Redcar & Cleveland College

Report and Financial Statements

for the year ended 31 July 2016

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

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

John Chance, Principal and CEO; Accounting officer
Ed Heatley, Vice Principal Finance & Resources
Jane Cadman, Vice Principal Curriculum

Board of Governors

A full list of Governors is given on page 13 of these financial statements.

Redcar & Cleveland Borough Council provided clerking services to the Corporation throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Internal auditor:

ICCA Education Training & Skills
11th Floor
McLaren House
46 Prior Queensway
Birmingham

Banker:

Barclays Bank plc
P.O. Box 378
71 Grey Street
Newcastle upon Tyne
NE99 1JP

Solicitor:

Eversheds
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3XX

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Members' Report 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 Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Redcar & Cleveland College. The College is an exempt charity for the purposes of the Charities Act 2011.

Mission

The Corporation Board re-affirmed the Mission along with its vision and values at the strategic planning event in February 2015; the mission remains:

Raising aspirations - exceeding expectations

Vision

The College's Vision, as re-approved by its members, is that Redcar & Cleveland College will be:

- A first choice college rated as outstanding by our peers;
- A developing Centre of excellence in Science, Technology, Engineering and Mathematics (STEM); and
- An engine for enterprise, social and economic regeneration within the community. A truly brilliant place to learn and work.

Values

In pursuit of the Vision and Mission of the College, the Values were revisited:

- Listening to all and the making of informed decisions;
- The opportunity for people to receive feedback;
- Excellence in achievements & success;
- Innovation, enterprise & skills of the future;
- Energetic partners who benefit the effectiveness of our College; and
- A safe environment which nurtures social, economic and personal wellbeing.

Public Benefit

Redcar & Cleveland College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 13.

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

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

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

Implementation of strategic plan

In February 2015 the College adopted a strategic plan for the period 1 August 2015 to 31 July 2016. This strategic plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are to:

- Ensure business viability;
- Provide a dynamic and sustainable curriculum;
- Optimise productive partnerships;
- Develop the workforce through strategic & targeted means;
- Develop and maintain a positive Image, Brand & reputation;
- Achieve excellence in teaching & learning;
- Harness positive culture; and
- Embed equality & diversity.

Financial objectives

The College's financial objectives are:

- to achieve an annual operating surplus;
- to pursue alternative sources of funding, on a selective basis, consistent with the College's core competencies, and the need for a financial contribution to the College's overall finances;
- to generate sufficient levels of income to support the asset base of the College;
- to improve the College's shorter term liquidity; and
- to fund continued capital investment.

A series of performance indicators have been agreed to monitor the successful implementation of the policies.

Performance indicators

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success rates;
- Learner destinations;
- Satisfaction survey (formerly "learner views"); and
- Satisfaction survey (formerly "employer views").

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency/Education Funding Agency ("EFA").

FINANCIAL POSITION

Financial results

The Group generated a deficit before other gains and losses in the year of £594,000 (2014/15 – deficit of £1,037,000), with total comprehensive income of £387,000, (2014/15 – deficit of £1,557,000). The total comprehensive income in 2015/16 is stated after accounting for the disposal of land which The Group held a 62% interest.

The Group has accumulated reserves of £6,397,000 and cash and short term investment balances of £1,779,000. The Group wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

The tangible fixed asset base amounts to £28,578,000. This is split between land and buildings of £28,145,000 and equipment of £433,000. In the main, this related to the building on main site.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 69% of the Group's total income.

The College had one subsidiary company, Cleveland College Limited. The principal activity of Cleveland College Limited is the letting of Redcar and Cleveland College facilities. Any surpluses generated by the subsidiary are transferred to the college under deed of covenant.

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.

All major borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows and liquidity

During the year, there was a £1,185,000 cash inflow. This comprised outflows of £11,000 from operating activities, outflows of £387,000 from financing activities and inflows of £1,583,000 from investing activities, predominantly from the land disposal.

The College has a Bank Loan which was taken out 8 years ago when the College invested in a new college build. At 31 July 2016, the College is in breach of one of the bank covenants attached to the loan. The balance stands at £4,047,000 at the end of 2015/16.

In 2008/09, the College took advantage of the Lennartz VAT recovery scheme, in relation to the new capital build project. The input VAT under the scheme is repayable to HMRC over a 10 year period. The balance at the end of 2014/15 stands at £516,000.

Going Concern

At the date of approval of these financial statements the College is in breach of one of the bank covenants attached to the bank loan at 31 July 2014, and it remains in breach at 31 July 2016.

The Area Review of FE provision in the Tees Valley was concluded in May, 2016 with a clear recommendation for the Governing Bodies of Redcar & Cleveland College and Middlesbrough College to explore in full the potential for merger between the two Corporations.

The Board and Senior Leadership Team of Redcar & Cleveland College are fully engaged in supporting this recommendation. A Merger Steering Committee has been formed between the two respective Boards and both financial & curriculum appraisals are underway in forming a detailed business plan of the merged College's operating and financial base. To this end, the Board in conjunction with the Merger Steering Committee have approved the engagement of KPMG in securing robust & objective analysis of the business plan.

The business plan will be provided to Treasury not later than May 11th, 2017.

The College's bankers attend monthly update meetings and have indicated that they intend to continue to support the College through the business plan and merger process.

The current anticipated merger date is 1st January, 2018.

Members monitor the College cashflow forecast that shows following the land disposal in 2015-16, the College holds working capital balances to facilitate the Colleges operation through to January, 2018.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2015/16 the College has delivered activity that has produced £3,745,000 in Education Funding Agency (EFA) 16 to 18 funding and £1,164,000 in Skill Funding Agency (SFA) Adult provision. The College had approximately 721 16 to 18 students. The college had 267 HE learners generating £700,000 worth of income and 307 apprenticeship starts. Apprenticeship income was £1,114,000.

Continuous Improvement

The College's specific objectives and progress against these objectives in 2015/16 are addressed below through the relevant priority areas.

16 - 19

Outcomes for learners have improved and are now stable. They are at 77% and this is reflected in stronger teaching, learning and assessment and faculty management. Teaching, learning and assessment are now generally good. College lesson observations indicate that the grade profile is now good with 80% being graded good or outstanding. The impact of this can be seen in improved retention and stable achievement rates.

The provision of the study programmes in 2015/16 are now good. They are well planned to meet the needs of learners and ensure good progression routes. Internal progression was around 30% in 13/14 and this rose to 69%. Our management information indicates that for 2015/16, some 83% of Level 1 and Level 2 learners progressed onto higher level courses. Good use is made of visits, employer talks and competitions such as World Skills.

IAG was improved in 15/16. Routes to Employment have been engaged. Every learner is provided with IAG. Interview paperwork has been redesigned to allow staff to have more in-depth conversation around entry requirements and final intended destination. Work started in 15/16 allowed the college to develop the quality of IAG and this will be delivered to learners throughout the year. We have reviewed all enrolment documentation to ensure that there is better evidence of links between course choice and careers. All course information has been standardised so that students can see the range of careers available to them as a result of taking that particular course.

To improve learner's employability skills most level 3 learners and some level 2 learners attend relevant work experience and level 1 learners take part in work related activity, either here in the college or in the community. 83% of these learners go on the do a level 3 programme. 85% of level 3 learners received work experience. The curriculum has been extended at L1 and 2 to better meet the needs of local learners. The curriculum includes employability courses that prepares learners well for life beyond college and is matched well to the local priority of the LEP.

Adult learners

Outcomes for learners are improving with a direct link to stronger teaching, learning and assessment and faculty management. Achievement rates are now 84.9% and represent a 5% increase on 14/15.

Teaching learning and assessment in adult programmes is good and this is reflected in the outcomes for learners which continue to be good. Strong OTL profiles and good learner feedback also support this view. 95% of lesson were graded at least good. The inspection report supports the view of strong teaching in this area. Lessons are well planned to allow learners to develop their understanding of key themes and consequently they make good progress. Good use is made of a range of resources and learning activities to enhance the learning experience.

Progression from Access to HE is strong. For example, 79% of learners on Access to HE Health go to HE; and 95% of those on Access Humanities also progress to HE.

Good support was given to SSI by the utilisation of government funding. These were 'on demand' courses and 889 people accessed these. Outcomes were positive. For example, ECITB Hand Torque, Level 3 Safe Supervisor, IOSH Working Safely and Site Safety Passport all had achievement above 96%.

Apprenticeships

Apprenticeships are delivered in most occupational areas. Apprenticeship programmes have continued to expand and the College is working with key partners where it is able to deliver in niche markets such as food manufacturing. There has also been considerable growth in new markets including horticulture, warehousing and retail.

In October 2015 a new management team took over the apprenticeship provision and made good progress in developing it. Leaders set high expectations and have worked very effectively to identify and address the issues. They have established stronger links to employers and these are engaged in progress reviews and target setting for example. A key strength of the new management team is that employers report very favourably on the quality of communication they receive and the personalised service the college provides. They also value the conscientious, effective teaching staff and assessors.

Apprenticeships are now well planned and managed, although the data does not suggest this currently. Where apprentices achieve in a timely manner they do so well and make good progress but currently too few do this. Good use is made of Smart Assessor for which the team won an award. As a result, apprentices receive timely and useful reviews and feedback on their work.

Apprentices tend to have sustained employment on completion of programme. There are also some good progression opportunities such as in ICT where all apprentices engaged at level 2 moved through to level 4.

Higher Education

HE provision has been delivered by Redcar and Cleveland College for a number of years. Provision includes Professional Programmes, Higher Level Apprenticeships and franchised provision from Teesside University. Much of this provision has been part time delivery for in work learners delivered on a day release or evening basis. During 2015/16, over 90 % of the college's provision aligned with the Tees Valley LEP priority sector areas.

The College delivered a broad range of part-time Foundation Degrees including Early Years, Counselling and Sport; HNCs in a range of engineering subjects; Cert Ed and PGCE programmes, and Honours Degrees in Education and Therapeutic Counselling. Professional programmes were also delivered at HE level, notably in Accounting and Site Management. The College continued to deliver HNC and HND qualifications to full-cost international students and has developed full time Higher Education provision, from 2016/17. The college delivers its international and HE business from its designated HE Centre which incorporates a large space accommodating lecture theatre, HE study space and a number of additional ICT, laboratory and teaching spaces prioritised for delivery of Higher Education courses.

Overall, HE programmes in 2014-16 in the College had 82.1% retention (up from 80%) and 73.7% success (down from 76% and below benchmark). Retention in some programmes continues to be an issue (e.g. FdA Counselling and some HNC programmes). However, the College has an overall achievement rate of 89.8%, demonstrating that a high proportion of those students who remain on a course will achieve their qualification.

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 met this target. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There are no post balance sheet events which have affected the College.

Future prospects

The Area Review of FE provision in the Tees Valley was concluded in May, 2016 with a clear recommendation for the Governing Bodies of Redcar & Cleveland College and Middlesbrough College to explore in full the potential for merger between the two Corporations.

The Board and Senior Leadership Team of Redcar & Cleveland College are fully engaged in supporting this recommendation. A Merger Steering Committee has been formed between the two respective Boards and both financial & curriculum appraisals are underway in forming a detailed business plan of the merged College's operating and financial base. To this end, the Board in conjunction with the Merger Steering Committee have approved the engagement of KPMG in securing robust & objective analysis of the business plan.

The business plan will be provided to Treasury not later than May 11th, 2017.

The College's bankers attend monthly update meetings and have indicated that they intend to continue to support the College through the business plan and merger process.

The current anticipated merger date is 1st January, 2018.

RESOURCES:

The College has various resources that it can deploy in pursuit of its strategic objectives.
Tangible resources include the College's new build, operational since September 2008. This significant investment has provided a fundamental improvement in the Teaching & Learning resources available for the delivery of an expanding provision in the centre of Redcar. The new build was funded through a bank loan, grants from the Skills Funding Agency and monies from the Sir William Turner foundation. The Sir William Turner foundation continues to support the College and has a presence on the Redcar and Cleveland College Corporation.

A second phase, the Higher Education Centre, which is an extension of the new build commenced in January 2010 and was completed in September 2010. Teesside University invested in this extension.

More recently the College has also repositioned some of this space to be better utilised in the delivery of income generating activities for international students, this includes a redefined multifaith worship space and associated washing and social facilities.

The College has also sought to develop expanded facilities in identified growth sectors including digital technologies and health which not only better utilisation of space the more creative and exciting learning environment students in these areas.

Financial

The College has £6.397 million of net assets, including a £3.135 million pension liability).

People

The College employs 167 people (expressed as full time equivalents), of whom 70 are teaching staff.

Reputation

Over recent years, The College has developed a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and forging external relationships.

PRINCIPAL RISKS AND UNCERTAINTIES:

A Risk Register is maintained at the College level, which is reviewed at least annually by the Audit Committee. The Risk Register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risk. Risks are prioritised using a consistent system of scoring. Additional risks identified and any changes to likelihood and impact scoring are reported at each board meeting

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2015/16, the majority of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms. The college is continuing to look to expand its sources of non-government funding and is closely monitoring its cost base.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Redcar & Cleveland College has many stakeholders. These include:

- Students;
- FE Commissioner;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Government Offices/ Regional Development Agencies/LEPs;The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.
- International business partners

The College recognises the importance of these relationships and engages in regular communication with them through appropriate face to face, e mail, telephony and appropriate internet portals.

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, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy is published on the College's Intranet site.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010. The College undertakes equality impact assessments on all new policies and procedures and publishes the results. Equality impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. 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, as far as possible, provide identical opportunities to those of non-disabled employees.

The College has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff. The College has achieved accreditation to the Committed to Equality (C2E) standard at the gold (highest) level. The College has also implemented an updated Equality & Diversity training programme which all staff have attended. Refresher training and training for new starters is carried out on an ongoing basis.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010 and in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005.

a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit, and the results of this formed the basis of funding capital projects aimed at improving access.
b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.

f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Approved by order of the members of the Corporation on 13th **December 2016 and signed on its behalf by:**

K. Taylor

Kath Taylor

Chair of Governers

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2015 to 31st 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. in full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code");
iii. 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 practice in all aspects of corporate governance and in particular the College/Board has adopted and complied with the Foundation 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/exceeds all the provisions of the Foundation Code, 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. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011.

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

The Corporation

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

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance
Mrs Kath Taylor	20 Oct 2010 Re-elected	4 years 4 years		Independent Member	Chair of Board, and of S&G and Remuneration; member of Strategic Planning Committee	75%
Dr Debbie Trebilco	26 Feb 2008 re-elected	4 years 4 years		Independent Member	Vice-chair of Board; Chair, F&R; member of Remuneration; SPC	88%
Mr. Neil Appleby	4 February 2013	4 years		Independent member	C&Q	63%
Ms Carol Cooney	22 Sept 2015	4 years		Independent member	Chair C&Q; F&R; Strategic Planning	86%
Mr. Ed Evans	22 Nov 2011	4 years	26/11/15	Independent member	Audit; C&Q; S&G	100%
Mrs Angela Foster	16 Mar 2009	4 years		Independent Member	Remuneration; F&R; S&G	50%
Rev Bruce Harrison	1 Nov 2007 Re-elected	4 years 4 years	31/11/15	Independent member	Chair of Audit; member SPC; Remuneration	100%
Mr John Lowther	20 Oct 2010	4 years		Independent Member	Chair, Strategic Planning; member of Remuneration; F&R; S&G	88%
Mr Malcolm Page	23 Sept 2014	4 years	28/09/15	Independent Member	F&R	0%
Miss Pat Rutherford	1 Sep 2006 re-elected re-elected	4 years 4 years 4 years		Foundation Trust member	F&R	100%
Ms Amanda Skelton	9 Sept 2015	4 years		Independent Member	F&R	38%
Mr Ian Swales	17th May 2016	4 years		Independent Member	Strategic Planning;	0%
Miss Alys Tregear	23 Sept 2008 re-elected	4 years 4 years		Staff Member	Audit; C&Q; S&G	88%
Mr Andrew Twineham	20 Oct 2010 re-elected	4 years 4 Years		Independent Member	Audit; C&Q; Remuneration	75%
Ms Jayne Walker	24/11/15	4 years		Student	C&Q	17%
Mr Colin Willis	23 Sept 2015	4 years		Staff Member	C&Q; Audit;	43%

Member's resignations:

Mr Ed Evans – 26/11/15

Rev Bruce Harrison – 31/10/15

Mr Malcolm Page – 28/09/15

Clerking services in 2015-16 are provided by Redcar & Cleveland Borough Council.

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

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Strategic Planning, Finance and Resources, Remuneration, Audit, and Performance and Nomination. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Redcar & Cleveland College

Corporation Road

Redcar

TS10 1EZ

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

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

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

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

There is a clear division of responsibility in that the roles of the Chairman and Principal (Accounting Officer) are separate.

Appointments to the Corporation

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

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

Remuneration Committee

Throughout the year ending 31 July 2016, the College's Remuneration and Appointments Committee comprised six members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders, to manage the employment of senior post-holders, and to recommend to the Board the appointment of new senior post-holders.

Details of remuneration for the year ended 31 July 2016 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee comprises five members of the Corporation (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

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

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

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

The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work as well as reporting annually to the Corporation.

Internal control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically . The system of internal control has been in place in Redcar & Cleveland College for the year ended 31 July 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

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

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance

- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Redcar & Cleveland College has an internal audit service, which operates in accordance with the requirements of the EFA and SFA's Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

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

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

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

Going concern

At the date of approval of these financial statements the College is in breach of one of the bank covenants attached to the bank loan at 31 July 2014, and it remains in breach at 31 July 2016.

Despite this position, after making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. Further details are provided in note 1.

The Area Review of FE provision in the Tees Valley was concluded in May, 2016 with a clear recommendation for the Governing Bodies of Redcar & Cleveland College and Middlesbrough College to explore in full the potential for merger between the two Corporations.

The Board and Senior Leadership Team of Redcar & Cleveland College are fully engaged in supporting this recommendation. A Merger Steering Committee has been formed between the two respective Boards and both financial & curriculum appraisals are underway in forming a detailed business plan of the merged College's operating and financial base. To this end, the Board in conjunction with the Merger Steering Committee have approved the engagement of KPMG in securing robust & objective analysis of the business plan.

The business plan will be provided to Treasury not later than May 11th, 2017.

The College's bankers attend monthly update meetings and have indicated that they intend to continue to support the College through the business plan and merger process.

The current anticipated merger date is 1st January, 2018.

Members monitor the College cashflow forecast that shows following the land disposal in 2015-16, the College holds working capital balances to facilitate the Colleges operation through to January, 2018.

Approved by order of the members of the Corporation on 13th December 2016 and signed on its behalf by:

K. Taylor

Kath Taylor | John Chance J. Chance

Chair of Governors | Accounting Officer

Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation 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 the Corporation has had due regard to the requirements of the financial memorandum/funding agreement.

We confirm, on behalf of the Corporation, that to the best of its knowledge, the Corporation believes it is 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 further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the Skills Funding Agency/Education Funding.

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.

K. Taylor

Kath Taylor

Chair of Governors

J. Chance

John Chance

Accounting Officer

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency / Education Funding Agency and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2015 to 2016* 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 Corporation is required to:

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

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

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

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

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

Approved by order of the members of the Corporation on 13th December 2016 and signed on its behalf by:

K. Taylor

Kath Taylor

Chair

Independent auditor's report to the Corporation of Redcar & Cleveland College

KPMG LLP
Quayside House
110 Quayside
Newcastle
NE1 3DX

We have audited the financial statements of Redcar & Cleveland College for the year ended 31st July 2016 set out on pages 24-44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Corporation, 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 Corporation, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of Redcar & Cleveland College and Auditor

As explained more fully in the Statement of the Corporation's responsibilities set out on page 19, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view, of the state of the College's affairs as at 31 July 2016 and of the College's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the College's ability to continue as a going concern. This is dependent upon the satisfactory conclusion of ongoing negotiations with the College's bankers to amend the existing banking facilities following a breach of one of the covenants attached to this bank loan.

The members have prepared financial forecasts for a period until 31 July 2021. The College has cash in bank at year end of £1,779k following the sale of land in the year, and has forecast a positive cash balance for the 12 months following the approval of these accounts. However the above forecasts show a deficit on trading and a negative cash flow. Therefore on a standalone basis the College may need further external financial support, in addition to amended banking facilities, to continue as a going concern.

These conditions, along with the other matters explained in note 1, indicate the existence of a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if it were unable to do so.

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 (June 2016) 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 by the College; or
- the College financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

M. R. Thompson.

Mick Thompson (Senior Statutory Auditor) Date: 22nd December 2016
For and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants

Reporting accountant's assurance report on regularity to the Corporation of Redcar & Cleveland College and the Secretary of State for Education acting through the Education Funding Agency

KPMG LLP
Quayside House
110 Quayside
Newcastle
NE1 3DX

In accordance with the terms of our engagement letter dated 8 October 2015 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 Redcar & Cleveland 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 the Education Funding Agency has other assurance arrangements in place.

This report is made solely to the corporation of Redcar & Cleveland 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 corporation of Redcar & Cleveland College and the 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 corporation of Redcar & Cleveland College and the Education Funding Agency for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Redcar & Cleveland College and the reporting accountant

The corporation of Redcar & Cleveland 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 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 our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a negative conclusion on regularity consistent with the requirements of the Joint Audit Code of Practice.

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.

M. R. Thompson.

Mick Thompson (Senior Statutory Auditor)
For and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants

Date: 22nd December 2016

Statement of Comprehensive Income

	Notes	Group 2016 £000	College 2016 £000	Group 2015 £000	College 2015 £000
INCOME					
Funding body grants	2	6,443	6,443	6,627	6,627
Tuition fees and education contracts	3	2,157	2,157	2,237	2,237
Other grants and contracts	4	217	217	188	188
Other income	5	501	501	608	608
Endowment and investment income	6	3	3	2	2
Total income		**9,321**	**9,321**	**9,662**	**9,662**
EXPENDITURE					
Staff costs	7	5,271	5,271	5,529	5,529
Fundamental restructuring costs	7	121	121	254	254
Other operating expenses	8	3,355	3,355	3,697	3,697
Depreciation	11	831	831	891	891
Interest and other finance costs	9	337	337	328	328
Total expenditure		**9,915**	**9,915**	**10,699**	**10,699**
Deficit before other gains and losses		**(594)**	**(594)**	**(1,037)**	**(1,037)**
Profit on disposal of assets	11	1,226	1,226	-	-
Surplus/(deficit) before tax		**632**	**632**	**(1,037)**	**(1,037)**
Taxation	10	-	-	-	-
Surplus/(deficit) for the year		**632**	**632**	**(1,037)**	**(1,037)**
Actuarial loss in respect of pension schemes		(245)	(245)	(520)	(520)
Total Comprehensive income for the year		**387**	**387**	**(1,557)**	**(1,557)**

Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group and College			
Balance at 1st August 2014	**5,448**	**2,119**	**7,567**
Deficit from the income and expenditure account	(1,037)	-	(1,037)
Other comprehensive income	(520)	-	(520)
Total comprehensive income for the year	**(1,557)**	**-**	**(1,557)**
Balance at 31st July 2015	**3,891**	**2,119**	**6,010**
Surplus from the income and expenditure account	632	-	632
Other comprehensive income	(245)	-	(245)
Total comprehensive income for the year	**387**	**-**	**387**
Balance at 31 July 2016	**4,278**	**2,119**	**6,397**

Balance sheet as at 31 July

	Notes	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Fixed assets					
Tangible fixed assets	11	28,578	28,578	30,042	30,042
Investments	12	-	-	-	-
		28,578	**28,578**	**30,042**	**30,042**
Current assets					
Stocks		3	3	-	-
Trade and other receivables	13	852	896	845	851
Cash and cash equivalents		1,779	1,779	594	594
		2,634	**2,678**	**1,439**	**1,445**
Less: Creditors – amounts falling due within one year	14	(6,529)	(6,573)	(6,877)	(6,883)
Net current assets		**(3,895)**	**(3,895)**	**(5,438)**	**(5,438)**
Total assets less current liabilities		**24,683**	**24,683**	**24,604**	**24,604**
Creditors – amounts falling due after more than one year	15	(14,722)	(14,722)	(15,499)	(15,499)
Provisions					
Defined benefit obligations	18	(3,135)	(3,135)	(2,668)	(2,668)
Other provisions	17	(429)	(429)	(427)	(427)
Total net assets		**6,397**	**6,397**	**6,010**	**6,010**
Unrestricted Reserves					
Income and expenditure account		4,278	4,278	3,891	3,891
Revaluation reserve		2,119	2,119	2,119	2,119
Total unrestricted reserves		**6,397**	**6,397**	**6,010**	**6,010**

The financial statements on pages 24 to 44 were approved and authorised for issue by the Corporation on 13th December 2016 and were signed on its behalf on that date by:

K. Taylor
Kath Taylor
Chair of Governors

J. Chance
John Chance
Accounting Officer

Statement of Cash Flows

	2016	2015
	£'000	£'000
Cash flow from operating activities		
Surplus/(deficit) for the year	632	(1,037)
Adjustment for non-cash items		
Depreciation	831	891
Increase in stocks	(3)	-
Increase in debtors	(7)	(348)
Increase in creditors due within one year	74	438
Decrease in creditors due after one year	(777)	(601)
Increase/(decrease) in provisions	2	(16)
Pensions costs less contributions payable	222	175
Adjustment for investing or financing activities		
Investment income	(3)	(2)
Interest payable	244	252
Profit on sale of fixed assets	(1,226)	-
Net cash flow from operating activities	(11)	(248)
Cash flows from investing activities		
Proceeds from sale of fixed assets	1,893	-
Investment income	3	2
Payments made to acquire fixed assets	(34)	(287)
HMRC (note 14 & 15)	(279)	(275)
	1,583	(560)
Cash flows from financing activities		
Interest paid	(244)	(252)
Repayments of amounts borrowed	(143)	(137)
	(387)	(389)
Increase / (decrease) in cash and cash equivalents in the year	**1,185**	**(1,197)**
Cash and cash equivalents at beginning of the year	594	1,791
Cash and cash equivalents at end of the year	1,779	594

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 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. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 'Transition to this FRS'.

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 consolidated results of the College is provided in note 21.

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. The following exemptions have been taken in these financial statements:

- Revaluation as deemed cost – at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed cost

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 financial statements are being prepared on a going concern basis which the members believe to be appropriate for the reasons set out below.

The College has recorded a surplus for the year of £632,000 and cash inflows in the year amount to £1,185,000 following the sale of land, which delivered a surplus of £1,266,000 and a cash inflow of £1,893,000. At the year end the College has cash at bank of £1,779,000.

However, as a result of challenging trading conditions the College breached one of the covenants attached to its bank loan at 31 July 2014. Technically this makes the bank loan repayable on demand and therefore the entire bank loan balance of £4,047,000 has been included within current liabilities at the year end. The breach has not been rectified in 2015-16 and therefore the same accounting treatment applies.

The College meets its day to day working capital requirements through its cash reserves and this bank loan facility. The members have prepared detailed projected cash flow information for the period through until 31 July 2021. These projections take into account variations from the base case assumptions to an extent which they believe to be reasonable, based on information available at the time of approval of these financial statements.

On the basis of this cash flow information the members are confident that the College will reach agreement with its bankers on an appropriate amended bank loan facility. Discussions are ongoing with the College's bankers in order to make suitable amendments to the banking facility which may require an enhanced level of security to be given to the bank. The bank has indicated that it is its intention to continue to support the College although this is subject to ongoing credit committee approval and the preparation of satisfactory financial forecast information by the College. Accordingly the members are confident that appropriate and suitable bank facilities will be agreed in due course but they accept that there can be no certainty in this matter. At the time of approval of these financial statements the covenant breach has not been remedied.

The College is also in discussion with Middlebrough College, about a potential merger which may in itself provide a financial solution. However, on a standalone basis, over the course of the next five years the College may need further external financial support in addition to an amended bank facility.

This material uncertainty may cast significant doubt on the College's ability to continue as a going concern and therefore the College may be unable to continue to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Recognition of income

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

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.

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

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

Accounting for post-employment benefits

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

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.

Non-current Assets - Tangible fixed assets

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

Land and buildings

Freehold buildings are depreciated on a straight line basis over their expected useful economic life to the College of 60 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life. Freehold land is not depreciated.

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1994, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Equipment

Equipment costing less than £500 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life of four years.

Investments

Current asset investments are stated at the lower of their cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Foreign currency translation

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

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 sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College receives no 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.

Provisions and contingent liabilities

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

Agency arrangements

The College acts as an agent in the collection and payment of Learner Support Funds and Care to Learn Travel Payments. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of 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 26, 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.

2 Funding body grants

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Recurrent grants				
Skills Funding Agency	2,283	2,283	1,809	1,809
Education Funding Agency	3,745	3,745	4,402	4,402
Specific grants				
Releases of government capital grants	415	415	416	416
Total	**6,443**	**6,443**	**6,627**	**6,627**

3 Tuition fees and education contracts

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Adult education fees	504	504	438	438
Fees for FE loan supported courses	534	534	549	549
Fees for HE loan supported courses	700	700	732	732
International student fees	36	36	25	25
Total tuition fees	1,774	1,774	1,744	1,744
Education contracts	383	383	493	493
Total	**2,157**	**2,157**	**2,237**	**2,237**

4 Other grants and contracts

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Erasmus	12	12	5	5
Other grants and contracts	205	205	183	183
Total	**217**	**217**	**188**	**188**

5 Other income

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Catering and residences	153	153	175	175
Other income generating activities	90	90	76	76
Other grant income	8	8	19	19
Non government capital grants	96	96	185	185
Miscellaneous income	154	154	153	153
Total	**501**	**501**	**608**	**608**

6 Investment income

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Other interest receivable	**3**	**3**	**2**	**2**

7 Staff costs – Group and College

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

	2016	2015
	No.	No.
Teaching staff	70	78
Non-teaching staff	97	98
	167	176

Staff costs for the above persons	2016	2015
	£'000	£'000
Wages and salaries	4,128	4,475
Social security costs	308	300
Other pension costs (note 18)	687	654
Payroll sub total	5,123	5,429
Contracted out staffing services	148	100
	5,271	**5,529**
Fundamental restructuring costs	121	254
	5,392	5,783

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprises the Principal, two Vice Principals and two Assistant Principals. Staff costs include compensation paid to key management personnel for loss of office.

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

	2016	2015
	No.	No.
The number of key management personnel including the Accounting Officer was:	3	4

The number of senior post-holders 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	2015	2016	2015
	No.	No.	No.	No.
£50,001 to £60,001	1	-	1	-
£60,001 to £70,000	-	-	1	1
£70,001 to £80,000	-	-	-	1
£80,001 to £90,000	1	-	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	1	-	-
	2	1	2	2

Key management personnel compensation is made up as follows:

	2016	2015
	£'000	£'000
Salaries	201	290
Employers National Insurance	22	22
	223	312
Pension contributions	31	28
Total emoluments	254	340

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

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2016	2015
	£'000	£'000
Salaries	85	124
Pension contributions	14	5

8 Other operating expenses

	2016	2016	2015	2015
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	1,629	1,629	1,555	1,555
Non-teaching costs	1,068	1,068	1,454	1,454
Premises costs	658	658	688	688
Total	**3,355**	**3,355**	**3,697**	**3,697**

Other operating expenses include:

	2016	2015
Auditors' remuneration:		
Financial statements audit	19	19
Internal audit	11	16
Other services provided by the financial statements auditor	-	57
Other services provided by the internal auditors	9	-

9 Interest payable – Group and College

	2016	2015
	£'000	£'000
On bank loans, overdrafts and other loans	244	252
Pension finance costs (note 18)	93	76
Total	**337**	**328**

10 Taxation

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

11 Tangible fixed assets (Group and College)

	Freehold Land and buildings	Equipment	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 August 2015	33,910	3,684	37,594
Additions	-	34	34
Disposals	(667)	(22)	(689)
At 31 July 2016	**33,243**	**3,696**	**36,939**
Depreciation			
At 1 August 2015	4,446	3,106	7,552
Charge for the year	652	179	831
Elimination in respect of disposals	-	(22)	(22)
At 31 July 2016	**5,098**	**3,263**	**8,361**
Net book value at 31 July 2016	**28,145**	**433**	**28,578**
Net book value at 31 July 2015	29,464	578	30,042

12 Non current investments

	2016	2015
	£	£
Investments in subsidiary companies at cost	2	2

The College owns 100% of the issued ordinary £1 shares of Cleveland College Limited, a company incorporated in England and Wales.

13 Debtors

	Group 2016	College 2016	Group 2015	College 2015
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade receivables	216	216	163	163
Amounts owed by group undertakings:				
Subsidiary undertakings	-	44	-	6
Prepayments and accrued income	636	636	638	638
Amounts owed by the Skills Funding Agency/EFA	-	-	44	44
Total	**852**	**896**	**845**	**851**

14 Creditors: amounts falling due within one year

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans	4,047	4,047	4,190	4,190
Trade payables	200	200	405	405
Amounts owed to group undertakings				
Subsidiary undertakings	-	44	-	6
Other taxation and social security	152	152	156	156
Accruals and deferred income	849	849	892	892
Deferred income – government capital grants	403	403	416	416
Deferred income – government revenue grants	96	96	95	95
HMRC (Lennartz)	280	280	281	281
Amounts owed to the Skills Funding Agency/EFA	502	502	442	442
Total	**6,529**	**6,573**	**6,877**	**6,883**

15 Creditors: amounts falling due after one year

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
HMRC (Lennartz)	236	236	514	514
Deferred income – government capital grants	10,510	10,510	10,914	10,914
Deferred income – government revenue grants	3,976	3,976	4,071	4,071
Total	**14,722**	**14,722**	**15,499**	**15,499**

16 Maturity of debt

Bank loans and overdrafts are repayable as follows:

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
In one year or less	150	150	143	143
Between one and two years	158	158	150	150
Between two and five years	524	524	498	498
In five or more years	3,215	3,215	3,399	3,399
Total	**4,047**	**4,047**	**4,190**	**4,190**

17 Other Provisions

	Group and College Enhanced Pensions
	£'000
At 1 August 2015	427
Expenditure in period	(35)
Additions in period	37
At 31 July 2016	**429**

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

The principal assumptions for this calculation are:

	2016	2015
Price inflation (CPI)	1.80%	2.00%
Discount rate	2.40%	3.50%

18 Defined benefit obligations

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

Total pension cost for the year

		2016		2015
		£'000		£'000
Teachers Pension Scheme: contributions paid		334		327
Local government pension scheme:				
Contributions paid	187		210	
FRS 102 (28) charge	129		99	
		316		309
Enhanced pension charge to Statement of Comprehensive Income		37		18
Total pension cost for year		687		654

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.

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.

Valuation of the Teachers' Pension scheme

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

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

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

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £334,000 (2015: £327,000).

FRS 102 (28)

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

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Middlesbrough Borough Council. The total contribution made for the year ended 31 July 2016 was £271,000, of which employer's contributions totalled £187,000 and employees' contributions totalled £84,000. The agreed contribution rates for future years are 17.3 % for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

Principal Actuarial Assumptions

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.

	At 31 July 2016 £'000	**At 31 July 2015 £'000**
Rate of increase in salaries	1.8%	3.6%
Future pensions increases	1.8%	2.1%
Discount rate for scheme liabilities	2.6%	3.6%
Inflation assumptions (CPI)	1.8%	2.1%

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

	At 31 July 2016 Years	**At 31 July 2015 Years**
Retiring today		
Males	23.1	23.0
Females	25.6	25.5
Retiring in 20 years		
Males	25.3	25.2
Females	28.0	27.8

Local government pension scheme

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

	Fair value at 31 July 2016 £'000	Fair value at 31 July 2015 £'000
Equities	7,345	6,472
Gilts	130	252
Bonds	70	291
Property	665	535
Cash	441	314
Total market value of assets	**8,651**	**7,864**
Actual return on plan assets	**746**	**582**

The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

	2016 £'000	2015 £'000
Fair value of plan assets	8,651	7,864
Present value of plan liabilities	(11,786)	(10,532)
Net pensions liability	**(3,135)**	**(2,668)**

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	316	302
Past service cost	-	7
Total	**316**	**309**

	2016 £'000	2015 £'000
Amounts included in interest payable		
Net Finance costs	**93**	**76**

	2016 £'000	2015 £'000
Amounts recognised in other comprehensive income		
Remeasurement gains on assets	462	279
Experience losses arising on defined benefit obligations	(707)	(799)
Amount recognised in other comprehensive income	**(245)**	**(520)**

Movement in net defined benefit liability during the year:

	2016 £'000	2015 £'000
Deficit in scheme at 1 August	(2,668)	(1,973)
Movement in year:		
Current service cost	(316)	(302)
Employer contributions	187	210
Past service cost	-	(7)
Net interest on the defined liability	(93)	(76)
Actuarial gain or loss	(245)	(520)
Net defined benefit liability at 31 July	**(3,135)**	**(2,668)**

Asset and liability reconciliation

	2016 £'000	2015 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	**10,532**	**9,449**
Current service cost	316	302
Past service cost	-	7
Interest cost	377	379
Contributions by scheme participants	84	92
Experience gains and losses on defined benefit obligations	707	799
Benefits paid	(230)	(496)
Defined benefit obligations at end of period	**11,786**	**10,532**

Reconciliation of assets

	2016 £'000	2015 £'000
Fair value of plan assets at start of period	**7,864**	**7,476**
Interest on plan assets	284	303
Remeasurement gains on assets	462	279
Employer contributions	187	210
Contributions by scheme participants	84	92
Benefits paid	(230)	(496)
Assets at end of period	**8,651**	**7,864**

19 Related party transactions

Owing 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 such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

20 Amounts disbursed as agent

Learner support funds

	2016 £'000	2015 £'000
Funding body grants – bursary support	220	300
Funding body grants – discretionary learner support	201	181
	421	481
Disbursed to students	(308)	(395)
Administration costs	(8)	(19)
Balance unspent as at 31 July, included in creditors	105	67

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

21 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 performance is set out below. There were no changes to the College's financial position.

		Year ended 31st July 2015	
		Group £'000	College £'000
Financial performance			
Surplus for the year after tax under previous SORP		(826)	(826)
Pensions provision – actuarial loss	a)	(520)	(520)
Changes to measurement of net finance cost on defined benefit plans	b)	(211)	(211)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(731)	(731)
Total comprehensive income for the year under 2015 FE HE SORP		(1,557)	(1,557)

a) Presentation of actuarial gains and losses with 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.

b) 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.