



Report and Financial Statements for the year ended 31 July 2016

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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 2016.

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.

Public Benefit

Burton and South Derbyshire College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 16.

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.

Strategic Framework

During 2010, 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 was implemented over the course of the 2010/2011 academic year.

The following diagram highlights the process undertaken in the formation of this plan;



The 2008-2012 strategic plan was closed down whilst the College was within this process. The College's position against key metrics was measured and this, in essence, acted as a bridge to building the plan collated within this document. The key elements of the revised strategic framework are expressed through the following elements:

a) Vision Statement – what we aspire to

Vibrant and outstanding; a high performing 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... today

d) Critical Success Factors – measures of success

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

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

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

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

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

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) College Values – how we will act and behave

A set of core College Values developed in consultation with staff and learners across the organisation in strategic planning sessions during 2009/10 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 learner is our focus
- 2) Striving for outstanding achievement in teaching and learning
- 3) We value and respect every individual

From the above the following element of the strategic process provides us with a strategic 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”)

The College is committed to observing the importance of sector measures and indicators and use the FE Choices website which looks at measure such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency/education Funding Agency (“EFA”). The Finance Record produces a financial health grading. The current rating of Good is considered an acceptable outcome.

FINANCIAL POSITION

Financial results

It is important to note that under FRS 102, the college has presented its final accounts in a format that was different to the management accounts for items such as income from associate companies.

Using the FRS 102 format, the College generated an operating deficit in the year of £799,000, (2014/15 – deficit of £142,000). It is important to note this deficit includes £583,000 of pension charges outside the college’s control, £240,000 redundancy costs; excluding these costs the College generated a surplus of £222,000, including the surplus from the associate company of £198,000.

In terms of financial health, the operating surplus performance ratio, the measure used by the Skills Funding Agency to assess the financial health of colleges, the College generated a surplus of £864,000 which equates to a ‘Good’ rating.

The College has accumulated available reserves of £7,976,000 (combined capital and general reserves) and cash and investment balances of £2,495,000. 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 £581,000. This was split between land and buildings acquired of £336,000 and equipment purchased of £222,000 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 2015/16 the FE funding bodies provided 80% of the College’s total income.

As part of the College’s income diversification strategy, the College continues to invest in its associate company, Nescot Consortium Limited (NCL) incorporated in Saudi Arabia for the purpose of delivering education in Saudi Arabia. The College has a 20% share in the company which has generated a surplus for the College. NCL 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 2014/15 the college completed a rolling credit facility with Barclays Bank for £4m to enable the completion of the recladding project following the intervention by the secretary of state calling in the application on the college's surplus land prior to its disposal as a part of the college's accommodation strategy. On 11 November 2016, the secretary of state granted full planning permission for the Rolleston application. The College is in process of securing a buyer for the land where it is envisaged the sale will be completed before the end of 2017.

Cash flows

At £1.764 million (2014/15 £1,813, net cash flow from operating activities was reasonably strong.

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

Liquidity

The College has retained a cash and short term deposit balance of £2.495 million.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2015/16 the College has delivered activity that has produced £13,922,000 in funding body main allocation funding (2014/15 – £14,548,000). The College had approximately 79% funded and 21% non-funded students.

Student Achievements

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 maximising the successful outcomes of its learners.

Whilst qualification outcomes for learners overall have improved in 15/16, some specific categories continue to require further improvement to ensure College expectations are realised. There is a continued upward momentum in vocational areas and success rates are improving. The majority of the College's substantially larger provision is consistently in-line with national averages for both success and achievement rates, having made significant improvements over the three year period since 2013.

The final qualification timely success position for classroom based provision at all ages in 15/16 was 83.7%, a 1.7% increase on 14/15 position. 16-18 year old learners are 3.7% above the national average and adult learners achieved an 87.9%, 1.5% above national average.

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 a key focus on the employability and enterprise skills development of its learners and welcomed and fully implemented the concept of Study Programmes for all full-time learners.

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. 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 2016 and 2019 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 third 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 2014 to 31 July 2015, 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

The Department for Communities and Local Government, on 11 November 2016, confirmed in writing that planning permission for the Rolleston on Dove site had been granted for development of 100 new homes, thus allowing the college to dispose of the surplus land.

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, 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 EFA and SFA funding reductions to identify the savings and or additional income necessary to maintain the financial stability for the foreseeable future. As a result of this exercise, the Corporation approved, in 2015/16, the implementation of a staff redundancy programme to generate savings to balance the budget for future years.

This clear and firm approach has generated a planned surplus for 2016/17 and 2017/18 of £150k for each year and includes a £200k contingency for each year putting the college in a sound financial position to adapt to any adverse changes to income or expenditure during the year.

In relation to solvency, the Corporation has approved the cessation of any further major additions or building developments to fixed assets and is in the process of disposing 5 surplus land and buildings with a view of reducing the rolling credit facility and increasing cash at bank to enable any unforeseen reductions in cash flow.

Level of reserves

At the 31 July 2016, BSDC had general reserves of £10.9m, before the pension liability, which is available reserves to total income of 64% compared to a national benchmark of 52%.

Cash reserves at 31 July 2016 are £2.4m resulting in a current ratio of 1.56 : 1 compared to a national benchmark of 1.16 : 1 with cash days in hand of 54 compared to a national benchmark of 60. The College is planning to further improve its liquidity through the reduction of employee costs and the sale of Land at Rolleston.

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 during puts the college in a strong financial position to continue its operation for the foreseeable future as demonstrated in the SFA financial health assessment which is 'Good'.

In the Stoke and Staffordshire Area Based Review, it has been demonstrated and confirmed that Burton and South Derbyshire College to continue as a stand-alone college and not be part of any merger with another organisation. The College is not in receipt of any Financial Notices to improve from the SFA.

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 changes 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 £10.9 million of net assets (including a £5.1million pension liability) and cash and short term deposit reserves of £2.495 million.

People

The College employs 306 people (expressed as full time equivalents) of whom 147 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 HEFCE. In 2015/16, 80% 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,

- The fluctuations in local demographics at present and planned house building in both local authorities have created a flux in learner numbers that the College has responded to.
- The increase in higher education fees has impacted upon recruitment and is likely to continue to do so.

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

Ministers have confirmed that the fee assumption remains at 50%. 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 increased. 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.

4. 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 and 2013/14 have challenged the College 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
- Funding agencies
- 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.

Equal opportunities

Burton and South Derbyshire College believes that all those who shape our community (learners, staff, governors, employers, visitors and wider stake holders) 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 is 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 students with disabilities.
- c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available.
- d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to 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 7 December 2016 and signed on its behalf by:



Everton Burke
Chair

Professional advisers

Financial statement and regularity auditors:

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

Internal auditors:

Mazars LLP
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B3 2RT

Bankers:

Barclays Bank plc
22-23 High Street
Burton on Trent
Staffordshire
DE14 1HU

Solicitors:

SGH Martineau LLP
No 1 Colmore Square
Birmingham
B4 6AA

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 2015 to 31st July 2016 and up to the date of approval of the annual report and financial statements

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); 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 2016. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, 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.

BURTON AND SOUTH DERBYSHIRE COLLEGE
Financial Statements for the Year Ended 31 July 2016

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 2015/2016

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	10/10 (100%)
Mrs D Ward	1 Nov 2008			Principal		9/9 (100%)
Mr A R Argyle	1 Jan 1993; reappointed November 2014	4 years		Independent member	Audit	12/13 (92%)
MR D K Buckley	Sept 1995; reappointed 9 July 2015	4 years		Independent member	Chair: Audit; Remuneration	14/14 (100%)
Mr P Fitzpatrick	21 May 2014	4 years		Independent member	Audit	7/10 (70%)
Mr K Lees	7 Jan 15	2 years		Staff representative		2/9 (22%)
Ms R Mann	15 Oct 2009; reappointed 15 Oct 2013	4 years		Independent member		5/9 (56%)
Mr F B McArdle	5 July 2007; reappointed 9 Jul 2015	4 year		Independent member	Remuneration	1/9 (11%)
Mrs V Phillips	7 Jan 15	4 years	Deceased Oct 15	Independent member	Remuneration	0/1 (0%)
Mr A Rehman	17 Oct 12; reappointed 31 Aug 15	1 year		Student representative	Audit	9/9 (100%)
Miss N Taylor	1 Aug 13; reappointed 31 Aug 15	1 year		Student representative		6/9 (67%)
Mrs C Teece	29 Mar 2012	4 years		Independent Member	Remuneration; Search	5/10 (50%)
Mr B Webster	21 May 14	4 years		Independent Member	Audit	11/13 (85%)
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 term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are 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 completed the Joint Audit Code of Practice, a document that allows the Corporation to annually self-assess its performance against key requirements. Completion of this document has not identified any areas for which the Corporation has not met the requirements of the code. The Governing Body approved the June 2016 Joint Audit Code of Practice on 9 November 2016.

Remuneration Committee

Throughout the year ending 31 July 2016, 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 2016 are set out in note 8 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 2016 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 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; 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 EFA and SFA's Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the 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 October 2016 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

Based on the advice of the Audit Committee and the Principal, the 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 EFA and SFA income arising from either under performance and further austerity savings, increases in overseas income and full cost activity and the sale of two further properties. The College has produced a forecast cashflow statement upto December 2017, modelling the financial effects of these assumptions, which forecasts a closing surplus cash balance of £3.5m, excluding any receipt from the sale of its surplus property in Rolleston.

Level of reserves

At the 31 July 2016, BSDC had general reserves of £10.9m, before the pension liability, which is available reserves to total income of 64% compared to a national benchmark of 52%. Cash reserves at 31 July 2016 are £2.4m resulting in a current ratio of 1.56 : 1 compared to a national benchmark of 1.16 : 1 with cash days in hand of 54 compared to a national benchmark of 60. The College is planning to further improve its liquidity through the reduction of employee costs and the sale of Land at Rolleston. The profit of the land sale will improve the current ratio to above 3.10:1 and cash days in hand to 70.

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 year, that has contingencies for any potential adverse fluctuations in income and expenditure during puts the college in a strong financial position to continue its operation for the foreseeable future as demonstrated in the SFA financial health assessment which is 'Good'.

Approved by order of the members of the Corporation on 7 December 2016 and signed on its behalf by:

Signed 

7 December 2016

Everton Burke, Chair

Signed 

7 December 2016

Dawn Ward OBE, Chief Executive / Principal

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

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

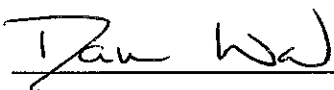
We confirm, on behalf of the Corporation, that after due enquiry, and to the base of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills funding Agency/Education funding Agency's terms and conditions of funding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

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

Signed 

7 December 2016

Everton Burke, Chair

Signed 

7 December 2016

Dawn Ward OBE, 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 Financial Memorandum between the Skills Funding and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year

In preparing the financial statements, the corporation is required to:

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

The Corporation is also required to prepare 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 Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 7 December 2016 and signed on its behalf by:



Everton Burke
Chair
7 December 2016

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

We have audited the financial statements of Burton and South Derbyshire College for the year ended 31 July 2016 which comprise the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the 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.

Respective responsibilities of the Corporation and auditor

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 22, the College's Corporation is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of its deficit of income over expenditure for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education issued in March 2014.

Matters on which we are required to report by exception

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

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
19 December 2016

Reporting accountant's assurance report on regularity

To the Corporation of Burton and South Derbyshire College and Secretary of State for Education acting through Skills Funding Agency and Education Funding Agency

In accordance with the terms of our engagement letter dated 6 September 2016 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that, in all material respects, the expenditure disbursed and income received by Burton and South Derbyshire College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency in June 2016. In accordance with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency has other assurance arrangements in place.

This report is made solely to the corporation of Burton and South Derbyshire College, as a body, and the Skills Funding Agency, as a body, 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 College and Skills Funding Agency 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 Skills Funding Agency 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 College 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 as imposed by the law, professional standards and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that, in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

The work undertaken to draw 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 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Grant Thornton UK LLP
Chartered Accountants
Birmingham

Date: 19 December 2016

Statement of Comprehensive Income

	Notes	Year Ended 31 July 2016	Year Ended 31 July 2015 Restated
		£000	£000
Income			
Funding body grants	2	13,922	14,548
Tuition fees and education contracts	3	1,848	1,682
Grants and other contracts	4	29	71
Other income	5	1,358	1,481
Investment income	6	11	18
Total income		17,168	17,800
Expenditure			
Staff costs	7	10,933	11,027
Fundamental restructuring costs	7	240	220
Other operating expenses	8	5,121	5,315
Depreciation	11	1,145	1,164
Interest payable and other finance costs	9	347	272
Total expenditure		17,786	17,998
(Deficit)/ Surplus before other gains and losses		(618)	(198)
Gain on disposal of Fixed Asset		22	0
Impairment on assets transferred to assets held for sale		(401)	0
Share of operating surplus in associate		198	56
(Deficit)/ Surplus before other gains and losses		(799)	(142)
Taxation	10	0	0
(Deficit)/ Surplus before for the year		(799)	(142)
Unrealised surplus on revaluation of assets		3078	(1,019)
Actuarial loss in respect of pension schemes			
Total Comprehensive Income for the year		2,279	(1,161)

Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
College			
Restated balance at 1st August 2014	6,510	3,298	9,808
Surplus/(deficit) from the income and expenditure account	(142)	-	(142)
Other comprehensive income	(1,019)	-	(1,019)
Transfers between revaluation and income and expenditure reserves	174	(174)	-
	(987)	(174)	(1,161)
Balance at 31st July 2015	5,523	3,124	8,647
Surplus/(deficit) from the income and expenditure account	(799)	-	(799)
Other comprehensive income	3,078	-	3,078
Transfers between revaluation and income and expenditure reserves	174	(174)	-
Total comprehensive income for the year	2,453	(174)	2,279
Balance at 31st July 2016	7,976	2,950	10,926

Balance Sheet as at 31 July

		2016	2015
	Notes	£000	£000
Non-Current Assets			
Tangible fixed assets	11	23,336	25,167
Trade and other receivables	13	208	208
Investments	12	17	17
Total fixed assets		23,561	25,392
Stock		21	33
Assets held for resale		860	0
Debtors due within 1 Year	13	1,798	1,645
Cash at bank and in hand	17	2,495	1,367
Total current assets		5,174	3,045
Less: Creditors - amounts falling due within one year	14	(3,309)	(3,601)
Net current assets		1,865	(556)
Total assets less current liabilities		25,426	24,836
Less: Creditors - amounts falling due after more than one year	15	(9,327)	(8,521)
Provisions			
Defined benefit obligations	16	(5,173)	(7,668)
Total net assets		10,926	8,647
Unrestricted reserves			
Income and expenditure account		7,976	5,523
Revaluation reserve		2,950	3,124
Total unrestricted reserves		10,926	8,647

The financial statements on pages 27 to 59 were approved by the Corporation and authorised for issue on 7th December 2016 and were signed on its behalf by:



E Burke - Chair



D Ward CBE - Chief Executive / Principal

BURTON AND SOUTH DERBYSHIRE COLLEGE
Financial Statements for the Year Ended 31 July 2016

Statement of Cash Flows

	Notes	2016 £'000	2015 £'000
Cash inflow from operating activities			
Surplus/(deficit) for the year		(799)	(142)
Adjustment for non cash items			
Depreciation		1,145	1,164
		12	
(Increase)/decrease in stocks			(16)
(Increase)/decrease in debtors		(149)	729
Increase/(decrease) in creditors due within one year		(292)	(1,864)
		808	
Increase/(decrease) in creditors due after one year			1,500
Increase/(decrease) in provisions		-	-
		302	
Pensions costs less contributions payable			188
Taxation			-
Adjustment for investing or financing activities			
Investment income		(11)	(18)
Interest payable		347	272
Taxation paid		-	-
Loss on sale of fixed assets		401	-
		<u>1,764</u>	<u>1,813</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	-
Disposal of non-current asset investments		-	-
Investment income		11	18
Withdrawal of deposits		-	-
New deposits		-	-
Payments made to acquire fixed assets		(581)	(1,601)
		<u>(570)</u>	<u>(1,583)</u>
Cash flows from financing activities			
Interest paid		(66)	(20)
Interest element of finance lease rental payments		-	-
New unsecured loans		-	-
Repayments of amounts borrowed		-	-
Capital element of finance lease rental payments		-	-
		<u>(66)</u>	<u>(20)</u>
Increase / (decrease) in cash and cash equivalents in the year		<u>1,128</u>	<u>210</u>
Cash and cash equivalents at beginning of the year	17	1,367	1,157
Cash and cash equivalents at end of the year	17	2,495	1,367

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 2015 to 2016* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 ‘Transition to this FRS’.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 28.

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

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

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

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 Members Report. The financial position of the College, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. Accordingly the College has a reasonable

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

Recognition of income

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

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

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

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

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

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

Accounting for post-employment benefits

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

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

The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

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

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

Short term Employment benefits

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

Non-current Assets - Tangible fixed assets

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

Land and buildings

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

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

Assets under construction

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

Freehold land is not depreciated.

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

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.

Leased assets

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

Investments in associates

Investments in associates are accounted for at cost less impairment in the individual financial statements.

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.

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.

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.

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 College are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less and transaction cost (historical cost). FRS102 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 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.

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.

Other key sources of estimation uncertainty

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 26, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants

	2016	2015
	£'000	£'000
Recurrent grants		
Skills Funding Agency (SFA)	3,926	4,377
Education Funding Agency (EFA)	9,709	9,728
HEFCE	12	41
Specific grants		
Skills Funding Agency (SFA)	0	145
Education Funding Agency (EFA)	14	135
Releases of government capital grants	261	122
Total	13,922	14,548

3 Tuition fees and education contracts

	2016	2015
	£'000	£'000
Adult education fees	170	165
Apprenticeship fees and contracts	190	140
Fees for FE loan supported courses	206	180
Fees for HE loan supported courses	675	722
International students fees	490	249
Total Tuition fees	1,731	1,456
Education Contracts	117	226
Total	1,848	1,682

4 Grants and other contracts

	2016	2015
	£'000	£'000
Other grants and contracts	29	71
Total	29	71

5 Other income

	2016	2015
	£'000	£'000
Catering and residencies	218	239
Other income generating activities	263	319
Other grant income	148	123
Non governmental capital grants	45	93
Miscellaneous income	684	707
Total	1,358	1,481

6 Investment income

	2016	2015
	£'000	£'000
Other interest receivable	11	18
Pension finance income (note 22)	0	0
Total	11	18

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:

	2016	2015
	Number	Number
Teaching Staff	147	164
Non teaching staff	159	195
	306	359

Staff costs for the above persons:

	2016	2015
	£'000	£'000
Wages and salaries	8,772	9,170
Social security costs	600	575
Other pension costs	1,561	1,282
Payroll sub total	10,933	11,027
Fundamental restructuring costs - contractual	240	220
Total	11,173	11,247

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, Vice Principal Corporate Relations, Vice Principal Corporate Services and Vice Principal Curriculum and Performance. Staff costs include compensation paid to key management personnel for loss of office.

	2016	2015
	No.	No.
The number of key management personnel including the accounting officer was:	4	4

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

	<u>Key Management Personnel</u>	
	2016	2015
	No.	No.
£ 70,001 to £80,000	0	1
£ 80,001 to £90,000	0	1
£90,001 to £100,000	1	1
£100,001 to £110,000	1*	0
£110,001 to £120,000	1	0
£170,001 to £180,000	0	1
£210,001 to £220,000	1	0
	<u>4</u>	<u>4</u>

*Salary value included VAT charge at the standard rate

Key management personnel emoluments are made up as follows:	2016	2015
	£'000	£'000
Salaries	496	413
Other remuneration	32	15
Benefits in kind	0	0
	<u>528</u>	<u>428</u>
Pension contributions	47	48
Total emoluments	<u>575</u>	<u>476</u>

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

	2016	2015
	£'000	£'000
Salary	182	162
Other remuneration	32	15
Benefits in kind	0	0
	<u>214</u>	<u>177</u>
Pension contributions	<u>30</u>	<u>23</u>

Compensation for loss of office paid to former key management personnel

There was no compensation paid to for key management personnel in 2015-16 (nil 2014-15)

The members of the Corporation, other than the Principal, 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

	2016	2015
	£'000	£'000
Teaching departments	1,086	1,220
Non-teaching costs	2,980	2,953
Premises costs	1,055	1,142
Total	5,121	5,315

Other operating expenses include:	2016	2015
	£'000	£'000
Auditors' remuneration:		
financial statements audit	33	26
internal audit	30	19
other services provided by the external auditors	12	19
other services provided by the internal auditors	0	0
Hire of other assets - operating leases	213	238

9 Interest payable and other finance costs

	2016	2015
	£'000	£'000
On bank loans, overdrafts and other loans	66	20
Pensions finance costs (note 22)	281	252
Total	347	272

10 Taxation

	2016	2015
	£'000	£'000
United Kingdom corporation tax at 20%	0	0
Total	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 2016 or 31 July 2015.

11 Tangible fixed assets

	Land and Buildings			Asset Under Construction	
	Freehold	Long Leasehold	Equipment		Total
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation					
At 1 August 2015	25,924	2,523	5,365	4,085	37,897
Re-classification	3,615	0	0	(3,615)	0
Additions	336	0	222	23	581
Transfer to assets held for sale	(1,362)	0	0	0	(1,362)
Disposals	0	0	(191)	0	(191)
At 31 July 2016	28,513	2,523	5,396	493	36,925
Depreciation					
At 1 August 2015	7,444	725	4,561	0	12,730
Charge for year	674	112	359	0	1,145
Revaluation	0	0	0	0	0
Eliminated in respect of assets held for sale	(101)	0	0	0	(101)
Eliminated in respect of disposals	0	0	(185)	0	(286)
At 31 July 2016	8,017	837	4,735	0	13,589
Net book value at 31 July 2016	20,496	1,686	661	493	23,336
Net book value at 31 July 2015	18,480	1,798	804	4,085	25,167

Land and buildings were valued in 1996 at depreciated replacement cost by a firm of independent chartered surveyors.

Within Freehold land and building is a Sports Hall with a net book value of £918,000 is built on land owned by Carlsberg Tetley. The land is leased by East Staffordshire Borough Council who has a licence with the College.

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. The valuations included two components, the Main Campus, Workshop Block, Fleet Street, Woodcutting Machine Workshop, and the Rolleston Campus which were valued on a depreciated replacement cost, in the sum of £9,000,000 and Abbey Street, Bond Street, Covered Construction Area, Aluminium Workshop, Motor Vehicle Workshop, Princess Street Annexe, The Cottage and the Bungalow at an open market value in the sum of £467, 500. The valuations were prepared, in accordance with the practice statements in the RICS appraisal and valuation manual. This revaluation was incorporated within the accounts to 31st July 1996. This valuation included land and buildings which were transferred at incorporation on 1st April 1993. The valuations have not been updated since this time.

Land and Buildings with a net book value of £4,407,000 and equipment with a net book value of £7,000 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.

By the 31st July 2015 the College had capitalised £280,000 of legal costs relating to the planning application for land at Rolleston on Dove.

12 Non current Investments

	2016 £'000	2015 £'000
Investments in subsidiary companies	-	
Investments in associate companies	17	17
Total	17	17

During 2013/14 the College invested in 20% shareholding of Nescot Consortium Limited a limited liability company in Saudi Arabia to provide services of vocational and technical training in Saudi Arabia. Saudi Arabian regulations require a 10% of net income to be transferred to the statutory reserve; the reserve is not for distribution. The College's share of net assets and net income for the year was as follows:

	£
Share of net assets at 1 August 2015	120,793
Share of net income for the year after taxation	198,963
Share of net assets at 31 July 2016	319,756

13 Debtors

	2016 £'000	2015 £'000
Trade receivables		
Amounts owed by group undertakings:	311	199
Associate undertakings	350	218
Prepayments and accrued income	1029	1,012
Amounts owed by the [Skills Funding Agency/EFA]	108	215
	1,798	1,644
Amounts falling due after one year:		
Other debtors due after one year	208	208
Total	2,006	1,852

14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	1,075	1,008
Other taxation and social security	187	156
Accruals	371	404
Other creditors	479	378
Deferred income –government capital grants	271	253
Amounts owed to the Skills Funding Agency	926	1,402
Total	3,309	3,601

15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Other creditors	2,500	1,500
Deferred income - government capital grants	6,827	7,021
	9,327	8,521

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 as at 31 July 2016. The total revolving credit facility is secured on a proportion of the freehold land of the Colleges main site, and freehold land at Rolleston.

16 Provisions

	Defined benefit Obligations £'000	Total £'000
At 1 August 2016	(7,668)	(7,668)
Expenditure in the period	(583)	(583)
Transferred from income and expenditure account	3,078	3,078
At 31 July 2016	<u>(5,173)</u>	<u>(5,173)</u>

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.

17 Cash and cash equivalents

	At 1 August 2015 £'000	Cash flows £'000	Other changes £'000	At 31 July 2016 £'000
Cash and cash equivalents	1,367	1,128	-	2,495
Total	1,367	1,128	-	2,495

18 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted for at 31 July	<u>0</u>	<u>1,404</u>

19 Lease Obligations

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

	2016 £'000	2015 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	271	215
Later than one year and not later than five years	1,032	1,050
later than five years	<u>3,088</u>	<u>3,342</u>
	<u>4,391</u>	<u>4,879</u>

20 Contingent liabilities

The College has provided two bonds to the Colleges of Excellence in Saudi Arabia in respect of its relative share of the Operating Contract of NCL. Details are:

Performance bond (expires 06/09/18)	1,911,227
Advance Payment bond (expires 06/09/18)	1,562,129

21 Events after the reporting period

The Department for Communities and Local Government, on 11 November 2016, confirmed in writing that planning permission for the Rolleston on Dove site had been granted for development of 100 new homes, thus allowing the college to dispose of the surplus land.

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.

	2016		2015	
	£'000	£'000	£'000	£'000
Total pension cost for the year				
Teachers Pension Scheme: contributions paid		574		538
Local Government Pension Scheme:				
Contributions paid	777		638	
FRS 102 (28) charge	302		179	
Charge to the Statement of Comprehensive Income		1,079		817
Enhanced pension charge to Statement of Comprehensive income		0		0
Total pension cost for the year		<u>1,653</u>		<u>1,355</u>

The Pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was in June 2014 and the LGPS 31 March 2013.

Contributions amounting to £129,843 (2015 £136,961) were payable to the scheme at 31 July and are included within creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £888,330 (2015: £538,830).

FRS 102

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 County Council. The total contribution made for the year ended 31 July 2016 was £776,724, of which employer's contributions totalled £563,876 and employee's contributions totalled £212,848. The agreed contribution rates for future years are 15.6% for employers and range from 5.5% to 7.5% for employees, depending on salary, with additional employer cash lump sums increasing at each anniversary in April until 2019 (2016: £130,000).

Principal actuarial assumptions

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

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	1.00%	4.50%
Future pensions increases	1.90%	2.60%
Discount rate for scheme liabilities	2.40%	3.60%

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

	At 31 July 2016 years	At 31 July 2015 years
<i>Retiring today</i>		
Males	22.10	22.10
Females	24.30	24.30
<i>Retiring in 20 years</i>		
Males	24.30	24.30
Females	26.60	26.60

The College's share of the assets in the plan were:

	Fair Value at 31 July 2016 £'000	Fair Value at 31 July 2015 £'000
Equities	13,086	10,935
Bonds	1,722	1,626
Property	1,377	1,330
Cash	1,033	887
Total market value of assets	<u>17,218</u>	<u>14,778</u>

Actual return on plan assets

<u>1,412</u>	<u>475</u>
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The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

	2016 £'000	2015 £'000
Fair value of plan assets	17,218	14,778
Present value of plan liabilities	(22,391)	(22,446)
Net pensions (liability)/asset (Note 19)	<u>(5,173)</u>	<u>(7,668)</u>

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	996	889
Past service cost		9
Total	<u>996</u>	<u>898</u>

Amounts included in investment income

Net interest income	281	252
	<u>281</u>	<u>252</u>

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	1,412	475
Experience losses arising on defined benefit obligations	277	153
Changes in assumptions underlying the present value of plan liabilities	1,389	(1,647)
Amount recognised in Other Comprehensive Income	<u>3,078</u>	<u>(1,019)</u>

Movement in net defined benefit (liability)/asset during the year

	2016 £'000	2015 £'000
Surplus/(deficit) in scheme at 1 August	(7,668)	(6,209)
Movement in year:		
Current service cost	(996)	(884)
Employer contributions	694	705
Past service cost	-	(9)
Net interest on the defined (liability)/asset	(281)	(252)
Actuarial gain or loss	3,078	(1,019)
Net defined benefit (liability)/asset at 31 July	<u>(5,173)</u>	<u>(7,668)</u>
Asset and Liability Reconciliation		
	2016 £'000	2015 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	22,446	19,340
Current Service cost	996	884
Interest cost	822	791
Contributions by Scheme participants	213	214
Experience gains and losses on defined benefit obligations	(1,666)	1,494
Changes in financial assumptions	-	-
Estimated benefits paid	(420)	(376)
Past Service cost	-	-
Curtailments and settlements	-	-
Defined benefit obligations at end of period	<u>22,391</u>	<u>22,446</u>
Reconciliation of Assets		
Fair value of plan assets at start of period	14,778	13,221
Interest on plan assets	541	539
Return on plan assets	1,412	475
Employer contributions	694	705
Contributions by Scheme participants	213	214
Estimated benefits paid	(420)	(376)
Assets at end of period	<u>17,218</u>	<u>14,778</u>

23 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £1,386; 2 governors (2015: £1,071; 2 governors). 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 or its subsidiaries during the year (2014: None).

The College paid for professional services from A R Argyle FRICS in 2015/16 which amount to £1,260 (2015: NIL). The proprietor of A R Argyle FRICS is a College Governor.

The College paid for property leases from South Derbyshire District Council in 2015/16 which amount to £44,360, and received £7,439 for tuition fees. Frank McArdle is a College Governor and also the Chief Executive of South Derbyshire District Council.

The College received £29,201 from Burton & South Derbyshire Education Trust in relation to Shared Service charges (14/15: £39,519). The College is the Trust Sponsor.

24 Amounts disbursed as agent

Learner support funds

	2016 £'000	2015 £'000
Funding body grants – bursary support	300	305
Funding body grants – discretionary learner support	210	329
Interest earned	0	0
	<u>510</u>	<u>634</u>
Disbursed to students 16-18	(207)	(222)
Disbursed to students 19+	(128)	(185)
Disbursed to students 24	(41)	(16)
Administration costs 16-18	(14)	(14)
Administration costs 19+	(10)	(12)
Administration costs 24+	(1)	(1)
	<u>109</u>	<u>184</u>
Balance unspent as at 31 July, included in creditors		

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.

25 Transition to FRS 102 and the 2015 FE HE SORP

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

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

	1st August 2014 £'000	31st July 2015 £'000
Financial Position		
Total reserves under previous SORP	9950	8,789
Employee leave accrual	(142)	(142)
Release of non-government capital grants	-	-
Changes to measurement of net finance cost on defined benefit plans	-	-
Total effect of transition to FRS 102 and 2015 FE HE SORP	<u>(142)</u>	<u>(142)</u>
Total reserves under 2015 FE HE SORP	<u>9,808</u>	<u>8,647</u>
Financial Performance		
Surplus for the year after tax under previous SORP		120
Release of non-government grants received		-
Reversal of capital grants amortisation		-
Pensions provision – actuarial loss		(1,029)
Changes to measurement of net finance cost on defined benefit plans		(252)
Total effect of transition to FRS 102 and 2015 FE HE SORP		<u>(1,281)</u>
Total comprehensive income for the year under 2015 FE HE SORP		<u>(1,161)</u>

25 Transition to FRS 102 and the 2015 FE HE SORP

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 8 days unused leave for teaching staff and 6 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 6x days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £142,000 was recognised at 1 August 2014, and at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £30,000 has been charged to Comprehensive Income in the year ended 31 July 2016.

b) Change in recognition of defined benefit plan finance costs

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

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

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