Birmingham Metropolitan College

Members' report and financial statements

For the year ended 31st July 2015

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 2015.

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.

Operating and Financial Review *(continued)*

In previous years the College has prepared financial statements and notes to the accounts, reporting results and prior year comparisons at group level to include the Harborne Academy which was formed on 1 September 2010, and college level. However, the College no longer feels it is appropriate to fully consolidate the results of Harborne Academy with its own as, although the College appoints the majority of Governors of the Academy it does not retain full control of the Academy. The Harborne Academy Governors must act in the best interests of the Academy and not the College or Group.

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 page 15.

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

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

- High-quality teaching;
- Widening participation and tackling social exclusion;
- Excellent employment record for students;
- Strong student support systems; 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 upskilling 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.

Operating and Financial Review *(continued)*

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 upskill all of our local communities. The new strategy focusses around 4 new strategic goals which are outlined in the Vision section above.

During 2014/15, in light of the worsening financial position, the College prepared a Recovery Plan for the period 2014/15 to 2019/20. The Recovery Plan contains the strategy to enable the College to stabilise the College finances and includes a property strategy together with financial forecasts. The Corporation monitors the performance of the College against the Recovery Plan. The plans are reviewed on a regular basis through the Recovery Action Plan, which is updated on a monthly basis. In addition, the College's performance will be monitored against the strategic goals on a regular basis.

Financial objectives

The Group's financial objectives:

	Target 2014/15	Actual 2014/15
Current ratio	0.75	0.31
Cash days in hand	37.7	18.59
Operating surplus to income	(0.97)%	(24.32)%
General reserve to income	84.61%	49.80%
Pay expenditure to income	59.22%	74.38%
Diversity of income	10.60%	9.58%

- To maintain capital investment in equipment and to continually improve accommodation, by adhering to long-term maintenance and to progress with capital development plans for the College.
- To maintain a minimum cash balance of £1m at the end of the year. At 31 July 2015, actual cash balance was £3.337m.

The indicators above indicate a significant decline in the College's financial health compared to previous years. This decline has triggered the development of the Recovery Plan mentioned previously. The College is currently rated inadequate in terms of the SFA's assessment of Financial Health. However, if the Recovery Plan is implemented then the College's position can be restored in the next few years.

Operating and Financial Review *(continued)*

Performance indicators

Although the funding bodies continue to measure FE performance in terms of contribution to national averages, the College's four headline targets are:

Learner Levels of Achievement

Levels of achievement are calculated according to a national formula and are designed to measure how well students have been retained on courses and their achievement. The College's success rate as at December 2015 for 2014/15 was 80.9%.

Learner number growth and achievement of funding body targets

The funding bodies fund the College according to the level of activity it generates each year. In 2014/15 the College delivered to over 26,570 learners. This activity generated a recurrent grant of £55.5m.

Teacher qualifications

Lecturers are qualified or are working towards a teaching qualification to teach. Currently 94% of lecturers meet those criteria. With regard to part time lecturers being qualified to teach, currently 100% of them hold the necessary qualification.

Employer engagement

The College's success in employer engagement can be gauged by the delivery of employer responsive training to over 3,013 learners in 2014/15.

The College is committed to observing the importance of sector measures and indicators and is monitoring these through the completion of the annual Finance Record for the SFA and EFA. As benchmarks develop so the College will be better placed to take appropriate action in the light of the overall performance rating.

The College generated an operating deficit in the year of £14.995m for the year (2013/14 a deficit of £0.242m).

The College has accumulated reserves of £49.102m (2013/14 £65.203m) and cash balances of £3.337m (2013/14 £20.080m).

Tangible fixed asset additions during the year amounted to £16.871m.

Treasury policies and objectives

The Treasury Policy covers 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.

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.

Operating and Financial Review *(continued)*

During the financial year to 31 July 2015, 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 have been reclassified to short term. The covenants are currently being renegotiated with the banks and the College anticipates it will restore compliance during 2015/16.

Cash flows

At £0.359m outflow (2013/14 £6.461m inflow), College operating cash flow was significantly lower than in previous years.

Liquidity

During the year the College took out a loan from BIS/SFA as part of its Recovery Plan. This loan will increase to £14.5m during 2015/16. The repayment of the loan will be funded from a mixture of operating cash flows and property disposals.

During 2015/16 the rate of interest paid on the loans to the banks will need to be renegotiated following the breach of the covenants.

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 2014 to 31 July 2015, the College paid 12.5% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Post balance sheet events

During August 2015 a property at Castle Vale was disposed of for £1.5m this was above its net book value.

Current and Future developments

- The College will continue to implement its recovery plan to ensure that financial health is restored.
- The College has capital development plans and the further development of existing college campuses in line with the College's property strategy.
- The College will seek to develop a regional and national dimension to its work with employers.
- The College will consolidate its 14-19 learner numbers and will monitor the impact of new commissioning agenda.
- The College will move ahead with improving learner services through the implementation of the Building a Better BMet programme.

Operating and Financial Review *(continued)*

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 £49.102m of net assets (including £30.063m pension liability) and debt of £10.319m.

People

The College employs 1,307 people (expressed as full time equivalents), of whom 776 are teaching staff. However following a restructuring exercise, the number of staff has reduced to 845 FTE's, of whom 489 are teaching staff, as at 1st August 2015.

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. 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.

Operating and Financial Review *(continued)*

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

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. The College has considerable reliance on continued government funding through the education sector funding bodies and HEFCE. In 2014/15, 90.0% 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, international delivery 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.

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.

- 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;
- 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.

Operating and Financial Review *(continued)*

2. 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 is rigorous in delivering high quality education and training, thus ensuring value for money for students;
- Close monitoring of the demand for courses as prices change;
- 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 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 policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy is published on the College's Intranet site.

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

Operating and Financial Review *(continued)*

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 17 December 2015 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

Professional advisers

Financial statements and regularity auditors:	KPMG LLP One Snow Hill Snow Hill Queensway Birmingham B4 6GH
Internal auditors:	Price Waterhouse Coopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT
Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH
Solicitors:	Shoosmiths 55 Colmore Row Birmingham B3 2AS

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.

The College endeavours to conduct its business:

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

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code (the "Code") issued by the FRC. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

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 2015. 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 English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, (as amended March 2015) which it formally adopted in December 2012.

The Corporation

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Attendance
Steve Brittan	1 April 2010	31 December 2014		Independent	Finance, Business and Developments Governance and Search/Remuneration	2 out of 2
Ian Oakes	1 April 2010	31 December 2014		Independent	Academic Standards and Quality Development Governance and Search/Remuneration	2 out of 2
Clive Stone	1 April 2010	31 December 2014		Independent	Finance Business and Developments Framework Review	1 out of 2
Tim Sunter	1 June 2013	31 December 2014	14 October 2014	Independent	Academic Standards and Quality Development Committee	1 out of 1
Gurjeet Bains	1 August 2010	31 December 2014		Independent	Framework Review	2 out of 2
Jenni Ord	1 June 2013	31 August 2017		Independent	Academic Standards and Quality Development Committee	5 out of 5
Julie Jasper	1 June 2013	31 May 2015	23 September 2014	Independent	Audit Committee	N/A
Andrew Madden	1 April 2010	31 August 2017		Independent	Finance Business and Developments	5 out of 5
Veronica Docherty	1 August 2010	31 July 2017		Independent	Academic Standards and Quality Developments Framework Review	4 out of 5
Kathryn James	10 October 2011	31 August 2016		Independent	Audit Governance and Search/Remuneration	4 out of 5
Anthony McCourt	29 March 2012	28 March 2016		Independent	Audit	3 out of 5
Daali Wouhra	1 September 2013	31 August 2016	4 August 2014	Independent	Audit	N/A
Steve Hollis	1 September 2013	31 August 2017		Independent	Finance Business and Developments Governance and Search/Remuneration	4 out of 5
Taher Hussain	1 September 2013	31 August 2015		Staff Member	Audit	5 out of 5
Dagan Thompson	1 September 2013	31 August 2015		Staff Member	Academic Standards and Quality Development	4 out of 5
Gala Albas	1 September 2013	31 August 2015		Student Member	Academic Standards and Quality Development	5 out of 5
Philip Cornish	1 March 2015	28 February 2016		Student Member	None	
Andrew Cleaves	1 June 2014			Ex officio member as Principal		5 out of 5

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

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. Each committee has terms of reference, which have been approved by the Corporation. Throughout 2014/15, the following committees met either three or four times during the year: Academic Standards and Quality Development; and Audit; Governance and Search and Remuneration, Framework Review and Finance and Business Developments Committee met once, with the latter two committees being discontinued in December 2014. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.bmetc.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)*

Remuneration Committee

Throughout the year ending 31 July 2015, the College's Remuneration Committee comprised of four members of the Corporation (including the Principal). 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 2015 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.

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.

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

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 2015 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 2015 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 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 Internal Audit Annual Report for 2014/15 made recommendations to strengthen the controls in student records, information security and the effectiveness of the Programme Management Board, and in addition a review by BDO found that significant improvements were required to financial controls. Appropriate remedial measures are being taken by the Executive Management team to address these issues.

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

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's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Executive Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2015 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the Executive Team and internal audit, and taking account of events since 31 July 2015.

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 they continue to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 17 December 2015 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

Andrew Cleaves
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.

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 2007 Statement of Recommended Practice – Accounting for Further and Higher Education and with the Accounts Direction issued jointly by the SFA and the EFA, 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 SFA and EFA are used only in accordance with the Financial Memorandum with the SFA 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 SFA and EFA are not put at risk.

Mr Steve Hollis
Chairman of the Corporation

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

We have audited the financial statements ("the financial statements") of Birmingham Metropolitan College for the year ended 31 July 2015 set out on pages 26 to 58. The financial reporting framework that has been applied in their preparation is applicable law and UK Generally Accepted Accounting Practice.

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 Corporation's responsibilities set out on page 21, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2015 and of the its deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed by the Joint Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.

AR

Anthony Felthouse
For and on behalf of KPMG LLP, Statutory Auditor

Date 21 December 2015

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 Business, Innovation and Skills 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 2014 to 31 July 2015 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 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

The work undertaken to draw our conclusion included:

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

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

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

ARF

Anthony Felthouse
For and on behalf of KPMG LLP, Reporting Accountant

Date 21 December 2015

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Income and expenditure account
for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Income			
Funding body grants	2	**57,251**	65,311
Tuition fees and education contracts	3	**8,349**	10,089
Other income		**930**	610
Investment income	4	**90**	149
Total income		**66,620**	76,159
Expenditure			
Staff costs	5	**44,563**	44,642
Restructuring	5	**4,987**	224
Other operating expenses	7	**26,057**	25,067
Depreciation	11	**4,994**	5,342
Interest and other finance costs	8	**1,014**	1,126
Total expenditure		**81,615**	76,401
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax		**(14,995)**	(242)
Loss on disposal of assets	11	**(1,208)**	(58)
Deficit on continuing operations after depreciation of assets at valuation, exceptional items and disposal of assets but before tax		**(16,203)**	(300)
Taxation	9	-	-
Deficit on continuing operations after depreciation of assets at valuation and tax	10	**(16,203)**	(300)
Deficit for the year retained within general reserves		**(16,203)**	(300)

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

Statement of total recognised gains and losses
for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax		**(16,203)**	(300)
Actuarial loss in respect of pension scheme	*17, 21*	**(4,176)**	(63)
Total recognised losses since the last period		**(20,379)**	(363)

	2015 £'000	2014 £'000
Reconciliation		
Opening reserves and endowments	**50,285**	50,647
Total recognised losses for the year	**(20,379)**	(363)
Closing reserves	**29,906**	50,284

Note of historical cost surpluses and deficits
for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Deficit on continuing operations before taxation		**(16,203)**	(300)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	*19*	**309**	309
Historical cost (deficit)/surplus for the year before taxation		**(15,894)**	9

Balance sheet
as at 31 July 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	*11*	**106,175**	103,815
Investments	*12*	**1,940**	-
Current assets			
Assets for resale		**5,461**	-
Debtors	*13*	**2,700**	2,727
Cash at bank and in hand		**3,337**	20,080
		11,498	22,807
Creditors: Amounts falling due within one year	*14*	**(37,144)**	(22,320)
Net current (liabilities)/assets		**(25,646)**	487
Total assets less current liabilities		**82,469**	104,302
Creditors: Amounts falling due after more than one year	*15*	**-**	(10,319)
Provisions for liabilities and charges	*17*	**(3,304)**	(3,393)
Net assets excluding pension liability		**79,165**	90,590
Net pension liability	*21*	**(30,063)**	(25,386)
Net assets including pension liability		**49,102**	65,204
Deferred capital grants	*18*	**19,196**	14,919
Reserves			
Revaluation reserve	*19*	**11,443**	11,752
Income and expenditure account excluding pension reserve	*20*	**48,526**	63,919
Pension reserve	*20*	**(30,063)**	(25,386)
Income and expenditure account including pension reserve		**18,463**	38,533
Total reserves		**29,906**	50,285
TOTAL FUNDS		**49,102**	65,204

The financial statements on pages 26 to 58 were approved by the Corporation on 17 December 2015 and were signed on its behalf by:

Mr Steve Hollis
Chair of the Corporation

Mr Andrew Cleaves
Accounting Officer

Cash flow statement

for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Cash inflow from operating activities	22	(359)	6,461
Returns on investments and servicing of finance	24	(515)	(446)
Capital expenditure and financial investment	24	(15,537)	1,607
Cash (outflow)/inflow before use of liquid resources and financing		(16,411)	7,622
Financing	24	(332)	(375)
(Decrease)/Increase in cash	23	(16,743)	7,247

Reconciliation of net cash flow to movement in net funds

	2015 £'000	2014 £'000
(Decrease)/Increase in cash in the period	(16,743)	7,247
Cash inflow from liquid resources	332	375
Movement in net funds in period	(16,411)	7,622
Net funds at 1 August	9,305	1,683
Net funds at 31 July	(7,106)	9,305

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 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the SFA and the EFA in the 2014/15 Accounts Direction.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

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.

Following notification by the Skills Funding Agency (SFA) that the College had been assessed as inadequate for financial health, the College has recently been reviewed under the intervention process, as set out in 'Rigour and Responsiveness in Skills (April 13)'. The FE Commissioner was tasked with advising the Minister and Chief Executives of the SFA on whether the College has the capacity and capability to deliver financial recovery. The College received a favourable outcome and the Minister endorsed the College Senior Management to lead its own recovery, with initial actions already being implemented. A financial notice of concern was issued by the SFA on 17 July 2015

Prior to the review by the FE Commissioner the College had developed a Recovery Plan which it is in the process of implementing. In order to implement that plan additional funds have been required to restructure the College and to support it over the next two years during the recovery period. As the College cannot seek further funds from investors those additional funds are being provided by way of loan from the Department for Business, Innovation and Skills (BIS). The structure of this loan agreement ensures that the College has a sustainable level of cash at its disposal. The peak level of funding from BIS is £14.5m. The loan will be fully repaid by 31 December 2017, repayments being funded from a mixture of surplus operating cash flows and the disposal of properties that are excess to the College's requirements.

As detailed at Note 15, the College currently has £7.2m of loans outstanding with Lloyds Bank, and having breached loan covenants in the absence of a waiver at 31 July 2014, this amount has been wholly classified as due within one year in line with Financial Reporting Standards. Lloyds Bank have stated that they do not intend to recall the loan and the College is currently in the process of agreeing revised covenants and pricing with them. In addition the College has loans of £3.1m with Barclays Bank. At the year end the College will have broken its financial covenants and therefore that loan has been wholly classified as due within one year in line with Financial Reporting Standards. Barclays have stated that they do not intend to recall the loan and the College is currently in the process of agreeing revised covenants and pricing with them.

Based on these indications the Corporation therefore believes it is appropriate to prepare the financial statements on a going concern basis.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Recognition of income

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

Funding body recurrent grants are recognised 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 learner responsive funding element 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 at the end of November following the year end. Employer responsive grant income is recognised based on a year-end reconciliation of income claimed and actual delivery with the SFA/EFA. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Other discrete SFA/EFA grants received during the year are taken to income as expenditure is incurred in line with the specific terms and conditions attached to each fund by the funding bodies.

Where the College receives and disburses funds in which it has no direct beneficial interest, such funds are excluded from the income and expenditure account on the grounds that the College does not have direct control over the future economic benefits derived from these funds. The College has applied this policy to certain funds received during the year from the SFA/EFA (see note 30).

Non-recurrent grants from the SFA/EFA or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is receivable and includes all fees payable by students or their sponsors.

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

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Post-retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS). Contributions to the TPS are charged as incurred.

Contributions to the TPS scheme are charged to the income and expenditure account 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 quinquennial valuations using a prospective benefit method.

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Further details of the pension schemes are given in note 21.

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Tangible fixed assets

Land and buildings

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 25-50 years. Leasehold land and buildings are amortised over 25 years or, if shorter, the period of the lease. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

On adoption of FRS 15, the College followed the transitional provisions 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. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

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 capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

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(s) may not be recoverable.

Subsequent expenditure on existing fixed assets

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

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

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party [for example a charitable trust], they are only capitalised if the College has rights or access to ongoing future economic benefit.

These assets are then depreciated over their expected useful economic life.

Assets under construction

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

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.

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The relevant assets are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

Investments and endowment assets

Fixed asset investments are carried at historical cost less any provision for impairment in their value.

Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for absolute, slow moving and defective stocks.

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

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.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks and building societies and government securities.

Provisions

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

Cash

Cash for the purposes of the cash flow statement comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand.

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 30 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.

Notes *(continued)*

2 Funding body grants

	2015	2014
	£'000	£'000
Main funding body recurrent grant – College	**55,511**	63,952
Recurrent grant - HEFCE	**514**	561
Main funding body non-recurrent grants	**601**	145
Releases of deferred capital grants	**625**	653
	57,251	65,311

3 Tuition fees and education contracts

	2015	2014
	£'000	£'000
Tuition Fees	**5,361**	6,582
Education contracts	**2,988**	3,507
	8,349	10,089

4 Investment income

	2015	2014
	£'000	£'000
Other interest receivable	**90**	149

Notes *(continued)*

5 Staff numbers and costs

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

	2015	2014
	FTE's	FTE's
Teaching staff	**776**	772
Non-Teaching staff	**531**	496
	1,307	1,268

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

Staff costs for the above persons were as follows:

	2015	2014
	£'000	£'000
Wages and salaries	**36,421**	36,545
Social security costs	**2,708**	2,745
Other pension costs (including FRS 17 adjustments of £176,000 (2014: £687,000))	**5,434**	5,352
Payroll sub total	**44,563**	44,642
Exceptional restructuring costs	**4,987**	224
	49,550	44,866

Notes *(continued)*

5 Staff numbers and costs *(continued)*

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

	2015 Number of senior post-holders	**2015 Number of other staff**	2014 Number of senior post-holders	2014 Number of other staff
£60,001 to £70,000	1	7	-	14
£70,001 to £80,000	-	12	-	5
£80,001 to £90,000	-	-	-	4
£90,001 to £100,000	-	7	-	3
£100,001 to £110,000	-	1	-	1
£110,001 to £120,000	-	2	-	1
£120,001 to £130,000	-	-	1	-
£130,001 to £140,000	-	-	-	1
£150,001 to £160,000	-	-	4	-
£270,000 to £310,000	1	-	2*	-

In addition to the above 5 further senior post holders ceased to hold office in January 2015, 3 of which, their employment ceased by 1 October 2014. They were paid £253,962 (2013/14: £887,418)

* During 2013/14 a new accounting officer was appointed from 19 May 2014, giving rise to an overlap to the end of the year.

6 Emoluments of senior post holders and members

Senior post-holders are defined as members of the senior management team.

	2015 FTE's	2014 FTE's
The number of senior post-holders including the Accounting Officer was	**2**	7

Notes *(continued)*

6 Emoluments of senior post holders and members *(continued)*

Senior post-holders' emoluments are made up as follows:

	2015 £'000	2014 £'000
Salaries	**999**	1,077
Pension contributions	**118**	117
	1,117	1,194

The above emoluments include amounts payable to Accounting Officer 1 August 2014 to 31 July 2015 (who is also the highest paid senior post-holder) of:

	2015 £'000	2014 £'000
Salaries	**266**	54
Pension contributions	**36**	7
	302	61

The emoluments below were amounts payable to the former Accounting Officer

	2015 £'000	2014 £'000
Salaries	**32**	217
Pension contributions	**4**	20
	36	237

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.

Notes *(continued)*

6 Emoluments of senior post holders and members *(continued)*

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

	2015	2014
	£'000	£'000
Compensation paid and payable	**83**	115

7 Other operating expenses

	2015	2014
	£'000	£'000
Teaching costs	**6,520**	11,425
Non-teaching costs	**12,088**	5,736
Premises costs	**7,449**	7,906
	26,057	25,067
Other operating expenses include:		
Auditors remuneration:		
Financial statements audit	**41**	48
Internal audit	**22**	50
Other services from external audit	**-**	22
Losses on disposal of tangible fixed assets	**1,208**	58
Hire of other assets – operating leases	**374**	407

8 Interest payable

	Note	**2015**	2014
		£'000	£'000
On bank loans and overdrafts:			
Repayable within five years, not by instalments		**605**	595
On finance leases			-
Enhanced Pensions		**99**	105
Pension finance costs	22	**310**	426
		1,014	1,126

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 Deficit on continuing operations for the year

The deficit on continuing operations for the year is made up as follows:

	2015 **£'000**	2014 £'000
College's deficit for the year	**(16,203)**	(300)

11 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 2014	125,523	110	3,753	11,665	141,051
Additions	8,813	-	6,755	1,303	16,871
Transfer from Assets under the course of construction	2,063	-	(2,063)	-	-
Disposals	(713)	-	(18)	(3,392)	(4,123)
Transfer to Assets for resale	(7,050)	-	-	-	(7,050)
Transfer to investments	(1,940)	-	-	-	(1,940)
VAT refund – Matthew Boulton	(347)	-	-	-	(347)
At 31 July 2015	**126,349**	**110**	**8,427**	**9,576**	**144,462**
Accumulated depreciation					
At 1 August 2014	30,369	18	-	6,849	37,236
Charge for year	3,548	4	-	1,442	4,994
Eliminated in respect of disposals	(273)	-	-	(2,581)	(2,854)
Transfer to Assets for resale	(1,089)	-	-	-	(1,089)
At 31 July 2015	**32,555**	**22**	**-**	**5,710**	**38,287**
Net book value					
At 31 July 2015	**93,794**	**88**	**8,427**	**3,866**	**106,175**
At 31 July 2014	95,154	92	3,753	4,816	103,815

Notes *(continued)*

11 Tangible fixed assets *(continued)*

The transitional rules set out in FRS 15 *Tangible Fixed Assets* have been applied. Accordingly the book values at implementation have been retained.

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

Land buildings and equipment with a net book value of £19,196,000 *(2013/14: £14,919,000)* have been partly financed from exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the SFA, to surrender the proceeds.

The amount transferred to investments of £1,940,000 reflects the capital investment invested in the Harborne Academy new build.

12 Investments

The college holds a capital investment in Harborne Academy this totalled £1,940,000 at 31 July 2015.

13 Debtors

	2015	2014
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	**1,387**	1,805
Other debtors	**446**	503
Prepayments and accrued income	**600**	419
Amounts owed by the SFA	**267**	-
	2,700	2,727

Notes *(continued)*

14 Creditors: Amounts falling due within one year

	2015 £'000	2014 £'000
Bank loans and overdrafts	**10,319**	332
Obligations under VAT Scheme	**17**	57
Payments received on account **	**2,649**	6,170
Trade creditors	**1,969**	1,794
Other taxation and social security	**1,463**	1,409
Accruals	**11,487**	9,368
Provision for claw back of recurrent funding	**4,740**	3,190
BIS Loan	**4,500**	-
	37,144	22,320

[**Includes £1,161,935 *(2013/14: £5,234,000)* in relation to capital grant received from the SFA in respect of ERG, CCIF, SLDD & college condition funds and from LEP]

Included within trade creditors is £1,242,000 for Harborne Academy (2013/14: £1,656,000)

15 Creditors: Amounts falling due after more than one year

	2015 £'000	2014 £'000
Bank loans	-	10,319
	-	10,319

Notes *(continued)*

16 Analysis of borrowings

Bank loans and overdrafts

	2015 £'000	2014 £'000
Bank loans and overdrafts are repayable as follows:		
Within one year	**10,319**	332
Between one and two years	-	348
Between two and five years	-	1,173
In five years or more	-	8,798
	10,319	10,651

At 31 July 2015, loan covenants with Lloyds and Barclays Bank had been breached and formal waivers from the banks were not in place as at that date. Whilst the College has discussed and agreed its financing position with the bank subsequent to the year end, 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. Subsequently a formal waiver has not been received and so the banks continue to be able to request immediate repayment of the loans.

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.

Notes *(continued)*

17 Provisions for liabilities and charges

	Enhanced Pension £'000	VAT £'000	Other provisions £'000	Total £'000
At 1 August 2014	2,443	124	883	3,450
Expenditure in the period	(170)	(60)	-	(230)
Transferred from income and expenditure account	99	-	-	99
Actuarial gain recognised in STRGL	(15)	-	-	(15)
At 31 July 2015	**2,357**	**64**	**883**	**3,304**

The enhanced pension provision has been calculated in accordance with guidance issued by the SFA.

The principal assumptions for this calculation are:

	2015	2014
Price inflation	3.46%	4.06%
Discount rate	1.75%	2.25%

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

18 Deferred capital grants

	Funding Body Grants £'000	Other Grants £'000	Total £'000
At 1 August 2014	14,351	568	14,919
Cash receivable:	4,984	14	4,998
Released to income and expenditure account	(625)	(94)	(719)
Disposal	(2)	-	(2)
At 31 July 2015	**18,708**	**488**	**19,196**

Notes *(continued)*

19 Revaluation reserve

	£'000
At 1 August 2014	11,752
Transfer from revaluation reserve to income and expenditure account in respect of:	
Depreciation on revalued assets	(309)
At 31 July 2015	**11,443**

20 Movement on general reserves

	2015 £'000	2014 £'000
At 1 August	**38,533**	38,587
Deficit on continuing operations after depreciation of assets at valuation and tax	**(16,203)**	(300)
Transfer from revaluation reserve to income and expenditure account	**309**	309
Actuarial loss in respect of pension scheme	**(4,176)**	(63)
At 31 July	**18,463**	38,533

Balance represented by

	2015 £'000	2014 £'000
Pension reserve	**(30,063)**	(25,386)
Income and expenditure account excluding pension reserve:		
College unrestricted	**48,526**	63,919
At 31 July	**18,463**	38,533

Notes *(continued)*

21 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS):

Total pension cost for the year

	2015		2014	
	£'000	£'000	£'000	£'000
Teachers' Pension Scheme: contributions paid		**2,836**		2,828
Local Government Pension Scheme:				
Contributions paid	**2,422**		1,837	
FRS 17 charge	**176**		687	
Charge to the Income and Expenditure Account (staff costs)		**2,598**		2,524
Enhanced pension charge to Income and Expenditure Account (staff costs)				
Total Pension Cost		5,434		5,352

Introduction

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.

Total pension costs reflect the actual amount paid and does not include accrued amounts in respect of voluntary severance which total £500,000.

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:

- employer contribution rates were set at 16.4% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS will be 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 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 £4,724,493 (2014: £4,646,586).

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

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 2015 was £2,345,115 of which employers contributions totalled £1,550,734 and employee's contributions totalled £794,381. The agreed contribution rates for future years are 12.6% for employers plus a fixed past service lump sum and range from 5.5% to 7.5% 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 2015 by a qualified independent actuary.

	2015	2014	2013
Inflation assumption (CPI)	**2.20%**	2.30%	2.40%
Rate of increase in salaries	**3.95%**	4.05%	4.15%
Rate of increase in pensions (CPI)	**2.20%**	2.30%	2.40%
Discount rate for liabilities	**3.80%**	4.30%	4.50%

On advice from our actuaries we have assumed that 50% of employees retiring after 6 April 2007 will take advantage of the option to commute part of their future annual pension to a lump sum payment on retirement.

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 2015	At 31 July 2014
Retiring today		
Males	**23.0**	22.9
Females	**25.6**	25.5
Retiring in 20 years		
Males	**25.2**	25.1
Females	**28.0**	27.8

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

The assets and liabilities in the scheme (of which the College's share is estimated at 0.55%) and the expected rates of return were:

	Long term rate of return Expected at 31 July 2015	**Value at 31 July 2015**	Long term rate of return Expected at 31 July 2014	Value at 31 July 2014
Equities	**6.50%**	**33,282**	7.00%	22,191
Bonds – Government	**2.50%**	**4,280**	3.20%	3,971
Bonds - Other	**3.60%**	**5,857**	4.10%	5,113
Property	**6.20%**	**4,730**	6.20%	4,269
Cash	**0.50%**	**2,703**	0.50%	2,234
Other	**6.50%**	**5,463**	7.00%	11,865
Total market value of assets		**56,315**		**49,643**
Present value of scheme liabilities:				
Unfunded		-		-
Funded		**(86,378)**		**(75,029)**
Deficit in the scheme		**(30,063)**		**(25,386)**

Analysis of the amount charged to the income and expenditure account

	2015 £'000	2014 £'000
Employer service cost (net of employee contributions)	**2,314**	2,331
Past service cost	-	-
Total operating charge	**2,314**	2,331

Analysis of pension finance costs

	2015 £'000	2014 £'000
Expected return on pension scheme assets	**(2,953)**	(2,914)
Interest on pension scheme liabilities	**3,263**	3,340
Pension finance costs	**310**	426

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

Amounts recognised in the statement of total recognised gains and losses (STRGL)

	2015 £'000	2014 £'000
Actuarial gains/(losses) on pension scheme assets	**2,178**	(3,419)
Actuarial (losses)/gains on scheme liabilities	**(6,369)**	3,401
Actuarial loss recognised in STRGL	**(4,191)**	(18)

Movement in deficit during year

	2015 £'000	2014 £'000
Deficit in scheme at beginning of year	**(25,386)**	(24,255)
Movement in year:		
Current service charge	**(2,314)**	(2,331)
Contributions	**2,138**	1,644
Net interest/return on assets	**(310)**	(426)
Actuarial gain or loss	**(4,191)**	(18)
Deficit in scheme at end of year	**(30,063)**	(25,386)

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

	2015	2014
	£'000	£'000
Reconciliation of Liabilities		
Liabilities at start of period	**75,029**	73,411
Service cost	**2,314**	2,331
Interest cost	**3,263**	3,340
Employee contributions	**801**	734
Actuarial gain/(loss)	**6,369**	(3,401)
Benefits paid	**(1,398)**	(1,386)
Liabilities at end of period	**86,378**	75,029
Reconciliation of Assets		
Assets at start of period	**49,643**	49,156
Expected return on assets	**2,953**	2,914
Actuarial gain/(loss)	**2,178**	(3,419)
Employer contributions	**2,138**	1,644
Employee contributions	**801**	734
Benefits paid	**(1,398)**	(1,386)
Assets at end of period	**56,315**	49,643

The estimated value of employer contributions for the year ended 31 July 2016 is £1,210,171.

Deficit contributions

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

Notes *(continued)*

21 Pensions and similar obligations *(continued)*

History of experience gains or losses

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on assets:	**2,178**	3,419	2,633	(1,025)	(5,230)
Experience gains and losses on scheme liabilities	**(6,369)**	(3,437)	722	(1,448)	8,407
Total amounts recognised in statement of total recognised gains and losses	**(4,191)**	(18)	3,355	(2,473)	3,177

22 Reconciliation of operating surplus to net cash inflow from operating activities

	2015	2014
	£'000	£'000
Deficit on continuing operations after depreciation of assets at valuation and tax	**(15,703)**	(300)
Depreciation (note 11)	**4,994**	5,342
Deferred capital grants released to income (notes 2 and 18)	**(721)**	(758)
Loss on disposal of tangible fixed assets	**1,207**	58
Interest receivable (note 4)	**(90)**	(149)
Interest payable (note 8)	**605**	595
Pension cost less contributions payable (note 21)	**486**	1,113
Decrease in stocks	**-**	9
Decrease in debtors	**373**	607
Increase in creditors	**8,512**	64
Decrease in provisions	**(22)**	(120)
Net cash outflow from operating activities	**(359)**	6,461

Notes *(continued)*

23 Analysis of changes in net funds

	At 1st August 2014 £'000	Cash flows £'000	**At 31st July 2015 £'000**
Cash at bank and in hand	20,080	(16,743)	**3,337**
	20,080	(16,743)	**3,337**
Debts due after 1 year	(10,386)	10,386	**-**
Debts due within 1 year	(389)	(9,997)	**(10,386)**
Total	9,305	(16,354)	**(7,049)**

24 Analysis of cash flows for headings netted in the cash flow statement

	2015 £'000	2014 £'000
Returns on investments and servicing of finance		
Interest received	**90**	149
Interest paid	**(605)**	(595)
Net cash outflow from returns on investments and servicing of finance	**(515)**	(446)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(16,364)**	(5,494)
Deferred capital grants received	**827**	7,101
Net cash (outflow)/inflow for capital expenditure and financial investment	**(15,537)**	1,607
Financing		
Debt due beyond a year:		
Repayment of amounts borrowed	**(332)**	(375)
Capital element of finance lease rental payments		
Net cash outflow from financing	**(332)**	(375)

Notes *(continued)*

25 Capital commitments

	2015	2014
	£'000	£'000
Commitments contracted for at 31 July	**1,294**	13,518
Commitments authorised but not contracted for at 31 July	**-**	1,836

26 Financial commitments

At 31 July, the College had annual commitments under non-cancellable operating leases as follows:

	2015		2014	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Expiring within one year	**-**	**-**	-	-
Expiring between two and five years inclusive	**1,285**	**241**	684	386
Expiring in over five years	**-**	**-**	592	-
	1,285	**241**	1,276	386

27 Contingent liability

The College has no contingent liabilities as at 31 July 2015 *(2013/14: £nil)*.

Notes *(continued)*

28 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. No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

The total expenses paid to or on behalf of the Governors during the year was £526; 2 governors (2014: £1,000; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2014: None).

Transactions with the SFA/EFA and HEFCE are detailed in notes 2, 14, 15 and 16.

Estates, Marketing and HR services were recharged to Harborne Academy during the year, this totalled £168,945.

29 Post balance sheet events

The College sold the Castle Vale site during August 2015.

Notes *(continued)*

30 Amounts Disbursed as Agent

Learner support funds

	2015 £'000	2014 £'000
Funding body grants – hardship support	**3,377**	3,752
Disbursed to students	**(2,642)**	(2,883)
Administration costs	**(160)**	(188)
Balance unspent at 31 July, included in creditors	**575**	681

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements have therefore been excluded from the income and expenditure account, other than when the College has directly incurred expenditure itself.

The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.