Birmingham Metropolitan College

Members' report and financial statements

For the year ended 31st July 2016

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

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

Andrew Cleaves; Principal and CEO; Accounting officer
Louise Jones; Deputy Principal
Helen Ainsbury; Chief Information Officer
Liam Nevin; Company Secretary
Simon Cosson; Director – Finance
Rebecca Hayes; Director – Sales
Sharon Benton; Director – Marketing and Recruitment
Alison Jones; Director – HR and Staff Development

Board of Governors

A full list of Governors is given on pages 13-14 of these financial statements.

Mr L Nevin acted as Clerk to the Corporation throughout the period.

Professional advisers
Financial statements auditors and reporting accountants:

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Internal auditors until 31 July 2016:

Price, Waterhouse and Coopers LLP
Cornwall Court
19 Cornwall St
Birmingham
B3 2DT

From 1 August 2016:

BDO Stoy Hayward LLP
Emerald House
Epsom
Surrey
KT17 1HS

Bankers:

Barclays
PO Box 3333
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Solicitors:

Freeths LLP
6 Bennetts Hill
Birmingham
B2 5ST

Members' report and financial statements

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Members' Report

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

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

Legal status

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

Vision

The College's vision as approved by its members is 'Inspiring Futures, Realising Dreams.' The College will achieve its vision by focussing on its strategic goals, which focus on four areas and are set out as follows:

- Become the most exciting college in the region, providing an inspirational environment for students and securing outstanding outcomes for all
- Delivering the right skills for individuals and employers, supporting strong and sustainable economic growth
- Maintaining financial strength and investing in learning
- Operating a well-run organisation with transformational leadership and efficient systems, becoming the best place to work

In order to achieve these strategic goals the College will build on its core values. The College values, which define how we operate, are:

- Students are at the heart of everything we do
- We are relentless in our desire to continuously improve our teaching and support for all students
- We are passionate about working with employers to meet their skills needs and support strong, sustainable economic growth
- We value and invest in our staff, attracting and developing experts who love what they do
- We look to the future with confidence, adapting to new challenges and working together as a team to ensure continued strength and stability

The College is implementing a cultural change programme. Building a Better BMet which will support and advance the achievement of its strategic goals.

Public Benefit

Birmingham Metropolitan College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 13-14.

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

Operating and Financial Review *(continued)*

In delivering its vision, 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; and
- Links with employers, industry and commerce.

The public benefit of Birmingham Metropolitan College is also covered throughout the Members' Report and Operating Financial Review through the appropriate disclosure notes.

Implementation of strategic plan

During 2014/15 a new strategy was developed and approved by the Corporation. The way in which we deliver skills is changing. It seems likely that future governments will continue to prioritise Apprenticeships and other employer sponsored routes as a method for up skilling the workforce and unlocking employment opportunities.

Similarly, there is an ongoing expectation that local stakeholders will play an increasing role in driving local FE provision, with colleges expected to deliver high quality training and education that supports wider economic needs. It is clear that the sector must adapt to these changes, responding to local skills needs whilst continuing to attract an increasing share of funding from other sources. This will include encouraging more individuals to pay or to take out loans to subsidise their education and training as well as leveraging in a greater financial contribution from employers. Competition in our sector is greater than it has ever been, yet skills gaps and shortages remain. Indeed, there is a growing concern that further economic growth may be constrained by skill shortages.

The UK Commission for Employment and Skills 2014 report, 'Climbing the Ladder: Skills for Sustainable Recovery', makes reference to deep-rooted structural skills and employment challenges in the UK economy. These challenges must be tackled to ensure the economy continues to recover from recession and to maximise growth. Too many people do not have basic skills and qualifications and are disadvantaged when it comes to finding jobs and careers.

As a college that predominantly serves Birmingham and the Black Country, we are very aware of the needs of these local communities, with many areas suffering from high unemployment rates and low skills levels. In January 2015, the unemployment rate in Birmingham was 11.6%, almost twice that of the national average. This figure includes over 6,000 young people claiming Job Seekers Allowance. This issue is mirrored in the Black Country where unemployment is also above the national average, and where the numbers of young people claiming Job Seekers Allowance are equally high. Behind the statistics lie deep-rooted issues of deprivation, high and often multi-generational unemployment and low levels of skills and aspiration. The FE sector has more to do to tackle these skills issues and enable economic growth. The College is determined to play its part here, by providing tailored and flexible learning opportunities that will engage and up skill all of our local communities. BMet's strategy focuses around 4 strategic goals which are outlined in the Vision section above.

BMet has continued to build on these strategic objectives, ensuring that they remain central to the College's plans. During 14/15, following the worsening of the College's financial position, a Recovery Plan was prepared. Many of the actions in that plan have been achieved and the remaining items have been incorporated into the College's annual operating plan. The Recovery Plan was actively monitored during 15/16 to ensure objectives were met and the annual operating plan is monitored on a monthly basis.

Operating and Financial Review *(continued)*

Financial objectives

The College's financial objectives:

	Target 2015/16	Actual 2015/16	Actual 2014/15
Performance ratio	7%	-5%	-25%
Staff costs as % income	60%	60%	66%
EFA/SFA income as % total income	80%*	82%	83%
Cash days	35*	30	19
Positive cash inflow from operations	+ve	-£6,543	-£468
Current ratio	1.0*	0.24	0.16

*target date for these items is 2018

In addition to the measures above, the College also focussed on a number of other targets to improve the underlying performance of the College. These include improving the timeliness and quality of the management accounts, ensuring that budget holders understood their budgets and were measured against them and improving financial control. These targets have now been delivered and these actions are extended into monthly processes.

The College's financial position has now been stabilised and the budget for 2015/16 has been delivered in line with the Recovery Plan. As a result of the financial position at the end of 2015/16 the College was rated inadequate in terms of the SFA's assessment of Financial Health. The Department for Innovation and Skills, through BIS, has provided financial support to the College by way of a loan. Whilst the Financial Health of the College has been restored, the College will continue to be rated as inadequate. The loan is due to be repaid by December 2017.

FINANCIAL POSITION

Financial results

The College generated a deficit in the year of £3,066k (2014/15 a deficit of £16,544k), with a total comprehensive income a deficit of £18,982k (2014/15 a deficit of £19,916k). Over the past year, as documented above, the College has implemented a recovery plan to ensure that it returns to good financial health. The high level of deficit in 2014/15 included a number of one off related items totalling £8,695k (significant staff restructuring costs of £4,987k, write off of fixed assets of £1,208k and other restructuring costs of approximately £2,500k). These costs, in conjunction with an inefficient operating model, led to the significant deficit during 2014/15. The staff restructuring programme, targeted cost reductions in the areas of IT and Estates, together with a tight control of all operating costs during 2015/16 has addressed the issues with an inefficient operating model.

During the year the college changed from reporting under UK GAAP, to reporting under FRS 102, full details of the impact of the change is included in Note 1 & Note 24.

Operating and Financial Review *(continued)*

The College has accumulated reserves of £9,963k (2014/15 £28,945k). The reason for the significant decrease in reserves is due to movements on the pension scheme valuation leading to an increase in pension deficit.

The College has cash balances of £4,716k (2014/15 £3,337k). The increase in cash balances is primarily due to timing differences in the payment for capital expenditure projects.

Tangible fixed asset additions during the year amounted to £4,526k. This is split between land and buildings of £1,475k, assets under construction of £1,374k and equipment of £1,677k. This additional capital expenditure reflects the completion of the James Watt and Erdington campuses during August 2016, significant investment in IT infrastructure and a significant proportion of the cost of development of the new facilities for delivering the building services provision at Stourbridge College campus. The investment in these new facilities all help to improve the education and training that can be provided to our students.

Treasury policies and objectives

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

The College has a separate treasury management policy.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. Such arrangements are restricted by limits in the Financial Memorandum with the SFA. All other borrowing requires the authorisation of the Corporation and complies with the requirements of the Financial Memorandum of the Skills Funding Agency.

For the financial years to 31 July 2015 and 31 July 2016, the College did not meet all financial covenants set by banking institutions in relation to borrowing arrangements. The breaches of covenants were as follows:

- Barclays Bank – the ratio of current assets to current liabilities must not fall below 1:1 at any time
- Lloyds Bank – the College did not inform the bank that Stourbridge College and Birmingham Metropolitan College were going to merge.

As a result of these breaches of covenant, the long term elements of the loans with the two banks were reclassified to short term. The revised covenants were not finalised until after 31 July 2016 and therefore the balance remains in current liabilities at the year end.

Cash flows and liquidity

At £1,379k inflow (2014/15 £16,743k outflow), College cash flows were significantly better than in previous years years, although a significant part of this improvement was due an overall inflow from financing activities of £9.1 million, which incorporates a new loan mentioned below. Operating cash flows were significantly worse at £6,543k, due to the funding of exceptional costs named in 14/15 and repayment to the SFA £4.5m of funding.

As set out in Note 15 the college breached its bank covenants. As a result of this, the banks are able to request immediate repayment of these loans (and they are therefore shown as short term liabilities) although the College does not anticipate this right will be exercised.

During August 2015 the College took out a loan from BIS/SFA as part of its Recovery Plan, the balance of which was £14.5m at 31st July 2016. The repayment of the loan is being funded from a mixture of operating cash flows and property disposals.

Operating and Financial Review *(continued)*

During the recovery period cash flow will continue to be a matter of concern for the College and need to be monitored carefully. The Statement of Accounting Policies at note 1 states there is a material uncertainty regarding going concern, together with the circumstances surrounding this.

Reserves

The College does not have a formal Reserves Policy in place; however it does recognise the importance of reserves in the financial stability of an organisation, whilst ensuring that adequate resources are provided for the College's core business. The College currently holds no restricted reserves. As at the balance sheet date, total reserves are £9,963k (2015: £28,945k). Reserves have deteriorated due to pension scheme valuation deficits. It is the Corporation's intention to increase reserves over the life of the current strategic plan, by the generation of annual operating surpluses.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2015 to 31 July 2016, the College paid 51.8% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

CURRENT AND FUTURE DEVELOPMENTS

Financial health

Improving the College's financial health is a key priority. The College's recovery plan has now been incorporated into the College Operating Plan which ensures that all areas of the College continue to develop for the benefit of its students. The College's financial health under the SFA assessment is unsatisfactory, due to the support loan the College has in place.

Student achievements

Success rates for 2015/16 are 80.7% compared with 2014/15 - 80.8%.

Curriculum developments

The College continues to develop its curriculum to meet the needs of the local population. Significant focus is being placed on development of the current apprenticeship offer and to ensure it meets the needs of both regional and national employers with the implementation of the levy in April 2017 and the transition from the current frameworks through to the new standards.

Future developments

The College will continue to invest in improving provision for students. Investment may be limited during the College's recovery period as significant cash flows are committed to repaying loans to the SFA. However, as resources permit, these investments will continue to be made.

As a result of the Birmingham and Solihull Area Review, the College has committed to working with the other two Colleges in the area to develop two new organisations on a joint venture basis. The first of these is the development of an Apprentice Organisation to increase the number of apprenticeships available across the Birmingham and Solihull LEP area.

Operating and Financial Review *(continued)*

Development of this organisation is progressing and it is targeted with being operational during the 2016/17 academic year. The second organisation is an Institute of Technology which not only brings together the local general further education colleges but also involves the regions' universities. This organisation will be key to providing career pathways within the midlands region.

Events after the end of the reporting period
No significant events have been identified during the period from 31 July 2016 up to the date of signing of the accounts.

Staff and Learner involvement

The College is committed through its strategic plan to increase staff involvement in decision-making. All major policy decisions are shared with staff following initial discussions at College Management level. The College Faculties ensure that matters are communicated at meetings. The Principal also informs staff directly through regular bulletins and staff briefings.

Learners receive communications via inductions, briefings, Student MET and their Directorate lecturers. In addition the Student Campus Committees provide valuable feedback and provide a student voice for the College.

The College's Corporation includes members from both the staff and the student body.

RESOURCES

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

Tangible resources are shown below:

Financial

The College has £9.963m of net assets (including £47.741m pension liability) and debt of £24.475m.

People

The College employs 913 people (expressed as full time equivalents), of whom 530 are teaching staff.

Reputation

The College has a good reputation both regionally and nationally. Maintaining a quality brand is essential for the College's success, for attracting learners and developing external relationships.

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, risk management is delivered through the College Directorates; and a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact to the College.

Operating and Financial Review *(continued)*

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 executive will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

This is supported by a risk management training programme through the Directorates, to raise awareness of risk throughout the College.

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

1. Government Funding

 - The College has considerable reliance on continued government funding through the education sector funding bodies and HEFCE. In 2015/16, 84.3% of the College's revenue was public funded and this level of requirement is expected to continue.

 - There can be no assurance that government policy or practice will remain consistent or that public funding will continue at the levels or on the same terms. With the current economic pressures, the College will need to guard against the prospect of reduced funding to the further education sector.

This risk is mitigated in a number of ways:

- To closely monitor the evolving education agenda and the changes as outlined by the Government;
- To optimise income streams and seek alternative sources of income including HE, and full cost recovery provision; and
- To manage the College's cost base and maximise efficiencies in all expenditure headings in line with the College's strategic plan.

2. The College is aware of the following issues which may impact on the funding methodology.

 - The re-routing of apprenticeship funding to employers, eventually through the trail blazer apprenticeships and the employer levy.

 - The government is reviewing its priorities for the adult skills sector following the budgetary constraints of the UK economy and match this with the skills needed for the UK to compete in the global economy.

 - Following on from Government policy austerity changes further changes in the sector anticipates that greater consolidation will occur amongst the funding bodies, other agencies and providers, with reductions in the rates of funding likely.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements;
- By ensuring the College is rigorous in delivering high quality education and training;
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies;

Operating and Financial Review (continued)

- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding;
- Regular dialogue with funding bodies; and
- Implementation of an income growth and diversity strategy.

3. Tuition fee policy

- In line with the majority of other colleges, the College increased tuition fees in accordance with the rising fee assumptions. The risk for the College is that demand falls as fees increase. This may impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College endeavours to deliver high quality education and training, thus ensuring value for money for students;
- Close monitoring of the demand for courses as prices change; and
- Monitor the impact on fee income. To date, increases have not drastically affected levels of fee income.

STAKEHOLDER RELATIONSHIPS

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

- Students
- Education Sector Funding bodies
- FE Commissioner
- Staff
- Local employers (with specific links)
- Local Authorities
- Local Enterprise Partnerships (LEPS)
- Government Offices
- The local community
- Other FE institutions
- Trade unions
- Professional bodies
- The College's banks

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

Equal opportunities and employment of disabled persons

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This

Operating and Financial Review (continued)

policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy is published on the College's Intranet site.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010.

The College 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.

Disability statement

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

- As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2008/09, and the results of this formed the basis of funding capital projects aimed at improving access.
- The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- 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 Handbook, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of Information to Auditors

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

Approved by order of the members of the Corporation on 18 May 2017 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. in accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
iii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2016. The Corporation 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, which it formally adopted in December 2012.

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

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below[1].

The table is up to and including the December 2016 meeting of the Corporation and will be updated to reflect attendance at the meeting of March 16th 2017.

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Attendance
Jenni Ord	1 June 2013	31 August 2017		Independent	Academic Standards and Quality Development Committee. Finance Committee Governance and Search/Remuneration Committee	8 out of 11
Andrew Madden	1 April 2010	31 August 2017		Independent	Audit Committee	10 out of 11
Veronica Docherty	1 August 2010	31 July 2017		Independent	Academic Standards and Quality Developments Committee	11 out of 11

					Governance and Search/Remuneration Committee Finance Committee	
Kathryn James	10 October 2011	31 August 2016	19 May 2016	Independent	Audit Governance and Search/Remuneration	4 out of 7
Anthony McCourt	29 March 2012	28 March 2016	31 July 2016	Independent	Audit	6 out of 8
Steve Hollis	1 September 2013	31 August 2017		Independent	Finance Committee Governance and Search/Remuneration	11 out of 11
Taher Hussain	1 September 2013	31 July 2016		Staff Member	Audit	7 out of 8
Dagen Thompson	1 September 2013	31 July 2016		Staff Member	Academic Standards and Quality Development	6 out of 8
Philip Cornish	1 March 2015	28 February 2016		Student Member	Academic Standards and Quality Development Committee	3 out of 4
Henry Millin	17 March 2016	16 March 2017		Student Member	Academic Standards and Quality Development Committee	4 out of 7
Sheetal Sahdev	17 March 2016	16 March 2017		Student Member	Academic Standards and Quality Development Committee	5 out of 7
Sonia Crook-Lake	15 September 2016	14 September 2017		Staff Member	Academic Standards and Quality Development Committee	3 out of 3
Jane Smith	15 September 2016	14 September 2017		Staff Member	Audit Committee	3 out of 3
Andrew Cleaves	1 June 2014			Ex officio member as Principal		11 out of 11
Joel Blake	21 July 2016	20 July 2020		Independent	Finance Committee	3 out of 3
Keith Horton	21 July 2016	20 July 2020		Independent	Academic Standards and Quality Development Committee	3 out of 3
Michele Larmour Hilary Smyth-Allen	20 October 2016 20 October 2016	19 October 2020 19 October 2020		Independent Independent	Audit Committee Finance Committee	1 out of 2 2 out of 2
Amardeep Gill Simon Thompson	15 December 2016 15 December 2016	14 December 2020 14 December 2020		Independent Independent	Audit Committee Audit Committee	

Mr Liam Nevin acts as the Company Secretary.

Statement of Corporate Governance and Internal Control *(continued)*

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

The Corporation is provided with information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets as a minimum on a termly basis and holds a number of "keeping in touch" sessions with management between meetings to keep informed of College matters.

The Corporation conducts its business through a number of committees. During 2015/16 the following committees were in place; Audit, Remuneration, Governance and Search, Finance and Academic Standards and Quality. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.bmet.ac.uk or from the Company Secretary:

Birmingham Metropolitan College
Jennens Road
Birmingham
B4 7PS.

The Company Secretary maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Accounting Officer of the College are separate.

Appointments to the Corporation

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

Members of the Corporation are appointed for a term of office not exceeding four years, with extensions allowing a maximum term of office of eight years.

Statement of Corporate Governance and Internal Control *(continued)*

Corporation performance

Following the 2015 self-evaluation the following actions have been taken to address the areas for improvement identified by the Corporation:

- Induction: There is now a structured induction programme provided to all new Corporation members
- Development and Training: There is a dedicated governors web page with self-help materials and details of AoC courses for governors. This will be kept under review and feedback is encouraged as usage appears to have been limited.
- Networking Opportunities: Governors are now routinely invited to seminars, breakfast meetings and other events hosted by the College which present opportunities to network, particularly with employers.

  The 2016 self- assessment carried out at the Away Day on the 20 October identified three areas of concern for governors:
    - Contact and involvement of governors between formal meetings
    - External focus and advocacy
    - Contact with and a good understanding of learners and teachers

Remuneration Committee

Throughout the year ending 31 July 2016, the College's Remuneration Committee comprised of four members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior post-holders.

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

Audit Committee

The Audit Committee comprises of four members of the Corporation (which exclude the Accounting Officer and Chairman). The Committee operates in accordance with its written terms of reference approved by the Corporation. Its purpose is to advise the Corporation 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 funding bodies and 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 of input and report their findings to management and the Audit Committee.

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

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

Statement of Corporate Governance and Internal Control *(continued)*

Internal Control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the SFA. He is also responsible for reporting to the Corporation 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 on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Birmingham Metropolitan College for the year ended 31 July 2016 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

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

The risk and control framework

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

The College has an internal audit service, which operates in accordance with the requirements of the SFA and EFA's Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of

Statement of Corporate Governance and Internal Control *(continued)*

risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee.

As a minimum, the Head of Internal Audit (HIA) annually provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes. The report includes an independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

- The work of the internal auditors
- The work of the executive directors within the College who have responsibility for the development and maintenance of the internal control framework
- Comments made by the College's financial statements auditors, the regularity auditors, and the funding assurance 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 Executive 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 Executive 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 Corporation receives reports from the Executive Team and the Audit Committee in relation to internal audit and other risks. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2016 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the Executive Team and internal audit, and taking account of events since 31 July 2016.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. The assessment made regarding Going Concern is set out on page 30 and this indicates that that there is a material uncertainty that may cast significant doubt on that conclusion in so far as the College is dependent on the ongoing support of the banks, the DfE and the SFA and without that support the College may be unable to continue as a going concern.

Approved by order of the members of the Corporation on 18 May 2017 and signed on its behalf by:

Mr Steve Hollis	Andrew Cleaves
Chairman of the Corporation	*Principal and Chief Executive Officer*

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

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

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency'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 Skills Funding Agency

Mr Steve Hollis
Chairman of the Corporation
18 May 2017

Andrew Cleaves
Principal and Chief Executive Officer
18 May 2017

Statement of the responsibilities of the members of the Corporation

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

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

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

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

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and 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 Birmingham Metropolitan College website is the responsibility of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Approved by order of the members of the Corporation on 18 May 2017 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

Independent auditor's report to the Corporation of Birmingham Metropolitan College

We have audited the financial statements of Birmingham Metropolitan College for the year ended 31 July 2016 set out on pages 25 to 55 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This report is made solely to the Corporation, as a body, in accordance with **Article 22** of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required to state to them in an 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 Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of Birmingham Metropolitan College and Auditor

As explained more fully in the Statement of the Responsibilities of the Members of the Corporation set out on page 20, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Members' Report[1] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Going Concern section of the Statement of Accounting Policies on page 30 concerning the College's ability to continue as a going concern. The College made an operating deficit of £4.475 million in the year to 31 July 2016 and had net current liabilities of £19.764 million at that date. The College is reliant on the continued support of the Skills Funding Agency and its bankers for continued provision of existing loan facilities and if necessary deferral of repayments on an interest-free loan facility from DfE under the 'FE College Financial Intervention and Exceptional Financial Support.' The matters explained on page 30 indicate the existence of a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the College were unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Joint Audit Code of Practice (June 2016) issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

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

Anthony Felthouse
For and on behalf of KPMG LLP, Statutory Auditor
Date: 23 May 2017

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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

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

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

This report is made solely to the corporation of Birmingham Metropolitan College and the 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 Birmingham Metropolitan College 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 Birmingham Metropolitan College and Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Birmingham Metropolitan College and the reporting accountant

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

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

Approach

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

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

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

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

The work undertaken to draw our conclusion included:

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

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

Conclusion

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

Anthony Felthouse
For and on behalf of KPMG LLP, Reporting Accountant
Date: 23 May 2017

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Statement of Comprehensive Income
for the year ended 31 July 2016

	Note	2016	2015
		£'000	£'000
Income			
Funding body grants	2	**49,413**	57,251
Tuition fees and education contracts	3	**8,099**	8,349
Other income	4	**1,257**	930
Investment income	5	**40**	90
Total income		**58,809**	66,620
Expenditure			
Staff costs	6	**35,398**	44,135
Fundamental restructuring costs	6	**150**	4,987
Other operating expenses	7	**20,248**	26,091
Depreciation	10	**5,732**	4,994
Interest and other finance costs	8	**1,756**	1,749
Total expenditure		**63,284**	81,956
Deficit before other gains and losses		**(4,475)**	(15,336)
Profit on disposal of assets	10	**1,409**	(1,208)
Deficit before tax		**(3,066)**	(16,544)
Taxation	9	**-**	-
Deficit for year		**(3,066)**	(16,544)
Actuarial loss in respect of pension scheme		**(15,916)**	(3,372)
Total Comprehensive Income and Expenditure for the year		**(18,982)**	(19,916)

The income and expenditure account is in respect of continuing activities.

Statement of Changes in Reserves
for the year ended 31 July 2016

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1st August 2014	37,109	11,752	48,861
Deficit from the income and expenditure account	(16,544)	-	(16,544)
Other comprehensive income	(3,372)	-	(3,372)
Transfers between revaluation and income and expenditure reserves	309	(309)	-
	(19,607)	(309)	(19,916)
Balance at 31st July 2015	17,502	11,443	28,945
Deficit from the income and expenditure account	(3,066)	-	(3,066)
Other comprehensive income	(15,916)	-	(15,916)
Transfers between revaluation and income and expenditure reserves	309	(309)	-
Total comprehensive income and expenditure for the year	(18,673)	(309)	(18,982)
Balance at 31 July 2016	(1,171)	11,134	9,963

Balance sheet
as at 31 July 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Tangible Fixed assets	*10*	**109,754**	111,636
Investments	*11*	**1,940**	1,940
		111,694	113,576
Current assets			
Trade and other receivables	*12*	**1,575**	2,700
Cash and cash equivalents	*17*	**4,716**	3,337
		6,291	6,037
Less: Creditors - amounts falling due within one year	*13*	**(26,055)**	(38,884)
Net current liabilities		**(19,764)**	(32,847)
Total assets less current liabilities		**91,930**	80,729
Creditors - amounts falling due after more than one year	*14*	**(30,921)**	(18,417)
Provisions			
Defined benefit obligations	*16*	**(47,741)**	(30,063)
Other provisions	*16*	**(3,305)**	(3,304)
Total net assets		**9,963**	28,945
Unrestricted Reserves			
Income and expenditure account		**(1,171)**	17,502
Revaluation reserve		**11,134**	11,443
Total unrestricted reserves		**9,963**	28,945

The financial statements on pages 25 to 55 were approved by the Corporation on 18 May 2017 and were signed on its behalf by:

Mr Steve Hollis
Chair of the Corporation

Mr Andrew Cleaves
Accounting Officer

Statement of Cash Flows
for the year ended 31 July 2016

	Notes	2016	2015
		£'000	£'000
Cash flow from operating activities			
Deficit for the year		**(3,066)**	(16,544)
Adjustment for non-cash items			
Depreciation		**5,732**	4,994
Decrease in debtors		**611**	373
Decrease / (increase) in creditors due within one year		**(10,757)**	7,313
Increase in creditors due after one year		**-**	827
Increase in provisions		**1**	(22)
Pensions costs less contributions payable		**1,810**	1,305
Adjustment for investing or financing activities			
Investment income		**(40)**	(90)
Interest payable		**559**	605
(Profit)/Loss on sale of fixed assets		**(1,393)**	1,707
Net cash flow from operating activities		**(6,543)**	468
Cash flows from investing activities			
Proceeds from sale of fixed assets		**1,497**	-
Investment income		**40**	90
Payments to acquire fixed assets		**(2,701)**	(16,364)
		(1,164)	(16,274)
Cash flows from financing activities			
Interest paid		**(559)**	(605)
New unsecured loans		**11,500**	-
Repayments of amounts borrowed		**(1,855)**	(332)
		9,086	(937)
Increase / (decrease) in cash and cash equivalents in the year		**1,379**	(16,743)
Cash and cash equivalents at beginning of the year	*17*	**3,337**	20,080
Cash and cash equivalent at end of the year	*17*	**4,716**	3,337

Notes

(forming part of the financial statements)

1 Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Transition to the 2015 FE HE SORP

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 24.

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

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

- Revaluation as deemed cost – at 1st August 2015, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition
- The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Going concern

The financial statements have been prepared on the going concern basis, which the Corporation believes to be appropriate on the basis set out below. The College made an operating deficit of £4.475 million in the year to 31 July 2016 and had net current liabilities of £19.764 million at that date.

The College has implemented a recovery plan to improve the financial position and put it on stable financial footing. The initial recovery plan was largely achieved by the end of the 2015/16 financial year and for 2016/17 the recovery actions incorporated into the Annual Operating Plan. The Annual Operating Plan for 2016/17 is substantially on track and its implementation will continue to underpin the College's recovery.

A key element of the recovery was to gain support of both the Skills Funding Agency (SFA) and the College's bankers - Lloyds and Barclays. The SFA has further reinforced its support by providing an interest free £16 million loan to the College in 2015/16, under the 'FE College Financial Intervention and Exceptional Financial Support (initially from BIS, however this has been transferred to the Department for Education (DfE) following changes within government in the Autumn of 2016), of which £1.5 million has already been repaid during 2015/16. The remaining amounts will be repaid principally from the disposal of surplus properties and the balance from operating cash flows. However, if the capital receipts do not crystallise, this could result in the College having to seek a deferral of its loan repayments. The College is dependent on DfE to provide those loan repayment deferrals, and has indicated it would provide such support, if necessary

As detailed at Note 13, the College currently has £9.975 million of loans outstanding with its two banks, and having breached its loan covenants in the absence of a waiver at 31 July 2016, this amount has been wholly classified as due within one year in line with Financial Reporting Standards. The banks have indicated their continuing support to the College and, subsequent to the year end, the College negotiated revised covenant suites with both banks. The bank loan repayment periods however remain unchanged and the College expects, subject to the below, to stay within the revised loan covenant criteria.

Furthermore, the Further Education (FE) Commissioner has given his approval of the recovery plan that has been put in place. The College continues to be monitored by the FE Commissioner under the intervention process. In addition the SFA continues to support the College and monthly case meetings are in place to review progress. Regular meetings with the banks are held to monitor progress and ensure financial targets are met.

The College has recently concluded an investigation that identified some historic funding irregularities. As a result, the College has agreed to repay approximately £1 million of funding to the SFA relating to prior financial years, which has been provided for in these financial statements. The College will also be reviewing some further historic sub-contracting arrangements in conjunction with the SFA. The total value of these arrangements is approximately £2 million and the timescale for this review is likely to extend into 2017/18. At this time the College is unable to estimate what proportion, if any, of this amount will be subject to repayment.

Whilst the Corporation recognises that the outcome of this review may lead to a further breach of the College's banking covenants, it is understood the banks intend to continue to support the College and specifically have no intention to call in the existing loan facilities for at least the next twelve months. Furthermore, the SFA has indicated that it will support a deferred repayment plan if necessary in relation to both the £1 million and any further repayment of funding that may arise from the conclusion of the investigations.

Based on the above indications the Corporation believes it is appropriate to prepare the financial statements on a going concern basis. However, there is a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern. Without the support of the banks and the SFA and DfE as

Notes *(continued)*

1 Statement of accounting policies *(continued)*

identified above the College may be unable to continue realising its assets and discharging its liabilities in the normal course of business. However, the financial statements do not include any adjustments that would result from a withdrawal of support by either the SFA, DfE or the banks.

Recognition of income

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

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

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

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

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

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

Accounting for post-employment benefits

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

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

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also

Notes *(continued)*

1 Statement of accounting policies *(continued)*

recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

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

Short term Employment benefits

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

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

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

Land and buildings

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:
- Freehold – 50 years
- Leasehold – 50 years
- Refurbishments – 15 years

Freehold land is not depreciated.

Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

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

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future.

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Equipment

Equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Inherited equipment is depreciated on a straight line basis over its remaining useful economic life to the College of one and a half to four years. All other equipment is depreciated over its useful economic life as follows:

Motor vehicles and general equipment	-	3-8 years
Computer equipment	-	3 years
Furniture and fittings	-	8 years
Plant	-	8-10 years

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Investments

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

Inventories

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

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Financial liabilities and equity

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

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial 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 Finance Act 2011 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2011 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

Provisions and contingent liabilities

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

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

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

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds and 16-19 Bursary Fund. Related payments received from the main funding body and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in note 23 except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs several member(s) of staff dedicated to the administration of Learner Support Fund applications and payments.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

  The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 21, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes *(continued)*

2 Funding body grants

	2016	2015
	£'000	£'000
Skills Funding Agency	**15,306**	20,211
Education Funding Agency	**32,341**	34,964
Specific grants		
Skills Funding Agency	**379**	337
European Social Fund	**-**	601
Releases of deferred capital grants	**825**	625
HE grant	**562**	513
	49,413	57,251

3 Tuition fees and education contracts

	2016	2015
	£'000	£'000
Adult education fees	**2,456**	2,274
Apprenticeship fees and contracts	**821**	967
Fees for FE loan supported courses	**1,454**	1,272
Fees for HE loan supported courses	**653**	848
Total tuition fees	**5,384**	5,361
Education contracts	**2,715**	2,988
	8,099	8,349

	2016	2015
	£'000	£'000
4 Other income		
Catering and residences	**9**	7
Other income generating activities	**4**	8
Non-government capital grants	**170**	96
Miscellaneous income	**1,074**	819
	1,257	930

5 Investment income

	2016	2015
	£'000	£'000
Other interest receivable	**40**	90

Notes *(continued)*

6 Staff numbers and costs

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

	2016 FTE's	2015 FTE's
Teaching staff	**530**	776
Non-Teaching staff	**383**	531
	913	1,307

The numbers above do not include estimates of the staff numbers employed through contracting out arrangements

Staff costs for the above persons

	2016 £'000	2015 £'000
Wages and salaries	**27,970**	35,993
Social security costs	**2,232**	2,708
Other pension costs (including pension accounting adjustments of £613,000 (2015: £176,000))	**5,196**	5,434
Payroll sub total	**35,398**	44,135
Fundamental restructuring costs - Contractual	**150**	4,987
Total Staff costs	**35,548**	49,122

Notes *(continued)*

6 Staff numbers and costs *(continued)*

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal, Company Secretary and other senior academic and support posts. Staff costs include compensation paid to key management personnel for loss of office.

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

	2016	2015
	No.	No.
The number of key management personnel including the Accounting Officer was:	9	6

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

	Key management personnel		Other staff	
	2016	2015	2016	2015
	No.	No.	No.	No.
£60,001 to £70,000 p.a.	-	1	12	5
£70,001 to £80,000 p.a.	3	1	6	9
£80,001 to £90,000 p.a.	2	-	5	2
£90,001 to £100,000 p.a.	-	1	4	4
£100,001 to £110,000 p.a.	-	1	-	-
£110,001 to £120,000 p.a.	-	-	1	1
£120,001 to £130,000 p.a.	2	1	-	-
£130,001 to £140,000 p.a.	-	-	-	3
£180,001 to £190,000 p.a.	-	-	-	1
£260,001 to £270,000 p.a.	1	1	-	-
	8	6	28	25

Notes *(continued)*

6 Staff numbers and costs *(continued)*

Key management personnel compensation is made up as follows:

	2016	2015
	£'000	£'000
Salaries	1,185	685
Employers National Insurance	130	84
Benefits in kind	-	-
	1,315	769
Pension contributions	128	83
Total key management personnel compensation	1,443	852

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 include amounts payable to Accounting Officer 1 August 2015 to 31 July 2016 (who is also the highest paid senior post-holder) of:

	2016	2015
	£'000	£'000
Salaries	266	266
Pension contributions	36	36
	302	302

The emoluments below were amounts payable to the former Accounting Officer

	2016	2015
	£'000	£'000
Salaries	-	32
Pension contributions	-	4
	-	36

The pension contributions in respect of the Accounting Officer and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and the West Midlands Group Pension Scheme and are paid at the same rate as for other employees.
The members of the Corporation other than the Accounting Officer and other staff members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Compensation for loss of office paid to former senior post-holders

	2016	2015
	£'000	£'000
Compensation paid and payable	-	83

Notes *(continued)*

7 Other operating expenses

	2016 £'000	2015 £'000
Teaching costs	**4,286**	6,554
Non-teaching costs	**9,445**	12,088
Premises costs	**6,517**	7,449
	20,248	26,091

Other operating expenses include:		
Auditor's remuneration:		
Financial statements audit	**37**	41
Internal audit	**51**	22
Other services from external audit		-
Losses on disposal of tangible fixed assets	**15**	1,208
Hire of other assets – operating leases	**325**	374

8 Interest payable

	2016 £'000	2015 £'000
On bank loans and overdrafts:		
Repayable within five years, not by instalments	**560**	605
Enhanced Pensions	**81**	99
Pension finance costs	**1,115**	1,045
	1,756	1,749

Notes *(continued)*

9 Taxation

The members 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 Freehold	Long leasehold	Assets under the course of construction	Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2015	132,831	110	8,427	9,584	150,952
Additions	1,475	-	1,374	1,677	4,526
Transfer from Assets under the course of construction	7,586	-	(8,427)	841	-
Disposals	(820)	-	-	(12)	(832)
At 31 July 2016	**141,072**	**110**	**1,374**	**12,090**	**154,646**
Accumulated depreciation					
At 1 August 2015	33,584	22	-	5,710	39,316
Charge for year	4,343	4	-	1,385	5,732
Eliminated in respect of disposals	(151)	-	-	(5)	(156)
At 31 July 2016	**37,776**	**26**	-	**7,090**	**44,892**
Net book value					
At 31 July 2016	**103,296**	**84**	**1,374**	**5,000**	**109,754**
At 31 July 2015	99,247	88	8,427	3,874	111,636

Notes *(continued)*

11 Investments

The College holds a capital investment in Harborne Academy. This totalled £1,940,000 at 31 July 2016 (2015: £1,940,000).

12 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade receivables	**400**	1,387
Other debtors	**9**	446
Prepayments and accrued income	**981**	600
Amounts owed by the SFA	**185**	267
	1,575	2,700

13 Creditors: Amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	**9,975**	10,319
BIS Loan	**1,500**	4,500
Trade creditors	**120**	1,969
Obligations under VAT Scheme	**6**	17
Other taxation and social security	**1,253**	1,463
Payments received on account	**1,542**	2,649
Accruals	**7,199**	12,448
Deferred income – government capital grants	**752**	779
Amounts owed to the Skills Funding Agency	**3,708**	4,740
	26,055	38,884

14 Creditors: Amounts falling due after more than one year

	2016 £'000	2015 £'000
BIS loan	13,000	-
Deferred income – government capital grants	17,921	18,417
	30,921	18,417

Notes *(continued)*

15 Maturity of debt

Loans and overdrafts

	2016	2015
	£'000	£'000
Loans and overdrafts are repayable as follows:		
Bank loans -In one year or less	**11,475**	10,319
BIS Loan -Between one and two years	**13,000**	-
	24,475	10,319

At 31 July 2015 and 2016, loan covenants with Lloyds and Barclays Bank had been breached and formal waivers from the banks were not in place as at those dates. The College has discussed and agreed its financing position with banks subsequent to the year end, and negotiated revised covenant suites, although the loan repayment periods remain unchanged. However, in accordance with Financial Reporting Standards, the College was deemed not to have an unconditional right to defer payment for more than 12 months at the balance sheet date.

During 2014 the former Sutton Coldfield College loan was completed. There are now three loans in progress, two from the former Matthew Boulton College and one from the former Stourbridge College.

1. The former Matthew Boulton College loan is secured on a portion of the freehold land and buildings of the Matthew Boulton Campus, bears interest at 6.07% and 5.95% and is repayable by instalments falling due between 1 August 2007 and 31 July 2030. The outstanding balance transferred on merging was £3,732,000.

2. The former Stourbridge College loan agreement with Lloyds Bank bears interest at 5.195%, 5.250%, 5.280% and 5.345% and is repayable by instalments falling due between 2011 and 2035. The outstanding balance transferred on merging was £7,686,000.

The BIS loan is repayable in instalments by 31 July 2018.

Notes *(continued)*

16 Provisions for liabilities and charges

	Defined benefit obligation £'000	VAT £'000	Other provisions £'000	Enhanced Pension £'000	Total £'000
At 1 August 2015	30,063	64	883	2,357	33,367
Expenditure in the period	-	(64)	(50)	(163)	(277)
Additions in period	17,678	-	176	102	17,956
At 31 July 2016	**47,741**	**-**	**1,009**	**2,296**	**51,046**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 21.

Other provisions consists relates to dilapidations for the Advanced Technology Centre, The Language Centre, The Skills Shop and Hoo Road.

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

The principal assumptions for this calculation are:

	2016	2015
Price inflation	2.30%	3.46%
Discount rate	1.30%	1.75%

Other provisions reflect the dilapidations amounts expected where decisions have been made to vacate leased buildings.

17 Cash and cash equivalents

	At 1st August 2015 £'000	Cash flows £'000	**At 31st July 2016 £'000**
Cash at bank and in hand	**3,337**	1,379	**4,716**

18 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted for at 31 July	**418**	1,294
Commitments authorised but not contracted for at 31 July	-	-

Notes *(continued)*

19 Lease obligations

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

	2016 £'000	2015 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	**128**	-
Later than one year and not later than five years	**1,204**	1,121
Later than five years	**4,024**	6,142
	5,356	7,263
Other		
Not later than one year	**234**	13
Later than one year and not later than five years	-	424
Later than five years	-	-
	234	437

20 Contingent liability

The College has no contingent liabilities as at 31 July 2016 *(2015: £nil)*.

Notes *(continued)*

21 Defined obligations

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

Total pension cost for the year

	2016		2015	
	£'000	**£'000**	£'000	£'000
Teachers' Pension Scheme: contributions paid		**2,431**		2,836
Local Government Pension Scheme:				
Contributions paid	**2,152**		2,422	
FRS 102 (28) charge	**613**		176	
Charge to the Income and Expenditure Account (staff costs)		**2,765**		2,598
Enhanced pension charge to Income and Expenditure Account (staff costs)				
Total Pension Cost		**5,196**		5,434

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

Contributions amounting to £573,000 (2015: £661,000) were payable to the scheme at 31st July and are included within creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting And Valuation Account

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

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- Total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion; and
- An employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS was implemented in September 2015.
A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £3,783,901 (2015: £4,724,493).

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.

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by West Midlands Pension Fund. The total contribution made for the year ended 31 July 2016 was £1,862,829 of which employers contributions totalled £1,229,650 and employee's contributions totalled £633,239. The agreed contribution rates for future years are 13.5% for employers plus a fixed past service lump sum and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

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

	2016	2015
Rate of increase in salaries	**3.75%**	3.95%
Future pensions increases	**2.00%**	2.20%
Discount rate for scheme liabilities	**2.50%**	3.80%
Inflation assumption (CPI)	**2.00%**	2.20%
Commutation of pensions to lump sums	**50.0%**	50.0%

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

	At 31 July 2016	At 31 July 2015
Retiring today		
Males	**23.0**	23.0
Females	**25.7**	25.6
Retiring in 20 years		
Males	**25.3**	25.2
Females	**28.1**	28.0

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

The assets and liabilities in the scheme (of which the College's share is estimated at less than 1% of the fund) and the expected rates of return were:

	Long term rate of return Expected at 31 July 2016	**Value at 31 July 2016**	Long term rate of return Expected at 31 July 2015	Value at 31 July 2015
Equities		**37,280**	6.50%	33,282
Bonds – Government		**4,358**	2.50%	4,280
Bonds - Other		**5,377**	3.60%	5,857
Property		**4,999**	6.20%	4,730
Cash		**4,032**	0.50%	2,703
Other		**6,776**	6.50%	5,463
Total fair value of plan assets		**62,822**		56,315
Weighted average expected long term rate of return				
Actual return on plan assets		**(6,470)**		(5,165)

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

	2016	2015
	£'000	£'000
Fair value of plan assets	**62,822**	56,315
Present value of plan liabilities	**(110,501)**	(86,325)
Present value of unfunded liabilities	**(62)**	(53)
Net pensions liability (Note 16)	**(47,741)**	(30,063)

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

	2016	2015
	£'000	£'000
Amounts included in staff costs		
Current service cost	**2,071**	2,364
Past service cost	**-**	-
Total	**2,071**	2,364

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

Amounts included in investment income

	2016	2015
	£'000	£'000
Net interest income	1,115	1,045
	1,115	1,045

Amounts recognised in Other Comprehensive income

	2016	2015
	£'000	£'000
Changes in assumptions underlying the present value of plan liabilities	(15,916)	(3,372)
Amounts recognised in Other Comprehensive Income	(15,916)	(3,372)

Movement in net defined benefit liability during year

	2016	2015
	£'000	£'000
Deficit in scheme at beginning of year	(30,063)	(25,386)
Movement in year:		
Current service charge	(2,071)	(2,364)
Contributions	1,458	2,138
Net interest on assets	3,214	1,952
Administration Charge	(34)	(34)
Actuarial gain or loss	(20,245)	(6,369)
Deficit in scheme at end of year	(47,741)	(30,063)

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

Asset and Liability Reconciliation

	2016	2015
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at the start of period	**86,378**	75,029
Current service cost	**2,071**	2,364
Interest cost	**3,256**	3,213
Contribution by Scheme participants	**659**	801
Changes in financial assumptions	**20,245**	6,369
Estimated benefits paid	**(2,042)**	(1,394)
	(4)	(4)
Liabilities at end of period	**110,563**	86,378
Changes in fair value of plan assets		
Fair value of plan assets at start of period	**56,315**	49,643
Interest on plan assets	**2,141**	2,168
Return on assets	**4,329**	2,997
Employer contributions	**1,458**	2,138
Contributions by Scheme participants	**659**	801
Estimated benefits paid	**(2,046)**	(1,398)
Administration expenses	**(34)**	(34)
Fair value of plan assets at end of period	**62,822**	56,315

Deficit contributions

The College has entered into an agreement with the LGPS to make additional contributions of £922,000 per annum since April 2013 in addition to normal funding levels until the next full valuation at which point the situation will be reviewed again.

Notes *(continued)*

22 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 £1,091; 3 governors (2015: £526; 2 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: None).

Transactions with the SFA/EFA and HEFCE are detailed in notes 2, 12, 13 and 14.

Estates, Finance (including Payroll) and Governance were recharged to Harborne Academy during the year, this totalled £120,429 (2015: £120,000).

23 Amounts Disbursed as Agent

Learner support funds

	2016	2015
	£'000	£'000
Funding body grants – bursary support	**1,787**	1,179
Funding body grants – discretionary learner support	**1,873**	2,198
Other Funding body grants	**-**	-
Disbursed to students	**(2,723)**	(2,642)
Administration costs	**(123)**	(160)
Balance unspent as at 31 July, included in creditors	**814**	575

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

Notes *(continued)*

24 Transition to FRS 102 and the 2015 FE HE SORP

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

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

	Note	1 August 2014 £'000	31 July 2015 £'000
Financial Position			
Total reserves under previous SORP		50,285	29,887
Employee leave accrual	(a)	(1,424)	(942)
Release of non-government capital grants	(b)	-	-
Total effect of transition to FRS 102 and 2015 FE HE SORP		(1,424)	(942)
Total reserves under 2015 FE HE SORP		48,861	28,945

	Note	31 July 2015 £'000
Financial performance		
Deficit for the year after tax under previous SORP		(16,203)
Employee leave accrual	(a)	478
Release of non-government grants received	(b)	-
Reversal of capital grants amortisation	(b)	-
Pensions provision – actuarial loss		(4,191)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(3,713)
Total comprehensive income for the year under 2015 FE HE SORP		(19,916)

Notes *(continued)*

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 11 unused leave for teaching staff and 7 unused leave for non-teaching staff. An accrual of £1.4 million was recognised at 1 August 2014, and £942 at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £241k has been charged to Comprehensive Income in the year ended 31 July 2016.

b) Non-government grants accounted for under performance model

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

c) Change in recognition of defined benefit plan finance costs

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

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

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