. Some Outstanding achievements were recorded in many subjects with 61 of 90 courses achieving 100% pass rates. Value added grades of good to excellent are expected to be awarded for AS, Vocational and A2.

Curriculum developments

The college recruits a proportion of its learners from seven, 11 to 16 Catholic partner schools in Blackburn with Darwen and East Lancashire, but a number of applications come from twenty other schools across this region. The College has developed a strong reputation for its expertise in teaching subjects at Advanced Level, and by far the majority of students who apply to St Mary's College aspire to follow Level 3 programmes. However the College has been proactive in ensuring progression opportunities from high school for learners at Entry 3, levels 1 and level 2. A new Level 1 course was introduced in September 2013: Workskills and these numbers have increased each year. In fact the numbers have increased from 5 to 60 in three years. Many of these students will progress to higher levels while in the College.

The College has established productive working partnerships with other FE Colleges, local high schools, and HE institutions, most notably Liverpool Hope University and UCLan. This has led to a broad range of successful collaborative activities which benefit the wider community. The College has introduced a Masters level MA in Educational Leadership and Management which is currently oversubscribed. The mission promotes a caring and supportive ethos which encourages adults to return to learning. Evening classes on site, outreach activities and access learning programmes from entry level to postgraduate level have provided the stimulus for increasing numbers of adult learners. The evaluation of HE provision is not included in the College's self assessment activities since curriculum delivery and quality assurance are the responsibility of Liverpool Hope University and UCLan as appropriate.

The College reacted positively to the Government's 14-19 agenda and has introduced a range of vocational qualifications at levels 1, 2 and 3 providing a broader curriculum for 14-19 students. The College also worked closely with the local authority to assist in the development and implementation of specialised diplomas.

The College nursery, which opened in 2003 to serve the local community as well as the staff and students at St. Mary's was made possible through a partnership involving the LSC, Blackburn with Darwen Early Years Excellence Team and the DfES. Such was the reputation and success of this facility, the College was invited to bid, in July 2007, to manage a second nursery, in Wensley Fold Children's Centre, and this opened in January 2008, reinforcing the close working relationship with the Local Authority.

The College nursery was inspected by OFSTED in 2011 and 2016 and was rated Outstanding in every category. Wensley Fold Nursery was inspected during 2012/13 and was also given an Outstanding rating in every category.

A third nursery was opened, also in Blackburn, in June 2014 and has already achieved maximum occupancy and an Outstanding Ofsted rating.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2015 to 31 July 2016, the College paid 96.4 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Operating and Financial Review (continued)

Future prospects

With regard to the improved capacity provided by the new building on main site, the College seeks to significantly increase student numbers over the next three years.

The College aims to significantly increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the funding bodies and is seeking opportunities particularly in the areas where the College currently performs well such as HEFCE and European Commission grants.

RESOURCES

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

Tangible resources include the main college site, which since 2007 has been extensively upgraded with the construction of the Graystone Science Academy and O'Neill Performing Arts Theatre as well as a complete refurbishment of the main building on campus. In May 2011 the SMC Enterprise Centre was constructed at a cost of £554,000 partly funded by a grant of £477,000 from the Local Enterprise Growth Initiative.

Financial

The College has £2,365,609 of net assets (excluding £2,475,000 pension liability) and long term bank loan debt of £3,158,244. The College has total net liabilities of £109,391 (2014/15 net assets of £707,043).

People

The College employs 134 people (expressed as full time equivalents), of whom 55 are teaching staff.

Reputation

The College has an excellent reputation locally and regionally. In the OFSTED inspection in September 2013, the College's was judged to be good in the overall effectiveness of the provision.

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 at least annually by the Governing Body and monthly by the Risk Management Group. 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.

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed may also adversely affect the college.

Operating and Financial Review (continued)

1. Government Funding

The College has considerable reliance on continued government funding through the education sector funding bodies and HEFCE. In 2015/16 70% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain at the same levels or on the same terms.

This risk is mitigated in a number of ways by:

- Deriving funding through a number of direct and indirect contractual arrangements
- Ensuring that the College is rigorous in delivering high quality education and training
- Placing considerable focus and investment on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sections which will continue to benefit from public funding
- Regular dialogue with the funding bodies
- Maintaining adequate funding of pension liabilities. The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of section 28 of FRS 102.

2. Restructuring

The 2014/15 academic year proved to be particularly challenging. The necessity to make substantial savings and a fourth year of disappointing enrolments involved the College community in another restructuring process. Paramount in the considerations of all staff was the resolve that the student experience and student success should not be affected. Once again, the staff of St Mary's put their own difficulties to one side and continued to give unequivocal support to each learner. Pleasingly success rates in long level 3 and AS improved. However in August 2015 the College has increased its year 12 numbers to 526 and its percentage of Roman Catholic High School students by 65%. This has enabled the target number to be met.

During the 2014 Autumn term, College Management conducted a strategic review of staffing and a cost savings plan was approved and put into place. By the end of the year a number of teaching and support colleagues had left the College on grounds of voluntary redundancy and a number of others were offered and accepted variations in contract.

Non-staffing cost savings of approximately £100k have also been made to ensure a balanced budget for 2015/16.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and universities, St Mary's College has many stakeholders. These include:

- Students;
- Staff;
- Funding bodies;
- Diocese of Salford;
- Local employers (with specific links);
- Local authorities;
- Government Offices;
- The Local Community;
- Professional bodies;
- Other FE institutions;
- Two HE institutions; and
- Sixth Form/FE Commissioner.

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

Operating and Financial Review (continued)

EQUAL OPPORTUNITIES AND EMPLOYMENT OF DISABLED PERSONS

Equal Opportunities

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis. The College Equal Opportunities Policy, and Race Equality Policy are published on the College's internet and moodle sites.

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

Disability Statement

The College seeks to achieve the objectives set down in the Equality Act 2010:

- As part of its accommodation plan special toilet facilities have been installed for staff and students with physical disabilities including a toilet/rest area with specialist facilities.
- Designated parking spaces have been provided including some as part of the DDA Reception/Lift Project.
- The College has established an Equality Assurance group which undertakes to monitor and review the Disability Statement in conjunction with other Equality and Diversity policies and will seek to ensure that the content of this Statement is adhered to.
- Named staff have been given specific responsibilities to oversee and coordinate the care of students with disabilities.
- Whilst students with physical impairment or disabilities will follow the usual College admission policy, special consideration will be taken to address individual difficulties and make appropriate arrangements.
- Academic and Curriculum support is given through identification (of potential students) provision, staff expertise and training and technology and equipment.
- Counselling and Welfare arrangements are available via the chaplaincy team, student guidance and personal tutors.
- The College has been graded Outstanding for its Safeguarding provision.

Ethos

The College strives to fulfil its mission to its students, staff and local community by responding quickly and efficiently to their needs. As a Catholic College, we respond to the spiritual and moral needs of the students by the provision of a caring Christian community in which the liturgical and religious aspects of College life harmonise with the secular and academic to ensure a holistic experience for the students. We seek to enhance mutual respect and understanding between those of different spiritual and ethnic backgrounds.

Disclosure of information to auditors

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Governing Body on 13 December 2016 and signed on its behalf by:

**N McNeil
Chairman**

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of the governance and legal structure. This statement covers the period from 1 August 2015 to 31 July 2016 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. Having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector

The College is committed to exhibiting best practise in all aspects of corporate governance and in particular the College has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2016. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

The Governing Body

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

| Name | Date of Appointment | Term of Office | Date of Resignation | Status of Appointment | Committees Served | Attended |
|-------------------|---------------------|----------------|---------------------|-----------------------|--|----------|
| Mr N McNeil | Jul-2014 | 4 yrs | | Foundation | Chair: Board BMAC Resources | 100% |
| Mr Z Aslam | Nov-2014 | 2 yrs | | Parent | Resources | 50% |
| Mr T Boys | Jul-2015 | 1 yr | Apr-2016 | Student | Quality Assurance | 100% |
| Mr D Callaghan | Jan-2013 | 4 yrs | | Foundation | Quality Assurance | 50% |
| Mr M Conboy | Jan-2014 | 4yrs | | Co-opted | Vice Chair: Audit | 75% |
| Mrs S Crewe | Jan-2015 | 4 yrs | | Foundation | Vice Chair: Quality Assurance Audit | 25% |
| Mr F Dixon | Dec-2013 | | | Principal | BMAC Resources Quality Assurance | 100% |
| Ms T Ellett | Apr-2015 | 2 yrs | | Staff | Resources | 75% |
| Mrs L Gouldthorpe | May-2015 | 1 yr | May-2016 | Student | Quality Assurance | 0% |
| Mrs A Harkin | Apr-2015 | 4 yrs | | Foundation | Resources | 100% |
| Mrs S Hayward | Nov-2015 | 4 yrs | | Foundation | Audit | 33% |
| Mr A Kharatkar | Aug-2015 | 4 yrs | | Co-opted | Resources | 75% |
| Mr N Kennedy | Oct-2014 | 4 yrs | | Foundation | Chair: Audit | 100% |
| Mrs C McGuire | Nov-2015 | 4 yrs | | Foundation | Chair: Quality Assurance | 75% |
| Mr S Preugschat | Nov-2014 | 4 yrs | | Foundation | Resources | 50% |
| Mr A Rebello | Nov-2015 | 4 yrs | | Foundation | Vice Chair: Board Vice Chair: Resources | 50% |
| Mr P Reynolds | Apr-2013 | 4 yrs | | Foundation | Vice Chair: BMAC Audit | 75% |
| Ms L Wright | Apr-2016 | 1yr | | Student | Quality Assurance | 0% |
| Mr M Wright | Jan-2015 | 4 yrs | | Foundation | Resources | 25% |
| Rev N Wynn | Nov-2015 | 4 yrs | | Foundation | Quality Assurance Vice Chair: Board | 100% |

Mrs Cathy Holmes acts as clerk to the Governors.

Statement of Corporate Governance and Internal Control (continued)

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

The Governing Body is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Governing Body meets four times per year.

The Governing Body conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are Resources, Personnel & Remuneration, Audit, Board Membership Advisory and Quality Assurance. Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available on the College's website at www.stmarysblackburn.ac.uk or from the clerk to the Governing Body at St Mary's College, Shear Brow, Blackburn, Lancashire, BB1 8DX.

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

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

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

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

There is a clear division of responsibility in that the roles of the Chair of the Governing Body and Principal of the College are separate.

Appointments to the Governing Body

Any new appointments to the Governing Body, if to a position of Foundation Governor, are made by the Delegation Superior of the Marist Fathers (GB). All other appointments are a matter for the consideration of the Governing Body as a whole. The Governing Body has a search committee (Board Membership Advisory Committee) comprising 5 governors, which is responsible for the selection and nomination of any new member for the Governing Body's consideration. The Governing Body is responsible for ensuring that the appropriate training is provided as required.

Members of the Governing Body are appointed for a term of office not exceeding 4 years.

Resources & Remuneration committee

Throughout the year ending 31 July 2016 the College's Resources committee comprised 9 members. The committee's responsibilities include making recommendations to the Board on the remuneration and benefits of the Principal and the other key management personnel.

Details of the remuneration for the year ended 31 July 2016 are set out in notes 5 & 6 to the financial statements.

Statement of Corporate Governance and Internal Control (continued)

Corporation Performance

The Governing Body undertakes a detailed self-assessment exercise which considers the effectiveness of key areas of governance and highlights strengths and areas for development. The Governance SAR is considered annually by each Committee and is presented to the College SAR validation panel in November each year and subsequently to the full Governing Body in December.

Audit Committee

The Audit Committee comprises 5 members of the Governing Body (which excludes the Principal and the Chair). The committee operates in accordance with written terms and reference approved by the Governing Body. Its purpose is to advise the Governing Body on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management, control and governance processes.

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

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

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

The Audit Committee also advises the Governing Body on the appointment of internal and financial statements auditors and their remuneration for both audit and non-audit work.

Quality Committee

The Quality Committee comprises 7 members of the Governing Body. Its purpose is to promote the academic performance of the College through effective planning, target setting and monitoring and advising the Board of Governors on the College's Strategic Plan and Performance Indicators. In addition it promotes the well-being of children, students and vulnerable adults and safeguards them from harm through effective planning and policies, target setting and monitoring of reports and advising the Board of Governors at the annual review of the appropriate policies and procedures.

The committee meets on a termly basis.

Internal Control

Scope of responsibility

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

The Governing Body has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum/Financial Agreement between the College and the funding bodies. He is also responsible for reporting to the Governing Body any material weaknesses or breakdowns in internal control.

Statement of Corporate Governance and Internal Control (continued)

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage

them efficiently, effectively and economically. The system of internal control has been in place in St Mary's College for the year ended 31 July 2016 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Governing Body has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2016 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Governing Body.

The risk and control framework

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

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Governing Body.
- Regular reviews by the Governing Body of periodic and annual financial reports which indicate financial performance against forecasts.
- Setting targets to measure financial and other performance.
- Clearly defined capital investment control guidelines.
- The adoption of formal project management disciplines, where appropriate.

The College employs the services of RSM as Internal Auditor to undertake one piece of work per year as agreed with Senior Management and endorsed by the Governing Body on the recommendation of the Audit Committee.

Review of effectiveness

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

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

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

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from the internal auditors and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is

Statement of Corporate Governance and Internal Control (continued)

confined to a high-level review of the arrangements for internal control. The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2016 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2016.

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

Going concern

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by order of the Governing Body on 13 December 2016 and signed on its behalf by:

Signed

N McNeil
Chairman

F Dixon
Principal

Statement of Corporate Governance and Internal Control (continued)**Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding**

The Governing Body has considered its responsibility to notify the Skills Funding Agency/Education Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency/Education Funding Agency terms and conditions of funding, under the financial memorandum/funding agreement in place between the College and the Skills Funding Agency/Education Funding Agency. As part of its consideration we have had due regard to the requirements of the financial memorandum/funding agreement.

We confirm on behalf of the Governing Body, that after due enquiry and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency/Education Funding Agency's terms and conditions of funding under the College's financial memorandum/funding agreement.

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

Signed

N McNeil
Chairman

F Dixon
Principal

Statement of the responsibilities of the members of the Governing Body

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

Within the terms and conditions of the Funding Agreement/Financial Memorandum agreed between the Education Funding Agency/Skills Funding Agency and the Governing Body of the College, the Governing Body, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, and with the College Accounts Direction 2015 to 2016 financial statements issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements the 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 financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

The Governing Body is also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

Members of the Governing Body are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency/Education Funding Agency are used only in accordance with the financial memorandum/financial agreement with the Skills Funding Agency/Education Funding Agency and any other conditions which may be prescribed from time to time. Members of 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, members of the Governing Body are responsible for securing the economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the Skills Funding Agency/Education Funding Agency are not put at risk.

Approved by the order of the members of the Governing Body on 13 December 2016 and signed on its behalf by:

N McNeil
Chairman

Independent auditor's report to the Governing Body of St Mary's College

We have audited the financial statements St Mary's College for the year ended 31 July 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Governing Body, as a body, in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Governing Body of St Mary's College and Auditor

As explained more fully in the Statement of the Governing Body's responsibilities set out on page 15, the Governing Body is responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of the College's deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Joint Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

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

Mazars LLP

Chartered Accountants and Statutory Auditor

The Lexicon
10-12 Mount Street

Manchester

M2 5NT

Date:

Reporting accountant's assurance report on regularity to the Governing Body of St Mary's College and Secretary of State for Education acting through Education Funding Agency

In accordance with the terms of our engagement letter dated 24 August 2016 and further to the requirements of the funding agreement with Education Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by St Mary's College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the Governing Body of St Mary's College and the Education Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Governing Body of St Mary's College and Education Funding Agency those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body of St Mary's College and Education Funding Agency for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of St Mary's College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.
- Reviewed the College's completed self-assessment questionnaire on regularity.
- Read the funding agreement with the EFA.
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
- Obtained the policy for personal gifts and/or hospitality.

- Obtained the register of personal interests.
- Obtained the financial regulations/financial procedures.
- Obtained the College's whistleblowing policy.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

Mazars LLP
The Lexicon
10-12 Mount Street
Manchester
M2 5NT

Statement of Comprehensive Income

| Income | Notes | 2016 £ | Restated 2015 £ |
|--|--------------|------------------|-------------------------------------|
| Funding body grants | 2 | 4,472,064 | 4,979,397 |
| Other income | 3 | 1,899,104 | 1,828,116 |
| Investment income | 4 | 2,400 | 1,597 |
| Total income | | 6,373,568 | 6,809,110 |
| Expenditure | | | |
| Staff costs | 5 | 4,418,905 | 4,550,317 |
| Fundamental restructuring costs | 5 | 15,000 | 88,280 |
| Other operating expenses | 7 | 1,170,320 | 1,254,087 |
| Depreciation | 10 | 733,868 | 685,997 |
| Interest and other finance costs | 8 | 266,199 | 190,015 |
| Total expenditure | | 6,604,292 | 6,768,696 |
| (Deficit)/surplus on continuing activities before other gains and losses | | (230,724) | 40,414 |
| (Loss)/profit on disposal of assets | | (1,710) | 1,105 |
| (Deficit)/Surplus before tax | | (232,434) | 41,519 |
| Taxation | 9 | - | - |
| (Deficit)/surplus for the year | | (232,434) | 41,519 |
| Actuarial loss in respect of pension schemes | 18 | (584,000) | (395,000) |
| Total Comprehensive Income for the year | | (816,434) | (353,481) |

The notes on pages 23 to 41 form part of these financial statements.

Statement of Changes in Reserves

| | Income and expenditure account | Revaluation reserve | Total |
|---|--------------------------------------|------------------------|-----------|
| | £ | £ | £ |
| Restated Balance at 1 August 2014 | 1,048,112 | 12,412 | 1,060,524 |
| Surplus from the income and expenditure account | 41,519 | - | 41,519 |
| Other comprehensive income | (395,000) | - | (395,000) |
| Transfers between revaluation and income and expenditure reserves | 303 | (303) | - |
| | (353,178) | (303) | (353,481) |
| Balance at 31 July 2015 | 694,934 | 12,109 | 707,043 |
| Deficit from the income and expenditure account | (232,434) | - | (232,434) |
| Other comprehensive income | (584,000) | - | (584,000) |
| Transfers between revaluation and income and expenditure reserves | 303 | (303) | - |
| Total comprehensive income for the year | (816,131) | (303) | (816,434) |
| Balance at 31 July 2016 | (121,197) | 11,806 | (109,391) |

Balance sheet as at 31 July 2016

| | Notes | 2016 £ | Restated 2015 £ |
|---|-------|-------------------|-----------------------|
| Non current assets | | | |
| Tangible fixed assets | 10 | 12,472,400 | 12,555,929 |
| | | 12,472,400 | 12,555,929 |
| Current assets | | | |
| Debtors | 12 | 119,515 | 38,022 |
| Investments | 11 | 1 | 1 |
| Cash and cash equivalents | 20 | 586,845 | 1,309,447 |
| | | 706,361 | 1,347,470 |
| Less: | | | |
| Creditors: amounts falling due within one year | 13 | (1,098,291) | (1,604,063) |
| Net current assets | | (391,930) | (256,593) |
| Total assets less current liabilities | | 12,080,470 | 12,299,336 |
| Creditors: amounts falling due after more than one year | 14 | (9,431,354) | (9,527,563) |
| Provisions | | | |
| Enhanced pension provision | 16 | (283,507) | (344,730) |
| Net assets excluding pension liability | | 2,365,609 | 2,427,043 |
| Net pension liability | 18 | (2,475,000) | (1,720,000) |
| Total net assets | | (109,391) | 707,043 |
| Unrestricted reserves | | | |
| Income and expenditure account excluding pension reserve | | 2,353,803 | 2,414,934 |
| Pension reserve | 18 | (2,475,000) | (1,720,000) |
| Income and expenditure account including pension reserve | | (121,197) | 694,934 |
| Revaluation reserve | 17 | 11,806 | 12,109 |
| Total unrestricted reserves | | (109,391) | 707,043 |

The financial statements on pages 19 to 41 were approved by the Governing body on 13 December 2016 and were signed on its behalf by:

N McNeil
Chairman

F Dixon
Principal

Statement of cash flows

| | Notes | 2016 £ | Restated 2015 £ |
|---|-------|-------------------------|-----------------------|
| Cash inflow from operating activities | | | |
| (Deficit)/surplus for the year | | (232,434) | 41,519 |
| Adjustment for non cash items | | | |
| Depreciation | 10 | 733,868 | 685,997 |
| (Increase)/decrease in debtors | 12 | (81,493) | 17,758 |
| (Decrease)/increase in creditors due within one year | 13 | (598,855) | 219,425 |
| Decrease in provisions | 16 | (61,223) | (45,878) |
| Pensions costs less contributions payable | 18 | 171,000 | 63,000 |
| Deferred capital grants released to income | 2 | (497,906) | (365,360) |
| Adjustment for investing or financing activities | | | |
| Investment income | | (2,400) | (1,597) |
| Interest payable | 8 | 204,199 | 190,015 |
| Taxation paid | | - | - |
| Loss on sale of fixed assets | | 1,710 | (1,105) |
| Net cash flow from operating activities | | <u>(363,534)</u> | <u>803,774</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | - | 2,759 |
| Investment income | | 2,400 | 1,597 |
| Payments made to acquire fixed assets | 10 | (642,434) | (460,978) |
| | | <u>(640,034)</u> | <u>(456,622)</u> |
| Cash flows from financing activities | | | |
| Interest paid | 8 | (204,199) | (190,015) |
| Deferred capital grants received | | 610,210 | 362,405 |
| Repayments of amounts borrowed | 15 | (125,045) | (136,691) |
| | | <u>280,966</u> | <u>35,699</u> |
| (Decrease)/increase in cash and cash equivalents in the year | | <u>(722,602)</u> | <u>382,851</u> |
| Cash and cash equivalents at beginning of the year | 20 | 1,309,447 | 926,596 |
| Cash and cash equivalents at end of the year | 20 | 586,845 | 1,309,447 |

Notes to the Financial Statements

1 Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2015 to 2016 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the College is provided in note 25.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. No exemptions have been taken.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial review. The financial position of the College, its cashflow, liquidity and borrowings are described in the financial statements and accompanying notes. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its financial statements.

Notes to the Financial Statements (continued)

Recognition of Income

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

Other discrete Skills Funding Agency/EFA funds received during the year are taken to income and expenditure as incurred in line with the specific terms and conditions attached to each fund by the funding bodies.

Where the College receives and disburses funds to which it has no direct beneficial interest, such funds are excluded from the income and expenditure account on the grounds that the College does not have direct control over the future economic benefits derived from these funds. The College has applied this policy to certain funds received during the year from the Skills Funding Agency/EFA (see note 24).

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

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Post retirement benefits

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

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

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

Actuarial gains and losses are recognised immediately in other recognised gains and losses.

Short term employment benefits

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

Notes to the Financial Statements (continued)

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by the College annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Tangible Assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land and Buildings

The College's land and buildings are owned by the Trustees. Work on the buildings which has been paid for by the College and which has been capitalised has been depreciated on a straight line basis over 50 years.

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the asset has subsequently improved;
- Asset capacity increases;
- Substantial improvement in the quality of output or reduction in operating costs; or
- Significant extension of the asset's life beyond that conferred by repairs and maintenance.

Equipment

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at net book value.

Equipment is depreciated over its useful economic life as follows:-

| | |
|---|--------|
| Computer Equipment | 33.33% |
| Motor Vehicles | 25% |
| General Equipment and fixtures and fittings | 20% |
| Long Life Computer Equipment | 20% |

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy with the related grant being credited to a deferred capital grant account and released to the income and expenditure account.

Notes to the Financial Statements (continued)

Investments

Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Cash and cash equivalents

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

Maintenance of premises

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

Taxation

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

The College receives no similar exemption in respect of Value Added Tax. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks and building societies and government securities.

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds and the 16-19 Bursary Fund and Adult Learning Grants. Related payments received from the funding body and subsequent disbursements to students and colleges are excluded from the Income and Expenditure account and are shown separately in note 24, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

Tangible fixed assets

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

Notes to the Financial Statements (continued)

Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 18, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Bad debt

Management use their judgement in determining a suitable bad debt provision.

2. Funding body grants

| | 2016 £ | 2015 £ |
|--------------------------------------|-------------------------|-------------------------|
| Recurrent grants | | |
| Education Funding Agency | 3,800,142 | 4,435,642 |
| Skills Funding Agency | 101,018 | 110,304 |
| Specific grants | | |
| Release of government capital grants | 497,906 | 365,360 |
| Other funds | 72,998 | 68,091 |
| Total | <u>4,472,064</u> | <u>4,979,397</u> |

3 Other income

| | 2016 £ | Restated 2015 £ |
|------------------------------------|-------------------------|-------------------------|
| Other funds | 479,908 | 531,470 |
| Non Government Capital grants | - | 62,938 |
| Other income generating activities | 1,419,196 | 1,233,708 |
| Total | <u>1,899,104</u> | <u>1,828,116</u> |

Notes to the Financial Statements (continued)**4 Investment income**

| | 2016 £ | 2015 £ |
|---------------------------|---------------------|---------------------|
| Other interest receivable | 2,400 | 1,597 |
| Total | <u>2,400</u> | <u>1,597</u> |

5 Staff costs

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

| | 2016 Number | 2015 Number |
|-------------------------------------|-------------------|-------------------|
| Teaching departments | 55 | 58 |
| Teaching support services | 7 | 6 |
| Other support services | 1 | 1 |
| Administration and central services | 20 | 22 |
| Other Income Generating Activities | 42 | 45 |
| Premises | 9 | 10 |
| Total | <u>134</u> | <u>142</u> |

| | 2016 £ | Restated 2015 £ |
|--|-------------------------|-------------------------|
| Staff costs for the above persons:- | | |
| Teaching departments | 2,403,957 | 2,539,780 |
| Teaching support services | 195,462 | 186,339 |
| Other support services | 18,087 | 17,959 |
| Administration and central services | 770,365 | 838,841 |
| Other income generating activities | 727,372 | 694,897 |
| Premises | 169,929 | 165,701 |
| Restructuring costs - contractual | 9,100 | 55,410 |
| Restructuring costs - non-contractual | 5,900 | 32,870 |
| Recovery of LGPS deficit | 24,733 | 20,800 |
| Section 28 defined benefit scheme adjustment | 109,000 | 86,000 |
| Total | <u>4,433,905</u> | <u>4,638,597</u> |
| Wages and salaries | 3,547,354 | 3,809,640 |
| Social security costs | 261,116 | 249,032 |
| Other pension costs | 625,435 | 579,925 |
| Total | <u>4,433,905</u> | <u>4,638,597</u> |

Notes to the Financial Statements (continued)

The number of key management personnel and other staff who received emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

| | Key Management Personnel | | Other Staff | |
|---------------------|--------------------------|----------------|----------------|----------------|
| | 2016 Number | 2015 Number | 2016 Number | 2015 Number |
| £40,001 to £50,000 | 1 | 0 | | |
| £50,001 to £60,000 | 0 | 0 | | |
| £60,001 to £70,000 | 0 | 0 | 0 | 0 |
| £70,001 to £80,000 | 0 | 1 | 0 | 0 |
| £80,001 to £90,000 | 0 | 0 | 0 | 0 |
| £90,001 to £100,000 | 1 | 1 | 0 | 0 |
| | <u>2</u> | <u>2</u> | <u>0</u> | <u>0</u> |

6 Key management personnel

Key management personnel are defined as the Principal and holders of the other senior posts whom the board have selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the board of governors.

| | 2016 Number | 2015 Number |
|---|----------------|----------------|
| The number of key management personnel including the Principal was: | 2 | 2 |

Key management personnel emoluments are made up as follows:

| | 2016 £ | 2015 £ |
|-----------------------|----------------|----------------|
| Salaries | 143,758 | 173,567 |
| Pension contributions | 19,845 | 23,621 |
| Total emoluments | <u>163,603</u> | <u>197,188</u> |

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

The above emoluments include amounts payable to the Principal (who is also the highest paid officer) of:

| | 2016 £ | 2015 £ |
|-----------------------|----------------|----------------|
| Salaries | 96,122 | 96,122 |
| | <u>96,122</u> | <u>96,122</u> |
| Pension contributions | 15,650 | 13,553 |
| Total emoluments | <u>111,772</u> | <u>109,675</u> |

Notes to the Financial Statements (continued)

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

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

7 Other operating expenses

| | 2016 £ | 2015 £ |
|-------------------------------------|------------------|------------------|
| Teaching departments | 165,199 | 160,524 |
| Teaching support services | 214,784 | 223,281 |
| Other support services | 6,233 | (5,009) |
| Administration and central services | 148,708 | 134,793 |
| General education expenditure | 196,266 | 183,802 |
| Premises costs | 243,519 | 276,873 |
| Catering | 4,863 | 5,997 |
| Enhanced Pension Provision | 34,638 | 89,938 |
| Other Income Generating Activities | 156,110 | 183,888 |
| Total | 1,170,320 | 1,254,087 |

Operating expenses include:-

Auditors' remuneration

- external audit
- internal audit

| | |
|--------|--------|
| 15,432 | 14,498 |
| - | 2,802 |

8 Interest payable

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| On bank loans and overdrafts: | | |
| - repayable wholly in more than 5 years | 204,199 | 210,363 |
| | 204,199 | 210,363 |
| Finance lease costs | - | 2,652 |
| Pension finance costs (note 18) | 62,000 | (23,000) |
| Total | 266,199 | 190,015 |

9 Taxation

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

Notes to the Financial Statements (continued)**10 Tangible fixed assets**

| | Leasehold Land and Building | Equipment | Total |
|---------------------------------------|-----------------------------------|------------------|-------------------|
| Cost or valuation | £ | £ | £ |
| At 1 August 2015 | 14,933,878 | 3,642,470 | 18,576,348 |
| Additions | - | 652,049 | 652,049 |
| Disposals | - | (49,940) | (49,940) |
| At 31 July 2016 | 14,933,878 | 4,244,579 | 19,178,457 |
| Depreciation | | | |
| At 1 August 2015 | 3,468,096 | 2,552,323 | 6,020,419 |
| Charge for the year | 275,740 | 458,128 | 733,868 |
| Elimination in respect of disposals | - | (48,230) | (48,230) |
| At 31 July 2016 | 3,743,836 | 2,962,221 | 6,706,057 |
| Net book value at 31 July 2016 | 11,190,042 | 1,282,358 | 12,472,400 |
| Net book value at 1 August 2015 | 11,465,782 | 1,090,147 | 12,555,929 |

11 Investments

At 31 July 2016 the College had a 7% interest in Lancashire Colleges Consortium Ltd, a company limited by guarantee incorporated in England and Wales. The principal business activity of the company is to advise and assist educational institutions as in respect of funds and grants that may be available to them. The value of the investment is £1.00.

Notes to the Financial Statements (continued)**12 Debtors**

| | 2016 £ | 2015 £ |
|--|----------------|---------------|
| Amounts Falling Due Within One Year | | |
| Trade receivables | 10,440 | 15,047 |
| Prepayments and accrued income | 109,075 | 22,975 |
| Total | 119,515 | 38,022 |

13 Creditors: Amounts falling due within one year

| | 2016 £ | Restated 2015 £ |
|---|------------------|-----------------------|
| Payments received on account | 76,409 | 431,372 |
| Trade payables | 97,367 | 240,374 |
| Bank loans and overdrafts | 132,125 | 125,046 |
| Other taxation and social security | 133,430 | 131,799 |
| Accruals | 139,722 | 232,622 |
| Deferred income - government capital grants | 519,238 | 442,850 |
| Total | 1,098,291 | 1,604,063 |

14 Creditors: Amounts falling due after more than one year

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Bank loans | 3,158,244 | 3,290,370 |
| Deferred income - government capital grants | 6,273,110 | 6,237,193 |
| Total | 9,431,354 | 9,527,563 |

Notes to the Financial Statements (continued)

15 Borrowings

The loan is secured over the Land and Buildings of the College. The College paid fixed rate of interest during the year of 6.22% and the repayment period is to 2033.

Bank Loans

| | 2016 | 2015 |
|----------------------------------|------------------|------------------|
| Loans are repayable as follows:- | £ | £ |
| Within one year | 132,125 | 125,046 |
| Between one and two years | 139,143 | 132,125 |
| Between two and five years | 449,140 | 439,451 |
| In five years or more | 2,569,961 | 2,718,794 |
| | <u>3,290,369</u> | <u>3,415,416</u> |

16 Provisions for liabilities and charges

The enhanced pension provision relates to staff who have already left the College's employ. The provision has been recalculated in accordance with guidance issued by the funding bodies.

Other provisions relates to exceptional restructuring costs resulting from Management conducting a strategic review of staffing and cost savings plan.

| | Enhanced Pension Provision £ | Other Provisions £ | Total Provisions £ |
|---------------------------|---------------------------------------|--------------------------|--------------------------|
| At 1 August 2015 | 262,541 | 82,189 | 344,730 |
| Expenditure in the period | - | (82,189) | (82,189) |
| Additions in the period | 20,966 | - | 20,966 |
| At 31 July 2016 | <u>283,507</u> | <u>-</u> | <u>283,507</u> |

Notes to the Financial Statements (continued)

17 Revaluation reserve

| | 2016 |
|--|---------------|
| | £ |
| At 1 August 2015 | 12,109 |
| Transfer from revaluation reserve to general reserve in respect of depreciation on revalued assets | (303) |
| At 31 July 2016 | 11,806 |

18 Pension and similar obligations

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff, and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Lancashire Pension Services. Both are defined benefit schemes.

| Total pension costs for the year | 2016 | 2015 |
|---|-------------------|-------------------|
| | £'000 | £'000 |
| Teachers Pension Scheme: contributions paid | 330 | 300 |
| Local Government Pension Scheme | | |
| Contributions paid | 186 | 194 |
| FRS 102(28) Charge | <u>109</u> | <u>86</u> |
| Charge to the Statement of Comprehensive Income | <u>295</u> | <u>280</u> |
| Total Pension Cost for Year | <u>625</u> | <u>580</u> |

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013.

Contributions for employees and employers for both schemes amounting to £64,544 (2015 £63,706) were payable to the scheme at 31st July and are included within creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Notes to the Financial Statements (continued)

Valuation of the Teachers' Pension Scheme

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

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

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

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £519,396 (2015 £501,953)

FRS 102 (28)

Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution 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.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme with the assets held in a separate fund administered by the Lancashire local authority. Contributions made for the year ended 31 July 2015 totalled £187,854 and employee's contributions totalled £76,277.

The agreed contribution rates for future years are now tiered for employee's contributions and staged for employers at:

2014/15 – 2016/17 - 13%

plus deficit recovery contributions of 2014/15 - £19,500, 2015/16 £23,400, 2016/17 - £27,400. The deficit recovery period is 19 years.

Notes to the Financial Statements (continued)

Principal Actuarial Assumption

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary

| | 2016 | 2015 |
|---|------|------|
| Rate of increase in salaries | 3.2% | 3.7% |
| Rate of increase in pensions in payment/inflation | 1.8% | 2.2% |
| Discount rate for liabilities | 2.6% | 3.8% |
| Rate of CPI inflation | 1.7% | 2.2% |

An adjustment has been made for short term pay restraint in line with the most recent actuarial valuation.

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

| | 2016 | 2015 |
|----------------------|------|------|
| Retiring today | | |
| Males | 23.0 | 22.9 |
| Females | 25.6 | 25.4 |
| Retiring in 20 years | | |
| Males | 25.2 | 25.1 |
| Females | 27.9 | 27.8 |

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

| | Value at 2016 £ | Long term rate of return 2015 | Value at 2015 £ |
|-------------------------------------|---------------------------|-------------------------------------|---------------------------|
| - Equities | 2,846,000 | 6.50% | 2,083,000 |
| - Government Bonds | - | 2.50% | 333,000 |
| - Other Bonds | 184,000 | 3.60% | 157,000 |
| - Property | 700,000 | 6.10% | 551,000 |
| - Cash | 258,000 | 0.50% | 79,000 |
| - Other | 3,384,000 | 6.50% | 2,851,000 |
| Total Market value of assets | <u>7,372,000</u> | | <u>6,054,000</u> |
| Present value of scheme liabilities | | | |
| - Funded | (9,847,000) | | (7,774,000) |
| Deficit in the scheme | <u>(2,475,000)</u> | | <u>(1,720,000)</u> |

Notes to the Financial Statements (continued)Analysis of the amount charged to Statement of Comprehensive Income

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Employer service cost (net of employee contributions) | 296,000 | 269,000 |
| Curtailments | <u>5,000</u> | <u>71,000</u> |
| Total operating charge | <u>301,000</u> | <u>340,000</u> |

Analysis of pension finance costs

| | 2016 | 2015 |
|--|------------------------|----------------------|
| Expected return on pension scheme assets | 232,000 | 308,000 |
| Interest on pension scheme liabilities | <u>(294,000)</u> | <u>(285,000)</u> |
| Pension finance costs | <u>(62,000)</u> | <u>23,000</u> |

Amount recognised other comprehensive income

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| | £ | £ |
| Actuarial gain on pension scheme assets | 965,000 | 264,000 |
| Actuarial loss on scheme liabilities | <u>(1,549,000)</u> | <u>(659,000)</u> |
| Actuarial loss recognised in other comprehensive income | <u>(584,000)</u> | <u>(395,000)</u> |

Movement in net defined benefit liability during year

| | 2016 | 2015 |
|---|---------------------------|---------------------------|
| Net defined benefit liability in scheme at 1 August | (1,720,000) | (1,262,000) |
| Movement in year: | | |
| Employer service cost (net of employee contributions) | (296,000) | (269,000) |
| Employer contributions | 192,000 | 254,000 |
| Net interest on assets | (62,000) | 23,000 |
| Curtailments | (5,000) | (71,000) |
| Actuarial loss | <u>(584,000)</u> | <u>(395,000)</u> |
| Net defined benefit liability in scheme at 31 July | <u>(2,475,000)</u> | <u>(1,720,000)</u> |

Notes to the Financial Statements (continued)**Asset & Liability Reconciliation**

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| <u>Reconciliation of liabilities</u> | | |
| Liabilities at start of period | 7,774,000 | 6,572,000 |
| Service cost | 296,000 | 269,000 |
| Interest cost | 294,000 | 285,000 |
| Employees contributions | 77,000 | 84,000 |
| Actuarial loss | 1,549,000 | 659,000 |
| Benefits paid | (143,000) | (166,000) |
| Curtailments and settlements | - | 71,000 |
| | <u>9,847,000</u> | <u>7,774,000</u> |
| <u>Reconciliation of Assets</u> | | |
| Assets at start of period | 6,054,000 | 5,310,000 |
| Expected return on assets | 232,000 | 308,000 |
| Actuarial gain | 965,000 | 264,000 |
| Employer contributions | 192,000 | 254,000 |
| Administration expense | (5,000) | - |
| Employee contributions | 77,000 | 84,000 |
| Benefits paid | (143,000) | (166,000) |
| | <u>7,372,000</u> | <u>6,054,000</u> |

The estimated value of employer contributions for the year ended 31st July 2017 is £191,000.

Notes to the Financial Statements (continued)**19 Post balance sheet events**

Details of post balance sheet events, if any, are given in the report of the members of the governing body.

20 Cash and cash equivalents

| | 2016 £ | 2015 £ |
|--------------------------|-----------|-----------|
| Cash at bank and in hand | 586,845 | 1,309,447 |

21 Capital Commitments

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Commitments contracted for at 31 July 2016 | 13,538 | 104,780 |
| Authorised but not contracted for at 31 July 2016 | 10,000 | 666,099 |

22 Financial Commitment

At 31 July 2016 the College had no annual commitments under non-cancellable operating leases.

23 Related party transactions

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

Notes to the Financial Statements (continued)**24 Learner support funds**

| | 2016 £ | 2015 £ |
|----------------------------|----------------|----------------|
| 19+ Funding Body Grants | 3,919 | 4,466 |
| Interest earned | 124,070 | 138,008 |
| | <u>19</u> | <u>23</u> |
| | 128,008 | 142,497 |
| 19+ Disbursed to students | (3,919) | (600) |
| Administration | (116,551) | (131,130) |
| Balance unspent at 31 July | <u>(6,400)</u> | <u>(6,930)</u> |
| | 1,138 | 3,837 |

25 Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31st July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31st July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1st August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

| | Note | 2014 £ | 2015 £ |
|---|------|------------------|------------------|
| Financial Position | | | |
| Total income and expenditure reserve under previous SORP | | 2,162,935 | 2,260,095 |
| Employee leave accrual | (a) | (123,412) | (105,618) |
| Release of non-government capital grants | (b) | 270,589 | 260,457 |
| Changes to measurement of net finance cost on defined benefit plans | (c) | - | - |
| Total effect of transition to FRS 102 and 2015 FE HE SORP | | <u>147,177</u> | <u>154,839</u> |
| Total income and expenditure reserve under 2015 FE HE SORP | | <u>2,310,112</u> | <u>2,414,934</u> |

Transition to FRS 102 and the 2015 FE HE SORP (continued)

| | Note | 2015 £ |
|--|------|------------------|
| Financial Performance | | |
| Surplus for the year after tax under previous SORP | | 33,857 |
| Release of non-government grants received | (b) | (10,132) |
| Employee Leave Accrual | (a) | 17,794 |
| Pensions provision - actuarial loss | (d) | (395,000) |
| Total effect of transition to FRS 102 and 2015 FE HE SORP | | <u>(353,481)</u> |
| Total comprehensive income for the year under 2015 FE HE SORP | | <u>(353,481)</u> |

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31 August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 9.25 unused leave for teaching staff and non-teaching staff had taken an average of 0.2 days more than their allowance. In addition, certain non-teaching employees are entitled to carry forward up to 3 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £123,412 was recognised at 1 August 2014 and £105,618 at 31 August 2015. The College annual leave year has been changed to end in line with the Financial year for 2015/16.

b) Non-government grants accounted for under performance model

The College has previously been in receipt of certain capital grants from sources other than those classified as "government" under FRS 102 and the 2015 FE HE SORP. Under the previous UK GAAP and 2007 SORP, these were able to be capitalised and amortised over the remaining useful economic life of the relevant fixed assets. This accounting treatment is no longer available for non-government grants and the grants have therefore been accounted for under the performance model and treated as if they had been credited to Comprehensive Income immediately that the performance conditions had been met. A corresponding adjustment has been made to the income recognised in the 2015 results that related to the annual amortisation of the capital grants involved.

c) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

d) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

e) Change in presentation of deferred capital grants within the Balance Sheet

Under the accruals model, unamortised grants are no longer shown at the bottom of the balance sheet as deferred capital grants, but held as deferred income within creditors.