Lowestoft College

Members' report and consolidated financial statements

For the year ended 31 July 2015

Members' report and financial statements

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Members' report

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2015.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Lowestoft College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2011.

The College's Vision as approved by its members is:

"**The College of Choice: Delivering Excellence**"

Public Values Statement

Lowestoft College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 12 to 14. In determining its vision and core values this public values statement takes note of the guidance from the Charity Commissioner regarding the requirement to report on the public benefit on the role of the College in the advancement of education.

College Vision:

The vision of the College is to be **'The College of Choice; Delivering Excellence'**

It aims to achieve this through the following College values:

- Students come first
- Our priority is learning and teaching
- Providing a welcoming and safe environment
- Respecting everyone as an individual
- Expecting the best of ourselves and others
- Achieving more by working together

Members of the public can measure the success of the College and the value that it adds to the communities it works with via:

- Student, employer and staff surveys reports
- Published College accounts
- Published public records of College Corporation meetings
- Inspection reports including Ofsted
- Audit reports produced by both the Internal and Financial Reporting Auditors.

The governors of the College will periodically review and update this Public Values Statement as part of the Strategic Plan review process.

Members' report *(continued)*

Implementation of strategic plan

A new Strategic plan for 2014 - 2017 was developed in the Autumn Term of 2014; this was as a result of inclusive debate and consultation with staff management groups, leadership team and Board of Governors.

The Lowestoft College Strategic Development Plan 2014 - 2017 is underpinned by our Quality Improvement Plan (updated annually) which provides detail of the targets and actions essential in building upon strengths and addressing areas for improvement, as well as its Risk Management Register.

Lowestoft College sits at the heart of our local community and its priority is empowering our students to achieve their best by increasing skills that enable improved life experiences, including progression to employment and higher education.

Our Mission

To motivate and inspire ***all*** students, through learning and development that is challenging and supportive; where students are able to achieve their full potential and make progress towards rewarding futures within employment and make a positive contribution within their communities.

The college strategic ambitions and objectives

The Strategic Ambitions are high-level outcomes that the College will work towards during the period of this Strategic Plan. The Strategic Ambitions comprise component targets and elements to guide the development and delivery of the full range of Lowestoft College services. These component elements form the basis of the one year Operational Plan.

- **Ambition One - Outcomes and Experience**- To deliver outstanding vocational skills and employment-related education and training
- **Ambition Two - Secure our Future-** To secure the financial future and growth of the college
- **Ambition Three - Effective and Productive Partnerships**- To have excellent relationships with employers and local education providers
- **Ambition Four - High Performing Aspirational and Collaborative Culture-** To create a positive, vibrant organisation culture, where staff and students are encouraged to commit and give of their best and constantly strive for high quality and outstanding outcomes.

Ofsted Inspection

The last full Ofsted inspection of the College took place in December 2014 where the College was graded as "requires improvement". Clear progress was seen from the new Leadership Team but Ofsted stated it too early to form a more positive judgement. Of particular note are the following comments by Ofsted:

- **"managers have strong links with local and regional partners to meet local enterprise partnership priorities and the needs of employers"**
- **"governors and leaders have taken decisive action to restructure the college's management and increased the pace of change in addressing underperformance."**

Members' report *(continued)*

Financial objectives

The College's financial objective is to **"Secure our Future"**

In order to provide our students with the outstanding outcomes they deserve, it is fundamental that our organization is financially robust. We must meet our funding allocations and enrolment targets, whilst maximizing our operational efficiency by ensuring that curriculum models are viable and that our support areas provide value for money. Equally it is important that we continue to invest in our campus and resources so that they are fit for purpose, inspiring and support the ever changing needs of our students and the future workforce.

There have been many recent changes to funding methodology and further reforms are anticipated, such as reforms affecting the funding of apprenticeships from 2016-17. We must be responsive to these changes, making prudent financial assumptions within the college's financial plans.

Key Financial Objectives are contained in the College's Financial Recovery Plan. Broadly these are:

- Renewing College Leadership
- Sound curriculum & financial planning
- Effective delivery of the plan
- A high quality College & Brand
- The longer term

A series of key performance indicators linked into the Strategic Aims have been agreed to monitor the successful implementation of the policies and to improve the College's financial health status as assessed by the Skills Funding Agency.

Performance indicators

Progress in meeting these objectives is monitored through Case Review Meetings, and the Risk Management Framework.

The College is committed to observing the importance of sector measures and indicators and the FE Choices website which looks at measures such as success rates and satisfaction levels. The College is required to complete the annual Finance Records for the Skills Funding Agency. The Finance Record produces a financial health grading. Performance for 2013/14 was graded inadequate by the Skills Funding Agency but for 2014/15 it is graded satisfactory with the forecast that is in place. However, because the College is in receipt of exceptional financial support from the Skills Funding Agency, the grading defaults to an "Inadequate" rating.

Members' report *(continued)*

Financial position

Financial results

The College generated a consolidated operating deficit in the year of £230,000 (*2013/14 deficit of £505,000).* This loss in the year, is after accounting for Exceptional restructuring costs of £555,000 (*2013/14 of £351,000)* relating to restructuring and discontinuation of the Lound Campus. These are one off costs. Excluding these costs the College shows an underlying surplus on operations of £325,000.

The College has accumulated consolidated reserves of £1,241,000 excluding the pension reserve deficit of £8,801,000 and net consolidated cash balances of £1,130,000, with borrowings in respect of the property strategy amounting to £3,494,000 at 31st July 2015.

The College has one subsidiary company, Lowestoft and Waveney Education Services Limited (LOWES). The principal business activity of LOWES during the year was full cost (commercial) training to the Maritime and Offshore industry. Any surpluses generated by the subsidiary can be subsequently transferred to the College under a Deed of Covenant.

Name	**Nature of business**	**Surplus generated**
LOWES LIMITED	Commercial Training	£213,000

Treasury policies and objectives

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

The College has a separate treasury management policy in place.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Short term borrowing for temporary revenue purposes is authorised by the Principal. All other borrowing shall comply with the requirements of the Financial Memorandum.

Cash flows

In June 2013, the college was awarded funding through a capital funding round for refurbishment works and cladding of the main tower building. In March 2014, the cladding of the main tower block project began, with a proposed completion of 31st August 2014. In June 2014, the college leadership found that it had been unsuccessful in securing a £1.4M loan to cover the balance of match funding for the project, plus funding for costs of some additional structural works necessary.

Due to the overspend in capital expenditure, the College obtained a bank overdraft of £750,000 from Lloyds Bank, which remained in place until 31st July 2015. The College also obtained a total of £1,431,000 in Exceptional Financial Support from the SFA (BIS loan). However, as noted in pages 29 and 30, the College has not met all the financial covenants contained within the term loan.

Whilst the College is in technical breach of its banking covenants it considers it has sufficient assurance from the Bank that it will not call in the loans but will discuss a new set of covenants during 2016.

Members' report *(continued)*

In August 2014 a new Interim Principal was appointed. The Interim Principal identified the deteriorating cash flow position impacted upon by creditors falling due (including creditors for the unmatched capital expenditure) which increased by £1.862M in 2013/14: these had to be paid in 2014/15. This resulted in an outflow from creditors of £1.241M in the year and an overall cash out-flow from operating activities of £515,000 (2013/14 inflow of £2,377,000) and a net decrease in cash of £690k (2013/14 inflow £86k). The College has net debt of £4,979,000 (2013/14 £3,114,000).

Student funding

In 2014/15 the College has delivered activity that has produced £6,906,000 in main allocation funding (2013/14 £7,817,000). Employer Responsive learning activity generated funding totalling £1,788,000. The numbers of 16 -18 year old learners has remained stable with approximately 1,100 in College during 2014/15.

Student achievements

The table below details the actual success rate achievements for the College in Further Education for the period 2012/13 to 2014/15. Success rates for both age groups improved significantly during the year 2014/15.

Age Range	2012/13	2013/14	2014/15
16 – 18	**80.8%**	**78.7%**	**84.1%**
19+	**79.6%**	**78.2%**	**80.5%**
Total	**80.4%**	**78.6%**	**83.4%**

The success rates for Work Based Learning/apprenticeships are detailed in the table below and again show improvement in 2014/15, significantly above the national averages for other providers:

	2012/13	2013/14	2014/15
Overall work based success rates	74.5%	81.1%	83.9%

Curriculum developments

The College continues to develop its curriculum in line with national and local priorities taking account of employer needs. The local economy is served well with a range of provision supporting key employment areas. Courses operate at a range of levels from Foundation to Higher Education. Developments in offshore renewable energy and Southern North Sea Gas are also supported with a range of specialist commercial income courses. Investments have been made in college facilities to improve the student experience and specifically to upgrade the engineering facilities so they will meet the needs of the local economy. Department for Education figures show that the college's rate of students who progress into sustained education or employment is at 73%, significantly higher than the national average.

Members' report *(continued)*

Staff and student involvement

The College considers good communication with its staff to be very important. A regular staff newsletter, which is available to all staff, is published and there are regular staff meetings held each half. The College operates an open style of communication encouraging staff and student involvement through membership of committees and more informal communication. There is an active student forum which meets six times per year with College managers. Surveys of staff and students are carried out six weekly and an annual survey is undertaken to inform self-assessment and action planning. Results are shared with staff and a solutions focused environment exists. In December 2014, the college received very positive feedback and accreditation following a combined Matrix and Investors in People assessment.

Post balance sheet events

Following an area review, the College has entered into discussions with Great Yarmouth College and Lowestoft Sixth Form College, which, if successful following due diligence, may result in a merged institution from 1st August 2016.

RESOURCES

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

Financial

The College has £2.396 million of net assets (including £8.801 million pension liability) and long-term debt of £1,629 million.

The College incurred exceptional restructuring costs in the year of £297k. The restructure followed the ACAS code, consulting with unions and staff and the result was a reduction in 33 FTEs.

People
The College employs 250 people (expressed as full time equivalents), of whom 98 are teaching staff.

Reputation
The College has a good reputation locally, nationally and internationally. Maintaining a quality brand is essential for the College's success at attracting students and protecting 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, the College Executive Team and Governors undertake a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the College Executive Team and Governors will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

Members' report *(continued)*

The College maintains a strategic and operational risk register. The strategic risk register is reviewed monthly by senior management and the updated register is included in the monthly management accounts pack. It is also reviewed at every meeting of the Audit Committee which meets up to six times a year. The risk register is also aligned with the College's Financial Recovery Plan and reviewed monthly at Case Review Meetings.

Management is encouraged to make changes to the operational risk register as circumstances change but a formal review is carried out twice a year. The operational risk register is also reviewed by Audit Committee annually. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

This is supported by a risk management training programme 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. The College's Financial Position (High Risk & Improving)

The College has low cash reserves and has been reliant on a BIS Exceptional Financial Support ("EFS") Loan. The College has concluded significant restructuring exercises in 2014\15, removing £1.5M of staffing costs to return a budgeted surplus in 2015\16 and 2016\17, allowing repayment of the EFS support. A robust Financial Recovery Plan was quickly adopted and implemented, and has been externally validated by the FE Commissioners Team.

The latest Comprehensive Spending Review by the government does not yet appear to have added any further uncertainty over funding.

2. Leadership & Management (High Risk & Improving)

A new Executive Team was formed in the period July – October 2014, following the change of College leadership in Summer 2014. The Executive Team undertook a restructuring of the middle management tier to ensure a structure fit for the task of improving both Financial and Quality Performance. A comprehensive continuing professional development leadership programme has been delivered, and the new team has proved effective. Outcomes show a positive rise of 5% in overall success rates, as well as an underlying positive operational position. The College's governance structure has also undergone change with many new members bringing specialist skills, particularly in Finance and Curriculum Delivery. The structure of the Corporation has shifted to specialist committees to allow for better application of skills & scrutiny: there is now a dedicated Finance & Resources Committee as well as Curriculum. A new Chair to the Corporation has brought a fresh approach in terms of Governors' skills deployment

3. Human Resources Issues (High Risk)

The three restructuring exercises which the College undertook during the 2014\15 financial year threatened the stability of the College and could have resulted in a considerable lowering of staff morale at a time when improvement was being sought in both curriculum delivery and business support functions. However, the new Leadership Team has sought to communicate far more with staff during this difficult period and is consulting with them on how to bring about improvements. Staff surveys offer an effective way to gauge how well new ways of working are viewed and taken on board by the College's most valuable asset – its staff. The FE Commissioners Team noted that both staff and the community the College serves supported the work being done by the Leadership Team to bring about improvements.

Members' report *(continued)*

4. Area Review, Shadow Board, Structural Change & Due Diligence (High Risk & Increasing)

Following on from a pilot area Review, the college is in the formative stages of exploring merger opportunities with two organisations. This is a major project and may have tight timescales for desired completion to align with the academic funding year. This will require the attention and time of college leaders. Leaders are mitigating the risks associated with this project through

(1) Utilising skills from key corporation members
(2) having a clear cost-benefit business case
(3) seeking legal advice
(4) undertaking comprehensive due diligence
(5) appointing and supporting an experienced merger specialist project manager

Tuition Fee Policy

Tuition fees charged are in line with SFA recommendations and for 2014\15 were 50%.

Higher Education fees are set by University Campus Suffolk ("UCS"). Lowestoft College is a part of the UCS network of colleges.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Funding Agencies;
- FE Commissioner;
- Staff;
- Local employers;
- Local Authorities;
- Local Enterprise Partnerships;
- The local community;
- Other FE institutions;
- University Campus Suffolk;
- Schools:
- Trade unions;
- Professional bodies.

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

Equal opportunities and employment of disabled persons

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, those with disabilities, religious belief, class and age. We strive vigorously to remove conditions which place people at a disadvantage and will actively combat discrimination on any grounds. The Equal Opportunities Policy will be resourced,

Members' report (continued)

implemented and monitored on a planned basis. The Equal Opportunities Policy and Race Relations Policy are published on the College's internet site.

The College's recruitment procedures operate under the "Positive about disabled people" guidelines. This means that where applicants declare disabilities and they meet the essential selection criteria they will be guaranteed an interview. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities to all staff equally. An equalities plan is published each year and monitored by managers and governors.

Disability statement

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

a. As part of its original accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2003/04, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access. All capital projects since this time have complied with DDA requirements.
b. The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
c. There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
d. The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
e. The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
f. Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
g. Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of Information to the Auditor

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 auditor is 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 auditor is aware of that information.

Approved by order of the members of the Corporation on 18 December 2015 and signed on its behalf by

Mrs T Ellis (Chair)

Members' report *(continued)*

Professional advisers

Financial statements auditors:		KPMG LLP 6 Lower Brook Street Ipswich IP4 1AP
Bankers:	College Banking	Barclays Bank Barclays Corporate PO Box 216, Brightwell Court, Martlesham Heath, Ipswich, BX3 2BB
		Lloyds Bank Endeavour House Chivers Way Histon Cambridge CB24 9ZR
	Capital Loan	Lloyds TSB Corporate Markets 25 Gresham Street London EC2V 7HN
Solicitors:		Steeles Bedford House 21a St John Street London WC1N 2BF

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

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

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Foundation Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the College complies with all the provisions of the Foundation Code, and it has complied throughout the year ended 31 July 2015. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted on 16th July 2012 and the Audit and Accountability Annex to the Foundation Code that was issued in March 2013 and adopted by the College on 8th July 2013.

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

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

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.

Name	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Corporation meeting attendance
Mr R Perkins	Reappointed December 2014	4 years		Member	Chair: Corporation; Director of LOWES Ltd; Member of Finance & Resources	13/15
Mr A Debenham	June 2013	4 years		Member	Vice Chair of Corporation, Member of Audit, and Chair of Governance & Remuneration	10/15
Mrs A Swietlik	June 2014	4 years	Dec 2014	Member	Member of Governance & Remuneration Chair: Audit	4/5
Mrs T Ellis	October 2014	4 years		Member	Vice Chair of Corporation Member of Audit, and Governance & Remuneration	12/15
Mr J Eade	July 2002	N/A		Co-opted member	Member of Audit	4/5
Mrs R Bunn	April 2014	4 years		Staff Member	Member of Audit and Governance & Remuneration	14/15
Miss L Bland	April 2015	4 years		Staff Member		7/7
Mr A King	June 2013	4 years		Member		12/15

Name	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Corporation meeting attendance
Mr A Reynolds	June 2009	N/A		Co-opted	Member of Governance & Remuneration	2/4
Mr B Provan	July 2012	4 Years		Member	Member of Audit; Director of LOWES Ltd	11/15
Mr T Crane	May 2014	4 Years		Member	Member of Finance & Resources; Director of LOWES	8/15
Mr M Launde	January 2014	4 Years	Dec 2014	Student Member		6/6
Mr L Poulson	February 2014	4 Years		Member		12/15
Mr P Wilson	April 2014	4 years	March 2015	Staff Member		4/6
Mr P Strowlger	May 2014	4 Years	Dec 2014	Member		3/3
Mrs J Pretty	July 2014	N/A		Principal	Member of Governance & Remuneration Director of LOWES Ltd	15/15
Mr B Lynes	July 2015	3 Years		Member		1\1
Mr K Monaghan	October 2014	3 Years		Member	Finance & Resources	9/15
Mr T Skinner	June 2015	3 Years		Member		2/3
Ms R Witt, Clerk to the Corporation.						

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 regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets at least termly.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Audit, Governance & Remuneration. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

Lowestoft College
St Peters Street
Lowestoft
Suffolk
NR32 2NB

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

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

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Governance & Remuneration Committee, consisting of six members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

Governance & Remuneration Committee

Throughout the year ending 31 July 2015, the College's Governance & Remuneration Committee comprised five members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

Details of remuneration for the year ended 31 July 2015 are set out in note 7 to the financial statements.

Statement of Corporate Governance and Internal Control (continued)

Audit Committee

The Audit Committee comprises a minimum of three members of the Corporation (excluding the Principal and Chair); in 2014/15 there were 5 members of Audit Committee plus an experienced Co-opted member. The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee met five times in 2014/15 and provided a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The College has a Risk Management Framework & Audit Schedule providing oversight over internal control, risk management and governance processes in place at the College. The Audit Committee oversees the framework, which is a key part of the wider College Improvement Framework.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented. This is through the Quality Improvement Policy actions and Financial Recovery Plan.

The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

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 she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Lowestoft College and the funding bodies. She is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Lowestoft College for the year ended 31 July 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2015 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

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

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Lowestoft College has an internal Risk Management Framework, which operates in accordance with the requirements of the SFA's *Joint Audit Code of Practice*. Informed by an analysis of the risks to which the College is exposed, the annual internal Audit Schedule is based on this analysis. At minimum annually, the Audit Committee provides the governing body with a report on internal audit activity in the College. Internal audits conducted were on selected areas and processes as directed by the Audit Committee. The College has a Risk Management Framework in place which is regularly monitored by the Audit Committee and reported to the governing body.

Review of effectiveness

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

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements auditors, the regularity auditors, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

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

The Principal and senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Principal and senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of

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

assurance and not merely reporting by exception. At its December 2015 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2015.

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

Going concern

As detailed in note 16, the College has a technical breach in one of its financial covenants at 31st July 2015, therefore its term loan of £3,634,000 has been wholly classified as due within one year. Subsequent to the year end, the College has discussed its position with Lloyds Bank, who have confirmed they remain supportive of the College and senior management team. The Bank is considering the potential to reset the College's covenant suite for FY15-16 onwards. The College has an overdraft of £450,000 agreed until 31st January 2016. It is anticipated that the overdraft will be extended at a lower level after this date, reducing down to £250,000 by 31st July 2016.

Whilst the College is in technical breach of its banking covenants it considers it has sufficient assurance from the Bank that it will not call in the loans but will discuss a new set of covenants during 2016 at a time that is most appropriate given the ongoing discussions arising from the area reviews. The College anticipates an agreement to extend the overdraft but also considers that it has alternative measures it could take to manage the cash position if this should become necessary.

Based on the above the Corporation believe that it remains appropriate to prepare the financial statements on a going concern basis. However, it is acknowledged that the technical breach in the covenants represents a material uncertainty which may cast doubt on the College's ability to continue as a going concern. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Approved by order of the members of the Corporation on 18 December 2015 and signed on its behalf by:

Mrs T Ellis	**Mrs J Pretty**
Chair	***Principal***

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

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

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

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

Approved by order of the members of the corporation on 18 December 2015 and signed on its behalf by:

Mrs T Ellis	Mrs J Pretty
Chair	Principal.

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 Skills Funding Agency and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the *2007 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the Accounts Direction 2014/15 issued jointly by the Skills Funding Agency and the Education Funding Agency and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is 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 the College website is the responsibility of the governing body of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Approved by order of the members of the Corporation on 18 December 2015 and signed on its behalf by:

……………………

Mrs T Ellis
Chair

Independent auditor's report to the Corporation of Lowestoft College

We have audited the Group and College financial statements ("the financial statements") of Lowestoft College for the year ended 31 July 2015 set out on pages 24 to 55. The financial reporting framework that has been applied in their preparation is applicable law and UK Generally Accepted Accounting Practice.

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

Respective Responsibilities of the Corporation of Lowestoft College and Auditor

As explained more fully in the Statement of the Corporation's responsibilities set out on page 19, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2015 and of the Group's deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the requirements of the Accounts Direction 2014 to 2015; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Statement of Accounting Policies on page 30 concerning the College's ability to continue as a going concern. At the end of July 2015, the College had net current liabilities of £4,993,000 and it's cash flow forecasts indicate an ongoing need for an overdraft facility. The, College is therefore reliant on the support of its bankers for the continued provision of existing loans and overdraft facilities. These conditions, along with the other matters explained in the Statement of Accounting Policies indicate the existence of a material uncertainty which may cast doubt on the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the College were unable to continue as a going concern.

Independent auditor's report to the Corporation of Lowestoft College *(continued)*

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

In our opinion:

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

S Beavis

Stephanie Beavis

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

6 Lower Brook Street, Ipswich, IP4 1AP

31 **December 2015**

Reporting Accountant's Report on Regularity to the Corporation of Lowestoft College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency

In accordance with the terms of our engagement letter dated 31 January 2013 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Lowestoft College during the period 1 August 2014 to 31 July 2015 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of Lowestoft College and the reporting accountant

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

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

Independent regularity report to the Corporation of Lowestoft College and the Chief Executive of Skills Funding (continued)

The work undertaken to draw our conclusion included:

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

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

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

S Beavis

Stephanie Beavis
For and on behalf of KPMG LLP, Reporting Accountant
6 Lower Brook Street, Ipswich, IP4 1AP
31 **December 2015**

Consolidated income and expenditure account
for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Income			
Funding body grants	*2*	**9,290**	9,864
Tuition fees and education contracts	*3*	**3,579**	4,250
Research grants and contracts	*4*	**236**	16
Other income		**1,143**	1,417
Investment income	*5*	**1**	2
Total income		**14,249**	15,549
Expenditure			
Staff costs	*6*	**9,404**	10,573
Exceptional restructuring costs	*6*	**297**	351
Other operating expenses	*8*	**3,405**	3,944
Depreciation	*12*	**1,100**	842
Interest payable	*9*	**273**	344
Total expenditure		**14,479**	16,054
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		**(230)**	(505)
Taxation	*10*	**-**	-
Deficit on continuing operations after depreciation of assets at valuation, disposals of assets and tax, retained within general reserves		**(230)**	(505)

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

The notes on pages 29 to 55 form part of these financial statements

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

	Note	2015 £'000	2014 £'000
Deficit on continuing operations after depreciation of assets at valuation and tax	*19*	**(230)**	(505)
Actuarial loss in respect of pension scheme	*20*	**(962)**	(2,093)
Total recognised losses since the last period		**(1,192)**	(2,598)

Reconciliation	**2015** **£'000**	2014 £'000
Opening reserves	**(3,257)**	(659)
Total recognised losses for the year	**(1,192)**	(2,598)
Movement in restricted reserves	**-**	-
Closing reserves	**(4,449)**	(3,257)

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

	Note	2015 £'000	2014 £'000
Deficit on continuing operations after depreciation of assets at valuation and tax		**(230)**	(505)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	*18*	**87**	84
Historical cost (Deficit)/surplus for the year after tax		**(143)**	(421)

The notes on pages 29 to 55 form part of these financial statements

Consolidated balance sheet

as at 31 July 2015

	Note	**2015**	2014
	Note	**£'000**	£'000
Fixed assets			
Tangible assets	*12*	**17,819**	17,694
Investments	*13*	**-**	-
		17,819	17,694
Current assets			
Stock		**-**	17
Debtors	*14*	**819**	926
Cash at bank and in hand		**1,130**	1,070
		1,949	2,013
Creditors: Amounts falling due within one year	*15*	**(6,942)**	(4,200)
Net current assets / (liabilities)		**(4,993)**	(2,187)
Total assets less current liabilities		**12,826**	15,507
Creditors: Amounts falling due in more than one year	*16*	**(1,629)**	(3,904)
Net assets excluding pension liability		**11,197**	11,603
Net pension liability	*20*	**(8,801)**	(7,859)
Net assets including pension liability		**2,396**	3,744
Deferred capital grants	*17*	**6,843**	6,999
Reserves			
Income and expenditure account excluding pension reserve	*19*	**1,241**	1,404
Pension reserve	*20*	**(8,801)**	(7,859)
Income and expenditure account including pension reserve		**(7,560)**	(6,455)
Revaluation reserve	*18*	**3,077**	3,164
Restricted reserve		**36**	36
Total Funds		**2,396**	3,744

The financial statements on pages 24 to 55 were approved by the Corporation on 18 December 2015 and were signed on its behalf by:

Mrs T Ellis ***– Chair*** **Mrs J Pretty** ***- Principal***

College balance sheet
as at 31 July 2015

	Note	2015	2014
	Note	**£'000**	£'000
Fixed assets			
Tangible assets	*12*	**17,759**	17,612
Investments	*13*	**1**	1
		17,760	17,613
Current assets			
Stock		**-**	17
Debtors	*14*	**899**	1,088
Cash at bank and in hand		**807**	533
		1,706	1,638
Creditors: Amounts falling due within one year	*15*	**(7,043)**	(4,162)
Net current assets/ (liabilities)		**(5,337)**	(2,524)
Total assets less current liabilities		**12,423**	15,089
Creditors: amounts falling due after more than one year	*16*	**(1,629)**	(3,904)
Net assets excluding pension liability		**10,794**	11,185
Net pension liability	*20*	**(8,801)**	(7,859)
Net assets including pension liability		**1,993**	3,326
Deferred capital grants	*17*	**6,843**	6,999
Reserves			
Income and expenditure account excluding pension reserve	*19*	**838**	986
Pension reserve	*20*	**(8,801)**	(7,859)
Income and expenditure account including pension reserve		**(7,963)**	(6,873)
Revaluation reserve	*18*	**3,077**	3,164
Restricted Reserve		**36**	36
Total Funds		**1,993**	3,326

The financial statements on pages 24 to 55 were approved by the Corporation on 18 December 2015 and were signed on its behalf by:

Mrs T Ellis ***– Chair***

Mrs J Pretty ***- Principal***

Consolidated cash flow statement
for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
Cash flow from operating activities	*21*	**(515)**	2,377
Returns on investments and servicing of finance	*23*	**(201)**	(231)
Taxation			-
Capital expenditure and financial investment	*23*	**(1,149)**	(1,962)
Cash (outflow)\ inflow before use of liquid resources and financing		**(1,865)**	184
Management of liquid resources	*23*	**-**	-
Financing	*23*	**1,175**	(98)
(Decrease)/increase in cash	*22*	**(690)**	86

Reconciliation of net cash flow to movement in net debt

	2015 £'000	2014 £'000
(Decrease)/increase in cash in the period	**(690)**	86
Change in net debt resulting from cash flows	**(1,175)**	98
Movement in net debt in period	**(1,865)**	184
Net debt at 1 August	**(3,114)**	(3,298)
Net debt at 31 July	**(4,979)**	(3,114)

Notes

(forming part of the financial statements)

1 Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the EFA in the 2014/15 Accounts Direction.

Basis of accounting

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

Going concern

The College has net assets excluding pension liability of £11,197,000 (2013/14: £11,603,000) and / or loans of £3,634,000 (2013/14: £0) repayable on demand at the year end. The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cash flow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

In December 2014, the College received a financial Notice of Concern from the Skills Funding Agency because the automated financial health score of the College for 2013\14 was deemed "inadequate" in the Two-Year Financial Plan. The College also notified the Skills Funding Agency of imminent challenges with cash flow due to overspend of capital expenditure from its cladding project at this time. In January 2015 the College formally requested exceptional financial support from the Skills Funding Agency because the College expected to exceed its overdraft limit early in February 2015.

The College received loans from the SFA (BIS loan) totalling £1,431,000 between February and July 2015. The SFA required the College to prepare cashflow projections to demonstrate that it could repay the loans within a reasonable timescale.

In addition, the College sought to extend the bank overdraft of £750,000 until later in the year. Lloyds Bank agreed to do so if a "Due Diligence" report by investigating accountants indicated that the College's cashflow projections to 31st July 2015 were sufficiently robust to warrant continuing support by the Bank. After review, Grant Thornton concurred with the College's view that the figures contained in the cashflow schedules were achievable and the Bank duly extended the overdraft facility to 31st July 2015.

The receipt of the first loan from the SFA (BIS loan) triggered a review by the FE Commissioner, in early March 2015, to determine whether he considered the College had sufficient capacity and capability to deliver financial recovery. After a searching scrutiny by the FE Commissioner and his team over several days, he made a series of recommendations (many of which were already being implemented). The Commissioner noted that the Interim Principal and new leadership team had already set about addressing the financial issues with determination and flair and gained the support of staff and stakeholders alike. Staff welcomed the change of culture and there was a positive response from both within and outside the college to what had already been achieved. The Commissioners view was that despite the difficulties of staff restructuring, there is a positive mood within the college and a view that the college could make the required improvements and concluded the case for a college led recovery.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Going Concern (continued)

The College has adopted a 'golden rule' that pay costs must not exceed 65% of income (of which 2% is a provision for possible restructuring costs) and the Corporation has approved the 2015\16 budget which shows a projected operating surplus of £292,000 with a similar sized operating surplus forecast in 2016\17. Using the financial modelling available from the Skills Funding Agency for producing its Two-Year Financial Plan, the College believes that the achievement of the operating surpluses in the next two financial years will enable it to continue to make repayments on the term loan with the Bank and repay the exceptional financial support before the end of 2017\18. Based on the colleges two year forecast the automated scoring process indicates the college will be satisfactory for 2015/16 and 2016/17.

As detailed in note 16, the College has a technical breach in one of its financial covenants at 31st July 2015, therefore its term loan of £3,634,000 has been wholly classified as due within one year. Subsequent to the year end, the College has discussed its position with Lloyds Bank, who have confirmed they remain supportive of the College and senior management team. The Bank is considering the potential to reset the College's covenant suite for FY15-16 onwards. The College has an overdraft of £450,000 agreed until 31st January 2016. It is anticipated that the overdraft will be extended at a lower level after this date, reducing down to £250,000 by 31st July 2016.

Whilst the College is in technical breach of its banking covenants it considers it has sufficient assurance from the Bank that it will not call in the loans but will discuss a new set of covenants during 2016 at a time that is most appropriate given the ongoing discussions arising from the area reviews. The College anticipates an agreement to extend the overdraft but also considers that it has alternative measures it could take to manage the cash position if this should become necessary.

Based on the above, the Corporation believe that it remains appropriate to prepare the financial statements on a going concern basis. However, it is acknowledged that the technical breach in the covenants represents a material uncertainty which may cast doubt on the College's ability to continue as a going concern. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Basis of consolidation

The consolidated financial statements of the group include the financial statements of the College and its subsidiary undertakings, together with the group's share of the profit less losses and reserves of associated undertakings. The results of subsidiary and associated undertakings acquired or disposed of during the year are included in the consolidated income and expenditure account from or up to the date on which control of the undertaking passes. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are prepared to 31 July 2015.

Recognition of income

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year
end reconciliation process with the funding body following the year end, and the results of any funding audits.

16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments

Other discrete funding body funds received during the year are taken to income as expenditure is incurred in line with the specific terms and conditions attached to each fund.

Notes (continued)

1 Statement of accounting policies (continued)

Recognition of income (continued)

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

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

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

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

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

Agency Arrangements

The College acts as an agent in the collection and payment of learner support funds. Related income received from the Learning and Skills Council and its successor organisations and subsequent disbursements to and on behalf of students are excluded from the income and expenditure account and are shown separately in note 30, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant. The College employs 1 member of staff dedicated to the administration of Learner Support Fund applications and payments.

Post retirement benefits

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

Contributions to the TPS scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payrolls. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method.

Post retirement benefits (continued)

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

Further details of the pension schemes are given in note 20.

Notes (continued)

1 Statement of accounting policies (continued)

Tangible fixed assets

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

On adoption of FRS 15, the College followed the transitional provisions to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

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

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

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

Equipment

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

All other equipment is depreciated over its useful economic life on a straight line basis as follows:

Motor vehicles and general equipment	-	25% per year
Computer equipment	-	33.3% per year
Furniture and fittings	-	4 - 10% per year

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Tangible fixed assets (continued)

Leased assets

The relevant assets are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

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

Investments

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value.

Current asset investments are included in the balance at the lower of their original cost and net realisable value.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Net realisable value is based on estimated selling price, less any further costs of realisation.

Maintenance of premises

The cost of long term and routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Subsidiary companies are liable to corporation tax.

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. As the VAT on supplies and services received exceeds the VAT on sales, VAT represents a net cost to the College

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Liquid resources

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

Provisions

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

Notes *(continued)*

2 Funding Council grants

	2015 £'000	2014 £'000
Recurrent grant	**6,906**	7,817
Employer Responsive	**1,788**	1,533
Other non-recurrent grants	**228**	269
Releases of deferred capital grants (note 17)	**368**	245
	9,290	9,864

3 Tuition fees and education contracts

	2015 £'000	2014 £'000
Tuition fees	**2,266**	3,001
Education contracts	**1,313**	1,249
	3,579	4,250

4 Research grants and contracts

	2015 £'000	2014 £'000
European Commission	**155**	-
Releases from deferred capital grants (non-funding body) (note 17)	**81**	16
	236	16

5 Investment income

	2015 £'000	2014 £'000
Other interest receivable	**1**	2
	1	2

Notes *(continued)*

6 Staff numbers and costs

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

	2015 Number	2014 Number
Teaching staff	**98**	106
Non teaching staff	**152**	160
	250	266

Staff costs for the above persons were as follows:

	2015	2014
	£'000	£'000
Wages and salaries	**7,386**	8,055
Social security costs	**465**	509
Other pension costs (including FRS 17 credit adjustments of £91,000; 2014 credit of £(85,000))	**1,065**	1,243
Contracted out staff	**488**	766
	9,404	10,573
Restructuring costs	**297**	351
	9,701	10,924

Total staff costs, split by type of contract, were:

	2015 £'000	2014 £'000
Employment costs for staff on permanent contracts	**7,390**	8,435
Employment costs for staff on short-term and temporary contracts	**1,535**	1,323
Contracted out staff	**488**	766
Restructuring costs	**297**	351
Enhanced pension costs	**82**	134
FRS 17 adjustment	**(91)**	(85)
	9,701	10,924

The restructuring costs were approved by the College's Governance & Remuneration Committee.

Notes *(continued)*

6 Staff numbers and costs *(continued)*

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

	2015 Number of senior post-holders	**2015 Number of other staff**	2014 Number of senior post-holders	2014 Number of other staff
£40,001 to £50,000 p.a.	**-**	**5**	1	-
£50,001 to £60,000 p.a.	**-**	**3**	1	-
£60,001 to £70,000 p.a.	**-**	**1**	-	-
£70,001 to £80,000 p.a.	**-**	**2**	2	-
£100,001 to £110,000 p.a.	**1**	**-**	-	-
£110,001 to £120,000 p.a.	**-**	**-**	1	-

7 Emoluments of senior post holders and members

Only the Principal + Clerk are Senior Post-holders (2013\14 all members of the senior management team were deemed to be Senior Post-holders).

	2015 Number	2014 Number
The number of senior post-holders including the Principal was	**2**	5

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

	2015 £'000	2014 £'000
Salaries	**133**	438
Benefits in kind	**1**	-
Pension contributions	**18**	52
	152	490

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

	2015 £'000	2014 £'000
Salaries	**101**	111
Benefits in kind	**1**	-
Pension contributions	**14**	15
	116	126

The pension contributions in respect of the Principal and senior post-holders relate to employer's contributions to the Teachers' Pension Scheme and Local Government Pension Scheme and are paid at the same rate as for other employees.

Notes *(continued)*

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

Compensation for loss of office paid to a former senior post-holder / higher paid employee

	2015	2014
	£'000	£'000
Compensation paid and payable to former senior post holders	**-**	63
Estimated value of other benefits, including provisions for pension benefits	**-**	55

The estimated value of other benefits has been calculated in accordance with Financial Reporting Standard 17. The severance payment was approved by the College's Governance and Remuneration Committee.

The members of the Corporation other than the Principal and the staff member did not receive any payment from the college other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

No bonuses or other salary enhancements were awarded to senior post-holders or other higher paid staff.

Overseas activities

No costs were incurred during 2014/15 (2013/14 £Nil) in respect of overseas activities.

8 Other operating expenses

	2015	2014
	£'000	£'000
Teaching costs	**816**	1,080
Non teaching costs	**1,924**	2,182
Premises costs	**665**	682
	3,405	3,944
Other operating expenses include:		
Auditors remuneration:		
Financial statements audit *	**23**	28
Internal audit **	**1**	16
Other services from external audit	**2**	27
Hire of plant and machinery – operating leases	**275**	235
Exceptional discontinuing costs for the Lound campus	**258**	-

* - includes £21,489 in respect of the College *(2013/14: £25,000)*
** - includes £931 in respect of the College *(2013/14: £16,000)*

Notes *(continued)*

9 Interest payable

	2015 £'000	2014 £'000
On other loans:		
Repayable within five years, not by instalments	**202**	-
Repayable within five years, by instalments	**-**	4
Repayable after five years, by instalments	**-**	229
Pension finance costs (note 20)	**71**	111
	273	344

Bank interest payable has been reclassified in 2014\15 for consistency with the reclassification of bank loans as set out in note 16.

10 Taxation

The members do not believe the College was liable for any corporation tax arising out of its activities during either period with the exception of the amount liable in respect of retained profits within the Subsidiary Company.

11 (Deficit)/surplus on continuing operations for the year

The (deficit)/surplus on continuing operations for the year is made up as follows:

	2015 £'000	2014 £'000
College's (deficit)/surplus the year	**(444)**	(873)
Surplus generated by subsidiary undertaking and transferred to the College by Deed of Covenant	**233**	364
(Loss)\profit retained by subsidiary undertaking	**(19)**	4
	(230)	(505)

Notes *(continued)*

12 Tangible fixed assets

Group

	Freehold	Equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2014	15,045	7,959	3,491	26,495
Additions		1,224	1	1,225
Elimination of Asset Register balances		(958)		(958)
Transfer assets in the course of construction		3,079	(3,079)	-
At 31 July 2015	**15,045**	**11,304**	**413**	**26,762**
Accumulated depreciation				
At 1 August 2014	4,391	4,410	-	8,801
Charge for year	360	740		1,100
Adjustment to Asset Register balances		(958)		(958)
At 31 July 2015	**4,751**	**4,192**		**8,943**
Net book value				
At 31 July 2015	**10,294**	**7,112**	**413**	**17,819**
At 31 July 2014	10,654	3,549	3,491	17,694

Notes *(continued)*

12 Tangible fixed assets *(continued)*

College

	Freehold	Equipment	Assets in the course of Construction	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost or valuation				
At 1 August 2014	15,045	6,612	3,491	25,148
Additions		1,226	(1)	1,225
Adjustments to Asset Register balances		11		11
Transfer assets in the course of construction		3,077	(3,077)	-
At 31 July 2015	**15,045**	**10,926**	**413**	**26,384**
Depreciation				
At 1 August 2014	4,391	3,145	-	7,536
Charge for year	361	717		1,078
Adjustments to Asset Register balances		11		11
At 31 July 2015	**4,752**	**3,873**	**-**	**8,625**
Net book value				
At 31 July 2015	**10,293**	**7,053**	**413**	**17,759**
At 31 July 2014	10,654	3,467	3,491	17,612

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

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

Land and buildings with a net book value of £2,352,000 have been partly financed from exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the financial memorandum with the Skills Funding Agency, to surrender the proceeds.

Notes *(continued)*

13 Investments

College only

	2015 **£'000**	2014 £'000
Investment in subsidiary company at cost	**1**	1
	1	1

The College owns 100% of the issued ordinary £1 shares of Lowestoft and Waveney Education Services Limited, a company incorporated in Great Britain and registered in England and Wales. The principal business activity of Lowestoft and Waveney Education Services Limited is the provision of education and training services. The results of the company are included in these consolidated financial statements.

14 Debtors

	2015		2014	
	Group £'000	**College £'000**	Group £'000	College £'000
Amounts falling due within one year:				
Trade debtors	**290**	**143**	350	184
Prepayments and accrued income	**300**	**294**	434	398
Amounts owed by subsidiary undertakings	**-**	**233**	-	364
Amounts owed by the Skills Funding Agency	**229**	**229**	142	142
	819	**899**	926	1,088

15 Creditors: Amounts falling due within one year

	2015		2014	
	Group £'000	**College £'000**	Group £'000	College £'000
Bank Overdraft	**750**	**750**	-	-
Bank and Other Loans	**3,730**	**3,730**	280	280
Payments received on account	**488**	**469**	1,065	713
Trade creditors	**428**	**396**	433	406
Other taxation and social security	**287**	**247**	332	311
Accruals	**372**	**347**	1,298	1,173
Amounts owed to subsidiary undertakings	**-**	**217**	-	487
Corporation Tax	**-**	**-**	-	-
Other Creditors	**32**	**32**	156	156
Amounts owed to the Skills Funding Agency	**855**	**855**	636	636
	6,942	**7,043**	4,200	4,162

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	2015		2014	
	Group	**College**	Group	College
	£'000	**£'000**	£'000	£'000
Bank Loans	**-**	**-**	3,635	3,635
Other Creditors- Salix Loan & SCC	**198**	**198**	269	269
Skills Funding Agency	**1,431**	**1,431**	-	-
	1,629	**1,629**	3,904	3,904

Analysis of borrowings

Loans and overdrafts

	2015		2014	
	Group	**College**	Group	College
	£'000	**£'000**	£'000	£'000
Loans and overdrafts are repayable as follows:				
Within one year	**4,480**	**4,480**	280	280
Between one and two years	**848**	**848**	210	210
Between two and five years	**781**	**781**	566	566
In five years or more	**-**	**-**	3,128	3,128
	6,109	**6,109**	4,184	4,184

The term bank loan of £3.634 million at 31 July 2015 is secured, bears interest at 5.465% and has been repayable by instalments falling due between 2 January 2009 and 1 January 2032. The fixed term loan of £300,000 was repaid on 28 November 2014.

However, as noted in pages 29 and 30, the College has not met all the financial covenants contained within the term loan. Accordingly the Bank could request immediate repayment of the entire term loan, as a formal waiver has not been obtained from the Bank. As a consequence of this, the balance sheet has been presented on the basis that all debt due to Lloyds Bank could technically become repayable within one year and therefore £3,634,000 has been reclassified within current liabilities.

As at 31 July 2015 the College had one outstanding loan in respect of Salix Finance Efficiency loan programme for £69,000. This loan – originally for £184,000 when drawn on 20 September 2012, is repayable over 8 equal instalments with a completion date of 1 September 2016.

The loan from the Skills Funding Agency is unsecured and interest-free: £650,000 is repayable in 2016\17 and the remainder in 2017\18.

Notes *(continued)*

17 Deferred capital grants

Group and College

	Funding Body	**Other grants**	**Total**
	£'000	**£'000**	**£'000**
At 1 August 2014			
Land and buildings	2,595	449	3,044
Equipment	3,395	560	3,955
Cash received and receivable:			
Land and buildings			
Equipment	293		293
Released to income and expenditure account:			
Land and buildings	(81)	(13)	(94)
Equipment	(287)	(68)	(355)
At 31 July 2015			
Land and buildings	**2,514**	**436**	**2,950**
Equipment	**3,401**	**492**	**3,893**
	5,915	**928**	**6,843**

Notes *(continued)*

18 Revaluation reserve

	Group £'000	College £'000
At 1 August 2014	3,164	3,164
Transfer from revaluation reserve to income and expenditure account in respect of:		
Depreciation on revalued assets	(87)	(87)
At 31 July 2015	**3,077**	**3,077**

19 Movement on general reserves

	Group £'000	College £'000
At 1 August 2014	(6,455)	(6,873)
Deficit on continuing operations after depreciation of assets at valuation and tax	(230)	(215)
Transfer from revaluation reserve to income and expenditure account	87	87
Actuarial loss in respect of pension scheme	(962)	(962)
At 31 July 2015	**(7,560)**	**(7,963)**

Balance represented by

	Group £'000	College £'000
Pension reserve	**(8,801)**	**(8,801)**
Income and expenditure account excluding pension reserve	**1,241**	**838**
At 31 July 2015	**(7,560)**	**(7,963)**

Notes *(continued)*

20 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). The total pension cost for the period was £1,065,000 *(2014: £1,243,000).*

Total pension cost for the year	**2015** **£000**	**2014** **£000**
Teachers' Pension Scheme: contributions paid	**423**	519
Local Government Pension Scheme:		
Contributions paid	**649**	675
FRS 17 charge/(credit)	**(91)**	(85)
Other pension schemes: contributions paid	**2**	-
Charge to the Income and Expenditure Account (staff costs)	**983**	1,109
Enhanced pension charge to Income and Expenditure Account (staff costs)	**82**	134
Total Pension Cost	**1,065**	1,243

Teachers' Pension Scheme

Introduction

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

The Teachers' Pension Budgeting And Valuation Account

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

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

Notes *(continued)*

20 Pensions and similar obligations *(continued)*

Valuation Of The Teachers' Pension Scheme

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

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £423,000 (2014: £519,000).

FRS 17

Under the definitions set out in Financial Reporting Standard 17 (Retirement Benefits), the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2015 was £812,000 of which employers contributions totalled £649,000 and employees' contributions totalled £163,000. Agreed contribution rates for future years are 28.0% for employers and between 5.5% and 12.5% dependent on the employee's salary range.

Notes *(continued)*

20 **Pensions and similar obligations** *(continued)*

FRS 17

The following information is based upon a full actuarial valuation of the fund as 31 March 2013 updated to 31 July 2015 by a qualified independent actuary.

Principal Actuarial Assumptions

	2015	2014
Inflation	**2.6%**	2.7%
Rate of increase in salaries	**4.5%**	4.5%
Rate of increase in pensions CPI	**2.6%**	2.8%
Expected return on assets	**3.6%**	5.8%
Discount rate for liabilities	**3.6%**	4.0%

On advice from our actuaries we have assumed that 25% of employees retiring after 6 April 2008 will take advantage of the option to commute part of their future annual pension to a lump sum payment on retirement.

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

	At 31 July 2015 years	At 31 July 2014 years
Retiring today		
Males	**22.4**	22.4
Females	**24.4**	24.4
Retiring in 20 years		
Males	**24.3**	24.3
Females	**26.9**	26.9

Notes *(continued)*

20 Pensions and similar obligations *(continued)*

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

	2015 Long term rate 31 July 2015	**2015** Value at 31 July 2015 £'000	2014 Long term rate 31 July 2014	2014 Value at 31 July 2014 £'000
Equities	**3.6%**	**10,131**	6.7%	8,907
Bonds	**3.6%**	**2,936**	3.8%	2,582
Property	**3.6%**	**1,468**	4.7%	1,291
Cash	**3.6%**	**147**	3.6%	129
Total market value of assets		**14,682**		12,909

	2015 £'000	2014 £'000
College's estimated asset share	**14,682**	12,909
Present value of scheme liabilities	**(22,133)**	(19,402)
Present value of unfunded liabilities	**(1,350)**	(1,366)
Surplus/(deficit) in the scheme	**(8,801)**	(7,859)

The introduction of FRS102 will mean the removal of expected return on assets and its replacement by a net interest cost calculated with reference to the discount rate.

In this transition year, accordingly, the Suffolk Pension Fund has not supplied Long-term rate of return expected at 31st July 2015. The applicable Discount Rate at 31st July 2015, on which net interest calculation will be based, is 3.6%

Analysis of the amount charged to the income and expenditure account

	2015 £'000	2014 £'000
Current service cost	**662**	610
Past service cost	**-**	-
Losses on Curtailments and settlements	**63**	14
Total operating charge	**725**	624

Analysis of pension finance income/(costs)

	2015 £'000	2014 £'000
Expected return on pension scheme assets	**767**	733
Interest on pension scheme liabilities	**(838)**	(844)
Pension finance income/(costs)	**(71)**	(111)

Notes *(continued)*

20 Pensions and similar obligations *(continued)*

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

	2015	2014
	£'000	£'000
Actuarial gain/(loss) on pension scheme assets	**502**	(678)
Actuarial gain/(loss) on the continuing scheme liabilities	**(1,464)**	(1,415)
Actuarial (loss)/ gain recognised in STRGL	**(962)**	(2,093)

Notes *(continued)*

20 Pensions and similar obligations *(continued)*

Movement in deficit during year

	2015 £'000	2014 £'000
Deficit in scheme at beginning of year	**(7,859)**	(5,740)
Movement in year:		
Current service costs	**(662)**	(610)
Losses/Gains on Curtailments	**(63)**	(14)
Contributions	**816**	709
Net interest/return on assets	**(71)**	(111)
Actuarial gain or (loss)	**(962)**	(2,093)
Deficit in scheme at end of year	**(8,801)**	(7,859)

	2015 £'000	2014 £'000
Liabilities at start of period	**20,768**	18,196
Service cost	**662**	610
Interest cost	**838**	844
Employee contributions	**163**	169
Actuarial (gain)/loss	**1464**	1,415
Losses on Curtailments	**63**	14
Benefits paid	**(475)**	(480)
Past Service gain	**-**	-
Liabilities at end of period	**23,483**	20,768
Liabilities in respect of unfunded liabilities included in above	**1,350**	1,287
Assets at start of period	**12,909**	12,456
Expected return on assets	**767**	733
Actuarial gain/(loss)	**502**	(678)
Employer contributions	**816**	709
Employee contributions	**163**	169
Benefits paid	**(475)**	(480)
Assets at end of period	**14,682**	12,909

The estimated value of employer contributions for the year ended 31st July 2016 is £700,000.

Notes *(continued)*

20 Pensions and similar obligations *(continued)*

History of experience gains or losses

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on assets:					
Amount	502	(678)	1,305	(554)	1,012
Experience gains and losses on scheme liabilities					
Amount	148	582	(22)	(238)	(1,756)
Total amounts recognised in statement of total recognised gains and losses					
Amount	(962)	(2,093)	(217)	(1,516)	1,055

21 Reconciliation of operating surplus/ (deficit) to net cash (outflow)/inflow from operating activities

	2015	2014
	£'000	£'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation	**(230)**	(505)
Depreciation (note 12)	**1,100**	842
Deferred capital grants released to income (notes 2 and 4)	**(449)**	(261)
Interest receivable (note 5)	**(1)**	(2)
Interest payable (note 9)	**202**	233
FRS17 adjustment (net)	**(20)**	26
(Increase)/decrease in stocks	**17**	9
(Increase)/decrease in debtors	**107**	173
Increase/(decrease) in creditors	**(1,241)**	1,862
Net cash inflow/(outflow) from operating activities	**(515)**	2,377

22 Analysis of changes in net debt

	At 1 August 2014	Cash flows	Non cash movements	**At 31 July 2015**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	1,070	60		**1,130**
Bank + other loans due within 1 year	(280)	256	(212)	**(236)**
Bank Overdraft		(750)		**(750)**
	790	(434)	(212)	**144**
Loans due after one year	(3,904)	(1,431)	212	**(5,123)**
Total	(3,114)	(1,865)	-	**(4,979)**

Notes *(continued)*

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

	2015 £'000	2014 £'000
Returns on investments and servicing of finance		
Interest received	**1**	2
Interest paid	**(202)**	(233)
Net cash outflow from returns on investments and servicing of finance	**(201)**	(231)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(1,442)**	(4,709)
Sales of tangible fixed assets		-
Deferred capital grants received	**293**	2,747
Net cash outflow for capital expenditure and financial investment	**(1,149)**	(1,962)
Management of liquid resources		
Withdrawals from deposits	**-**	-
Net cash inflow from management of liquid resources	**-**	-
Financing		
Debt due beyond a year:		
New Loans – Skills Funding Agency (2013\14 – Suffolk County Council)	**1,431**	250
Repayments of amounts borrowed	**(256)**	(348)
Net cash outflow from financing	**1,175**	(98)

24 Post balance sheet events

Details of post balance sheet events are given in the report of the members of the Corporation.

25 Capital commitments

	2015 Group £'000	2015 College £'000	2014 Group £'000	2014 College £'000
Commitments contracted for at 31 July	**-**	**-**	188	188
Authorised but not yet contracted for at 31 July	**-**	**-**	312	312

Notes *(continued)*

26 Financial commitments

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

	2015		2014	
	Land and buildings	**Other**	Land and Buildings	Other
	£'000	**£'000**	£'000	£'000
Expiring within one year	**18**	**25**	15	31
Expiring between two and five years inclusive	**-**	**168**	30	108
Expiring in over 5 years	**-**	**48**	-	-
	18	**241**	45	139

27 Contingent liabilities

There were no significant contingent liabilities at 31st July 2015 (2014: nil).

28 Related Party Transactions

Due to the nature of the College's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.
Transactions with the LSC and its successor funding bodies and the College are detailed in notes 2, 14, 15 and 16.
The total expenses paid to or on behalf of the Governors during the year was £2,555; 3 governors (2014: £2,070; 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 (2014: None).

29 Cash flow relating to exceptional items

The operating cash outflows include an outflow of £358k *(2014: £202k)* for exceptional restructuring costs.

Notes *(continued)*

30 Amounts disbursed as agents

Access Funds	**2015**	2014
	£'000	£'000
Funding body grants	**224**	258
Disbursed to students	**184**	140
Administration costs	**10**	13
Balance unspent at 31 July	**30**	105

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