



Report and Financial Statements for the year ended 31 July 2018

CONTENTS	Page Number
Members' Report	3
Statement of Corporate Governance and Internal Control	17
Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding	24
Statement of Responsibilities of the Members of the Corporation	25
Independent Auditor's Report to the Corporation of Burton and South Derbyshire College	26
Reporting Accountant's Assurance Report on Regularity	28
Statement of Comprehensive Income	30
Statement of Changes in Reserves	31
Balance Sheet as at 31 July	32
Statement of Cash Flows	33
Notes to the Accounts	34

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Members' Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Burton and South Derbyshire College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The College was granted consent to change its name to Burton and South Derbyshire College on 1 April 2011 by the Secretary of State, in order to represent the broader population served by the College.

Mission

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

"Inspiring and motivating all to achieve their maximum potential"

Public Benefit

Burton and South Derbyshire College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 18.

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.

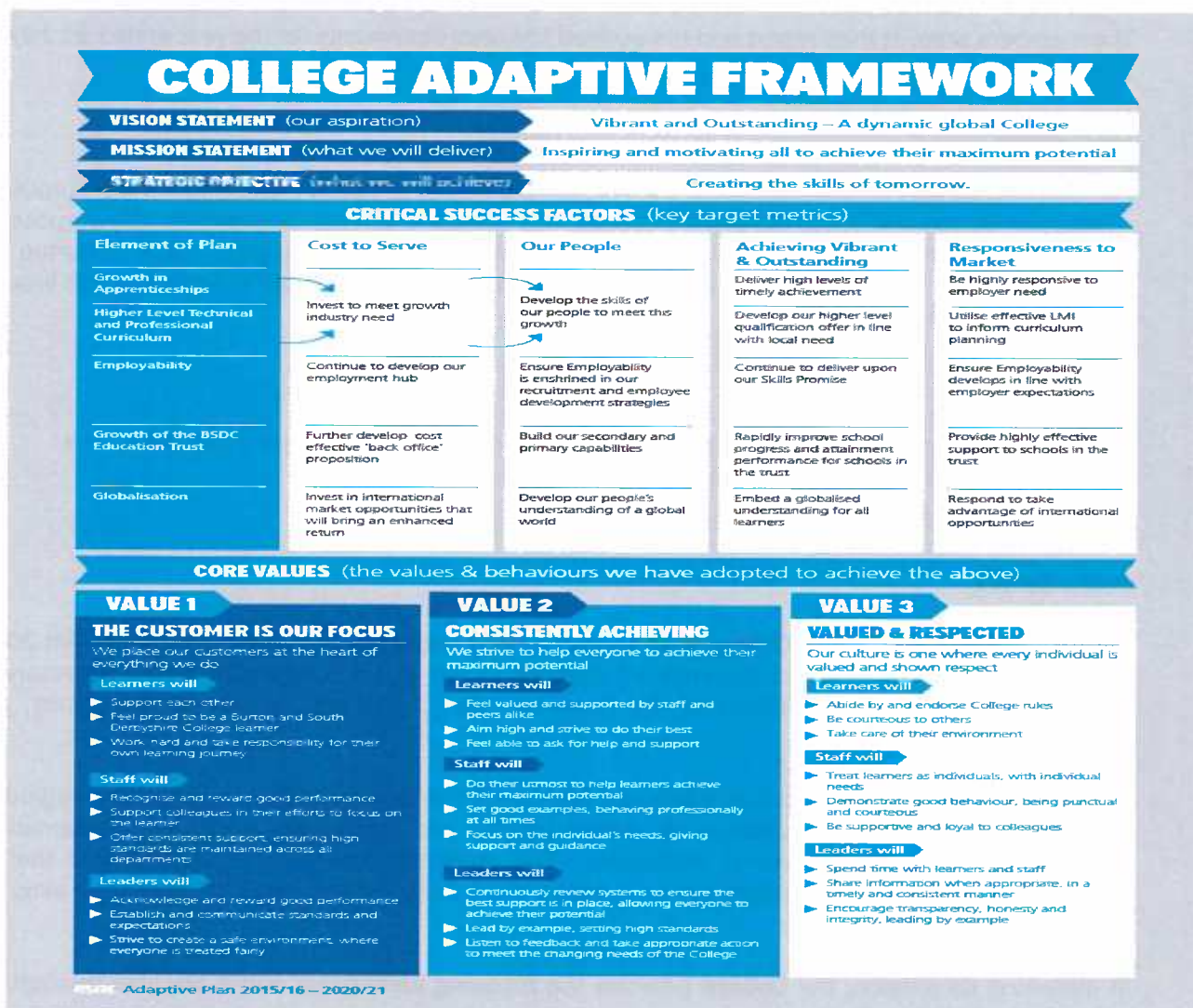
In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for learners
- Strong learner support systems
- Links with employers, industry and commerce.
- Links with Local Enterprise Partnerships (LEPS)

Strategic Framework

During 2016, the College's Leadership Team and Board of Governors reviewed the whole College's strategy in the context of a changing political and financial environment, regional developments and local needs. This evaluative process led to a re-articulation of the College's overarching strategic direction in a form which was relevant to learners, employers, staff and stakeholders, enhancing the accessibility of our corporate priorities and providing a greater flexibility within a turbulent and dynamic environment. It has also marked the start of a different approach to the strategic planning cycle which it refers to as Adaptive rather than Strategic planning which was implemented over the course of the 2016/2017 academic year.

The following diagram sets out the Vision, Mission, Strategic objective, critical success factors and core values for the Adaptive Framework;



The 2028 Adaptive Framework was approved by the Governing body in 2016/17. The College's position against Critical Success Factors was monitored and measured and this, in essence, acted as a bridge to building the plan collated within this document. The key elements of the Adaptive Plan / Framework are expressed through the following elements:

a) Vision Statement – what we aspire to

Vibrant and outstanding; a dynamic global College

b) Mission Statement – what we will deliver

Inspiring and motivating all to achieve their maximum potential

c) Strategic Objective – what we will achieve

Creating the skills of tomorrow.

d) Critical Success Factors – Key target metrics

The new framework comprised of four key strands of performance which integrate to support the realisation of Vibrant and Outstanding. These are:

Cost to Serve: "Sustaining our financial health position whilst providing value for money"

Our People: "Equipping our most valuable resource to capitalise on future opportunities"

Achieving Outstanding: "Achieving high levels of recognition for the impact we have on our communities"

Responsiveness to Market: "Developing further our strong relationships with employers and partners to develop innovative programmes that create economic, social and cultural impact"

Each area of performance encompasses a range of indicators which measure the progress being made against the aims and objectives set out in the strategy, and enable the College to understand the extent to which it is continuously improving through performance trends over time. These Critical Success Factors are monitored through College and Senior Leadership Team meetings and through the appropriate Governor Committees and are reviewed annually.

e) Core Values – the values and behaviours we have adopted to achieve the above

A set of core College Values developed in consultation with staff and learners across the organisation in strategic planning sessions during 2014/15 underpin these strategic elements. The shared values provide a touchstone for how members of the College serve learners, employers and colleagues; how team members are recruited; how managers lead and develop their staff; and how teachers inspire, motivate and develop the College's learners and prospective students. The core College Values are summarised as:

- 1) The customer is our focus
- 2) Consistently achieving
- 3) Value and respected

From the above the following element of the strategic process provides us with an Adaptive framework in which our accounts summary and context can sit. In detail this is;

Cost to Serve (Sustaining our financial health position whilst providing value for money)

The College will strive to deliver outstanding financial health. This will be achieved through the development of financial plans and objectives and strong managerial control. The emphasis on contribution, robust audit systems, risk management and our ability to generate cash for re-investment will be further developed. A constant review of costs and contribution will continue through the developed performance management review process. Clear financial targets will be cascaded throughout the organisation and all income streams will be measured. The clear drive for income diversification will form part of the target setting process, and we will utilise project funding to meet broader strategic objectives and build new capacity.

Financial objectives

The College's financial objectives are:

- To remain financially sound, so as to:
Protect itself from unforeseen adverse changes in FE/HE/ER enrolments and funding; and generate sufficient income to enable the investment in improving its accommodation and equipment.
- The College wishes to maintain the confidence of funders, suppliers, bankers and auditors.

- The College wishes to raise the awareness of College staff of the financial environment under which it operates.
- To further improve the College's short term liquidity
- To achieve an annual operating surplus

A series of critical success factors and 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")
- Satisfaction survey (formerly "employer views")

Key performance Indicator	Measure/Target	Actual for 2017/18
Operating surplus/sector EBITDA as % of income	7.36%	6.7%
Staff costs as % of income	62.00%	63.27%
Operating cash flow	561,000	2,603,000
Cash days in hand/liquidity (adjusted current ratio)	25	101
Borrowing as % of income	0%	0%
Reliance on ESFA income	79%	67%
Financial Health Score	Good	Outstanding

The College is committed to observing the importance of sector measures and indicators and uses the FE choices 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 Education and Skills Funding Agency ("ESFA") The College is assessed by the ESFA as having an "Outstanding" Financial health grading. The current rating of Outstanding is considered a very acceptable outcome when factoring in the FE sectors turbulent financial environment.

FINANCIAL POSITION

Financial results

The College generated a deficit before other gains and losses in the year of (£1,996,000) (2016/17 (£1,600,000) deficit) with total comprehensive income of £11,692,000, (2016/17 (£501,000)). The total comprehensive income is stated after the disposal of properties in Green Street, the development land at Rolleston on Dove and the share of profits from Highbury Burton Saudi Arabia.

In terms of financial health, the College has assessed its financial health as "Outstanding". This is based on the ESFA financial health score, for the three ratios of Adjusted Current Ratio, EBITDA as a % of total income and Borrowing as a % of total income, totalling 270 points. The Adjusted Current Ratio is 3.67, scoring 100 points, EBITDA is 6.7%, scoring 70 points and Borrowing as a percentage of income is 0%, scoring 100 points.

The College has accumulated available reserves of £19,515,000 and cash and investment balances of £4,617,000. The College wishes to continue to accumulate reserves and cash balances in order to create funds for its investment in non-current assets and adaptive plan.

Tangible fixed asset additions during the year amounted to £554,000. This was split between land and buildings improvements of £47,000 and equipment purchased of £507,000 to support LEP and employer job priorities.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18 the FE funding bodies provided 67% of the College's total income.

As part of the College's income diversification strategy, the College continues to invest in its joint venture company, Highbury Burton Saudi Arabia Limited (HBSA) incorporated in Saudi Arabia for the purpose of delivering education in Saudi Arabia. The College has a 50% share in the company which has generated a surplus for the College. HBSA Ltd had an operating contract to operate a female only College in Jeddah, Saudi Arabia.

Treasury policies and objectives

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

The College has a separate treasury management policy in place. In line with the policy the College has invested surplus funds with major institutions on a short term basis.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum/Funding Agreement. During 2017/18 the College repaid loans totalling £2,500,000, being part of a rolling credit facility with Barclays Bank for £4m leaving the college debt free.

Cash flows

At £2,603,000, (2016/17 (£481,000)), net cash inflow from operating activities was in accordance with the capital investments and land and building disposals planned for the year. This net cash inflow is after repayment of the £2,500,000 rolling credit facility.

Liquidity

The College has retained a cash and short term deposit balance of £4.614 million.

Reserves Policy

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. As at the balance sheet date the Income and Expenditure reserve stands at £19,515,000 (2017: £7,649,000). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses in the UK and overseas.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial Health

The College has assessed its financial health as “Outstanding”. This is based on the ESFA financial health score, for the three ratios of Adjusted Current Ratio, EBITDA as a percentage of total income and Borrowing as a percentage of total income, totalling 260 points. The Adjusted Current Ratio is 3.67, scoring 100 points, EBITDA is 6.7%, scoring 60 points and Borrowing as a percentage of income is 0%, scoring 100 points.

Learner numbers

During 2017/18 the College's overall enrolment cohort was approximately 5,500, producing £15,244,000 total income (2016/17 – £15,688,000), of which approximately 67% was received via public funded grants and 21% through non-funded activities.

Learner Achievements

Learners continue to prosper at the College with improving outcomes. Headline classroom based achievement rates for regulated provision in 2018/19 continues to increase from 83.8% in 2016/17 to 84.5%, whilst maintaining apprenticeship achievement rates above sector benchmarks at 73.0%.

These achievements are reflected within the College's most recent Ofsted inspection in September 2017 where the College was rated 'Good' in all of the eight key inspection aspects with an overall effectiveness judgement grade of 'Good'.

Internal and external monitoring of the College's performance against successful qualification outcomes is one of the key indicators of the College's Critical Success Factors. As such, the College has continued to place emphasis on improving the outcome measures including achievement rates, positive learner progression and destinations alongside satisfaction approval ratings.

Whilst qualification outcomes for learners overall show positive year on year improvements, some specific categories continue to require further improvement to ensure College expectations and strategic objectives are realised. There is a continued upward momentum in many of the College's vocational areas; with the majority of the College's provision consistently in-line and many cases above national benchmarks.

BSDC learners develop high levels of maturity and interpersonal skills in their learning which prepare them extremely well for life after College, in addition to vastly improving their social and economic wellbeing through active involvement in an extensive breadth of enrichment opportunities. The College strives to ensure that it is heavily involved with every aspect of its community and, as a result, learners' contributions permeate all aspects of the local Burton and South Derbyshire communities, through a wide and effective range of support, volunteering and competition activities.

Curriculum Developments

The College has continued to focus its approach on ensuring learners develop very good personal, social and employability skills, through the continued development and provision of a wide variety of activities aimed at enriching their learning experience as part of the College 'Skills Promise'. This is underpinned by the College's ongoing outstanding partnerships with local community organisations and employers and its continued engagement and support of national projects and competitions, resulting in learners gaining useful additional qualifications, positive workplace experience and competition practice which effectively prepares them for the world of work.

The College's commitment to reviewing and refreshing the curriculum remains a steadfast part of the strategic paradigm with the ultimate aim of providing excellent, research informed, learning opportunities and services, underpinned by best practice, which are efficient, effective, meet employers' needs and are easy to access and provide opportunities for progression to further or higher levels of study or employment.

The review has also enabled curriculum managers to align curriculum design and delivery with national reform and act accordingly where required. This activity has also enabled managers to reflect on the most suitable format of delivery and whether the provision actually meets a need of not just our learners, but wider stakeholders and the College as a sustainable, effective business. Future developments across curriculum will be streamlined and focused on addressing local, national and international skills shortages with an increased focus on technical and professional skills development at advanced and professional level.

New ways of delivering and assessing skills will be implemented across the curriculum between 2018 and 2020 which will include learner skills development through training and assessment centres rather than traditional classrooms with an enhanced approach to e-learning and independent learning via effective coaching and mentoring rather than teaching. Simulation and real life experience and learning through commercial enterprises will be a major development within curriculum over the coming years to ensure learners are prepared and career ready.

Working with Partners

The College will continue to develop strategic relationships with a number of key local employers. Our Apprenticeship Development Centre is a cornerstone in Toyota Manufacturing UK's approach to ensure they have the requisite skills for their current and future business needs and our relationship with St George's Park moves into its seventh year of providing this nationally renowned centre of excellence with a wide range of Apprenticeships that are enhancing their business capabilities.

Our work with Local Enterprise Partnerships has remained a key focus not only in our own LEP (Greater Birmingham and Solihull), but with adjacent LEPs such as D2N2 and Stoke and Staffordshire. We are ensuring that we are producing equipped and skilled individuals aligned to these LEP sector priorities and are working in partnership with the LEPs, and other businesses, to cover skills gap areas such as our partnership with Hardy signs providing the requisite skills needed in the sign making and digital printing industries.

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 the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2017 to 31 July 2018, the College paid 90 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There are no events after the year end to report in these statements.

Future Prospects

The College aims to significantly increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the funding bodies and is seeking opportunities particularly in the areas where the College currently performs well such as Apprenticeships, HEFCE (now Office for Students), International and Full cost.

Medium term financial strategy

The College's medium term financial strategy is to adapt its future curriculum and operational plans to reflect the ongoing austerity measures of the Government funding. BSDC has carried out detailed scenario planning assuming significant ESFA funding reductions to identify the savings and additional income necessary to maintain financial stability for the foreseeable future. As a result of this exercise, the Corporation approved the implementation of a staff redundancy programme to generate savings to balance the budget for future years.

In relation to solvency, the Corporation has approved the cessation of any further major building additions or building developments to fixed assets and has disposed of surplus land and buildings increasing cash at bank to protect the college from any unforeseen reductions in cash flow.

Level of reserves

At the 31 July 2018, BSDC had general reserves of £22.1m, which is available reserves to total income of 144% compared to a national benchmark of 52%.

Cash reserves at 31 July 2018 are £4.6m resulting in a current ratio of 3.67 to 1 compared to a national benchmark of 1:16 with cash days in hand of 101 compared to a national benchmark of 50. The College is planning to further improve its performance ratio through the reduction of employee costs and efficiencies stemming from the implementation of improved business/management information systems.

Assessment

In our opinion, the prudent and realistic financial strategy being implemented by the College to reduce its costs, increase its reserves and cash balances based on the foreseeable very challenging operating environment coupled with the sound financial planning, for the next two years, that has contingencies for any potential adverse fluctuations in income and expenditure puts the College in a strong financial position to continue its operation for the foreseeable future as demonstrated in the ESFA financial health assessment which is 'Outstanding'.

Our strategic focus on the preparation of a college with a continued ability to adapt and a long term focus on what the world will look like in 2028 will see us moving our curriculum more to on-line and cloud based content. It will see us continue to expand our global reach and develop a skills offering that is adaptable to the major economies of the future and will see us transform our interaction with future generations of young people who have a radically different view and expectation for their career choices and future aspirations.

We will continually review our estate and infrastructure to meet with these change expectations and will ensure that our people, our most important asset, continue to develop the skills, knowledge and expertise to deliver excellence in this future world.

We will continue to diversify our income and through being commercial in our approach, developing and growing strategic partnerships, product diversification and international collaboration whilst maintaining a strong focus on the bottom line so that we can invest, adapt and invigorate this exciting future offer.

RESOURCES:

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

Tangible resources include the main site, in East Staffordshire including the University Centre and the Engineering Academy, acquired buildings for development and a new secondary campus in South Derbyshire.

Financial

The College has £22.1m million of net assets (including a £2.7 million pension liability) and cash and short term deposit reserves of £4.617 million.

People

The College employs 317 people (expressed as full time equivalents) of whom 140 are teaching / delivery staff.

Reputation

The College has a good reputation locally, nationally and internationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships. Growth in Apprenticeships, maintaining market share in heavily competitive markets and the diversification of our income are all indicators of the College's healthy reputation locally, regionally and nationally.

PRINCIPAL RISKS AND UNCERTAINTIES:

The College continues to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

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

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

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

1. Government funding

The College has considerable reliance on continued government funding through the education sector funding bodies and through OFS. In 2017/18, 67% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College is aware of several issues which may impact on future funding, including apprenticeship reforms and the devolution of the adult education budget. The College, in conjunction with its key stakeholders, is developing a strategy for growth in response to the devolution agenda and to the apprenticeships reform. It is recognised that the introduction of the apprenticeship levy will significantly affect that marketplace though the full implications are not yet known as government policy continues to develop.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements.
- By ensuring the College is rigorous in delivering high quality education and training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies.
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue with funding bodies.

2. Tuition fee policy

In line with the majority of other colleges, Burton and South Derbyshire College will seek to increase tuition fees in accordance with the rising fee assumptions. The risk for the College is that demand falls off as fees increase. This is likely to impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses as prices change.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 102.

This risk is mitigated by an agreed deficit recovery plan with the Local Government Pension Scheme.

4. Failure to maintain the financial viability of the College

The College's current financial health grade is classified as a strong "Outstanding" as described above. Notwithstanding that, the continuing challenge to the College's financial position remains the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining the student experience. This risk is mitigated in a number of ways:

- By rigorous budget setting procedures and sensitivity analysis.
- Regular in year budget monitoring.
- Robust financial controls.
- Exploring ongoing procurement efficiencies.

5. Accommodation strategies

The College has an accommodation strategy to achieve a vibrant and outstanding campus in a financially challenging environment. The deficits in 2012/13 to 2017/18 have challenged the College's affordability and timescales for the delivery of this strategy to ensure that financial health and stability can be maintained.

This risk is mitigated in a number of ways:

- By closely monitoring the affordability of capital projects over the life of the project.
- Planning for managed moves into new accommodation in advance and delivering effective communication to learners, staff and stakeholders.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Burton and South Derbyshire College has many stakeholders. These include:

- Learners
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers (with specific links)
- Local Authorities
- Local Enterprise Partnerships
- The local community
- Other FE institutions
- Trade unions
- Professional bodies

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

Equality

Burton and South Derbyshire College believes that all those who shape our community (learners, staff, governors, employers, visitors and wider stakeholders) have a right to be valued and respected equally and to be provided with equality of opportunity in all that they do. The College is fully committed to actively promoting shared values that include equality, diversity and social inclusion, actively involving our community and valuing their contribution to the delivery of our Strategy, demonstrating care and respect for others and applying honesty and fairness in everything we do. The delivery and active promotion of equality of opportunity underpins the College's mission and Strategic Framework. The College's Single Equality Scheme is published on the College's Website.

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 people with impairments, bearing in mind the aptitudes of the individuals concerned and the requirements of the role. Where an existing employee becomes impaired, every effort is made to ensure that employment with the College continues and to make all reasonable adjustments to ensure this. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees.

The College has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff. The College has also implemented an updated Equality & Diversity training programme to Level 2 which all staff are required to complete. Refresher training and training for new starters is carried out on an on-going basis.

Disability statement

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

- a) As part of its accommodation strategy the College updated its access audit. The College makes continual improvements in order to improve access for learners.
- b) The College has an Additional Learning Support (ALS) Co-ordinator, who provides information, advice and arranges support where necessary for learners with disabilities.
- c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by learners and a range of assistive technology is available.
- d) The admissions policy for all learners 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 staff to support learners with learning difficulties and/or disabilities. There are a number of learner 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 learners 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 Learner Guide, which is issued to learners together with the Complaints and Disciplinary Procedure leaflets at induction.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the College to publish information on facility time arrangements for trade union officials at the college.

Numbers of employees who were relevant union officials during the relevant period	FTE employee number
2	1.46

Percentage of time	Number of employees
0%	0
1-50%	2
51-99%	0
100%	0

Total cost of facility time	£502.41
Total pay bill	£39,513
Percentage of total bill spent on facility time	1.27%

Time spent on paid trade union activities as a percentage of total paid facility time	100%
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Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 5 December 2018 and signed on its behalf by:



Everton Burke
Chair

Professional advisers

Financial statement and regularity auditors:

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
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20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Internal auditors:

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Birmingham
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Bankers:

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22-23 High Street
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Staffordshire
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Solicitors:

Browne Jacobson LLP
Mowbray House
Castle Meadow Road
Nottingham
NG2 1BJ

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 2017 to 31st July 2018 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- 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 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 all the provisions of the Foundation Code, and it has complied throughout the year ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in March 2012, and the Audit and Accountability Annex to the Foundation Code that was issued in March 2013 and adopted by the College in July 2013.

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 signing this report were as listed in the table below.

Governors serving on the College Corporation and its Committees during 2017/2018 (this information includes attendance at two Governors' Development Days)

Name	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance *
Mr E Burke	6 July 2011; reappointed 9 July 2015	4 years		Independent member	Chair: Corporation; Chair: Remuneration; Search	11/12 (92%)
Mrs D Ward	1 Nov 2008			Principal		12/12 (100%)
Mr E Broadhead	21 September 2016	4 years		Independent member	Audit	10/14 (71%)
Mr D K Buckley	Sept 1995; reappointed 9 July 2015	4 years		Independent member	Chair: Audit; Remuneration	13/16 (81%)
Mr P Fitzpatrick	21 May 2014 Reappointed 21 May 2018	4 years		Independent member		9/10 (90%)
Ms R Mann	15 Oct 2009; reappointed 15 Oct 2013 reappointed 5 July 2017	4 years		Independent member	Remuneration	11/12 (92%)
Mr C Prosser	20 Sept 2017	4 years		Independent member		9/10 (90%)
Miss N Taylor*	1 Aug 2013; reappointed 31 Aug 2015 Appointed 21 Sept 2016	1 year 1 year 4 years		Student Representative Independent member	Audit	2/14 (14%)
Ms C Tinsley	20 September 2017	1 year	6 July 2018	Student representative		7/10 (70%)
Mr A Virk	3 May 2017	2 years		Staff representative		13/14 (93%)
Mr B Webster	21 May 2014 Reappointed 21 May 2018	4 years		Independent Member	Audit	6/14 (43%)
Mr B Wenham	20 September 2017	1 year	6 July 2018	Student representative		9/10 (90%)

*Miss N Taylor was on sabbatical from 9 October 2017 until 14 February 2018.

Mr F B McArdle serves as a co-opted member on the Corporation and Remuneration Committee and is consulted on appropriate items.

In addition Ms L Gouldthorp served as co-opted member of the Audit Committee

Mr K Scribbins served as Clerk to the Corporation.

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

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

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 Remuneration, Audit and Search and Governance. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.bsdc.ac.uk or from the Clerk to the Corporation at:

Burton and South Derbyshire College
Lichfield Street
Burton upon Trent
Staffordshire
DE14 3RL

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

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

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are 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 Chief Executive / Principal are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee, consisting of 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.

Corporation performance

The Corporation has considered the Joint Audit Code of Practice, a document that allows the Corporation to annually self-assess its performance against key requirements. Completion of this self-assessment has not identified any areas for which the Corporation has not met the requirements of the code. The Governing Body approved the self-assessment against the Joint Audit Code of Practice on 29 November 2018.

The Corporation carried out a self-assessment of its own performance for the year ended 31st July 2017 and graded itself as “Good” on the Ofsted scale. This was confirmed as accurate by Ofsted during their inspection in September 2017.

Remuneration Committee

Throughout the year ending 31 July 2018, the College’s Remuneration Committee comprised four members of the Corporation. The Committee’s responsibilities are to make recommendations to the Board on the remuneration and benefits of the Chief Executive / Principal and other senior post-holders.

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

Audit committee

The Audit Committee comprises three members of the Corporation (excluding the Chief Executive / Principal) and two co-opted members. 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 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 are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow-up reviews to ensure such recommendations have been implemented.

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

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Chief Executive / 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 she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Burton and South Derbyshire College and the funding bodies. She 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 Burton and South Derbyshire College for the year ended 31 July 2018 and up to the date of approval of the annual reports and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

Burton and South Derbyshire College has an internal audit service, which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. As a 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 Chief Executive / Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

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

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

The Principal and 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 Principal and senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its July 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Principal, 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 safeguarding of their assets".

Going concern

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

The College has assumed reductions in ESFA income arising from either under performance and further austerity savings, increases in overseas income and full cost activity. The College has produced a forecast cash flow statement up to December 2019, modelling the financial effects of these assumptions, which forecasts a closing surplus cash balance of £8.5m.

Level of reserves

At the 31 July 2018, BSDC had unrestricted general reserves of £19.515m which is available reserves to total income of 144% compared to a national benchmark of 52%.

Cash reserves at 31 July 2018 are £4.6m resulting in a current ratio of 3.67 to 1 compared to a national benchmark of 1:16 with cash days in hand of 101 compared to a national benchmark of 50.

Assessment

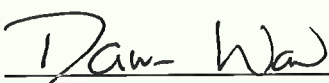
In our opinion, the prudent and realistic financial strategy to reduce costs, increase reserves and cash balances has been successful. Our approach is based on the very challenging operating environment coupled with sound financial planning, for the next two years, that has contingencies for any potential adverse fluctuations in income and expenditure which puts the college in a strong financial position to continue its operation for the foreseeable future as demonstrated in the ESFA financial health assessment which is 'Outstanding'.

Approved by order of the members of the Corporation on 5 December 2018 and signed on its behalf by:

Signed 

5 December 2018

Everton Burke, Chair

Signed 

5 December 2018

Dawn Ward CBE, Chief Executive / Principal

Statement on Regularity, Propriety and Compliance

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

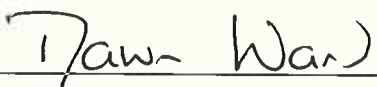
We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's financial memorandum/funding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

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

Signed  _____

5 December 2018

Everton Burke, Chair

Signed  _____

5 December 2018.

Dawn Ward CBE, Chief Executive / Principal

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 College's Financial Memorandum/Funding Agreement with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2017 to 2018* issued by the ESFA, 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 an Members' Report that 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 relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

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

Approved by order of the members of the Corporation on 5 December 2018 and signed on its behalf by:



Everton Burke
Chair
5 December 2018

Independent auditor's report to the Corporation of Burton and South Derbyshire College

Opinion

We have audited the financial statements of Burton and South Derbyshire College (the College) for the year ended 31 July 2018 which comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2018 and of the College's surplus of income over expenditure for the year then ended; and
- have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice – Accounting for Further and Higher Education issued in March 2014.

Basis for opinion

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

Who are we reporting to

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice issued by the Education and Skills 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 annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Corporation for the financial statements

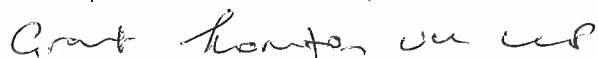
As explained more fully in the Statement Responsibilities of the Corporation set out on page 25, the College's Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

19 December 2018

Reporting accountant's assurance report on regularity

To the corporation of Burton and South Derbyshire College and Secretary of State for Education acting through Education and Skills Funding Agency ('ESFA')

In accordance with the terms of our engagement letter dated 20 August 2018 and further to the requirements and conditions of funding in ESFA's grant funding agreements and contracts 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 Burton and South Derbyshire College during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of Burton and South Derbyshire and ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Burton and South Derbyshire and ESFA those matters we are required to state in a limited assurance 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 Burton and South Derbyshire College, as a body, and ESFA, as a body, for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Burton and South Derbyshire College and the reporting accountant

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

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

Approach

We conducted our engagement in accordance with the Code issued by ESFA. 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.

BURTON AND SOUTH DERBYSHIRE COLLEGE
Financial Statements for the Year Ended 31 July 2018

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 includes:

- an assessment of the risk of material irregularity and impropriety across the college's activities;
- evaluation of the processes and controls established and maintained in respect of regularity and propriety for the use of public funds through observation of the arrangements in place and enquiries of management;
- consideration and corroboration of the evidence supporting the Accounting Officer's statement on regularity, propriety and compliance and that included in the self-assessment questionnaire (SAQ); and
- limited testing, on a sample basis, of income and expenditure for the areas identified as high risk and included on the SAQ.

Conclusion

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

¹⁹ December 2018

Statement of Comprehensive Income

	Notes	Year Ended 31 July 2018	Year Ended 31 July 2017
		£000	£000
Income			
Funding body grants	2	11,390	12,215
Tuition fees and education contracts	3	2,758	2,293
Grants and other contracts	4	4	4
Other income	5	1,085	1,170
Investment income	6	7	6
Total income		15,244	15,688
Expenditure			
Staff costs	7	10,547	10,737
Fundamental restructuring costs	7	57	73
Other operating expenses	8	5,298	5,124
Depreciation	11	1,151	1,164
Interest payable and other finance costs	9	187	190
Total expenditure		17,240	17,288
(Deficit)/ Surplus before other gains and losses		(1,996)	(1,600)
Gain on disposal of Asset	13	9,673	0
Impairment on assets transferred to assets held for sale		0	(14)
Share of operating surplus in joint venture company	12	1,664	24
(Deficit)/ Surplus before other gains and losses		9,341	(1,590)
Taxation	10	0	0
(Deficit)/ Surplus for the year		9,341	(1,590)
Actuarial gain in respect of pension schemes	22	2,351	1,089
Total Comprehensive Income for the year		11,692	(501)


Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 st August 2016	7,976	2,950	10,926
Surplus/(deficit) from the income and expenditure account	(1,590)	-	(1,590)
Other Comprehensive Income	1089	-	1089
Transfer between revaluation and income and expenditure reserves	174	(174)	-
Total Comprehensive income for the year	(327)	(174)	(501)
Balance at 31st July 2017	7,649	2,776	10,425
Balance at 1st August 2017	7,649	2,776	10,425
Surplus/(deficit) from the income and expenditure account	9,341	0	9,341
Other comprehensive income	2,351	0	2351
Transfers between revaluation and income and expenditure reserves	174	(174)	0
Total comprehensive income for the year	11,866	(174)	11,692
Balance at 31st July 2018	19,515	2,602	22,117

Balance Sheet as at 31 July

		2018	2017
	Notes	£000	£000
Non-Current Assets			
Tangible fixed assets	11	21,541	22,138
Investments	12	1,818	17
Assets held for resale	13	0	843
Total fixed assets		23,359	22,998
Stock		17	14
Trade and other receivables	14	6,733	2,045
Cash and cash equivalents	18	4,617	2,014
Total current assets		11,367	4,073
Less: Creditors - amounts falling due within one year	15	(3,478)	(5,448)
Net current (liabilities)/assets		7,889	(1,375)
Total assets less current liabilities		31,248	21,623
Less: Creditors - amounts falling due after more than one year	16	(6,416)	(6,620)
Provisions			
Defined benefit obligations	17	(2,715)	(4,578)
Total net assets		22,117	10,425
Unrestricted reserves			
Income and expenditure account		19,515	7,649
Revaluation reserve		2,602	2,776
Total unrestricted reserves		22,117	10,425

The financial statements on pages 30 to 55 were approved by the Corporation and authorised for issue on 5th December 2018 and were signed on its behalf by:


E Burke - Chair


D Ward CBE - Chief Executive / Principal

Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash outflow from operating activities			
Surplus/(deficit) for the year		9341	(1,590)
Adjustment for non-cash items			
Depreciation		1,151	1,164
(Increase)/decrease in non-current assets		0	208
(Increase)/decrease in assets held for resale		0	(11)
(Increase)/decrease in stocks		(3)	7
(Increase)/decrease in debtors		(205)	(247)
Increase/(decrease) in creditors due within one year		530	(365)
Increase/(decrease) in creditors due after one year		(204)	(207)
Pensions costs less contributions payable		488	364
Adjustment for investing or financing activities			
Retained earnings share form HBSA		(1664)	0
Investment income		(7)	(6)
Interest payable		54	190
Gain of Assets held for resale		(9667)	14
Net cash flow from operating activities		<u>(186)</u>	<u>(479)</u>
Cash flows from investing activities			
Investment income		7	6
Proceeds from sale of assets		5,500	305
Payments made to acquire fixed assets		(554)	(251)
Dividend received from HBSA		182	0
Net cash flow from investing activities		<u>5,135</u>	<u>60</u>
Cash Flows from financing activities			
Interest Paid		(54)	(62)
Repayment of amounts borrowed		(2,500)	0
Return of investment guarantee		208	0
Net Cash Flows from financing activities		<u>(2,346)</u>	<u>(62)</u>
Increase / (decrease) in cash and cash equivalents in the year		<u>2,603</u>	<u>(481)</u>
Cash and cash equivalents at beginning of the year	18	2,014	2,495
Cash and cash equivalents at end of the year	18	<u>4,617</u> <u>2,603</u>	<u>2,014</u> <u>(481)</u>

Notes to the Accounts

1. Statement of Accounting Policies

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

Basis of preparation

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

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

Basis of accounting

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

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Member's Report. The financial position of the College, its cash flow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

Accordingly, the College has a reasonable expectation that it has more than adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after one year. 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 achievement for the Adult Education 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.

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

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

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being 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 conditions are met. Recognition of income - it should also include 'Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate'

Fee income

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

Investment income

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

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. 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.

Local Government Pension Scheme (LGPS)

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 interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial 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.

Enhanced Pensions

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

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 Land is not depreciated as it is considered to have an infinite useful life.

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Main campus sites - 50 years
- Refurbishments – 15 years

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2018. They are not depreciated until they are brought into use.

Freehold buildings are depreciated over their expected useful economic life to the College of between 10 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 10 and 50 years.

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 1996, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Subsequent expenditure on existing fixed assets

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

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

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College from incorporation and is now fully depreciated.

All other equipment is depreciated over its useful economic life as follows:

- general equipment – 5 years on a straight line basis
- motor vehicles – 5 years on a straight line basis
- computer equipment – 3 years on a straight line basis
- furniture, fixtures and fittings – 5 years on a straight line basis
- long life computer equipment – 10 years on a straight line basis

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

Where equipment is acquired with the aid of specific grants, it is depreciated in accordance with depreciation policy, the grant being held in deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS102.

Where equipment is included within a contract sum, when new buildings are added or constructed, the cost will be capitalised under land and buildings unless separately identifiable through architects' certificates.

Borrowing costs

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

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Investments

Joint Venture Accounting

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which the venture has an interest and there is a contractual arrangement between the parties establishing joint control over the economic activity.

Investments in Joint Ventures are recognised initially in the consolidated Balance Sheet at the transaction price and subsequently adjusted to reflect the College's share of comprehensive income and equity of the Joint Venture less impairment.

We have assessed this Joint Venture to be a jointly controlled entity and accounted for this by using Fair Value through the Income and Expenditure account.

Burton and South Derbyshire College are partnering in a Joint Venture with Highbury College which is operated under joint control with each college having a 50% share. The nature of the joint venture is to deliver a contract for education in an exclusively female college in Jeddah. The Joint Venture is accounted for using Fair Value as the annual profits generated are then recognised in the year in which they are earned under the contract and matched to the costs incurred in generating them. The college premises do not form part of the Joint Venture.

Other investments

Listed investments held as non-current assets and current asset investments, which may include listed investments, are stated at fair value, with movements recognised in Comprehensive Income. Investments comprising unquoted equity instruments are measured at fair value, estimated using a valuation technique.

Inventories

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

Assets Held for resale

Assets held for resale relate to land and buildings which have been identified as no longer required for operational use and are stated at historical cost after impairment losses.

Cash and cash equivalents

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

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

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 College 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 the income and expenditure account 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 Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

Provisions and contingent liabilities

Provisions are recognised when

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

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

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

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Agency arrangements

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. 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.
- Joint Venture with Highbury College is judged to be a jointly controlled entity and valued at Fair Value in these statements.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *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 22, 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 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants

	2018	2017
	£'000	£'000
Recurrent grants		
Education and Skills Funding Agency - Adult	1,776	1,715
Education and Skills Funding Agency – 16-18	7,401	8,199
Education and Skills Funding Agency - Apprenticeships	1,915	1,967
Higher Education Funding Council	61	89
Specific grants		
Releases of government capital grants	237	245
Total	11,390	12,215

3 Tuition fees and education contracts

	2018	2017
	£'000	£'000
Adult education fees	266	230
Apprenticeship fees and contracts	171	282
Fees for FE loan supported courses	378	300
Fees for HE loan supported courses	890	690
International students fees	808	725
Total Tuition fees	2,513	2,227
Education Contracts	245	66
Total	2,758	2,293

4 Grants and other contracts

	2018	2017
	£'000	£'000
Other grants and contracts	4	4
Total	4	4

5 Other income

	2018	2017
	£'000	£'000
Catering and residencies	236	256
Other income generating activities	261	325
Miscellaneous income	588	589
Total	1,085	1,170

6 Investment income

	2018	2017
	£'000	£'000
Other interest receivable	7	6
Total	7	6

7 Staff costs

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

	2018	2017
	Number	Number
Teaching Staff	139	140
Non teaching staff	178	195
	317	335

Staff costs for the above persons:

	2018	2017
	£'000	£'000
Wages and salaries	8250	8,501
Social security costs	629	652
Other pension costs	1668	1,584
Payroll sub total	10,547	10,737
Fundamental restructuring costs - contractual	57	73
Total	10,604	10,810

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 Senior Leadership Team which comprises the Principal, Deputy Principal Corporate Relationships, Vice Principal Corporate Services and Vice Principal Executive director. Staff costs include compensation paid to key management personnel for loss of office.

	2018 No.	2017 No.
The number of key management personnel including the accounting officer was:	5	4

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

	Senior post-holders		Other staff	
	2018 No.	2017 No.	2018 No.	2017 No.
£60,001 to £70,000	0	0	***1	0
£70,001 to £80,000	0	0	***1	0
£80,001 to £90,000	0	0	0	1
£110,001 to £120,000	0	0	*1	*1
£130,001 to £140,000	**1	**1	0	0
£210,001 to £220,000	**1	**1	0	0
	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>

* Salary value included VAT charge at the standard rate.

** Remuneration relates to both domestic and international businesses.

*** One role shown in the £60,001 to £70,000 and £70,001 to £80,000 bands was filled by two staff members in succession, the banding changed during the year so salaries shown relate to the post and not the actual values paid.

Key management personnel compensation are made up as follows:	2018 £'000	2017 £'000
Salaries	448	496
Other remuneration	57	43
Benefits in kind	0	0
	<u>505</u>	<u>539</u>
Pension contributions	45	48
Total emoluments	<u>550</u>	<u>587</u>

The above compensation include amounts payable to the Principal (who is also the highest paid senior post holder) of: £218,051.

	2018 £'000	2017 £'000
Salary	<u>218</u>	<u>212</u>
Pension contributions	<u>23</u>	<u>30</u>

Compensation for loss of office paid to former key management personnel

There was no compensation paid to for key management personnel in 2017-18 (nil 2016-17).

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

8 Other operating expenses

	2018	2017
	£'000	£'000
Teaching departments	1,358	1,004
Non-teaching costs	2,857	3,044
Premises costs	1,083	1,076
Total	5,298	5,124

Other operating expenses include:	2018	2017
	£'000	£'000
Auditors' remuneration:		
financial statements audit	28	32
internal audit	17	19
other services provided by the external auditors	0	1
other services provided by the internal auditors	0	0
Hire of other assets - operating leases	280	278

9 Interest payable and other finance costs

	2018	2017
	£'000	£'000
On bank loans, overdrafts and other loans	54	62
Pensions finance costs (note 22)	133	128
Total	187	347

10 Taxation

	2018	2017
	£'000	£'000
United Kingdom corporation tax at 19%	0	0

The Corporation does not believe that the College was liable for any Corporation tax arising from its activities in either of the years to 31 July 2017 or 31 July 2018.

11 Property Plant and Equipment

	Land and Buildings			Asset Under Construction	
	Freehold	Long Leasehold	Equipment		Total
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation					
At 1 August 2017	28,362	2,523	5,507	493	36,885
Additions	47	0	507	0	554
Transfer due to reclassification	493	0	0	(493)	0
At 31 July 2018	28,902	2,523	6,014	0	37,439
Depreciation					
At 1 August 2017	8,729	949	5,069	0	14,747
Charge for year	706	140	305	0	1,151
At 31 July 2018	9,435	1,089	5,374	0	15,898
Net book value at 31 July 2018	19,467	1,434	640	0	21,541
Net book value at 31 July 2017	19,633	1,574	438	493	22,138

On 31st July 1996 all land and buildings were revalued to assist members of the Corporation in reviewing the accommodation strategy. The revaluations in the sum of £9,467,500 were carried out by J Andrew Nichols, BSC, ARICS of Salloway & Associates (Burton), who are commercial property consultants and valuers.

Changes to the college estate due to disposals, demolitions and depreciation bring the residual value of revalued freehold land and buildings to a net book value of £2,601,951 as at 31st July 2018.

If assets had not been revalued they would have carried a cost of Nil.

Within Freehold land and building is a Sports Hall with a net book value of £892,569, built on land owned by Carlsberg Tetley. The land is leased by East Staffordshire Borough Council who has a licence with the College.

Land and Buildings with a net book value of £4,134,340 have been financed by exchequer funds; through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council to surrender the proceeds.

12 Noncurrent Investments

	2018 £'000	2017 £'000
Investments in associate companies	0	17
Investments in Joint Venture	1,818	0
Total	1,818	17

Highbury Burton Saudi Arabia Limited

During 2013/14 the College invested in a 20% shareholding of Nescot Consortium Limited, a limited liability company in Saudi Arabia, to provide services of vocational and technical training in Saudi Arabia. During the year 2017/18 the College increased its shareholding to 50% and reclassified this holding as a joint venture with Highbury College. See note 1 accounting policies. The company changed its business name to Highbury Burton Saudi Arabia Limited (HBSA) formerly Nescot Consortium Limited (NCL). Acquisition of the additional shares was for the notional sum of £1.

	2018 £	2017 £
Share of net Assets at 1 st August 2017	322,028	319,756
Share of net income for the year after taxation	1,663,551	2,272
Less Dividend received	-182,574	0
Original cost of shares	17,000	
Share of Net Assets at 31 st July 2018	<u>1,820,005</u>	<u>322,028</u>

13 Assets Held for Resale

	2018 £'000	2017 £'000
Valuation at 31 st July 2017	843	860
Reclassified in year	-	288
Disposals	(843)	(305)
	<u>-</u>	<u>843</u>

Assets held for resale at the end of 2016/17 comprised two properties and one parcel of freehold land. The two properties were sold in the year 2017/18. The freehold land at Rolleston which was sold during the year had a net book value of £1,000, a cost of disposal of £353,000 and was sold for £10.026m. Half of the sale proceeds for the land sale at Rolleston were received in year with the other half due for receipt in January 2019.

14 Trade and Other Receivables

	2018 £'000	2017 £'000
Trade receivables	589	461
Debtor – Sale of Land	5013	0
Amounts owed by joint venture	55	322
Prepayments and accrued income	613	927
Amounts owed by the ESFA	463	335
	<u>6,733</u>	<u>2,045</u>
Amounts falling due after one year:		
Other debtors due after one year	0	0
Total	<u>6,733</u>	<u>2045</u>

15 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Bank Loan (Rolling Credit Facility) due within one year	0	2,500
Trade creditors	746	610
Other taxation and social security	158	160
Accruals	843	311
Other creditors	435	414
Deferred income –government capital grants	204	235
Amounts owed to the ESFA	1,092	1,218
Total	3,478	5,448

In April 15 the College signed a £4,000,000 revolving credit facility with its bankers. The College had drawn down £2,500,000 from this facility which was repaid in full during the 2017/18 year.

16 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Deferred income - government capital grants	6,416	6,620
	6,416	6,620

17 Provisions

	Defined benefit Obligations £'000
At 1 August 2017	(4,578)
Expenditure in the period	(488)
Transferred from income and expenditure account	2,351
At 31 July 2018	(2,715)

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 22.

18 Cash and cash equivalents

	At 1 August 2017	Cash flows	Other changes	At 31 July 2018
	£'000	£'000	£'000	£'000
Cash and cash equivalents	2,014	2,603	-	4,617
Total	2,014	2,603	-	4,617

19 Operating Lease Obligations

	2018 £'000	2017 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	282	282
Later than one year and not later than five years	962	948
Later than five years	1,763	1,962
Total Lease Payments Due	3,007	3,192

20 Contingent liabilities

The College has provided a bond to the Colleges of Excellence in Saudi Arabia in respect of its relative share of the Operating contract of HBSA. Details are:

	2018 £	2017 £
Performance Bond	3,473,356	3,473,356

An enquiry has been made of the Local Government Pension provider for assurance that there are no adverse implications regarding Guaranteed Minimum Pension regarding the recent ruling. Whilst this is impossible to quantify without further information it is not considered that this would impact the College in a material way.

21 Events after the reporting date

There were no events after the reporting date which affect the content of these statements. an enquiry has been made of the Local Government Pension provider for assurance that there are no adverse implications regarding Guaranteed Minimum Pension ruling.

22 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 Staffordshire Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Pension Services, Staffordshire County Council. Both are multi-employer defined-benefit plans.

	2018		2017	
Total pension cost for the year within staff costs	£'000	£'000	£'000	£'000
Teachers Pension Scheme: contributions paid		549		530
Local Government Pension Scheme: Contributions paid	712		707	
FRS 102 (28) charge	355		378	
Charge to the Statement of Comprehensive Income		1,067		1,085
Enhanced pension charge to Statement of Comprehensive income		0		0
Total pension cost for the year		1,616		1,615

The Pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was carried out as at 31 March 2012. And of the LGPS 31st March 2016.

Contributions amounting to £19,467 (2017 £0) were payable to the scheme at 31 July 2018 and are included within creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension 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 (including administration fee of 0.08%).
- 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 assumed real rate of return is 3% in excess of prices and 2% in excess of earnings. The rate of real earnings is assumed to be 2.67%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be assessed and be payable from April 2019.

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>

The pension costs paid to TPS in the year amounted to £548,615 (2017: £530,078).

FRS 102 (28)

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

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

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by Staffordshire Local Authority. The total contribution made for the year ended 31 July 2018 was £801,233, of which employer's contributions totalled £599,363 and employee's contributions totalled £201,870. The agreed contribution rates for future years are 19.1% for employers and range from 5.5% to 8.5% for employees, depending on salary, with additional employer cash lump sums increasing at each anniversary in April until 2019 (2018; £162,332).

Principal actuarial assumptions

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

	At 31 July 2018	At 31 July 2017
Rate of increase in salaries	1.70%	1.70%
Future pensions increases	2.20%	2.30%
Discount rate for scheme liabilities	2.90%	2.80%
Commutation of pensions to lump sums	50%	50%

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

	At 31 July 2018 years	At 31 July 2017 years
<i>Retiring today</i>		
Males	22.10	22.10
Females	24.40	24.40
<i>Retiring in 20 years</i>		
Males	24.10	24.10
Females	26.40	26.40

Sensitivity analysis

Change in Assumptions at 31st July 2018	Approximate % Increase in Defined Benefit Obligation	Approximate Monetary Amount (£000's)
0.5% Decrease in Real Discount Rate	12%	2,989
0.5% Increase in Salary Increase Rate	1%	312
0.5% Increase in Pension Increase Rate	11%	2,664

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

	Fair Value at 31 July 2018 £'000	Fair Value at 31 July 2017 £'000
Equities	15,331	14,929
Bonds	3,942	2,357
Property	1,752	1,571
Cash	876	786
Total market value of assets	21,901	19,643
Actual return on plan assets	1,258	1,534

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

	2018 £'000	2017 £'000
Fair value of plan assets	21,901	19,643
Present value of plan liabilities	(24,616)	(24,221)
Net pensions (liability)/asset	(2,715)	(4,578)

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

	2018 £'000	2017 £'000
Amounts included in staff costs		
Current service cost	1,067	1,085
Past service cost	0	3
Total	1,067	1,088
Amounts included in investment income		
Net interest income	133	128
	133	128
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	1,258	1,534
Experience losses arising on defined benefit obligations	0	(372)
Changes in demographic assumptions	0	123
Changes in assumptions underlying the present value of plan liabilities	1,093	(196)
Amount recognised in Other Comprehensive Income	2,351	1,089
Movement in net defined benefit (liability)/asset during the year		
	2018 £'000	2017 £'000
Surplus/(deficit) in scheme at 1 August	(4,578)	(5,173)
Movement in year:		
Current service cost	(1,067)	(1,085)
Employer contributions	712	722
Past service cost	0	(3)
Net interest on the defined (liability)/asset	(133)	(128)
Total re-measurements in financial assumptions	2,351	1,089
Net defined benefit (liability)/asset at 31 July	(2,715)	(4,578)

Asset and Liability Reconciliation

	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	24,221	22,391
Current Service cost	1,067	1,085
Past Service cost	0	3
Interest cost	689	547
Contributions by Scheme participants	200	200
Experience gains and losses on defined benefit obligations	0	372
Changes in Demographic assumptions	0	(123)
Changes in financial assumptions	(1,093)	196
Estimated benefits paid	(468)	(450)
Curtailments and settlements	-	-
Defined benefit obligations at end of period	24,616	24,221

Reconciliation of Assets

Fair value of plan assets at start of period	19,643	17,218
Interest on plan assets		419
	556	
Return on plan assets		1,534
	1,258	
Employer contributions		
	712	722
Contributions by Scheme participants	200	200
Estimated benefits paid	(468)	(450)
Assets at end of period	21,901	19,643

Local Government Pension Scheme (Continued)

Sensitivity Analysis

Change in assumptions at 31 July 2018	Approximate % increase to Defined Benefit Obligation	Approximate Monetary Amount (£000)
0.5% decrease in Real Discount Rate	12%	2,989
0.5% increase in the Salary Increase Rate	1%	312
0.5% increase in the Pension Increase Rate	11%	2,664

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre April 2008 Service and 67% of the maximum tax-free cash for post April 2008 service.

23 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £1,564; 2 governors (2017: £508; 1 governor). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

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

The College paid for property leases from South Derbyshire District Council in 2017/18 which amount to £44,961, and received £0 for tuition fees. Frank McArdle is a co-opted College Governor and also the Chief Executive of South Derbyshire District Council.

Mr McArdle is also a Council member of the University of Derby, payments totalling £0 were made to the University during the year ended 31st July 2018 (2017 £2,370)

The College received £27,502 from Burton & South Derbyshire Education Trust in relation to Shared Service charges (16/17: £35,123). The College is the Trust Sponsor and Mr J Beaty, Deputy Principal Corporate Relationships is Chair of Governors of the Trust. Dawn Ward CBE Principal of Burton and South Derbyshire College is also a member of and Chief Accounting Officer to the Trust.

Dawn Ward CBE is also a Director of EAL, a specialist Skills Partner and awarding organisation for industry. EAL was paid £34,799 for examination fees during the year ended 31st July 2018 (2016 £9,412) £182 was included in creditors at 31st July 2018

Mr C Prosser is an employee of St Modwens PLC a company which supports the work of the College in particular the Construction Academy in South Derbyshire. No payments were made to St Modwens during the year and the college received £83,147 fee from the company included in other income in the financial statements.

Mr P Fitzpatrick is an employee of Toyota UK who are delivery partners of the Trailblazer and other Apprenticeship programmes who received payments relating to these programmes for the provision of site facilities and staff at their Derbyshire Site in the sum of £300,000

Mr E Broadhead is an associate of BKSB an awarding body attached to West Nottingham College. BKSB was paid £8,127 during the year for the provision of literacy and numeracy assessments.

GAC & SJC consultants charged £115,200 including VAT for services provided during the year. (2017 £112,800 including VAT) of this £9,600 including VAT was included in creditors at 31st July 2018. Mr G Chin, Vice Principal Corporate Services is a Director of GAC & SJC consultants and this value has been disclosed in note 8 Key Management Personnel.

Highbury Burton Saudi Arabia (HBSA) Limited a joint venture company was charged £72,333 for commercial services during the year ended 31st July 2018 and also reimbursed expenses incurred on behalf of the joint venture company mainly relating to bond charges of £130,728. The College is owed £113,451 by HBSA Limited as at 31 July 2018.

24 Capital commitments

	2018 £'000	2017 £'000
Commitments contracted for at 31 July, 2018	<u>403</u>	<u>0</u>

In line with the College's 2028 Adaptive plan to be vibrant and outstanding in its curriculum, the College is undertaking a significant upgrading of its IT infrastructure, systems and processes to ensure this is realised.

25 Amounts disbursed as agent

Learner support funds	2018 £'000	2017 £'000
Funding body grants – bursary support	201	229
Funding body grants – advanced learner loan support	52	61
	<u>253</u>	<u>290</u>
Disbursed to students 16-18	(201)	(228)
Disbursed to Students 24+	(50)	(46)
Administration Costs 16-18	(10)	(11)
Administration costs 24+	<u>(2)</u>	<u>(2)</u>
Balance unspent as at 31 July, (including prior years) included in creditors	<u>62</u>	<u>3</u>

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

