Strode College

Governors' report and financial statements

For the year ended 31 July 2017

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the Executive Management Team which comprised the following in 2016-17:

James Staniforth - Principal, CEO and Accounting officer (until 18 April 2017)
Katy Quinn - Principal, CEO and Accounting officer (from 5 June 2017)
Shirley Theedom - Deputy Principal, (CEO and Accounting officer from 19 April 2017 until June 4 2017)
David Healey - Finance Director

Board of Governors

Kate Lovell - Chair
Rob Bennett - Vice Chair

A full list of Governors is given on pages 15 and 16 of this Governors' report and financial statements.

Clerk to the Corporation

Tessa Miller

Professional advisers

Financial statements auditors and reporting accountants:
KPMG LLP
66 Queen Square
Bristol
BS1 4BE

Internal auditors:
TIAA Ltd
53-55 Gosport Business Centre
Aerodrome Road
Gosport
PO13 0FQ

Bankers:
Lloyds Bank plc
High Street
Street
Somerset
BA16 0EJ

Solicitors:
Clarke Willmott LLP
1 Georges Square
Bath Street
Bristol

Governors' report and financial statements

Contents

Report of the Board of Governors

Nature, Objectives and Strategies

The Governors present their report and the audited financial statements for the year ended 31 July 2017.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Strode College ("the College"). The College is an exempt charity for the purposes of the Charities Act 2011.

The Corporation is a distinct legal body that comprises all of the members appointed in accordance Corporation's instrument of governance.

The Members' principal role, other than to act as members of the corporation, is to provide governance over the College and they are referred to as governors and collectively the Board of Governors in this Governors' report and financial statements.

Mission and vision

The College's mission, during the year, as approved by the Board of Governors was as follows:

<u>Vision</u>

- Strode College, where every student will maximise their potential

<u>Mission</u>

- Provide outstanding education for all 16-19 students
- Offer outstanding further education and training to adults
- Be a local centre of excellence for higher education

Public Benefit

Strode College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education as Principal Regulator for all Further Education (FE) Corporations in England.

In setting and reviewing the College's strategic objectives, the Board of Governors 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.

Strode College, as a rural tertiary college with a focus on provision for 16-18 year olds, provides high quality learning opportunities suitable for a wide range of abilities and interests, in an environment where students can develop as individuals. We contribute to the development of a dynamic local, regional and national economy by enhancing the employability of our students and preparing them for higher education. The College aims to promote the economic, social and cultural life of the local community through work with business, the professions, community groups and local government and by encouraging the local community to make use of the College's facilities.

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students

- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)

Implementation of strategic plan

In September 2016, the Board of Governors approved the College's strategic plan for the financial years 2017 to 2019. This strategic plan includes an accommodation strategy and financial forecasts. The Board of Governors monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are to be:

A Outstanding for all our students

A1 To stretch and challenge our students so that they make outstanding progress
A2 To provide a curriculum and enrichment that provides opportunities for all
A3 To provide outstanding teaching, tutorial and support for students
A4 To ensure that all our students progress to university or employment
A5 To provide high quality facilities and resources

B Outstanding for all our staff

B1 To provide a supportive, rewarding and challenging environment that motivates all staff
B2 To provide opportunities for training, development, expansion of role or promotion
B3 To encourage staff to innovate and take risks for the benefit of our students

C An outstanding partner for our community

C1 To support the educational, social and cultural needs of the local community
C2 To respond pro-actively to the training and skills needs of employers and the Local Enterprise Partnership (LEP) and to meet national government priorities

D Inclusive, healthy and safe

D1 To provide an inclusive environment which values individuals, promotes equality and diversity and ensures mutual respect
D2 To provide a healthy and safe environment for all staff and students

The College is on target to achieve these objectives.

Financial objectives

The College's financial objectives are:

Objective	Outcome in 2016/17
1. Maintain a secure financial health grade of "Satisfactory" with the Education and Skills Funding Agency (A secure satisfactory grade would be in the top half of the range for the satisfactory grade). From 2017-18 onwards this objective has been amended to securing a Good financial health grade with the EFSA.	**Achieved**
2. Generate a minimum Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of 5%.	**Achieved**
3. Deliver and maintain a current ratio above 1.0 (excluding FRS102 adjustments).	**Not Achieved – ratio remained the same at 0.9**
4. Maintain Borrowing to Income ratio below 40%	**Achieved**

Objective	Outcome in 2016/17
5. Generate sufficient additional income to ensure adequate funding is available to: 5.1. Recruit and retain staff 5.2. Fund premises maintenance and repairs at a sustainable level 5.3. Fund IT support and maintenance at a sustainable level 5.4. Replace / renew capital assets on a reasonable timescale	**Achieved**
6. Use existing reserves to fund capital expenditure	**Achieved – 50% increase in capital expenditure in 2016/17**
7. Comply with banking covenants	**Achieved**

Following a significant investment in fixed assets in 2014-15 using College funds, the current ratio reduced below 1.0 and it has taken longer than expected to meet the current ratio target. The Board is satisfied that this does not present a risk to the College finances and is comfortable with extending the time taken to reach a current ratio of 1. During 2016-17 operating cash generated was broadly the same as cash used in acquiring fixed assets and the net reduction in financial obligations resulting in little change in the current ratio by 31 July 2017.

Overall the Board of Governors are pleased with the level of achievement against the 2017-19 strategic plan and the financial objectives.

Financial Position

Financial results

The table below shows the results for the College presented in the format used internally by all levels of management and governance. These results do not include FRS102 adjustments for defined benefit pension obligations or accrued holiday pay.

	2017	2016
Income	**£12,263k**	£11,511k
Expenditure	**£11,635k**	£10,862k
Cash operating surplus (FE Sector EBITDA)	**£628k**	£649k
Cash operating surplus (FE Sector EBITDA)	**5.1%**	5.6%
Pay to income ratio	**62.7%**	66.2%
Capital Expenditure	**£332k**	£210k
Cash at bank and in hand	**£1,046k**	£812k
Current Ratio	**0.9**	0.9
Borrowing as a percentage of income	**35.3%**	37.2%
Education and Skills Funding Agency Financial Health Rating	**Satisfactory**	Satisfactory

Including FRS102 adjustments for defined benefit pension obligations and accrued holiday pay the financial results for the year were as follows:

	Income	Expenditure	Total comprehensive income
	£'000	£'000	£'000
2016-17			
Cash operating surplus (FE Sector EBITDA)	**12,263**	**11,635**	**628**
Capital grants received	24		24
Interest income	2		2
Depreciation		838	(838)
Loss on disposal of assets		50	(50)
Interest charges (including FRS102 - Defined benefit pension obligations adjustment of £304k)		425	(425)
FRS102 - Defined benefit pension obligations adjustment		434	(434)
FRS102 – Holiday pay accrual movement		12	(12)
(Deficit) on continuing operations	**12,289**	**13,395**	**(1,105)**
Actuarial gain/(loss) in respect of pensions schemes			3,176
Total comprehensive Income for the year			**2,071**

2015-16			
Cash operating surplus (FE Sector EBITDA)	**11,511**	**10,862**	**649**
Capital grants received	78		78
Interest income	6		6
Depreciation		811	(811)
Interest charges (including FRS102 - Defined benefit pension obligations adjustment of £325k)		449	(449)
FRS102 - Defined benefit pension obligations adjustment		302	(302)
FRS102 – Holiday pay accrual movement		(17)	17
(Deficit) on continuing operations	**11,595**	**12,407**	**(812)**
Actuarial gain/(loss) in respect of pensions schemes			(2,834)
Total comprehensive Income for the year			**(3,646)**

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017 the FE funding bodies provided 76% (2016 - 74%) of the College's total income.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, 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 treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer**.** All other borrowing requires the authorisation of the Board of Governors and shall comply with the requirements of the Financial Memorandum, which sets out the College's terms of funding with the Education and Skills Funding Agency (ESFA).

Cash flows and liquidity

Operating cash flow was £949,000 (2016 - £678,000). There was a net cash inflow for the year after loan repayments and fixed asset investments of £234,000, (2016 – cash outflow £13,000).

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

Reserves policy

The College has adopted a policy of targeting a 5% EBITDA surplus each year. Achievement of this target will contribute to a satisfactory financial health rating with the ESFA and satisfies the College's loan covenants.

In respect of accumulated reserves the College is required to retain £3,000,000 of general reserves, excluding any defined benefit pension obligations, in order to satisfy our loan covenants. The College will seek to utilise additional reserves, as cash levels permit, for the benefit of students.

Current and Future Development and Performance

Student numbers

	2017	2016
	Number	Number
Government Agency funded students	**3,227**	2,586
Fee paying Students	**1,134**	1,110

Student achievements

Advanced Level students continue to make excellent progress at the College. The College uses Alps, a widely used system for tracking and measuring student progress on post 16 courses. The single year Alps grade for A Level, AS Level and BTEC of grade 3 places the college within the top 25% nationally (2016 - top 25% nationally).

GCSE resit performance was down in line with national performance but is still significantly above the national average of 27%.

	A Levels		Level 3 Vocational		GCSE resit	
	2017	2016	2017	2016	2017	2016
Pass Rate	99%	99%	99%	99%		
Achieved Minimum Target Grade	76%	79%	90%	88%		
Grades at A*- B (England average 2017: 52.8%)	57%	56%				
Extended Diplomas - Triple Distinction			59%	62%		
Grades at A*- C / High Grades (England average 2017: 77.5%)	82%	83%	82%	78%	44%	54%

Teacher qualifications

Teaching staff are required to hold, or to be working towards, a teaching qualification relevant to their role. During 2017, 99% of full time staff held a full teaching qualification i.e. PGCE, Cert Ed or equivalent (2016 – 99%). 90% of part time staff held a relevant teaching qualification appropriate for their role (2016 – 90%).

Future Developments

The college has appointed a new Director of Employer Engagement to lead on the College's response to the changes in Apprenticeship standards and funding, with a focus on five sector areas.

The college's medium term strategy is to generate cash for co-investment in new facilities to support catering and hospitality apprenticeships and to develop the sports facilities.

We are also a member of the Hinkley Point Training Agency and remain focused on meeting the training needs of companies in the Hinkley supply chain at the lower tiers, as well as focusing on replacement strategy for local employers.

Going concern

The financial statements have been prepared on a Going Concern basis with the balance sheet showing net current liabilities of £639,000.

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

The College currently has £4,158,000 of loans outstanding with bankers on terms negotiated in 2013. The terms of the existing agreement are for up to 31 July 2022. 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.

Resources

The College has various resources that we can deploy in pursuit of our strategic objectives.

Tangible resources include:

Financial

The College has net assets of £2,100,000 (after deducting £9,456,000 defined benefit pension obligations) (2016 - £29,000 after deducting £11,894,000 defined benefit pension obligations) and long term debt of £4,158,000 (2016 - £4,404,000).

Estates

The College has a well-managed campus and we have renewed a significant portion of our building stock since 2001. In September 2014, we opened a new Higher Education and Skills Building, which provides a very high standard of accommodation for delivering employer-facing provision, including apprenticeships, traineeships, functional skills and full cost work. Since opening the building, both apprenticeship numbers and the number of students studying Higher Level skills have grown. Students and employers report that it is a valuable resource for the area.

People

The College employs 339 people (222 Full Time Equivalents (FTE)), (2016 – 351 (226 FTE)), of whom 207 (135 FTE) (2016 – 225 (141 FTE)) are teaching staff or teaching and student support staff.

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success in attracting students and external relationships.

In September 2014, the College was subject to a full Ofsted inspection. The grades awarded by Ofsted were as follows:

Outcomes for students	Outstanding, Grade 1
Quality of teaching, learning and assessment	Outstanding, Grade 1
Effectiveness of leadership and management	Outstanding, Grade 1
Overall effectiveness	Outstanding, Grade 1

Principal Risks and Uncertainties

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

Based on the strategic plan, the Senior Management Team undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventative actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the 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 updated regularly and reviewed at least 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. In addition, in the event that the risk materialises despite preventative actions, the register identifies further actions to mitigate the impact of the materialising risk. Risks are then mapped against a "heat map" which shows movement in risks on a size/impact matrix following risk treatment.

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.

- **Government funding**
  The College has considerable reliance on continued government funding through the further education sector funding bodies. In 2017, 76% of the College's revenue was funded by these bodies and this level of requirement is expected to continue. There are 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 three specific issues which may impact on future income of the College:

  - Apprenticeship funding changed in May 2017, with some funding now routed directly through employers, rather than being paid directly to the College. Employers will be free to choose any provider for apprenticeship training provision, which could result in reduced income for the College.
  - The College delivers 60% of its Adult Skills Budget funded training outside of the local area. When this budget is devolved to local control, starting from April 2017, there is a risk that the College will not secure the same level of income
  - Current government funding is set at a flat cash level, with no allowance for increasing costs. There is a risk that the College will be unable to continue to find efficiencies and/or additional sources of income to meet the reduction in real terms funding.

These specific risks are mitigated by the following:

- ensuring the College is rigorous in delivering high quality education and training;
- focusing on maintaining and managing key relationships with the various employers, local authorities and funding bodies; and
- continually reviewing costs and seeking alternative sources of income.

- **Maintain adequate funding of pension liabilities**
  The College has a significant deficit on its Local Government Pension Scheme (LGPS). The LGPS currently treats the College as a government backed organisation and as a consequence accepts a long term deficit reduction plan from the College and does not require any security.

  There is a risk that changes proposed by the government to the insolvency regime for colleges or the levels of funding the government directs towards colleges could result in a change to the LGPS's approach to college pension scheme deficits. If this happens the College may struggle to either afford increased deficit reduction contributions or provide any security.

  To mitigate this risk the College will continue to lobby key stakeholders and support the efforts of other groups lobbying to ensure college funding is prioritised and any changes to the insolvency regime or college funding generally do not have an adverse impact on current LGPS deficit funding plans.

- **Student numbers**
  The local demography over the next three years is very likely to result in a steady decrease in the number of 16 and 17 year olds moving into further education. This is likely to be the case until 2019/20. There is a risk that the College recruits fewer students and suffers a loss of income as a result.

  To mitigate this risk the College will use its excellent reputation to target an increased market share over this period. We will also continue to develop our curriculum to strengthen the competitive advantage of the quality and variety of curriculum that we offer.

- **Building Repairs**
  Two of the College's seven main buildings were built in the 1960s and 1970s. These buildings are in a reasonable state of repair; however, given their age, there is a risk that substantial repairs or refurbishment will be required. If this risk materialises in the short term the College may not have sufficient funds to undertake the works.

  In the long term the College aims to mitigate this risk by bidding for capital funding to replace these building as and when opportunities arise.

Stakeholder Relationships

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

- Students
- Education sector funding bodies
- Staff
- Local employers
- Local schools, particularly partner schools
- Local authorities
- Government offices/ Local Enterprise Partnerships
- Local community
- Other colleges and universities
- Trade unions
- Professional bodies

The College recognises the importance of these relationships and engages in regular communication with them.

Equal opportunities

The College is committed to ensuring equality of opportunity for all who learn and work with us. The College respects and values differences and strives to remove barriers which place people at a disadvantage. The College will challenge bigotry, discrimination, bullying, harassment and victimisation.

The College has an Equality Scheme which is reviewed on a planned cycle and actions are implemented as appropriate. This scheme is published on the College's intranet and website. The College publishes an Annual Equality Report and an action plan to comply with the Equality Act 2010. The College undertakes equality impact assessments on all new and existing policies and procedures and records the results.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide identical opportunities to those of non-disabled employees.

The College has a cycle of training to update staff on Equality and Diversity related issues. All staff as part of their probation period must attend Equality and Diversity training to complete their probation. To support this, equality and diversity is also part of the staff Review and Development Process.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010 and the Children's and Families Act 2016.

As part of our accommodation strategy the College has ensured that all our buildings are accessible.

The College has a Head of Equality and Diversity who performs the role of Access Co-ordinator providing information, advice and arranging support for students with learning difficulties and/or physical disabilities. Support is provided prior to coming to the College, during their time at the College and when making the transition to the next stage of education, training or employment.

There is a list of specialist equipment, such as radio aids, personal care equipment and minicoms, which the College can make available for use by students. Other adaptive equipment can be acquired depending on each individual student's needs. A range of assistive technology is available in the learning centre, computer centre and with the additional support team.

The admissions policy for all students is described in the College charter and in the Accessibility Statement. Appeals against a decision not to offer a place are dealt with under the complaints policy.

The College has made a significant investment in the appointment of specialist lecturers and training of existing lecturers to support students with learning difficulties and/or disabilities. There are a number of student learning 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.

Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.

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

Approved by order of the Board of Governors on 13 December 2017 and signed on its behalf by:

Kate Lovell
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of this Board of Governors' report and financial statements for the College to obtain a better understanding of the College's governance and legal structure. This statement covers the period from 1st August 2016 to 31st July 2017 and up to the date of approval of the Board of Governor's 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 Code of Good Governance for English Colleges (the Code); and
iii. having due regard to the UK Corporate Governance Code 2016 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College and Board of Governors has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have established 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.

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2017. The Board of Governors 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 Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015.

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.

Board of Governors

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

The Board of Governors conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Board of Governors.

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

There is a clear division of responsibility in that the roles of the Chair of the Board of Governors and Accounting Officer of the College are separate. The roles and responsibilities of the Accounting Officer and the Board of Governors, and the committee structure, are clearly laid out in the Scheme of Delegation, which is reviewed annually by the Board of Governors

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.

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 Board of Governors as a whole.

Full approved minutes of all meetings, except those deemed to be confidential by the Board of Governors, are available on the Governance area of the College website at www.strode-college.ac.uk and from the Clerk to the Corporation at:

Strode College
Church Road
Street
Somerset
BA16 0AB

The Clerk to the Corporation maintains a register of financial and personal interests of the Governors, which is updated annually. The register is available for inspection at the above address.

Appointments to the Board of Governors

Under the College's Instrument of Governance the Board of Governors can comprise:

- up to sixteen independent governors;
- not more than two governors, who are parents of students under the age of 19 years;
- the Principal;
- at least one and not more than three governors who College staff; and
- at least two and not more than three governors who are students at the College.

Any new appointments to the Board of Governors are a matter for the consideration of the Board of Governors as a whole. The Board of Governors has a Search and Governance Committee comprising five Governors (including the Chair, Vice Chair and the Principal) which is responsible for the selection and nomination of any new member for the Board of Governor's consideration. The Board of Governors is responsible for ensuring that appropriate training is provided as required.

Governors of the College are appointed for a term of office not exceeding 4 years.

Board of Governors performance

At its annual self-assessment in July 2017, the Board of Governors considered that it was working effectively through the current Board and Committee structure to set the College's strategic targets and to monitor and scrutinise progress against financial and quality targets in accordance with its responsibilities. This was borne out by the October 2014 'Outstanding' Ofsted report. The College's financial health and management is very effectively monitored through the key committees of Finance & Personnel and Audit; suitably qualified Governors and external members are appointed to ensure that appropriate scrutiny takes place.

Remuneration Committee

Throughout the year ending 31 July 2017, the College's Remuneration Committee comprised five Governors including the Chair and Vice Chair, but excluding the Principal. The Committee's responsibilities are to determine the remuneration and benefits of the Principal (Accounting Officer), the Deputy Principal and the Clerk and to report their decisions to the Board.

Details of remuneration for the year ended 31 July 2017 are set out in note 6 to the financial statements.

Audit Committee

The Audit Committee comprises four Governors (excluding the Accounting Officer and Chair) and one external member. The Committee operates in accordance with written terms of reference approved by the Board of

Governors. Its purpose is to advise the Board of Governors on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

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

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

Management is responsible for the implementation of agreed recommendations.

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

Governors

The Governors who served the Corporation during the year and up to the date of signature of this report were as follows:

Name	**Date of appointment**	**End of Term of office**	**Date of resignation**	**Status of appointment**	**Committees served**
Rob Bennett (Vice Chair)	11 December 2002 Re-Appointed 28 September 2016	31 August 2018		Independent	Audit (Chair) Community Education Advisory Remuneration Search & Governance
Emily Bowhill	1 February 2014	31 January 2018		Staff	Audit Academic Standards & Quality
Richard Clark	8 December 1999 Re-Appointed 1 April 2014	31 March 2018		Independent	Finance & Personnel Remuneration Theatre Board
Ben Davis	4 October 2017	31 July 2018		Student	Academic Standards & Quality
Lesley Gagg	1 September 2004 Re-Appointed 1 September 2014	31 August 2018		Independent	Academic Standards & Quality Community Education Advisory (Chair) Finance & Personnel Remuneration Search & Governance
Geoff Hepworth	8 December 1999 Re-Appointed 1 April 2016	31 March 2017	31 March 2017	Independent	Finance & Personnel Remuneration Search & Governance
Lloyd Hughes	22 December 2010 Re-Appointed 1 January 2013	31 December 2017		Independent	Community Education Advisory

Name	Date of appointment	End of Term of office	Date of resignation	Status of appointment	Committees served
Anthony King	1 October 2014 Re-Appointed 28 September 2016	30 September 2020		Independent	Audit Community Education Advisory
Kate Lovell (Chair)	8 December 1999 Re-Appointed 1 April 2014	31 March 2018		Independent	Academic Standards & Quality Finance & Personnel (Chair) Search & Governance Remuneration (Chair)
Mark Moran	1 September 2001 Re-Appointed 1 September 2015	31 August 2019		Independent	Finance & Personnel, Theatre Board of Management (Chair)
David Mozley	1 October 2010 Re-Appointed 28 September 2016	30 September 2020		Independent	Audit Academic Standards & Quality (Chair) Theatre Board of Management
Katy Quinn	5 June 2017	Ongoing		Principal	Finance & Personnel Search & Governance
Paul Reddick	26 April 2017	25 April 2021		Independent	Academic Standards & Quality
Kevin Sherrard	30 November 2005 Re-Appointed 1 January 2016	31 December 2019		Independent	Finance & Personnel
Gary Smith	1 September 2015 Re-Appointed 1 September 2017	31 August 2021		Staff	Theatre Board of Management
James Staniforth	1 September 2010	18 April 2017	18 April 2017	Principal	Finance & Personnel Search & Governance

Tessa Miller acted as the Clerk to the Corporation throughout the year.

Attendance at Board and committee meetings

Overall attendance at Full Board meetings in 2017 was 79% (2016 – 79%). Overall attendance at Board and committee meetings taken together was 70% (2016 – 70%). A report detailing the attendance of individual Governors is presented to the Board of Governors annually in July.

In addition to this high level of attendance several Governors also regularly attend key committee meetings and presentations as non-member observers. All Governors participate in training and other events throughout the year.

The table below details the attendance by Governors at full Board meetings and committees.

Name	Full Board	Finance & Personnel	Academic Standards & Quality	Search & Governance	Community Education Advisory	Remuneration	Audit	Theatre Board
Number or Meetings	*6*	*6*	*3*	*3*	*2*	*1*	*3*	*3*
Rob Bennett	6	6*	3*	3	1	1	3	
Emily Bowhill	5		0				3	
Richard Clark	3	4						3
Ben Davis	5	1*	2					
Lesley Gagg	3	3	3	3	2	1		
Geoff Hepworth	5			1		1		
Lloyd Hughes	5				2			
Anthony King	5	1*			1		3	
Kate Lovell	6	6	1	3		1		
Mark Moran	3	3						2
David Mozley	6	2*	3				1	3
Katy Quinn	3/3	1					1*	
Paul Reddick	1		1					
Kevin Sherrard	6	3					1*	
Gary Smith	3							1
James Staniforth	5/5	5		3				

**in attendance*

Internal Control

Scope of responsibility

The Board of Governors 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 Board of Governors has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control. The system supports the achievement of the College's policies, aims and objectives whilst safeguarding the public funds and assets for which the Principal is personally responsible. All of this is undertaken in accordance with the responsibilities assigned to the Principal in the Financial Memorandum between the College and the funding bodies. The Principal is also responsible for reporting to the Board of Governors any material weaknesses or break-downs 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. It evaluates the likelihood of those risks being realised, the impact should they be realised, and endeavours to manage them efficiently, effectively and economically. The system of internal control has been in place in Strode College for the year ended 31 July 2017 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Board of Governors 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 Board of Governors is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board of Governors.

The risk and control framework

The system of internal control is based on a framework of regular management information, administration 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 Board of Governors
- Regular reviews by the Board of Governors of periodic and annual financial reports which indicate actual and forecast financial performance against budgets
- Setting targets to measure financial and other performance
- Clearly defined capital investment control guidelines
- The adoption of formal project management disciplines, where appropriate

The College uses an internal audit service, which operates in accordance with the requirements of the ESFA's 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 Board of Governors on the recommendation of the Audit Committee.

Review of effectiveness

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

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

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and 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 Board of Governor's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

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

Going Concern

The financial statements have been prepared on a Going Concern basis with the balance sheet showing net current liabilities of £639,000.

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

The College currently has £4,158,000 of loans outstanding with bankers on terms negotiated in 2013. The terms of the existing agreement are for up to 31 July 2022. 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.

Approved by order of the Board of Governors on 13 December 2017 and signed on its behalf by:

Kate Lovell	**Katy Quinn**
Chair	**Accounting Officer**

Statement of Regularity, Propriety and Compliance

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

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

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

Kate Lovell **Chair**	**Katy Quinn** **Accounting Officer**
13 December 2017	**13 December 2017**

Statement of the responsibilities of the Governors of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Education and Skills Funding Agency (EFSA) and the Corporation of the College, the Board of Governors, 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 for 2016 to 2017* issued by the EFSA, 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 Board of Governors 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; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

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

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

The maintenance and integrity of Strode College website is the responsibility of the Board of Governors 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.

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

Approved by order of the Board of Governors on 13 December 2017 and signed on its behalf by:

Kate Lovell
Chair

KPMG LLP
66 Queen Square
Bristol
BS1 4BE

Independent auditor's report to the Corporation of Strode College

Opinion

We have audited the financial statements of Strode College ("the College") for the year ended 31 July 2017 which comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2017, and of the College's income and expenditure, gains and losses, changes in reserves, and cash flows, for the year then ended; and

- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the College in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Corporation is responsible for the other information, which comprises the Report of the Board of Governors and the Corporation's statement of corporate governance and internal control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Post-16 Audit Code of Practice 2016 to 2017 (March 2017) issued jointly by the Skills Funding Agency and the Education Funding Agency we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the College; or
- the College's 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.

We have nothing to report in these respects.

Corporation's responsibilities

As explained more fully in their statement set out on page 21, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Jonathan Brown
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

KPMG LLP
66 Queen Square
Bristol
BS1 4BE

Reporting Accountant's Assurance on Regularity

Reporting Accountant's Report on Regularity to the Corporation of Strode College and the Secretary of State for Education acting through the Education and Skills Funding Agency

In accordance with the terms of our engagement letter dated 2 October 2015 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 Strode College during the period 1 August 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of Strode College and the reporting accountant

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

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 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 2016 to 31 July 2017 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 Post-16 Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw our conclusion included:

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

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a limited assurance conclusion on regularity consistent with the requirements of the Post-16 Audit Code of Practice.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Jonathan Brown
For and on behalf of KPMG LLP, Reporting Accountant
66 Queen Square
Bristol
BS1 4BE

Statement of comprehensive income

for the year ended 31 July 2017

	Note	**2017**	2016
		£'000	£'000
Income			
Funding body grants	2	**9,439**	8,759
Tuition fees and education contracts	3	**1,364**	1,366
Other income	4	**1,484**	1,464
Investment income	5	**2**	6
Total income		**12,289**	11,595
Expenditure			
Staff costs	6.2	**8,119**	7,899
Other operating expenses	7	**4,151**	3,248
Depreciation	10	**699**	811
Interest and other finance costs	8	**425**	449
Total expenditure		**13,394**	12,407
(Deficit) on continuing operations before tax		**(1,105)**	(812)
Taxation	9	-	-
(Deficit) on continuing operations after tax		**(1,105)**	(812)
Actuarial gain/(loss) in respect of pensions schemes	18.3.5	**3,176**	(2,834)
Total comprehensive income/(loss) for the year		**2,071**	(3,646)

The notes to the financial statements form an integral part of these financial statements

Statement of changes in reserves

	General reserve	Pension reserve	Revaluation reserve	**Total**
	£'000	£'000	£'000	**£'000**
Balance as at 1 August 2015	11,228	(8,444)	891	**3,675**
(Deficit) on continuing operations after tax	(196)	(616)	-	**(812)**
Other comprehensive income	-	(2,834)	-	**(2,834)**
Transfers between revaluation and income and expenditure reserves	16	-	(16)	**-**
	(180)	(3,450)	(16)	**(3,646)**
Balance at 31 July 2016	11,048	(11,894)	875	**29**
(Deficit) on continuing operations after tax	(367)	(738)	-	**(1,105)**
Other comprehensive income	-	3,176	-	**3,176**
Transfers between revaluation and income and expenditure reserves	17	-	(17)	**-**
	(350)	2,438	(17)	**2,071**
Balance at 31 July 2017	10,698	(9,456)	858	**2,100**

The notes to the financial statements form an integral part of these financial statements

Balance sheet as at 31 July

	Note	**2017**	2016
		£'000	£'000
Non-current assets			
Tangible assets	10	**16,182**	16,738
Current assets			
Inventory		**18**	22
Trade and other receivables	11	**258**	331
Cash and cash equivalents	12	**1,046**	812
		1,322	1,165
Less: Creditors - amounts falling due within one year	13	**(1,961)**	(1,710)
Net current (liabilities)		**(639)**	(545)
Total assets less current liabilities		**15,543**	16,193
Creditors - amounts falling due after more than one year	14	**(3,987)**	(4,270)
Net assets excluding defined benefit pension obligations		**11,556**	11,923
Defined benefit pension obligations	18.3.6	**(9,456)**	(11,894)
Total net assets		**2,100**	29
Unrestricted reserves			
Revaluation reserve		**858**	875
General reserve excluding defined benefit pension obligations		**10,698**	11,048
Defined benefit pension obligations reserve		**(9,456)**	(11,894)
Total unrestricted reserves		**2,100**	29

The financial statements on pages 26 to 49 were approved by the Board of Governors on 13 December 2017 and were signed on its behalf by:

Kate Lovell
Chair

Katy Quinn
Accounting Officer

The notes to the financial statements form an integral part of these financial statements

Statement of cash flows

	Notes	2017	2016
		£'000	**£'000**
Cash flow from operating activities			
(Deficit) for the year		**(1,105)**	(812)
Adjustment for non-cash items			
Depreciation		**838**	811
Loss on disposal of assets		**50**	-
Decrease in inventory		**4**	2
Decrease in debtors		**73**	76
Increase/(decrease) in creditors due within one year		**210**	(53)
(Decrease) in creditors due after one year		**-**	(28)
(Decrease)/increase in provisions		**-**	(81)
Pensions costs less contributions payable		**738**	616
Adjustment for investing or financing activities			
Investment income		**(2)**	(6)
Interest payable		**143**	153
Net cash flow from operating activities		**949**	678
Cash flows from investing activities			
Investment income		**2**	6
Payments made to acquire fixed assets		**(313)**	(298)
		(311)	(292)
Cash flows from financing activities			
Interest paid		**(133)**	(144)
Interest element of finance lease rental payments		**(10)**	(9)
New Finance Leases		**97**	57
Repayments of amounts borrowed		**(246)**	(234)
Capital element of finance lease rental payments		**(112)**	(69)
		(404)	(399)
Increase / (decrease) in cash and cash equivalents in the year		**234**	**(13)**
Cash and cash equivalents at beginning of the year	12	**812**	825
Cash and cash equivalents at the end of the year	12	**1,046**	812

The notes to the financial statements form an integral part of these financial statements

Notes to the financial statements

1. Statement of accounting policies and estimation techniques

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these 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 2016 to 2017 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of accounting

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

Going concern

The financial statements have been prepared on a Going Concern basis with the balance sheet showing net current liabilities of £639,000.

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

The College currently has £4,158,000 of loans outstanding with bankers on terms negotiated in 2013. The terms of the existing agreement are for up to 31 July 2022. 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

Funding body grants
Funding body grants are accounted for under the accrual model as permitted by FRS 102. ESFA grants in respect of adult education and apprenticeships are recognised in the Statement of Comprehensive Income in line with best estimates of what is receivable for the period. The final grant income is normally determined with the conclusion of a year end reconciliation process with the ESFA following the year end, and the results of any funding audits.

The grant from the ESFA for 16-18 education and the Higher Education Funding Council represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

Grants (including research grants and capital grants) from 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.

Tuition fees and education contracts
Income from tuition fees, grants, contracts and other services rendered is recognised to the extent the conditions of the funding have been met or to the extent of the completion of the contract or service concerned.

Capital grants
Capital grants from non-government sources are recognised as income when the College is entitled to the funds subject to any performance related conditions being met.

Other income
Other income is recognised to the extent the conditions of the funding have been met or to the extent of the completion of the contract or service concerned.

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

Agency arrangements
Where the College receives and disburses funds in which it has no direct beneficial interest, such funds are excluded from the income and expenditure account on the grounds that the College does not have direct control over the future economic benefits derived from these funds. The College has applied this policy to certain funds received during the year from the Education and Skills Funding Agency (see note 20).

Accounting for pension benefits

Pension benefits for 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 until 1 April 2016 were contracted out of the State Second Pension.

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

The TPS is a multi-employer scheme and 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.

Somerset and Devon Local Government Pension Scheme (LGPS)
The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. Actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to statement of comprehensive income are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the statement of comprehensive income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

Further details of the pension schemes are given in note 18.

Holiday pay

Holiday pay is recognised as an expense in the year in which the employees render service to the College. Any unused holiday is 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 are stated at cost or, where the assets were revalued to fair value prior to the date of transition to the 2015 FE HE SORP, the revalued amount less accumulated depreciation and accumulated impairment losses.

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.

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

The College applies the following depreciation policy to land and buildings:

- Freehold land is not depreciated.
- Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. Leasehold land and buildings are amortised over 50 years or, if shorter, the period of the lease.
- The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

Finance costs
Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

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

- Market value of the fixed asset has subsequently improved
- Assets capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the assets life beyond that conferred by repairs and maintenance

Buildings owned by third parties
Where land and buildings are used, but the legal rights are held by a third party, they are only capitalised if the College has rights or access to ongoing future economic benefit. These assets are then depreciated over their expected useful economic life.

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.

Equipment
Equipment costing less than £1,000 is treated as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Equipment is depreciated on a straight line basis over its remaining useful economic life as follows:

Motor vehicles and general equipment	-	5 years
Computer equipment	-	3-5 years
Furniture and fittings	-	5 years
Longer life fixtures and fittings	-	10 years

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term to the Statement of Comprehensive Income.

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.

Inventory

Inventory is stated at the lower of cost or net realisable value being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow moving and defective inventory.

Cash and cash equivalents

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

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

Financial liabilities

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

The loan held by the College is classified as a basic financial instrument in accordance with FRS 102. This instrument is initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost; however the College has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost.

Loans and investments that are payable or receivable within one year are not discounted.

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year 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 of the 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 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax (VAT), meaning it can only recover a small proportion of VAT charged on goods and services we purchase. Irrecoverable VAT is included in expenditure or added to the cost of tangible fixed assets as appropriate.

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds, bursary funds, grants for free school meals. Related payments received from the main funding body and subsequent disbursements to students are excluded from the statement of comprehensive income and are shown separately in note 20 except for 5 per cent of the grants received which is available to the College to cover administration costs. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Accounting Officer has made the following judgements:

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

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 18, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. 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

	2017	2016
	£'000	£'000
ESFA – Adult Education	**2,130**	1,712
ESFA – 16-18 Education	**6,298**	6,471
ESFA – Apprenticeships	**881**	420
Higher Education Grant	**68**	80
Somerset County Council Grant	**62**	76
	9,439	8,759

3. Tuition fees and education contracts

	2017	2016
	£'000	£'000
Enrichment course fees	**106**	95
Apprenticeship fees	**19**	21
Further Education Fees	**641**	732
Higher Education Fees	**565**	484
Education contracts	**33**	34
	1,364	1,366

Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £45,000 (2016 - £45,000).

4. Other income

	2017	2016
	£'000	£'000
Catering	**479**	452
Other income generating activities	**583**	463
Other grant income	**14**	13
Non-government capital grants received	**24**	78
Other income	**384**	458
	1,484	1,464

5. Investment income

	2017	2016
	£'000	£'000
Other interest receivable	**2**	6

6. Staff numbers and costs

6.1. Staff numbers

The average number and the full time equivalent of persons employed by the College (including key management personnel) during the year, was as follows:

	Average Number		**Full Time Equivalent**	
	2017	2016	**2017**	2016
Teaching staff	**147**	156	**100**	106
Teaching support staff	**60**	69	**35**	35
Administration and operational staff	**132**	126	**87**	85
	339	351	**222**	226

6.2. Staff costs

Staff costs for the above persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**6,180**	6,253
Social security costs	**519**	442
Other pension costs	**1,393**	1,204
Restructuring costs – non contractual	**27**	-
Total staff costs	**8,119**	7,899

6.3. Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College. At the College this comprises the Executive Management Team which includes the Principal (who also holds the role of Accounting Officer), the Deputy Principal and the Finance Director.

	2017	2016
	Number	Number
The number of key management personnel including the Accounting Officer was:	**4***	4**

In both 2016 and 2017 key management personnel left the college and were replaced. The College typically operates with 3 key managers and in both 2016 and 2017, with the exception of 2 weeks in 2016, only 3 key managers were in post at any time.

The table below indicates the ranges of the annual rate of emoluments of key management personnel. The annual rate of emoluments includes annual salary and benefits in kind but excludes pension contributions.

The annual rate of emoluments is the salary that would be paid and any benefits in kind that would be provided to key management personnel if they were in post throughout the whole financial year. This does not equate to the salary paid and any benefits in kind provided to key management personnel that left or joined the College during the year.

	2017	**2016**
	Number	Number
£60,000 to £70,000	**-**	1**
£70,001 to £80,000	**1**	2
£80,001 to £90,000	**1**	-
£90,001 to £100,000	**-**	-
£100,001 to £110,000	**-**	-
£110,001 to £120,000	**2***	1

* James Staniforth, the College's Principal, CEO and Accounting Officer, left the College in April 2017 and was replaced by Katy Quinn in June 2017. ** Becky Edwards the College's Finance Director left the College in May 2016 and was replaced by David Healey.

1 other member of staff (2016 – nil) had annual emoluments excluding pension contributions but including benefits in kind in excess of £60,000.

Key management personnel compensation is made up as follows:

	2017	2016
	£'000	£'000
Salaries	**256**	257
Employers national insurance	**32**	30
Relocation costs	**3**	-
Total excluding pension contributions	**291**	287
Pension contributions	**40**	39
Total key management personnel compensation	**331**	326

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

The above compensation includes amounts payable to both Accounting Officers during the year of:

	2017	2016
James Staniforth (until 17th April 2017)	**£'000**	£'000
Salaries	**82**	111
Benefits in kind	**-**	-
	82	111
Pension contributions	**14**	18

James Staniforth was the highest paid officer in 2017 and 2016.

	2017	2016
Katy Quinn – (from 6th June 2017)	**£'000**	£'000
Salaries	**17**	-
Relocation costs	**3**	-
	20	-
Pension contributions	**3**	-

No Governors, other than the Principal and the staff Governors, received any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties (2016 - £nil).

7. Other operating expenses

	2017	2016
	£'000	£'000
Premises costs	**402**	389
Subcontracted provision	**1,515**	843
Direct and other costs	**1,723**	1,534
Other staff related costs	**115**	83
Overheads	**396**	399
	4,151	3,248
Other operating expenses include:		
Loss on disposal of assets	**50**	-
Asset useful life correction charge	**139**	-
External Auditors remuneration: Financial statements audit	**20**	21
Internal auditors remuneration: Internal audit	**6**	7

8. Interest and other finance costs

	2017	2016
	£'000	£'000
On bank loans and overdrafts	**111**	126
On finance leases	**10**	9
Net interest on defined pension liability	**304**	314
	425	449

9. Taxation

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

10. Tangible fixed assets

	Land and Buildings	Equipment	Total
	£'000	**£'000**	**£'000**
Cost or valuation			
At 1 August 2016	25,394	1,805	27,199
Additions	-	332	332
Disposals	(283)	(84)	(367)
At 31 July 2017	25,111	2,053	27,164
Accumulated depreciation			
At 1 August 2016	9,498	963	10,461
Charge for year	439	260	699
Eliminated in respect of disposals	(245)	(72)	(317)
Useful life corrections adjustment	134	5	139
At 31 July 2017	9,826	1,156	10,982
Net book value			
At 31 July 2017	**15,285**	**897**	**16,182**
At 31 July 2016	15,896	842	16,738

Land and buildings were valued for the purpose of the 1994 financial statements at depreciated replacement cost by a firm of independent chartered surveyors, in accordance with the RICS Statement of Asset Valuation Practice and Guidance notes. Other tangible fixed assets inherited from the local education authority at incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

During the year a review of fixed assets was undertaken and a number of assets were removed from the College's asset register. This resulted in a loss on disposal of £50,000 of which £36,000 related to an asset that had been replaced by a new building, £8,000 related to costs associated with asset disposals or finance lease extensions with the balance relating to minor items that College had previously ceased using or disposed of.

At the same time misclassifications in the useful lives of a number of assets were identified and these were corrected by recalculating and recognising the additional depreciation. This resulted in a charge of £139,000 relating to previously under recognised depreciation.

Land and buildings with a net book value of £5,297,000 (2016 - £5,297,000) have been partly financed from 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 Skills Funding Agency, to surrender the proceeds.

Equipment cost includes an amount of £402,000 (2016 - £305,000) in respect of assets held under finance leases.

11. Trade and other receivables

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	**88**	128
Prepayments and accrued income	**101**	129
Amounts owed by the Education and Skills Funding Agency	**69**	38
Amounts owed by non-Agency funders	**-**	36
	258	331

12. Cash and cash equivalents

	At 1 August 2016	**Cash flows**	**At 31 July 2017**
	£'000	**£'000**	**£'000**
Cash and cash equivalents	**812**	**234**	**1,046**

13. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Bank loans and overdrafts	**248**	241
Obligations under finance leases	**96**	82
Trade payables	**8**	9
Other taxation and social security	**127**	130
Accruals and deferred income	**692**	659
Staff holiday pay accrual (FRS102 adjustment)	**447**	435
Amounts owed to ESFA	**123**	-
Lennartz Vat claim	**-**	15
Other creditors	**220**	139
	1,961	1,710

14. Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
Bank loans	**3,910**	4,163
Obligations under finance leases	**77**	107
	3,987	4,270

15. Analysis of borrowings

Bank loans and overdrafts

	2017	2016
	£'000	£'000
Bank loans and overdrafts are repayable as follows:		
In the next year	**248**	241
Between one and two years	**255**	248
Between two and five years	**807**	770
In five years or more	**2,848**	3,145
	4,158	4,404

The borrowing of the College has been used to fund its capital investment programme. The borrowing comprises a term loan of £4,158,000 repayable in quarterly instalments until 2031.

On the 10th October 2016 the College entered into a fixed interest rate agreement in respect of the amount owed to Lloyds Bank, at that date, of £4,276,000 for a period of 4.75 years at an interest rate to 2.69%. The final repayment date of 2031 remains unchanged.

The loan is secured only via a negative pledge.

Finance leases

The net finance lease obligations to which the College is committed are:

	2017	2016
	£'000	£'000
In the next year	**96**	81
Between one and five years	**77**	107
	173	188

Finance lease obligations are secured on the assets to which they relate and are all repayable within 5 years.

16. Capital commitments

	2017	2016
	£'000	£'000
Commitments contracted for at 31 July	**-**	23

17. Lease Obligations

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

	2017	**2016**
	£'000	**£'000**
Land and buildings		
In the next year	5	5
Later than one year and not later than five years	6	6
	11	11
Other		
In the next year	6	6
Later than one year and not later than five years	5	11
	11	17

The minimum term of all operating leases end within 5 years.

18. Defined benefit pension obligations

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

18.1. Total pension cost for the year

		2017		2016
		£'000		£'000
Teachers' Pension Scheme contributions paid		**551**		560
Local Government Pension Scheme:				
Contributions paid	**416**		357	
Service cost excluding contributions paid	**423**		291	
Net interest on the defined liability	**304**		314	
Administration expenses	**11**		11	
Charged to the statement of comprehensive income		**1,154**		973
Total pension cost for the year within staff costs		**1,705**		1,533

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Contributions amounting to £117,000 (2016 - £107,000) were payable to the two schemes at 31st July and are included within creditors.

18.2. Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and 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. Retirement and other pension benefits are paid by public funds provided by Parliament.

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 assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location: **https://www.teacherspensions.co.uk/news/employers/2016/06/publication-of-the-valuation-report.aspx**

FRS 102 (28)

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

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

The pension costs paid to TPS in the year amounted to £848,000 (2016 - £871,000)

18.3. Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Peninsular Pensions (part of Devon and Somerset County Councils). The total contribution made for the year ended 31 July 2017 was £482,000 (2016 - £422,000) of which employer's contributions totalled £148,000 (2016 – £137,000) and employees' contributions totalled £335,000 (2016 – £285,000). The agreed employer contribution rate for future years is 16.2%.

18.3.1. Principal Actuarial Assumptions

The following information is based on a full actuarial valuation of the fund as at 31st March 2013 updated to 31st July 2017 by a qualified independent actuary.

	2017	2016
Inflation assumption (CPI)	**2.7**	2.2
Rate of increase in salaries	**3.6**	3.1
Rate of increase in pensions	**2.7**	2.2
Discount rate for scheme liabilities	**2.7**	2.6
Commutation of pensions to lump sums	**50%**	50%

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

	At 31 July 2017	At 31 July 2016
Retiring today		
Males	**23.9**	23.8
Females	**25.1**	26.2
Retiring in 20 years		
Males	**26.1**	26.1
Females	**27.4**	28.5

18.3.2. LGPS assets and liabilities

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

	Value at 31 July 2017 £'000	Value at 31 July 2016 £'000
Equity instruments	**10,514**	7,501
Debt instruments	**1,472**	1,163
Property	**1,315**	1,236
Cash	**677**	176
Gilts	**835**	734
Total fair value of plan assets	**14,813**	10,810

Actual return on plan assets	**1,641**	809
Expected rate of return	2.7%	2.6%

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

	2017	2016
	£'000	£'000
Fair value of plan assets	**14,813**	10,810
Present value of plan liabilities	**(24,269)**	(22,704)
Net pensions (liability)	**(9,456)**	(11,894)

18.3.3. Amounts included in staff costs

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

	2017	2016
	£'000	£'000
Current service cost	**839**	648

18.3.4. Amounts included in investment income

	2017	2016
	£'000	£'000
Net interest income	**(315)**	(325)

18.3.5. Amounts recognised in Other Comprehensive Income

	2017	2016
	£'000	£'000
Return on pension plan assets	**1,359**	429
Other actuarial gains/(losses) on assets*	**2,272**	-
Experience losses arising on defined benefit obligations	**898**	-
Changes in assumptions underlying the present value of the plan liabilities	**(1,353)**	(3,263)
Amount recognised in Other Comprehensive Income	**3,176**	(2,834)

*This year, the accounting results have been updated to be rolled forward from the results of the 2016 valuation of the Fund rather than continuing a roll forward from the results of the 2013 valuation. The Other actuarial gains/(losses) figure shown in the table above includes the effect of this change in approach. Strode College was previously pooled with other college employers in the Fund in order to share experience of risks they were exposed to in the Fund. At the 2016 valuation, it was agreed that the colleges pool would be disbanded, and each college employer would be responsible for their own pensions liabilities and risks. The pool was disbanded in a way such that each college employer would be paying a similar level of deficit contribution. As a result of the disbandment, Strode College was allocated a bigger share of the pool's assets than it had been given previously in order to maintain a similar level of deficit contribution to the other colleges and this is the main source of the Other actuarial gains/(losses) figure shown above. Other effecting factors includes updates to the estimated cash flows and asset returns that were used in previous roll forwards but the effect of these is less significant.

18.3.6. Movement in defined benefit (liability) during year

	2017 **£'000**	**2016** £'000
Net defined benefit (liability) in scheme at 1 August	**(11,894)**	(8,444)
Movement in year:		
Current service cost	**(839)**	(648)
Employer contributions	**416**	357
Net interest on defined benefit (liability)	**(304)**	(314)
Administration expenses	**(11)**	(11)
Actuarial gain or loss	**3,176**	(2,834)
Net defined benefit (liability) in scheme at 31 July	**(9,456)**	(11,894)

18.3.7. Asset and liability reconciliation

Changes in the present value of defined benefit obligations	**2017** **£'000**	2016 £'000
Defined benefit obligations at start of period	**22,704**	18,408
Service cost	**839**	648
Interest cost	**586**	694
Contributions by scheme participants	**147**	137
Experience (losses) on defined benefit obligations	**(898)**	-
Changes in financial assumptions	**1,816**	3,263
Changes in demographic assumptions	**(463)**	-
Estimated benefits paid	**(462)**	(446)
Defined benefit obligations at end of period	**24,269**	22,704

Changes in fair value of plan assets	**2017**	2016
	£'000	£'000
Fair value of plan assets at start of period	**10,810**	9,964
Interest on plan assets	**282**	380
Return on plan assets	**1,359**	429
Other actuarial gains/(losses)	**2,272**	-
Employer contributions	**416**	357
Contributions by scheme participants	**147**	137
Estimated benefits paid	**(462)**	(446)
Administration expenses	**(11)**	(11)
Fair value of plan assets at end of period	**14,813**	10,810

18.3.8. Deficit contributions

The College has entered into an agreement with the LGPS to make additional contributions. Contributions started at £43,000 per annum in 2011-12, and have risen annually. 2016-17 contributions were £76,000. This is in addition to normal funding levels. At the next full valuation the situation will be reviewed again.

19. Related Party Transactions

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

The total expenses paid to or on behalf of the Governors during the year was £nil (2016 - £nil). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College during the year (2016 - None).

20. Amounts Disbursed as Agent

Learner support funds

	2017	2016
	£'000	£'000
Funding body grants – bursary support	**235**	256
Disbursed to students	**(221)**	(241)
Administration costs	**(11)**	(10)
Balance unspent at 31 July, included in creditors	**3**	5

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 have therefore been excluded from the statement of comprehensive income, other than when the College has directly incurred expenditure itself.