Birmingham Metropolitan College

Members' report and financial statements

For the year ended 31st July 2017

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2016/17:

Andrew Cleaves; Principal and CEO; Accounting officer
Louise Jones; Deputy Principal
Simon Cosson; Chief Financial Officer
Liam Nevin; Company Secretary
Rebecca Hayes; Director – Sales
Sharon Benton; Director – Marketing and Recruitment
Alison Jones; Director – HR and Development
Elaine Boner – Head of Quality

Board of Governors

A full list of Governors is given on page 14-15 of these financial statements.

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

Professional advisers
Financial statements auditors and reporting accountants:

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Internal auditors

BDO Stoy Hayward LLP
Emerald House
Epsom
Surrey
KT17 1HS

Bankers:

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

Solicitors:

Freeths LLP
6 Bennetts Hill
Birmingham
B2 5ST

Members' report and financial statements

Contents

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 2017.

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.

Mission

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

- *To be recognised as the leading College of the region*
- *To deliver outstanding education and employment outcomes for all*
- *To be a great place to work*
- *To be financially strong and invest in learning*

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:** Students are at the heart of everything we do
- **BMet:** BMet is innovative, inclusive and inspiring
- **Improve:** We are determined to improve our teaching, support and care for all students
- **Skills:** We are passionate about working with employers to meet their skills needs and support strong, sustainable economic growth
- **With Great People:** We attract, support and develop people who are outstanding at what they do

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

Public Benefit

Birmingham Metropolitan College is an exempt charity under Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Education 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 14.

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

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

- Improving quality of teaching, learning and assessment
- A diverse curriculum that is well matched to local, regional and national priorities and the needs of the local community
- Good education and training vocational achievement rates

Operating and Financial Review *(continued)*

- Highly effective Apprenticeship provision
- Good provision for High Needs learners
- Strong student support and good enrichment opportunities
- Improving student progression into education, training and employment
- Increasing levels of stakeholder satisfaction

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. In the 2014/15 – 2017/18 Strategic Plan we set out the way in which we deliver skills is changing. Using intelligence we knew that future governments would continue to prioritise Apprenticeships and other employer sponsored routes as a method for up skilling the workforce and unlocking employment opportunities.

Similarly, we identified an on-going 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.

BMet has continued to develop its teaching & learning to help meet the skills challenges we face regionally and nationally. In 2017 – 18 we will refresh out Strategic Plan for the period of 2017 /18 – 2022. This will include further analysis of LMI, national skills policy and the needs of our local employers and communities.

Financial objectives

BMet's financial objectives are closely linked to its overall strategic goals. The financial objectives are:

- To strengthen the Colleges financial position and reschedule debt repayments
- To build reserves to minimise the impact of unforeseen adverse changes in public funding and other uncertain events
- To generate sufficient income to implement the College's growth and diversification plan and capital investment strategy

Operating and Financial Review *(continued)*

The College will meet these objectives by achieving a mix of both improvement in financial ratios and delivering on a number of other financial improvements.

	Target 2016/17	Actual 2016/17	Actual 2015/16
Performance ratio	9%	9.5%	-5%
Staff costs as % income	60%	62%	60%
EFA/SFA income as % total income	82%	84%	82%
Cash days	35	30	30
Positive cash inflow from operations	+ve	£1,532	-£6,543
Current ratio	0.8	0.4	0.24

In addition to the measures above, the College also focussed on a number of other targets to improve the underlying performance of the College. These include:

- Review monthly management accounts to improve layout and analysis, improve the commentary and add value to decision making
- Improve the level of information available to budget holders and ensure that budget review meetings take place twice per term for each directorate.
- Perform post-implementation reviews for all investments and projects over £500k.
- Perform detailed reviews of curriculum delivery at department level to improve efficiency and financial performance of curriculum delivery.
- Develop monthly dashboard reporting so that the whole college has access to the financial performance of BMet and understands the critical issues.

The College's financial position has now been stabilised. As a result of the financial position at the end of 2015/16 the College was rated inadequate in terms of the SFA's assessment of Financial Health. The Department for Education has provided financial support to the College by way of a loan. Whilst the Financial Health of the College has been restored, the College will continue to be rated as inadequate. The loan was due to be repaid by December 2017, however a variety of operational issues have meant that this is unlikely and the College has obtained the agreement of the Department for Education to reschedule the loan repayments. An extension to the current loan arrangements has been agreed to 31 May 2018, giving time for formal renegotiations to take place and a revised repayment schedule agreed. As part of this agreement the College has committed to disposing of a number of unoccupied College sites over the course of the next year to repay the majority of the loan.

Operating and Financial Review *(continued)*

FINANCIAL POSITION

Financial results

The College generated a deficit in the year of £2,435k (2015/16 a deficit of £3,066k), with a total comprehensive income of £9,921k (2015/16 a deficit of £18,982k). In 2016/17 the college continued to deliver against the recovery plan to ensure that it returns to good financial health. The College's EBITDA (earnings before interest, tax, depreciation and amortisation) was £4,664k, which was favourable to the prior year. The College also provided for repayments to the Education and Skills Funding Agency in respect to certain legacy liabilities of £0.6m. These costs relate to irregularities in funding claims that arose before 2013.

Income grew by £2,488k (4.2%), driven mainly by increased Adult delivery. Teaching staff costs increased to support this delivery but with this higher income base the college was able to significantly reduce the deficit, by £1,895k (before accounting for disposals).

Comprehensive income grew in the year by £9,921k resulting in accumulated reserves of £19,884k (2015/16 £9,963k). The reason for the significant increase in reserves is due to movements on the pension scheme valuation leading to a decrease in pension deficit.

The College has cash balances of £2,420k (2015/16 £4,716k). The decrease in cash balances is primarily due to loan repayments in the year.

Tangible fixed asset additions during the year amounted to £975k. This is split between land and buildings of £185k, assets under construction of £95k and equipment of £694k. This is a significantly less than in 2015/16 with the college adopting a very tight policy whilst BIS loan repayments are required in line with the recovery plan. As the financial performance of the college continues to improve more funds will be able to be set aside for capital improvements, but is expected to continue to track materially under depreciation levels for the next 3-4 years.

Treasury policies and objectives

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

The College has a separate treasury management policy.

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

For the financial years to 31 July 2016 and 31 July 2017, 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 – debt service cover must not fall below 1, at end of July 2017 this was at 0.93;
- Lloyds Bank –cashflow cover must not fall below 1, at end of July 2017 this was at 0.2.

As a result of these breaches of covenant, the long term elements of the loans with the two banks were reclassified to short term. The banks are currently reserving their rights.

Operating and Financial Review *(continued)*

Cash flows and liquidity

College operating cash flows were significantly better than in previous years, with a net cashflow inflow from operating activities of £1,532k compared with an outflow of £6,543k in 16/17, an overall improvement of over £8 million. This has been driven by a significant improvement in the operating performance of the College. With capital expenditure of £2.3m, loan repayments of £1m and interest payments of £600k, the net cash outflow for the year was £2,297k.

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

The college took out a loan from BIS/SFA in August 2015 and with 2016/17 year being the in recovery plan period, loan repayments are being funded from a mixture of operating cash flows and property disposals. The balance of the loan was £13.8m at 31st July 2017, down £700k in the year. A further £800k has been repaid since the year end.

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

Reserves

The College does not have a formal Reserves Policy in place; however it does recognise the importance of reserves in the financial stability of an organisation, whilst ensuring that adequate resources are provided for the College's core business. The College currently holds no restricted reserves. As at the balance sheet date, total reserves are £19,884k (2016: £9,963k). Reserves have improved due to pension scheme valuation surpluses. It is the Corporation's intention to increase reserves over the life of the current strategic plan, by the generation of annual operating surpluses.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2016 to 31 July 2017, the College paid 49% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

CURRENT AND FUTURE DEVELOPMENTS

Financial health

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

Operating and Financial Review *(continued)*

Student achievements

16 – 18 Education & Training Achievement Rates in 2016 – 17 are 78% compared with 78% in 2015 – 16
Adult Education & Training Rates in 2016 – 17 are 84% compared with 83% in 2015 – 16
Apprenticeship Achievement Rates in 2016 – 17 are 68% compared with 69% in 2015 - 16

Curriculum developments

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

Future developments

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

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

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

Staff and Learner involvement

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

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

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

RESOURCES

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

Tangible resources are shown below:

Financial

-

The College has £19.892m of net assets (including £37.107m pension liability) and debt of £23.411m.

Operating and Financial Review *(continued)*

People

The College employs 947 people (expressed as full time equivalents), of whom 566 are teaching staff.

Reputation

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the executive will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

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

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

1. Government Funding

- The College has considerable reliance on continued government funding through the education sector funding bodies and HEFCE. In 2016/17, 84% of the College's revenue was public funded and this level of requirement is expected to continue.

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

This risk is mitigated in a number of ways:

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

Operating and Financial Review *(continued)*

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

  - Failure to capitalise on the growth opportunities that are offered by the introduction of the levy.

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

  - Following on from Government policy, austerity changes and 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.

3. Tuition fee policy

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

This risk is mitigated in a number of ways:

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

4. Quality of Teaching and Learning

  - The quality of teaching and learning does not improved to meet the expected success rate targets

This risk is mitigated in a number of ways:

- Development of a Quality Improvement Plan and following the last Ofsted visit a Post Inspection Action Plan. These documents form the basis of improving quality in the College;
- Implementation of a rigorous Quality Assurance process to ensure the quality of teaching and learning improves; and
- Monitoring of targets to identify areas of weakness before an issue arises and development of action plans to manage such weaknesses

Operating and Financial Review *(continued)*

5. Evaluation of Student Performance

- The College may not be effectively evaluating the performance at student, course or team level, so that actions to improve performance are not identified or implemented

This risk is mitigated in a number of ways:

- Monitoring of targets at a student level using tools such as Promonitor and Workbook;
- Performing forecasts of student outcomes to address issues as they arise; and
- Reviews performed by Managers and Senior Leaders to ensure students are achieving the levels expected of them

STAKEHOLDER RELATIONSHIPS

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

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

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

Diversity and Inclusion at BMet

Diversity and Inclusion (D&I) is pivotal to BMet's organisational culture and success. We are passionate about offering inclusive working and learning environments where everyone is treated with dignity and respect and is able to participate, progress and thrive. This starts with valuing and celebrating all of the differences that make us unique, including, but not limited to, ability, age, gender, pregnancy & maternity, sexual orientation, race, and religion & belief.

The College's Equality and Diversity Policy, Diversity and Inclusion Strategy, Annual Equality Report and Equality Objectives outline the organisation's commitment and progress towards fully integrating D&I into all aspects of college life. These are published on BMet's website.

Operating and Financial Review *(continued)*

The College works hard to remove conditions which may place people at a disadvantage. We pay particular attention to preventing direct and indirect discrimination that affects the legally recognised protected characteristics, including disability.

Disability statement

BMet strives to fulfil our statutory responsibilities towards disabled people set out in the Equality Act 2010 and the Public Sector Equality Duty 2011 by:

- Providing an environment that is inclusive and accessible for all stakeholders
- Observing our anticipatory duty to make reasonable adjustments to take steps to meet the needs of disabled people and remove or minimise the disadvantages they may face
- Responding to individual needs in a timely way, where needs have not been anticipated
- Considering creative and agile solutions to access issues in addition to structured assessment frameworks such as Access to Work
- Having due regard to advancing equality by encouraging disabled people into employment and education and by supporting their progression through the organisation
- Ensuring staff and students have appropriate equality, diversity and inclusion awareness to support themselves and others

The College is 'Disability Committed' and is working towards 'Disability Confident' status which focuses on proactively employing and retaining disabled people. This involves actively looking to attract, recruit and retain disabled people by providing a fully inclusive and accessible recruitment process and supportive environments to enable people to be their very best.

The College has appointed a designated Diversity and Inclusion Advisor who provides information, advice, guidance and training.

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 14 December 2017 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2016 to 31 July 2017 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. in accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges (2015) ("the FE Code"); and
iii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

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

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2017. The Corporation recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015,

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

The Corporation

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

The table is up to and including the December 2017 meeting of the Corporation.

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Attendance
Jenni Ord	1 June 2013	31 August 2017	31.8.2017 (retirement)	Independent	Academic Standards and Quality Development Committee. Finance Committee Governance and Search/Remuneration Committee	4 out of 6
Andrew Madden	1 April 2010	31 August 2017	31.8.2017 (retirement)	Independent	Audit Committee	6 out of 6
Veronica Docherty	1 August 2010	31 July 2018		Independent	Academic Standards and Quality Developments Committee Governance and Search/Remuneration Committee Finance Committee	7 out of8

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

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Attendance
Steve Hollis	1 September 2013	31 August 2019		Independent	Finance Committee Governance and Search/Remuneration	8 out of 8
Henry Millin	17 March 2016	16 March 2017	16.3.2017 (retirement)	Student Member	Academic Standards and Quality Development Committee	2 out of 4
Sheetal Sahdev	17 March 2016	16 March 2017	16.3.2017 (retirement)	Student Member	Academic Standards and Quality Development Committee	2 out of 4
Mohammed Al-Bukair	20 July 2017	31 July 2018		Student Member		2 out of 3
Justin Hurlock	20 July 2017	31 July 2018	31.7 2017 (retirement)	Student Member		1 out of 1
Sonia Crook-Lake	15 September 2016	31 July 2018		Staff Member	Academic Standards and Quality Development Committee	7 out of 8
Jane Smith	15September 2016	31 July 2018		Staff Member	Audit Committee	7 out of 8
Andrew Cleaves	1 June 2014			Ex officio member as Principal		8 out of 8
Joel Blake	21 July 2016	20 July 2020		Independent	Finance Committee	6 out of 8
Keith Horton	21 July 2016	20 July 2020		Independent	Academic Standards and Quality Development Committee	6 out of 8
Michele Larmour	20 October 2016	19 October 2020		Independent	Audit Committee	6 out of 7
Hilary Smyth-Allen	20 October 2016	19 October 2020		Independent	Finance Committee	7 out of 7
Amardeep Gill	15 December 2016	14 December 2020		Independent	Audit Committee	4 out of 5
Simon Thompson	15 December 2016	14 December 2020		Independent	Audit Committee	4 out of 5
Dan Zastawny	1 August 2017	31 July 2021		Independent	Academic Standards and Quality Developments Committee	2 out of 2
Deborah Edmonds	1 August 2017	31 July 2021		Independent	Audit Committee	1 out of 1

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. The Corporation meets as a minimum on a termly basis and holds a number of "keeping in touch" sessions with management between meetings to keep informed of College matters.

The Corporation conducts its business through a number of committees. During 2016/17 the following committees were in place; Audit, Remuneration, Governance and Search, Finance and Academic Standards and Quality. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.bmet.ac.uk or from the Company Secretary:

Birmingham Metropolitan College
Jennens Road
Birmingham
B4 7PS.

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

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

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

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

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

Appointments to the Corporation

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

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

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

Corporation performance

Following the 2016 self-evaluation the following actions have been taken to address the areas for improvement identified by the Corporation:

- The introduction of occasional employer/governor formal dinners, with the first taking place in May 2017.

- The development of a student council with formal reporting lines into the Corporation. Student members will report to the Corporation directly with the first report in December 2017

- Networking Opportunities: Governors are now routinely invited to seminars, breakfast meetings and other events hosted by the College which present opportunities to network, particularly with employers.

Remuneration Committee

Throughout the year ending 31 July 2017, the College's Remuneration Committee comprised of four members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior post-holders.

Details of remuneration for the year ended 31 July 2017 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises of four members of the Corporation (which exclude the Accounting Officer and Chairman). The Committee operates in accordance with its written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

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

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

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

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

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

Internal Control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the ESFA. He is also responsible for reporting to the Corporation any material weaknesses or break-downs in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Birmingham Metropolitan College for the year ended 31 July 2017 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 2017 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 ESFA 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

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

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

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

Review of effectiveness

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

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

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

The Executive Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Executive Team and Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation receives reports from the Executive Team and the Audit Committee in relation to internal audit and other risks. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future providing that it continues to receive the support of the Dept for Education/ESFA and the banks with whom it has facility agreements. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 14 December 2017 and signed on its behalf by:

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

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

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency of material irregularity, impropriety and non-compliance with the Education and Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Education and 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 Education and 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 Education and Skills Funding Agency

Mr Steve Hollis	Andrew Cleaves
Chairman of the Corporation	*Principal and Chief Executive Officer*
14 December 2017	*14 December 2017*

Statement of the responsibilities of the members of the Corporation

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

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

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

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

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

Approved by order of the members of the Corporation on 14 December 2017 and signed on its behalf by:

Mr Steve Hollis
Chairman of the Corporation

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF BIRMINGHAM METROPOLITAN COLLEGE

Opinion

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

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2017, and of the College's income and expenditure, gains and losses and changes in reserves, and cash flows, for the year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education.*

Basis for opinion

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

Going concern

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

Other information

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Corporation's responsibilities

As explained more fully in their statement set out on page 21, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF BIRMINGHAM METROPOLITAN COLLEGE (continued)

determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Anthony Felthouse
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 December 2017

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

In accordance with the terms of our engagement letter dated 1 October 2015 and further to the requirements of the financial memorandum with Education and 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 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of Birmingham Metropolitan College and the Education and Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Birmingham Metropolitan College and Education and Skills Funding Agency those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of Birmingham Metropolitan College and the Education 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 Post-16 Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Post-16 Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

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

The work undertaken to draw our conclusion included:

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

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

Conclusion

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

Anthony Felthouse
For and on behalf of KPMG LLP, Reporting Accountant
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 December 2017

Statement of Comprehensive Income and Expenditure

	Notes	2017 £'000	2016 £'000
INCOME			
Funding body grants	2	51,684	49,413
Tuition fees and education contracts	3	8,457	8,099
Other grants and contracts	4	180	-
Other income	5	967	1,257
Endowment and investment income	6	8	40
Total income		**61,297**	**58,809**
EXPENDITURE			
Staff costs	7	38,303	35,548
Other operating expenses	8	18,276	20,249
Depreciation	11	5,355	5,732
Interest and other finance costs	9	1,942	1,756
Total expenditure		**63,876**	**63,284**
Deficit before other gains and losses		**(2,580)**	**(4,475)**
Profit on disposal of assets	11	145	1,409
Deficit before tax		**(2,435)**	**(3,066)**
Taxation		-	-
Deficit for the year		**(2,435)**	**(3,066)**
Actuarial gain/(loss) in respect of pensions schemes		12,356	(15,916)
Total Comprehensive Income and Expenditure for the year		**9,921**	**(18,982)**

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

Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1st August 2015	17,502	11,443	28,945
Deficit from the income and expenditure account	(3,066)	-	(3,066)
Other comprehensive income	(15,916)	-	(15,916)
Transfers between revaluation and income and expenditure reserves	309	(309)	-
	(18,673)	(309)	(18,982)
Balance at 31st July 2016	(1,171)	11,134	9,963
Deficit from the income and expenditure account	(2,435)	-	(2,435)
Other comprehensive income	12,356	-	12,356
Transfers between revaluation and income and expenditure reserves	309	(309)	-
Total comprehensive income for the year	10,230	(309)	9,921
Balance at 31st July 2017	**9,059**	**10,825**	**19,884**

Balance sheet as at 31 July

	Notes	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets	10	105,373	109,754
Investments	11	1,940	1,940
		107,313	**111,694**
Current assets			
Trade and other receivables	12	1,864	1,575
Cash and cash equivalents	17	2,420	4,716
		4,284	**6,291**
Less: Creditors – amounts falling due within one year	13	(32,262)	(26,055)
Net current liabilities		**(27,978)**	**(19,764)**
Total assets less current liabilities		**79,335**	**91,930**
Less: Creditors – amounts falling due after more than one year	14	(19,529)	(30,921)
Provisions			
Defined benefit obligations	16	(37,107)	(47,741)
Other provisions	16	(2,814)	(3,305)
Total net assets		**19,884**	**9,963**
Unrestricted reserves			
Income and expenditure account		9,059	(1,171)
Revaluation reserve		10,825	11,134
Total reserves		**19,884**	**9,963**

The financial statements on pages 26 to 54 were approved by the Corporation on 14 December 2017 and were signed on its behalf by:

Mr Steve Hollis
Chair of the Corporation

Mr Andrew Cleaves
Accounting Officer

Statement of Cash Flows

	Notes	2017 £'000	2016 £'000
Cash inflow from operating activities			
Deficit for the year		(2,435)	(3,066)
Adjustment for non cash items			
Depreciation		5,355	5,732
(Increase)/decrease in debtors		(290)	611
Decrease in creditors		(2,927)	(10,757)
Decrease/(increase) in provisions		(491)	1
Pensions costs less contributions payable		1,880	1,810
Adjustment for investing or financing activities			
Investment income		(8)	(40)
Interest payable		592	559
Profit on sale of fixed assets		(145)	(1,393)
Net cash flow from operating activities		**1,532**	**(6,543)**
Cash flows from investing activities			
Proceeds from sale of fixed assets		145	1,497
Investment income		8	40
Payments made to acquire fixed assets		(2,326)	(2,701)
		(2,173)	(1,164)
Cash flows from financing activities			
Interest paid		(592)	(559)
New unsecured loans		-	11,500
Repayments of amounts borrowed		(1,064)	(1,855)
		(1,655)	9,086
(Decrease)/increase in cash and cash equivalents in the year		**(2,297)**	**1,379**
Cash and cash equivalents at beginning of the year	17	4,716	3,337
Cash and cash equivalents at end of the year	17	2,420	4,716

Notes to the accounts

(forming part of the financial statements)

1 Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2016 to 2017* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of accounting

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

Going concern

The financial statements have been prepared on the going concern basis, which the Corporation believes to be appropriate on the basis set out below. The College made an operating deficit of £2.435 million in the year to 31 July 2017 and had net current liabilities of £27.968 million at that date.

The College implemented a recovery plan in 2014/15. A key element of the recovery was to gain support of both the Skills Funding Agency (SFA) and the College's bankers - Lloyds and Barclays. The SFA reinforced its support by providing an interest free £16 million loan to the College in 2015/16, under the 'FE College Financial Intervention and Exceptional Financial Support (initially from BIS, however this has been transferred to the Department for Education (DfE) following changes within government in the Autumn of 2016). £1.5 million was repaid during 2015/16 and a further £0.7 million in 2016/17, leaving an outstanding amount of £13.8 million to be paid over the next two years, with £0.8m being repaid in September 2017. The College is currently renegotiating the repayment profile for this loan with the ESFA.

In addition to the £13.8m that is due in respect of the original ESFA loan, a further repayment to the ESFA of £1.7m (£1m recorded in 15/16 and a further £0.7m in 16/17) in respect of historic funding irregularities is repayable. The ESFA has agreed to combine the repayments of the £13.8m loan and the funding irregularities into one loan, the terms of which are currently being renegotiated. The ESFA confirmed this position in writing to the College on 31st October 2017. A condition of the renegotiation is that the College disposes of certain properties and uses the proceeds to repay the ESFA loans. All the properties that are being disposed of are no longer in use by the College. It is anticipated £13.8m will be raised from the disposals of buildings, the remaining £1.7m will be repaid from working capital.

In addition to the ESFA loan of £13.8m, the College currently has £9.6m (as detailed at Note 14) of loans outstanding with its two banks, and having breached its loan covenants in the absence of a waiver at 31 July 2017, this amount has been wholly classified as due within one year in line with Financial Reporting Standards. The banks have indicated their continuing support to the College. The College is in the process of negotiating a revised set of covenants with the banks. The bank loan repayment periods however remain unchanged and the College expects, subject to the points below, to stay within the revised loan covenant criteria.

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

The £1.7m relating to historic funding irregularities is currently included in other creditors and will be transferred to the ESFA loan balance on completion of the negotiations.

The College continues to be monitored by the FE Commissioner under the intervention process. In addition the Education and Skills Funding Agency continues to support the College and monthly case meetings are in place to review progress. Regular meetings with the banks are held to monitor progress and ensure financial targets are met.

Based on the above indications the Corporation believes it is appropriate to prepare the financial statements on a going concern basis. However, there is a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern. Without the support of the banks and the Education and Skills Funding Agency and DfE as identified above, the College may be unable to continue realising its assets and discharging its liabilities in the normal course of business. However, the financial statements do not include any adjustments that would result from a withdrawal of support by either the Education and Skills Funding Agency, DfE or the banks.

Recognition of income

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

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

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

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

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

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

Accounting for post-employment benefits

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

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

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

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

Short term Employment benefits

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

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by the 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 to the accounts (continued)

1 Statement of accounting policies *(continued)*

Non-current Assets - Tangible fixed assets

Land and buildings

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

- Freehold – 50 years
- Leasehold – 50 years
- Refurbishments – 15 years

Freehold land is not depreciated.

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

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

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

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Equipment

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

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

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

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.

Investments

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

Inventories

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

Cash and cash equivalents

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

Financial liabilities and equity

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

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2011 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2011 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

Notes to the accounts *(continued)*

1 Statement of accounting policies *(continued)*

Provisions and contingent liabilities

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

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

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

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

Agency arrangements

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

- *Local Government Pension Scheme*

  The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Accounts (continued)

2 Funding council grants

	2017	2016
	£'000	£'000
Recurrent grants		
Education and Skills Funding Agency - adult	13,521	11,081
Education and Skills Funding Agency – 16 -18	33,023	32,341
Education and Skills Funding Agency - apprenticeships	4,088	4,604
Specific Grants		
Releases of government capital grants	705	825
HE grant	347	562
Total	**51,684**	**49,413**

3 Tuition fees and education contracts

	2017	2016
	£'000	£'000
Adult education fees	1,585	2,456
Apprenticeship fees and contracts	678	821
Fees for FE loan supported courses	2,582	1,454
Fees for HE loan supported courses	531	653
Total tuition fees	5,377	5,383
Education contracts	3,080	2,716
Total	**8,457**	**8,099**

4 Other grants and contracts

	2017	2016
	£'000	£'000
European Commission	85	-
Other grants and contracts	95	-
Total	**180**	**-**

5 Other income

	2017	2016
	£'000	£'000
Catering and residences	8	9
Other income generating activities	936	1,078
Non government capital grants	23	170
Total	**967**	**1,257**

6 Investment income

	2017	2016
	£'000	£'000
Other interest receivable	8	40
	8	**40**

Notes to the Accounts (continued)

7 Staff costs

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

	2017 No.	2016 No.
Teaching staff	566	530
Non teaching staff	381	383
	947	**913**

Staff costs for the above persons

		2017 £'000	2016 £'000
Wages and salaries		29,308	27,970
Social security costs		2,864	2,232
Other pension costs		5,732	5,196
Payroll sub total		**37,904**	**35,398**
Contracted out staffing services			-
		37,904	**35,398**
Fundamental restructuring costs -	contractual	366	150
	non contractual	-	-
Levy Payments		33	-
		38,303	**35,548**

Notes to the Accounts (continued)

Key management personnel

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

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

	2017 No.	2016 No.
The number of key management personnel including the Accounting Officer was:	10	9

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

	Senior post-holders		Other staff	
	2017 No.	2016 No.	2017 No.	2016 No.
£60,001 to £70,000	-	-	3	6
£70,001 to £80,000	3	3	4	8
£80,001 to £90,000	3	1	8	4
£90,001 to £100,000	-	1	-	-
£100,001 to £110,000	-	-	1	1
£110,001 to £120,000	1	-	-	-
£120,001 to £130,000	-	3	-	-
£130,001 to £140,000	1	-	-	-
£150,001 to £160,000	1	-	-	-
£260,001 to £270,000	1	1	-	-
	10	9	16	19

Notes to the Accounts (continued)

7 Staff costs

Key management personnel compensation is made up as follows:

	2017 £'000	2016 £'000
Salaries - gross of salary sacrifice and waived emoluments	1,013	832
Employers National Insurance	126	103
Benefits in kind	-	-
	1,138	**935**
Pension contributions	137	113
Total emoluments	**1,275**	**1,048**

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

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2017 £'000	2016 £'000
Salaries	266	266
Benefits in kind	-	-
	266	266
Pension contributions	37	36

Notes to the Accounts (continued)

8 Other operating expenses

	2017 £'000	2016 £'000
Teaching costs	4,589	4,286
Non teaching costs	8,609	9,446
Premises costs	5,078	6,517
Total	18,276	20,249

Other operating expenses include:	**2017 £'000**	**2016 £'000**
Auditors' remuneration:		
Financial statements audit	37	37
Internal audit	64	51
Other services provided by the financial statements auditors	3	15
Other services provided by the internal auditors		
Losses on disposal of non current assets (where not material)	-	325
Hire of assets under operating leases	-	-

9 Interest payable

	2017 £'000	2016 £'000
On bank loans, overdrafts and other loans:	592	559
	592	559
On finance leases		-
Net interest on defined pension liability and enhanced pension	1,350	1,197
Total	1,942	1,756

10 Taxation

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

Notes to the Accounts (continued)

10 Tangible fixed assets

	Land and buildings		Equipment	Assets in the Course of Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2016	141,072	110	12,090	1,374	154,646
Additions	185	-	694	95	975
Transfer Asset Under Construction	1,326	-	49	(1,374)	-
Disposals	(82)	-	-	-	(82)
At 31 July 2017	**142,501**	**110**	**12,833**	**95**	**155,539**
Depreciation					
At 1 August 2016	37,776	26	7,090	-	44,892
Charge for the year	3,833	4	1,519	-	5,355
Elimination in respect of disposals	(82)	-	-	-	(82)
At 31 July 2017	**41,527**	**30**	**8,609**	**-**	**50,166**
Net book value at 31 July 2017	**100,975**	**80**	**4,224**	**95**	**105,373**
Net book value at 31 July 2016	103,296	84	5,000	1,374	109,754

12 Trade and other receivables

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	1,411	400
Other debtors	12	9
Prepayments and accrued income	286	981
Amounts owed by the ESFA	155	185
Total	**1,864**	**1,575**

13 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Bank loans and overdrafts	9,611	9,975
BIS Loan	11,700	1,500
Trade payables	150	120
Obligations under VAT scheme	24	6
Other taxation and social security	1,339	1,253
Payments received on account	1,151	1,542
Accruals	7,057	7,199
Deferred income - government capital grants	700	752
Amounts owed to the ESFA	530	3,708
Total	**32,262**	**26,055**

14 Creditors: amounts falling due after one year

	2017	2016
	£'000	£'000
BIS Loan	2,100	13,000
Deferred income - government capital grants	17,429	17,921
Total	**19,529**	**30,921**

Notes to the Accounts (continued)

15 Maturity of debt

(a) Loans and overdrafts

Loans and overdrafts are repayable as follows:

	2017	2016
	£'000	£'000
In one year or less: Bank loan	9,611	9,975
BIS loan	11,700	1,500
Between one and two years - BIS loan	2,100	13,000
Between two and five years	-	-
In five years or more	-	-
Total	23,411	24,475

At 31 July 2016 and 2017, loan covenants with Lloyds and Barclays Bank had been breached and formal waivers from the banks were not in place as at those dates. The College has discussed and agreed its financing position with banks subsequent to the year end, and negotiated revised covenant suites, although the loan repayment periods remain unchanged. However, in accordance with Financial Reporting Standards, the College was deemed not to have an unconditional right to defer payment for more than 12 months at the balance sheet date.

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

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

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

The BIS loan is repayable in instalments by 31 May 2018 excluding repayments in relation to property sales.

Notes to the Accounts (continued)

16 Provisions

	Defined benefit Obligations £'000	Enhanced pensions £'000	Other £'000	Total £'000
At 1 August 2016	47,741	2,296	1,009	51,046
Expenditure in the period	530	(161)	(516)	(147)
Transferred from income and expenditure account	1,192	186	-	1,378
Release in provision	(12,356)	-	-	(12,356)
At 31 July 2017	**37,107**	**2,321**	**493**	**39,921**

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

Other provisions relate to a legal obligation to carry out remedial pipework in the institution's leasehold building. This work will be completed during 2017/18.

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

The principal assumptions for this calculation are:

	2017	2016
Price inflation	2.30%	2.30%
Discount rate	1.30%	1.30%

17 Cash and cash equivalents

	At 1 August 2016 £'000	Cash flows £'000	Other changes £'000	At 31 July 2017 £'000
Cash and cash equivalents	4,716	(2,296)	-	2,420
Total	**4,716**	**(2,296)**	-	**2,420**

18 Capital commitments

	2017 £'000	2016 £'000
Commitments contracted for at 31 July	300	418

Notes to the Accounts (continued)

19 Lease Obligations

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

	2017	2016
	£'000	£'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	8	128
Later than one year and not later than five years	835	1,204
later than five years	3,577	4,024
	4,420	5,356
Other		
Not later than one year	221	234
Later than one year and not later than five years	-	-
later than five years	-	-
	221	234
Total lease payments due	4,641	5,590

20 Contingent liabilities

The College has no contingent liabilites as at 31 July 2017 (2016: £nil)

21 Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by West Midlands Pension Fund. Both are multi-employer defined-benefit plans.
The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Total pension cost for the year		**2017 £'000**		**2016 £'000**
Teachers Pension Scheme: contributions paid		2,732		2,431
Local Government Pension Scheme:				
Contributions paid	2,470		2,152	
FRS 102 (28) charge	530		613	
Charge to the Statement of Comprehensive Income		3,000		2,765
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year		5,732		5,196

Contributions amounting to £629,000 (2016:£573,000) were payable to the scheme and are included in creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

Notes to the Accounts (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 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date oof £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%

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

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £4,070,688 (2016: £3,783,901)

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

FRS 102 (28)

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

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

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds adminstered by West Midlands Pension Fund . The total contribution made for the year ended 31 July 2017 was £2,125,646, of which employer's contributions totalled £1,423,165 and employees' contributions totalled £702,351. The agreed contribution rates for future years are 13.5% for employers and range from 5.5% to 12.5% cent for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2017 by a qualified independent actuary

	At 31 July 2017	At 31 July 2016
Rate of increase in salaries	4.20%	3.75%
Future pensions increases	2.70%	2.00%
Discount rate for scheme liabilities	2.70%	2.50%
Inflation assumption (CPI)	1.80%	2.00%
Commutation of pensions to lump sums	50%	50%

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

	At 31 July 2017	At 31 July 2016
	years	years
Retiring today		
Males	21.80	23.00
Females	24.30	25.70
Retiring in 20 years		
Males	23.90	25.30
Females	26.60	28.10

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

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

	Long-term rate of return expected at 31 July 2017	Fair Value at 31 July 2017	Long-term rate of return expected at 31 July 2016	Fair Value at 31 July 2016
		£'000		£'000
Equities	63.00%	49,750	59.00%	37,280
Bonds - Government	7.00%	5,753	7.00%	4,358
Bonds - Other	4.00%	3,029	9.00%	5,377
Property	7.00%	5,749	8.00%	4,999
Cash	5.00%	3911	6.00%	4032
	13.00%	10445	11.00%	
Total market value of assets		78,637		56,046
Weighted average expected long term rate of return				
Actual return on plan assets		(11,372)		(6,470)

The amount included in the balance sheet in respect of the defined benefit pension plan [and enhanced pensions benefits] is as follows:

	2017	2016
	£'000	£'000
Fair value of plan assets	78,637	62,822
Present value of plan liabilities	(115,688)	(110,501)
Present value of unfunded liabilities	(56)	(62)
Net pensions (liability)/asset (Note 16)	(37,107)	(47,741)

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

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

	2017 £'000	2016 £'000
Amounts included in staff costs		
Current service cost	2,969	2,071
Past service cost		
Total	**2,969**	**2,071**
Amounts included in investment income		
Net interest income	1,164	1,115
	1,164	**1,115**
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets		
Experience losses arising on defined benefit obligations		
Changes in assumptions underlying the present value of plan liabilities	12,356	(15,916)
Amount recognised in Other Comprehensive Income	**12,356**	**(15,916)**

Movement in net defined benefit liability during the year

	2017 £'000	2016 £'000
Deficit in scheme at 1 August	(47,741)	(30,063)
Movement in year:		
Current service cost	(2,969)	(2,071)
Employer contributions	2,439	1,458
Net interest on the defined (liability)/asset	(1,164)	(1,115)
Actuarial gain or loss	12,328	(15,950)
Net defined benefit liability at 31 July	**(37,107)**	**(47,741)**

Notes to the Accounts (continued)

22 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £399; 3 governors (2016: £1,091; 3 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 (2016: None).

Transaction with the ESFA and HEFCE are detailed in notes 2, 12, 13 and 14

Estates, Finance (including Payroll), Governance and IT were recharged to Harborne Academy during the year this totalled £168,604 (2016: £120,429)

23 Amounts disbursed as agent

Learner support funds

	2017 £'000	2016 £'000
Funding body grants – 16-18 Bursary	2,079	1,787
Other Funding body grants	972	1,873
	3,052	3,660
Disbursed to students	(1,617)	(2,723)
Administration costs	(77)	(123)
Balance unspent as at 31 July, included in creditors	1,357	814

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