



**FAREHAM COLLEGE CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2015**

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Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

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

Legal status

Fareham College was first established in 1984 by Hampshire County Council following the merger of Fareham Technical College and Price's Sixth Form. The Corporation was established and incorporated as Fareham College under the Further and Higher Education Act 1992. The College is an exempt charity for the purposes of the Charities Act 2011.

Mission

Our mission is to be an outstanding and responsive College at the heart of learning in Fareham and Gosport.

Our Vision

Our vision is that by 2017 we will be an Outstanding College of Further Education, inspiring learners, creating opportunities and changing lives by:

- Delivering high quality teaching and learning by highly effective and dedicated staff
- Providing strong leadership in learning and skills
- Producing students that are highly skilled and employable
- Developing skills that are needed by local employers
- Being at the forefront in the development of the local workforce and the local economy
- Delivering a rich student experience that is accessible to all
- Working in partnership to deliver a better future for students, employers and communities in Fareham, Gosport and South East Hampshire

The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic priorities for the next five years are:

Our Core Values

Our core values express what the College stands for and how we will conduct ourselves as an organisation. The College's three core values have been developed with our staff and students. They are:

We celebrate differences and **RESPECT** individuals

We applaud those that **INNOVATE** teaching and learning

We believe that we and our students will **EXCEL**

Our core values underpin our strategies, policies, objectives and procedures by providing a basis and a reference point for everything that we do. They have informed the development of this strategic plan, in particular by reinforcing the primacy of the student experience to our future direction. In working to achieve its strategic aims, the core values will guide the College's decision-making.

Strategic Priorities

- 1 The quality of teaching and learning
- 2 Our student and staff experience
- 3 Delivering a responsive curriculum
- 4 Developing our resources
- 5 Establishing and maintaining relationships and our reputation

Developments and Achievements

The College's objectives for 2014-2015 and achievement against each of these objectives is set out below.

1. The College continued with its major property investment programme including the completion of the £12m Centre for Engineering & Manufacturing Advanced Skills Training (CEMAST) on the Solent Enterprise Zone, and the virtual completion of work on the £16m redevelopment of the Bishopsfield Road Campus (BRC) which was handed over in September 2015.
2. The College continued to raise its profile both locally and nationally, hosting visits from high profile politicians, business people and representatives from the local community.
3. The College achieved a financial operating surplus of £655k and maintained a strong liquidity position throughout the year.
4. Recruitment targets were achieved in accordance with our funding agreements with the Skills Funding Agency including additional in-year growth targets for apprenticeships. Our growth in apprenticeships places us in a strong position as we enter another year with ambitious recruitment targets.
5. The number of EFA funded 16-18 learners fell marginally in 2014/15.
6. The average size of the programme for learners enrolled in the year grew substantially in 2014/15 following the full implementation of the study programme including English and Maths provision for all learners who do not have at least a grade C in their respective GCSEs.
7. To support the implementation of the property strategy the College completed the sale in 2014/15 of some 3.25 hectares of land with planning permission to build up to 120 new homes on the South of the BRC site to Bloor Homes. Demolition contractors have been contracted to demolish the south side and this commenced in September 2015. It is expected that the site will be cleared by December 2015.
8. The College successfully celebrated student achievement with the fourth Annual Awards Ceremony which recognised student's achievements and successes across all areas of the College.
9. The College continued to invest significantly during the year in new technology to support teaching and learning including, the recruitment of a dedicated Learning Technology Manager, new laptops for teaching staff, new computers, over 40 new short throw interactive projectors at the BRC and a new Virtual Learning Environment.
10. During 2014/15 the College made further amendments to its curriculum framework in response to the needs of the Study Programme and increased dramatically the number of learners studying English and Maths in-line with the EFA conditions of funding. The overall College success rate was 83.2% in 2014/15 compared to 81.1% in 2013/14. Excluding the substantial number of English and Maths enrolments the success rate in 2014/15 was 89.0% compared to 86.7% in the previous year.
11. The College continued to develop a programme of traineeships in the year which provided a progression pathway into apprenticeships or employment for 60 16-18 year old learners in 2014/15.
12. The College had over 700 apprentices on-programme during 2014/15.

Self-Assessment of Performance in Year

The College operates a robust self-assessment process which forms a key part of its quality improvement strategy. Each college department, for both curriculum areas and support areas, produces a Departmental Self-assessment Report (SAR) and Quality Improvement Plan (QIP). The table summarises the performance using the departmental structure at Fareham College during the 14/15 academic year. The grades shown are published in accordance with the OFSTED Inspection Framework, which was revised for implementation from September 2015. The grades are arrived at following a formal validation process chaired by the Principal, consisting of a panel including external stakeholders such as a senior manager from another similar college, school leavers and employers.

1 = Outstanding

2=Good

3=Requires improvement

4=Inadequate

Department	Effectiveness of Leadership and Management	Quality of Teaching Learning and Assessment	Personal Development, Behaviour and Welfare	Outcomes for learners	Overall Effectiveness
Health, Care and Early Years	3	3	3	3	3
Media and Performing Arts	2	2	2	1	2
Enterprise and Digital Industries	3	3	3	3	3
Sport and Public Services, Science	2	2	2	2	2
Hospitality and Travel	2	2	2	2	2
Art, Design and Fashion	2	2	2	1	2
Hairdressing and Beauty Therapy	2	2	2	3	2
Construction and the Built Environment	2	2	3	1	2
Automotive	2	2	2	2	2
Technical Engineering	2	2	2	1	2
Manufacturing and Marine	1	1	2	1	1
English	3	3	3	2	3
Maths	3	3	3	3	3

Corporate and Support Services Departmental Summary Grades

Department	Grade	Department	Grade
Student Services	2	Marketing and Communication	2
Finance	2	IT and Learning Resources	2
Estates Services	2	Human Resources	2
Information Services	2	Business Development	2

Strategic Challenges and Opportunities

1. The College must respond to the current needs of the economy and our resources will need to be realigned towards up-skilling both those out of work and in work.
2. In the current economic climate Government funds are scarce so effectiveness and value for money are key. This tone will continue for the next few years as the Government continues to rein in public spending.
3. We have made the education case for capital investment in Fareham College and now must deliver the next stage of our ambitious property strategy by completing works to the Bishopsfield Road Campus.
4. During the next 12 months, we will also experience a change in the ways in which we receive our main grant funding as the new funding methodologies for 2015/16 are implemented. We are confident that this instability will not cause issues with the liquidity position of the College.
5. As revenue funding continues to be extremely tight we have not been able to make general pay awards in 2014/15 and 2015/16 (to date). However, we have paid a one off bonus in July 15 equivalent to 1.5% of salary, which was possible due to apprenticeship income significantly exceeding plan. Whilst staff on progression related scales have benefitted from in year incremental uplifts there are many staff on spot salaries, or at the top of the pay scale for whom real wages have fallen. We have prioritised protecting pay of our lowest paid staff by adopting the Living Wage as our minimum pay point.

Priorities for 2015-2016

The Corporation has agreed the following ten operating priorities for the year to 31 July 2016:

- 1 To maintain College success rates in the top 20% of General Further Education Colleges.
- 2 To meet or exceed all agreed targets per the College's Strategic Plan.
- 3 Continue the focus on quality of teaching and learning.
- 4 Continue to invest in professional development of staff.
- 5 Achieve an annual operating surplus.
- 6 Deliver a sustainable staff cost to income ratio.
- 7 Continue to invest in physical resources and infrastructure.
- 8 Complete the agreed Property Strategy.
- 9 Complete the development of the BRC project to time and budget.
- 10 Ensure the College's agreed organisational structure is fully effective.

Performance indicators

The Corporation monitors the performance of the Executive using a basket of key performance indicators including:

- Learner success rates
- Learner destinations
- Satisfaction survey - learners
- Satisfaction survey – employers
- Financial performance
- Capital project progress

Strategic Priority 1 - Quality of Teaching & Learning

By 2017, we will be an outstanding college of Further Education that places learning and support at the heart of everything we do. This will include the development of a blended approach to teaching and learning that will embrace the latest technologies.

Annual Objectives

During 2015-2016 the College will:

- Drive up the standards of teaching and learning to ensure at least 80% is judged to be good or better. This will be achieved through careful assessment and evaluation every year to ensure that it meets our targets for improvement and learner success
- Further refine our quality assurance systems, including the Observation of Teaching and Learning
- Ensure the highest standards of student services and take up of additional learning support and continue to enhance the tutorial programme and embed English and mathematics within the curriculum
- Invest in our blended learning strategy and embed online learning opportunities within all courses at the College
- Implement staff development opportunities that deliver teachers with the highest levels of professional skills, basic skills and an enthusiasm to keep abreast of new developments in teaching and learning
- Maximise the efficiency and effectiveness of resources by improving the physical environment and reviewing models of curriculum delivery
- Implement a broader measure of performance for all teaching staff to provide an holistic judgement of performance

Strategic Priority 2 - Student and Staff Experience

By 2017, our College will provide opportunities for learners to develop a broad set of skills and will be a place where students and staff enjoy achieving together.

During 2015-2016 the College will:

- Implement a Study Programme that embraces equality and diversity and the enterprise curriculum whilst broadening the range of extra-curricular and enrichment activities available for students to support the development of a wide portfolio of employability skills. This will include enterprise, resilience building, team-working and creativity
- Increase employer engagement in curriculum development, design and delivery (employer voice), including an effective programme of work placements/experience for students and for professional updating opportunities for staff
- Ensure that we provide information, guidance and careers advice that enables our 14+ year olds and adult learners to make informed choices about their learning and progress on to higher levels of study and/or entry to appropriate employment
- Maintain a College environment where students and staff feel safe, respected and listened to and enhance mechanisms that enable the 'staff and student voice' to inform decision-making
- Promote equality and respect diversity, by delivering fair, accessible and relevant learning and support services and equal opportunities in employment
- Support a range of employment models, increase the number of apprentices employed by the College and continue to increase the proportion of staff employed on permanent contracts
- Further develop our programme of initial teacher training and assessment
- Increased emphasis on continuing professional development for all staff
- Implement a cross-college performance management system and provide appropriate training to all line managers

Strategic Priority 3 - Delivering a Responsive Curriculum

By 2017, we will deliver a coherent range of academic, vocational and professional education and training opportunities that is of high quality and is responsive to the needs of students, employers, local communities and their related business economies.

Annual Objectives

During 2015-2016 the College will:

- Further develop a multi-level curriculum offer that meets the needs of our key stakeholder groups and includes flexible modes of delivery and assessment, multiple entry points and clear internal and external progression routes
- Develop a Technical Baccalaureate programme to compete in the academic market as an alternative to A-levels
- Create a NEET reduction strategy to ensure an effective, well-resourced multi-agency approach to working with disengaged young people. This will include the provision of an Entry Level/Level 1 multi-discipline programme for undecided students with low entry qualifications
- Revise our 19+ curriculum to ensure we deliver a distinctive, credit-based framework of high quality learning opportunities for adults that are based on new areas of specialism, in order to support employability and social inclusion
- Work with employers and their representative bodies to identify their training needs, develop a Further/Higher Education curriculum offer that meets these needs, extend our delivery in the workplace and increase the breadth and volume of our Apprenticeships
- Work with employers to develop and enhance the content, planning and delivery of the full-time curriculum
- Work in partnership with other providers to ensure a comprehensive and effective programme of Foundation Learning pathways and programmes for Learners with Learning Difficulties & Disabilities
- Provide first class higher education teaching, learning and support that is a model of excellence in the delivery of Higher Education within Further Education
- Review our internal systems, organisational structures and processes for gathering market intelligence to ensure that we are a truly responsive organisation
- To ensure our students benefit from all components of the Study Programme in order to maximise individuals employability skills, including English and maths, for their future

Strategic Priority 4 - Developing Our Resources

By 2017, Fareham College will be the college of choice providing/delivering world-class learning environments and experiences for all its students (supporting the Solent LEP key objectives).

Annual Objectives

During 2015-2016 the College will:

- Implement an annual financial plan that will maintain our financial position for the next two years in order to generate funds for future investment
- Identify new markets (ESF, ESOL, and International) and further develop our programme of full cost provision that will enable us to increase and diversify our incomes
- Expand our commercial/educational trading activities with new projects and initiatives
- Revisit our capital investment strategy to further develop facilities, infrastructure and learning technologies
- Create a series of 'learning zones' with distinct identities and appropriate resources
- Develop and implement a cost centre financial modelling and monitoring system in the College to promote efficiency and effectiveness in resource deployment
- Establish a lean organisation that is adaptable to market trends, flexible to meet customer requirements and efficient through reduced down time

Strategic Priority 5 - Relationships & Reputation

By 2017, we will be widely recognised as the College in Fareham and Gosport that delivers high quality learning through successful partnership working and as evidenced by the success of our students measured by their outcomes and their destinations.

Annual Objectives

During 2015-2016 the College will:

- Set and achieve realistic recruitment targets for 2016-2017
- Enhance the reputation of the College in the Fareham and Gosport area and beyond by delivering high quality learning opportunities, developing distinctive areas of specialism (CEMAST), supporting our students to participate in community engagement projects and publicising our successes widely
- Participate in key local forums in order to plan provision and progression routes in partnership with other local providers, employers and their representative organisations
- Ensure that our strategic planning engages with key employers and public authorities to take their needs into account and further develop a shared set of objectives with Fareham and Gosport Borough Councils
- Strengthen our partnerships with local referral agencies such as Jobcentre Plus
- Further develop partnerships with voluntary and community organisations in order to engage 'hard to reach' students and enable them to be successful
- Continue to improve our highly effective relationship with other local providers including inter-staff relationships with targeted secondary schools, the sixth form colleges, general further education colleges and local universities
- Further develop our successful collaboration with key subcontract partnerships that support the College's strategic aims
- Provide accurate labour market and recruitment intelligence to inform decision making and business planning
- Develop a strategy to raise the awareness and credibility of Technical, Vocational and Occupational training routes by 'selling' the career
- Promote the Technical Baccalaureate as an alternative to A-levels

Student Numbers

In 2014-2015 the College enrolled 1,564 16-18 year old learners with a funding value of £7,305k this represents 95% of the target EFA Learner Responsive grant for the year. During the same period the College also enrolled 1,634 adult learners using funding from the SFA with a value of £3,320k this represents 100% of total target.

Curriculum Developments

The College's Curriculum Strategy is to expand technical and professional programmes at levels 1, 2, 3, 4 and, where appropriate, 5. The curriculum strategy for full-time programmes focuses on increased recruitment at level 3 in technical and professional programmes aligned to local economic drivers and market forces. The curriculum delivered at Fareham College is informed by the Solent LEP Economic Skills Plan, which refers to the need for higher level skills and evidences the requirement for a well-developed STEM curriculum.

The College is further building its technical and professional curriculum with an increased focus on all levels of apprenticeships, traineeships and by trialling the Technical Baccalaureate. The curriculum offer has been further enhanced to support apprenticeships through NVQs and technical certificates. In the 14/15 academic year significant growth in apprenticeship numbers was seen and this trend is forecast through 15/16 and beyond.

Study Programmes have been implemented in the College in the last academic year and there has been continued development of an enhanced suite of Award, Certificate, 90 Credit Diplomas, Diplomas and Extended Diplomas under QCF. In addition the College has developed a stronger curriculum presence for English, Maths and ILT all of which have been designed to facilitate and encourage progression through all levels of the technical and professional pathways into the next level of study. Study Programmes also encourage flexible yet logical progression routes through the QCF qualifications ladder. Study Programmes have successfully incorporated work experience and employability skills alongside formal qualifications and development of English and maths.

The College is developing a diverse portfolio of other training provisions such as Employer Responsive programmes to expand both its curriculum and income streams. The recent inclusion of traineeships to prepare young people for an apprenticeship route and an increase in students studying at higher levels has broadened the curriculum portfolio. In line with local need and national policy, the College has realigned some of its resources to support the development of employability skills in its students.

Provision other than that delivered at CEMAST and Bishopsfield Road campuses has been consolidated. The construction curriculum has now moved to Fareham College's Bishopsfield Road Campus leaving the only remaining aspect of Gosport College as the College's Salon 141 in Gosport High Street.

Whilst level 1 and 2 programmes are part of the College Curriculum strategy they are designed specifically and deliberately to offer second chances to learners who may have not been successful at school and provide progression opportunities to Traineeships and Apprenticeships.

For adults the College continues to attract significant numbers of full time and part time adults and has focussed its curriculum offer to employment and university progression routes with occupationally relevant courses that include Access and skills development qualifications. The College has seen a significant growth in Higher Education students, particularly those taking technical Higher National Certificates at CEMAST. In support of increased financial and social diversity and to help reduce the dependency on state funded activity from 2015-2016, the College is now exploring new markets funded through ESF and the possibility of an international recruitment programme.

FINANCIAL POSITION

Financial objectives

The College's financial objectives are:

- to achieve an operating surplus of at least 2% of turnover
- manage the College's cash position to remain solvent at all times
- to aim to diversify its funding streams, on a selective basis, consistent with the College's core competencies, and the need for a contribution to the College's overall finances
- to ensure the financial viability of the College to support strategic borrowings
- to generate sufficient surpluses to continue to fund the planned campus property strategy

Financial results

In 2014/15 the College generated an operating surplus of £655k (4.53% of income) which represents the eighth consecutive year of surplus (2013/14 – operating surplus of £472k and 3.2% of income). The operating surplus exceeded the 2% target agreed by the Board primarily due to the total income being higher than budget by approximately £1m (£789k attributable to the growth in apprenticeships). The surplus on continuing operations after exceptional items was £459k due to a loss on disposal of land and buildings of £195k which is an increase in the demolition costs against a profit reported in the 2013/14 financial statements. For 2013/14 the College received an official notification from the Skills Funding Agency that its financial health was deemed 'good' with an underlying financial health grade of 'outstanding'. In addition the College has recently had confirmed by the SFA that its financial plan to 31 July 2016 continues to grade the College as 'good' financial health for 2015.

The College reports an income and expenditure reserve of £7,164k which reflects £4,374k of the LGPS Pension obligation per FRS17 disclosure. The liability carried on the balance sheet at year end is formally confirmed on an annual basis by the College Actuaries, who undertake such work on behalf of Hampshire County Council. This balance is heavily impacted by underlying Actuarial assumptions which the College assesses for reasonableness but is not in a position to influence.

The College has significant reliance on the Education Funding Agency (EFA), Skills Funding Agency (SFA) for its principal funding source, largely from recurrent grants. In 2014/15 the funding bodies provided 63% of the College's total income in the form of recurrent grants.

The College continued to invest in the estate through a programme of planned works throughout the year. Tangible fixed asset additions in the year amounted to £13,904k and at the Balance Sheet date the College reported £14,619k of assets under construction relating to the BRC project, which was completed by autumn 2015. During 2014 the College completed the sale of the South side of the site for (£9.55m) to Bloor Homes with a 10% deposit received. An agreement is in place for the college to vacate the site on completion of the redevelopment works at which point the outstanding sale proceeds will become due. The date of completion is expected to be spring 2016. The loss on disposal of £195k of land and buildings is reported which is the increased accrual for demolition costs. The College ensures there is a rolling process of continuous Capital improvements over the year to continue to meet the demands of our students and the continued developments of technology in delivery of successful teaching and learning.

RESOURCES:

Financial

The College has £25,923k of net assets (including the £4,374k LGPS pension liability), which follows a revaluation reserve of £5,093k and deferred capital grants of £13,666k. The large balance on deferred capital grants reflects recognition to date of BRC project capital grant payments. At the Balance Sheet date the College also has a £2,700k medium term 5 year interest-free Solent LEP loan. This is a part payment of a £3,000k borrowing facility in place to fund the College CEMAST project.

People

The College employed an average of 229 FTE, 68% FTE were in direct or indirect support of teaching and learning – (90 FTE teaching staff and 66 FTE teaching support). Teaching staff comprise of lecturers and classroom instructors. Both support and teaching staff decreased in the year due to restructuring.

Reputation

The College has a good reputation locally in the delivery of vocational and work based training. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

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.

Santander is the College's preferred lending partner and the College has entered into arrangements to forward fix some 80% of its forecast long term debt requirements including £2.125m in relation to the refinancing of the LEP loan in 2018 and just under £875k of the forecast term debt at the conclusion of the BRC projects in the spring of 2016.

Cash flows

Year-end reconciled cash was £1,868k and net cash outflow in year equated to £2,191k. The College cash flow distinctly separates cash flows of the College operating activities from those relating to the Property Strategy projects. Total reconciled cash includes both operating cash and capital cash. The College generated £959k from operating activities. Bank balances were as follows:

	2015	2014
	£	£
Fareham College Current	1,572	3,098
Capital Project	296	1,282

Liquidity

The College has held a strong liquidity position throughout the academic year 14/15 and did not need to call upon its pre-arranged £500k overdraft facility.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period ending 31 July 2015, the College paid 84% of invoices received within 30 days. The College incurred no interest charges in respect of late payment for this period.

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 Risk Management Group undertakes 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 recommended internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress in terms of risk mitigation. In addition to the annual review the Risk Management Group will also consider any risks which may arise as a result of a new area of activity being undertaken by the College.

The Risk Management Group develops and updates the Risk Register through a collaborative workshop style format. The Risk Register is then reviewed each term by the Audit Committee, and by each of the key governance groups for risks within their areas – Finance & Resources, Teaching, Learning & Students. 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 them. Risks are prioritised using a consistent scoring system.

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. The list is not exhaustive and other factors besides those listed below may also adversely affect the College.

1. Government funding

The College has considerable reliance on continued government funding through the Further Education sector funding bodies, being, the Education Funding Agency (EFA) and Skills Funding Agency (SFA). In 2014/15 83% of the College's revenue was publicly funded and this level of requirement is expected to continue. The EFA funding method attracts a standard rate of funding per learner (in bands based on the number of hours in their learning programme), weighted for necessary course costs, retention and with an additional funding uplift for those at disadvantage. For the SFA the funding reflects rates in the funding matrix banding for each publicly funded qualification.

In addition to the above the other main funding impacts include:

- the demographic fall in the population of 16-18 year old learners;
- the introduction of 24+ FE loans for L3, L4 programmes and Apprenticeships; and
- the increase in participation post 16 education, making it mandatory for all 16-18 year olds to continue in education if they are not in employment or some employment based training.

The risks identified above will be mitigated by:

- continuing to drive a plan of student number growth to offset funding body declines;
- completing our Property Strategy during autumn 2015 to reduce the size and extensively refurbish and modernise the College;
- seeking to enhance the College's reputation through quality education and training;
- continuing to ensure the College's curriculum is designed to be responsive to learners, local communities and employers;
- continuing to foster strong business links with local employers and mutual partnerships; and,
- ensuring the College is focused on those priority sectors as announced by government policies which will continue to benefit from public funding.

2. Tuition fee policy

With the reduction in public funding the College tuition fee policy must continue to represent value for money and the College must ensure it offers a portfolio of courses that are both in demand and financially viable. The College closely monitors demand for courses and prices against other comparative courses in the area of which there is much competition. To support students balancing their finances the College introduced a staged payment option in partnership with an external provider that proved popular with learners and helped to improve access to courses. During the year the College participated in the 24+ loans system which funded £83k of tuition fees for 83 students.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with FRS 17. Note 24 to the Statutory Accounts shows the Pension scheme deficit of £4,374k. This amount is not required immediately and it is the long term aim of the fund to eliminate the deficit over a period of 25 years. The position of increasing Pension deficits and obligations is prevalent across the FE Sector and the issue of auto-enrolment, effective January 2017 for the College will impact the College's pension obligations further and lead to potentially increasing staff costs.

4. Systems failure

Failures in IT systems could have a significant impact on the College's ability to deliver teaching and learning and its reputation amongst learners. The risk of this is mitigated by ensuring we have well defined strategies for new systems and the existence of robust contingency and disaster recovery plan.

5. Fareham College Property Strategy

By the end of the 2015-2016 financial year, the College will have invested £26m of funding in new education facilities in Fareham. This is a sizeable financial commitment that has the potential to destabilise the financial health of the College. The College has therefore instigated a number of key measures to help mitigate this risk:

- secured £9m of grant funding towards the £12m cost of the CEMAST project;
- established the Property Strategy Group, a sub group of the Corporation to oversee the strategy and monitor risks;
- recruited the services of an experienced property consultant with a track record of successfully delivering FE capital projects;
- appointment of Hampshire County Council as technical advisors on both CEMAST and Bishopsfield Road Campus (BRC) projects;
- use of guaranteed maximum price design and build contracts to mitigate the risk of contract cost overruns;
- adoption of 'zero change' philosophy to the development of designs once contracts are let;
- careful programme planning that ensured that funding was in place for CEMAST prior to the letting of the contract, that CEMAST was practically complete prior to the letting of the BRC project;
- the long term loan financing and residential sale contract for BRC was in place prior to the letting of the contract for that site and commencement of works;
- securing £4.5m of SFA grant funding and £9.5m of site sale proceeds towards the cost of remodelling the BRC site;
- the appointment of dedicated project managers and cost consultants together with the development of detailed risk registers with mitigating actions and risk owners;

The CEMAST project was practically complete at 15th July 2014 and the final account for the construction costs was agreed at £7.3m excluding VAT which was the approved budget for that element of the programme. A suitable contingency was agreed as part of the CEMAST project to allow post occupation adjustments to be made.

The BRC project was practically completed in September 2015 with the final account currently being negotiated and is currently less than 1% above the College's expected final costs and is expected to be negotiated down.

6. Subcontracting

The College works with a small number of external providers to help deliver its education mission and meet its funding targets. The College has developed robust mechanisms for the management of subcontracting provision including quality assurance, health and safety and funding compliance. By their very nature this is a non-direct provision. The College recognised that the risk of non-delivery and/or over delivery against agreed targets is greater than for direct provision.

7. Commercial Income

The College continues to invest and develop the provision of its commercial services in the areas of Catering, Hair and Beauty and Lettings. These areas are where the College has a good record and level of expertise. The on-going site development, which has disrupted services and led to the Avenue 141 restaurant being closed for a month, has resulted in a slight temporary decline on turnover within year.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices/ LEPs;
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies;
- Bankers;

The College recognises the importance of these relationships and engages in regular communication with them through face to face meetings, road-shows in local schools, attendance at the LEP and Business South events, Local Head Teacher's meetings, College Award Events, the CEMAST employer's forum, via the College's new and improved website, Facebook and Twitter. We were pleased to host senior personnel from the SFA, Fareham & Gosport Borough Councils as well as Ministers from the Departments of Business, Innovation & Skills and Communities & Local Government during the year.

Equal opportunities and employment of disabled persons

Fareham College is committed to ensuring equal opportunities to all who learn and work here. We respect and value differences in race, religion, belief, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

The College's Equal Opportunities Policy, including its Race Relations and Transgender Policies, is published on the College's Internet site.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. An equalities plan is published each year and monitored by managers and governors.

The College has invested to improve access for staff and students with disabilities that impair their mobility and now has a campus with 100% access for those with such a disability.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010 relating to Disability as amended by the Special Education Needs and Disability Order 2005.

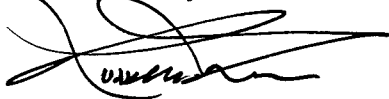
- a) As part of its accommodation strategy the College commissioned a 'Buildings and Site Condition and Health and Safety' Survey by Chartered Surveyors during 2008-09 which included an evaluation of current levels of access across the campus - the results of this have now been incorporated in the College Property Strategy and Maintenance Programme to ensure that all buildings are fully accessible by September 2015.
- b) The College Estates Manager and Health and Safety Officer regularly provide information and advice on disability issues on campus and with the assistance of the Head of Student Services, ensures that appropriate support is in place for students with disabilities.

- c) There is a range of adaptive equipment and software available to students with Learning Difficulties and Disabilities all easily accessible from the ILRC.
- d) The College has a specialist learning support team, comprising of specialist lecturers and student support assistants to help our students who have learning difficulties and/or disabilities.
- e) The Admissions Policy for all students is published on the College website. Appeals against a decision not to offer a place are dealt with under the Admissions Policy.
- f) Counselling and welfare services are described in the College Student Handbook, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to 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 auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Corporation on 9th December 2015 and signed on its behalf by:



Mr Russell Kew
Chair

Date:

9/12/15

Professional advisers

Financial Statements and Regularity Auditors
Grant Thornton UK LLP
1020 Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

Bankers
Barclays Bank plc
Wytham Court
11 West Way
Oxford
OX2 0JB

Santander UK plc
Solent Corporate Banking Centre
3rd Floor, 1 Dorset Street,
Southampton,
Hampshire
SO15 2DP

Internal Auditors
Mazars LLP
Tower Bridge House
St Katherines Way
London
E1W 1DD

Solicitors
Glanvilles
151 West Street
Fareham
PO16 0BG

Insurance Brokers
Gallagher Heath
Focal Point
27-35 Fleet Street
Swindon
Wiltshire
SN1 1RG

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:

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

We have not adopted and therefore do not apply to 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 carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in June 2015. The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

The Corporation

The 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 each term.

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

- Audit
- Search
- Teaching, Students, Curriculum & Quality
- Finance & Resources

Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Fareham College
Bishopsfield Road
Fareham
Hampshire
PO14 1NH

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.

Table 2: Governors serving on the College Board during 2014/2015

	Date of appointment	Term of Office	Date of resignation	Committees Served
Mr K Briscoe	02.04.14	3 years (1 st term)		TSC&Q Committee
Mr S Carter	09.12.09 Reappointed 12.12.12	3 years (2 nd term)		Audit Committee & Property Strategy Group (PSG). Elected as Chair of Audit March 2010.
Miss E Champion	02.07.14	3 years (1 st term)		TSC&Q Committee
Mr N Duncan	05.10.10	n/a		Appointed Principal 28 th March 2012. As Principal he is <i>ex-officio</i> member of all committees except Audit.
Mr P Fielon	08.12.10 Reappointed 11.12.13	3 years (2 nd term)		Finance & Resources Committee and Marketing Working Group (moved from TSC&Q on 1/9/13)
Mr P Grimwood	27.06.12 Reappointed 24.06.15	3 years (2 nd term)		Finance & Resources Committee & PSG
Mr D Hart	02.04.08 Reappointed 02.04.14	3 years (3 rd term)		Elected as Chair of TSC&Q Committee Feb 2010. Elected as Vice-Chair of Corporation 28 th March 2012.
Mr R Kew	08.12.10 Reappointed 11.12.13	3 years (2 nd term)		Finance & Resources Committee & PSG Elected Chair of F&R Committee 31.05.12 and Chair of Corp 12.12.12
Mrs J Lancaster	07.12.11 Reappointed 10.12.14	3 years (2 nd term)		Audit Committee.
Mr C Magee	10.12.14	3 years (1 st term)		TSC&Q Committee
Mr M Mansergh	02.04.14	3 years (1 st term)		Finance & Resources Committee and PSG
Mrs N Nageon de Lestang	30.09.09 Reappointed 27.06.12	3 years (2 nd term)	2 nd term ended 31.08.15	TSC&Q Committee. 2 nd term of office ended 31.08.15. Not re-elected by teaching staff.
Miss L Quelch	11.12.13	3 years (1 st term)		TSC&Q Committee
Miss K Smith	10.12.14	3 years (1 st term)		TSC&Q Committee
Dr C Thomas	10.12.14	3 years (1 st term)		Audit Committee
Mrs P Tilt	27.06.12 Reappointed 24.06.15	3 years (2 nd term)		TSC&Q Committee and Wellbeing Committee
Mr J Westbrook	14.12.05 01.01.09 Reappointed 07.12.11	3 years (3 rd term)	Completed service 31.12.14	Audit Committee
Ms K Woods	02.04.14	3 years (1 st term)		Finance & Resources Committee
Mrs J Eayrs acts as Clerk to the Corporation				

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 search committee, with rolling membership of members which are 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.

Remuneration committee

The College does not have a separate remuneration committee but the responsibility is undertaken by the Finance & Resources Committee. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and Deputy Principal who are the two senior post-holders appointed by the Corporation.

Details of remuneration for the year ended 31 July 2015 are set out in Notes 6 and 7 to the financial statements.

Audit committee

The Audit Committee comprises three members of the Corporation (excluding the Principal and Chair). The committee operates in accordance with written terms of reference approved by the Corporation. The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal 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's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the audit committee.

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

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.

Property Strategy Group

The Property Strategy Group is a joint Executive and Non-Executive sub group of the Corporation which exists to:

- support and advise the Executive on the delivery of the CEMAST and BRC projects;
- authorise expenditure and land transactions within the delegated limits and recommend to the full Corporation other items of expenditure/land transactions above those limits;
- receive regular assurance reports (Gateway Reviews and Design Reviews) from the Executive and their advisors on the delivery of the CEMAST and BRC projects;
- have an oversight, on behalf of the board, of the Risk Register in relation to the CEMAST and BRC projects;
- receive updates on the financial position of the project, authorise budget virements in accordance with its delegations;
- act as a sounding board on the development and implementation of the property strategy for the redevelopment of the Fareham College main campus.

The Group reports all of its activities to the Corporation which remains the ultimate accountable body in relation to property and other matters.

Senior Management Team

At 31 July 2015 the College's Senior Management Team comprised:

Nigel Duncan, Principal

Andrew Kaye, Deputy Principal

Steve Dingsdale, Assistant Principal & CEMAST Managing Director

Angela Hinton, Exec Director, Human Resources

Mark Cooper, Director, Business Development

Leah Palmer, Director Curriculum BRC

Gill Sommers, Director Students and Recruitment

Vincent Adams, Teaching and Learning Director

Jackie Robinson, Director of Finance

Charles Whinney, Head of Information Services

Internal control*Scope of responsibility*

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him or her in the Financial Memorandum between Fareham College and the funding bodies. He or 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 on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Fareham College for the year ended 31 July 2015 and up to the date of approval of the annual reported financial statements.

Capacity to handle risk

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

The risk and control framework

The system of internal control is based on a framework of regular management information, 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.

Fareham College has an internal audit service, which operates in accordance with the requirements of the EFA/SFA's *Joint Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At least annually, the Head of Internal Audit (HIA) provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His 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 (in their management letters) and other reports.

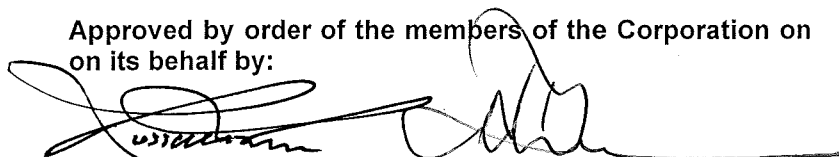
The Principal has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Audit Committee which oversees the work of the internal auditor (and Risk Committee, if appropriate) and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, 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 assurance and not merely reporting by exception. At its December 2015 meeting, the Corporation will carry 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.

Going Concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on
on its behalf by:



Mr Russell Kew
Chair

Mr Nigel Duncan
Principal

9th December 2015 and signed



Mrs Jackie Robinson
Director of Finance

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Educational Funding Agency, 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 Institutions* and with the Accounts Direction for 2014-15 financial statements issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of the affairs of the College and the result for that year.

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

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

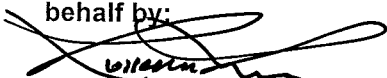
The Corporation is also required to prepare an Operating and Financial Review Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

Approved by order of the members of the Corporation on 9th December 2015 and signed on its behalf by:



Mr Russell Kew
Chair

Date: 9/12/15

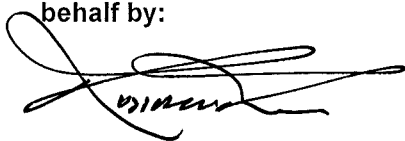
Statement on Regularity, Propriety and Compliance

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 funding agreement 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 funding agreement.

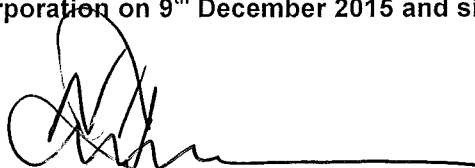
We confirm on behalf of the Corporation that after due enquiry, **and to the best of our knowledge**, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's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

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 9th December 2015 and signed on its behalf by:



Mr Russell Kew
Chair



Mr Nigel Duncan
Principal

Independent auditor's report to the Corporation of Fareham College

We have audited the financial statements of Fareham College for the year ended 31 July 2015 which comprise the income and expenditure account, the statement of total recognised gains and losses, the statement of historical cost surpluses and deficits, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 College and the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporation/Governing Body and auditor

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 22, the College's Corporation is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2015 and of its surplus of income over expenditure for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and the Accounts Direction for 2014 to 2015.

Matters on which we are required to report by exception

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

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading, Berkshire

16 DECEMBER 2015

Independent Auditor's Report on Regularity to the Corporation of Fareham College (the College) and the Chief Executive of Skills Funding Agency

This report is produced in accordance with the terms of our engagement letter dated 17 September 2014 for the purpose of reporting on the College's Statement of Regularity, Propriety and Compliance in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2015 are regular as defined by and in accordance with the Financial Memorandum with the Chief Executive of Skills Funding, in accordance with the authorities that govern them.

The regularity assurance framework that has been applied is set out in the Joint Audit Code of Practice and the Regularity Audit Framework published by the Skills Funding Agency and the Education Funding Agency.

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

Responsibilities of the Corporation of Fareham College

The Corporation of the College is responsible under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that financial transactions are in accordance with the framework of authorities which govern them and that transactions underlying the financial statements for the year ended 31 July 2015 are regular.

The Corporation of the College is also responsible, under the requirements of the Accounts Direction 2014-15, published by the Skills Funding Agency and the Education Funding Agency, for the preparation of the Statement on Regularity, Propriety and Compliance. The Statement confirms that, to the best of its knowledge, the Corporation believes it is 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. It further confirms that any instances of material irregularity, impropriety or funding non-compliance discovered in the year to 31 July 2015 have been notified to the Skills Funding Agency.

Auditor's responsibilities

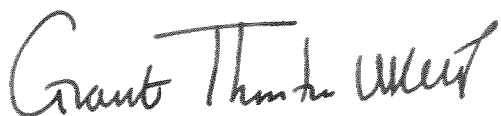
Our responsibility is to express a reasonable assurance opinion in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2015 are in all material respects regular, based on the procedures that we have performed and the evidence we have obtained. Our reasonable assurance engagement was undertaken in accordance with the Joint Audit Code of Practice, the Regularity Audit Framework and our engagement letter dated 17 September 2014. The International Standards on Auditing (UK and Ireland) and Joint Audit Code of Practice require that we plan and perform this engagement to obtain reasonable assurance in respect of the Assertion that the transactions underlying the financial statements are in all material respects regular.

Basis of opinion

We have performed procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express reasonable assurance that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2015.

Opinion

In our opinion the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2015.



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading, Berkshire

16 DECEMBER 2015

Income and Expenditure Account for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Income			
Funding body grants	2	11,929	12,562
Tuition fees and education contracts	3	1,261	1,174
Other grants and contracts	4	64	39
Other income	5	1,188	847
Investment income	21	11	9
Total Income		14,454	14,631
Expenditure			
Staff costs	6	7,595	8,197
Exceptional restructuring costs	6	59	156
Other operating expenses	8	4,984	4,946
Depreciation	11	1,090	752
Interest and other finance costs	9	71	109
Total Expenditure		13,799	14,160
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items		655	472
Profit on disposal of assets	11	(195)	4,494
Surplus on continuing operation after depreciation of assets after depreciation of assets at valuation and exceptional items		459	4,965

The income and expenditure account is in respect of continuing activities

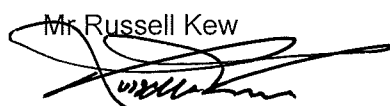
There were no operations that were acquired or discontinued by Fareham College during the year.

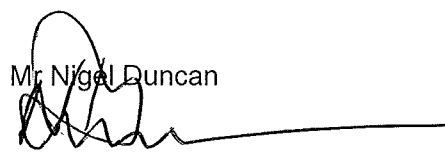
**Statement of the Total Recognised Gains and Losses for
the year ended 31 July 2015**

	Notes	2015 £000	2014 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		459	4,965
Actuarial gain in respect of pension scheme	19	(514)	509
Total recognised (losses) gains relating to the period		(55)	5,474
Reconciliation			
Opening reserves		12,312	6,838
Total recognised (losses) gains for the year		(55)	5,474
Closing reserves		12,257	12,312
Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2015			
		2015 £000	2014 £000
Surplus on continuing operations after depreciation of assets at valuation, disposal of assets and taxation		655	472
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount		184	152
Historical cost surplus for the period before and after taxation		839	624

Balance Sheet as at 31 July		2015	2014
	Notes	£000	£000
Fixed assets			
Tangible assets	11	31,624	18,812
Current assets			
Debtors	12	9,030	350
Cash at bank and in hand		1,868	4,059
Total current assets		10,898	4,409
Less: Creditors - amounts falling due within one year	13	9,450	2,907
Net current assets		1,448	1,502
Non- Current assets			
Debtors receivable more than one year	12	-	8,595
Total assets less current liabilities		33,071	28,909
Less: Creditors - amounts falling due after more than one year	14	2,125	3,041
Less: Provisions for liabilities and charges	15	649	650
Net assets excluding pension liability		30,298	25,218
Net pension (liability)	25	(4,374)	(3,894)
NET ASSETS INCLUDING PENSION LIABILITY		25,923	21,324
Deferred capital grants	17	13,666	9,012
Reserves			
Revaluation reserve	18	5,093	5,278
Income and expenditure account excluding pension reserve		11,538	10,928
Pension reserve		(4,374)	(3,894)
Income and expenditure account including pension reserve	19	7,164	7,034
Total Reserves		12,257	12,312
TOTAL FUNDS		25,923	21,324

The financial statements on pages were approved by the Governing Body on 9th December 2015 and were signed on its behalf by

Mr Russell Kew

 Chairman

Mr Nigel Duncan

 Principal

Cash Flow Statement for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Cash inflow from operating activities	20	959	2,397
Returns on investments and servicing of finance	21	11	9
Capital expenditure and financial investment	22	(8,661)	(4,347)
Financing	24	5,500	2,025
		<u> </u>	<u> </u>
(Decrease)/Increase in cash in the period		<u>(2,191)</u>	<u>84</u>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/Increase in cash in the period		(2,191)	84
Cash (outflow) inflow from financing	24	<u>(5,500)</u>	<u>2,025</u>
Movement in net funds in the period		<u>(7,691)</u>	<u>(1,941)</u>
Funds at 1 August 2014		<u>1,359</u>	<u>3,300</u>
Net funds at 31 July 2015		<u>(6,332)</u>	<u>1,359</u>

Notes to the Accounts

1. Accounting Policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP), the *Accounts Direction for 2014-15 financial statements* published jointly by the SFA and EFA and in accordance with applicable Accounting Standards.

Basis of Accounting

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

Going Concern

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.

The College has recognised £2.7m of medium term debt on the Balance Sheet being the balance of a £3m 5 year interest-free loan from the Solent LEP as funding towards the CEMAST project. One repayment was made to the loan in April 2015 with the next due in April 2016 for £575k. A refinancing agreement is in place to cover the final payments of the LEP loan if the college requires, this is in the form of a long-term loan agreement with Santander.

The College has obtained SFA funding of £4.9m to part finance the BRC project. £5.5m of the Santander Revolving Credit Facility has been utilised as at 31st July 2015. The full agreed amount of £9m is expected to be utilised by the end of March 2016, with the repayment being made in spring 2016 once the land receipt from Bloor Homes has been received. There is an existing long-term loan agreement in place to cover the remaining costs relating to the BRC project, the agreement allows for maximum borrowing of £2.8m. However, current forecasts indicate that the required level of borrowing will be less than this. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Funding body 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 at the end of November following the year end, and the results of any funding audits. Employer responsive and apprenticeship grant income is recognised based on a year-end reconciliation of income claimed and actual delivery. 16-18 learner responsive funding is not normally subject to in-year reconciliation and therefore is not subject to contract adjustments.

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

Income received for bursaries and discretionary learner support is recognised gross within total income and the amounts disbursed are treated as expenditures within the income and expenditure account. An allowance of 5 per cent of the grant received is recognised, where available by the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

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 year for which it relates and includes all fees payable by students or their sponsors.

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

Post-Retirement Benefits

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

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantial level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 24, the TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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 the 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. Valuations for the LGPS are determined by qualified actuaries on a triennial basis using the projected unit method.

Enhanced Pensions

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

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. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis. Land and buildings acquired since incorporation are included in the balance sheet at cost. No depreciation is provided on freehold land. 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 of between 20 and 50 years. The College has an ageing campus and will exercise judgement on the useful life of any

building adaptations where it is not deemed appropriate to depreciate the asset between 20 and 50 years.

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

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

Assets under construction

Assets in the course of construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. The assets 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 been subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's 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. Equipment inherited from the Local Education Authority is included in the balance sheet at valuation. Depreciation is provided evenly on the cost or valuation of other assets to write them down to their estimated residual values over their expected useful lives as follows:

Motor vehicles and general equipment - straight line over 5 years
Furniture, fixtures and fittings - straight line over 5 years
Computer equipment and software - straight line over 3 years

Where equipment is acquired with the aid of specific grants, they are capitalised and depreciated in accordance with the above policies. The related grants are credited to a deferred capital grant account and released to the income and expenditure account in equal annual instalments over the expected useful economic life of the assets on a basis consistent with the depreciation policy.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Rentals payable under operating leases are charged to the income and expenditure account as 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.

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

Liquid resources

Liquid resources include sums on short-term deposits with Barclays Bank.

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 to the Accounts (continued)

2 Funding Body Grants

	2015	2014
	£'000	£'000
EFA recurrent grant	7,658	9,096
SFA recurrent grant	1,418	1,490
HEFCE recurrent grant	50	0
EFA non recurrent grant	269	277
SFA non recurrent grant	270	204
SFA 16-18 Apprenticeships	1,562	961
SFA 19+ Apprenticeships	563	383
Releases of deferred capital grants	139	151
Total	<u>11,929</u>	<u>12,562</u>

3 Tuition fees and education contracts

	2015	2014
	£'000	£'000
Tuition fees	1,206	1,118
Education contracts	55	56
Total	<u>1,261</u>	<u>1,174</u>

4 Other grants and contracts

	2015	2014
	£'000	£'000
Other grants and contracts	64	39
Total	<u>64</u>	<u>39</u>

5 Other income

	2015	2014
	£'000	£'000
Residencies, catering and conferences	325	310
Other income generating activities	126	158
Releases from deferred capital grants	446	33
Other income	291	346
Total	<u>1,188</u>	<u>847</u>

Notes to the Accounts (continued)

6 Staff Costs

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

	2015 No.	2014 No.
Teaching staff	90	100
Non teaching staff	139	148
Total	229	248

Staff costs for the above persons

	2015 £'000	2014 £'000
Wages and salaries	6,425	6,919
Social security costs	450	498
Other pension costs (including FRS 17 adjustments)	720	780
	7,595	8,197
Restructuring costs	59	156
Total	7,654	8,353

The total amount of severance costs included within staff costs and approved by a panel of Senior Management was:

	2015 £'000	2014 £'000
Severance costs	59	156

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

	2015 Senior post holders No.	2014 Senior post holders No.	2015 Other staff No.	2014 Other staff No.
£60,001 to £70,000	-	-	1	1
£70,001 to £80,000	1	1	-	-
£80,001 to £90,000	-	-	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	1	1	-	-
£110,001 to £120,000	-	-	-	-
Total	2	2	1	1

In the year to 31 July 2015 there was 1 non senior post holder who received emoluments exceeding £60,001. This post holder was the CEMAST manager.

Notes to the Accounts (continued)

7 Senior post holders' emoluments

Senior post holders are defined as the Principal (or Chief Executive) and holders of other senior posts whom the Governing Body has selected for the purposes of the Articles of Government of the College

	2015 No.	2014 No.
The number of senior post holders including the Principal was		
Total	2	2
Senior post holder's emoluments are made up as follows:		
	2015 £'000	2014 £'000
Salaries	172	177
Benefits in kind	2	1
	<hr/> 174	<hr/> 178
Pension contributions paid	24	25
Total emoluments	<hr/> 198	<hr/> 203

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

	2015 £'000	2014 £'000
Salaries	102	101
Benefits in kind	2	1
	<hr/> 104	<hr/> 102
Pension contributions paid	14	14
Total emoluments	<hr/> 118	<hr/> 116

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

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

Notes to the Accounts (continued)**8 Other operating expenses**

	2015	2014
	£'000	£'000
Teaching costs	1,682	1,617
Non teaching costs	1,655	1,489
Examination costs	372	391
Premises	1,275	1,449
Total	<u>4,984</u>	<u>4,946</u>

Other operating expenses include:

	2015	2014
	£'000	£'000
Auditor's remuneration		
Financial statements audit	22	21
Internal audit	13	14
(Loss/profit) on disposal of tangible fixed assets - note 19	195	(4,494)
Hire of other assets – operating leases	175	248

9 Interest and other finance costs

	2015	2014
	£'000	£'000
On bank loans, overdrafts and other loans	4	-
Pension finance costs	67	109
Total	<u>71</u>	<u>109</u>

10 Taxation

The College is not liable for any Corporation Tax arising out of its activities during this period.

Notes to the Accounts (continued)

11 Tangible Fixed Assets

	Land and Buildings £'000	Assets in construction £'000	Equipment £'000	Total £'000
Cost or Valuation				
At 1 August 2014	6,914	12,361	4,681	23,956
Additions	-	13,063	841	13,904
Transfers	10,063	(10,805)	742	-
Disposals	-	-	(296)	(296)
At 31 July 2015	16,977	14,619	5,968	37,564
Depreciation				
At 1 August 2014	1,569	-	3,575	5,144
Charge for year	284	-	806	1,090
Eliminated in respect of disposals	-	-	(293)	(293)
At 31 July 2015	1,853	-	4,088	5,941
Net book value				
At 31 July 2015	15,125	14,619	1,880	31,624
Net book value				
At 31 July 2014	5,345	12,361	1,106	18,812
Inherited	5,247	-	-	5,247
Financed by capital grant	7,432	4,977	1,257	13,666
Other	2,446	9,642	623	12,711
Net Book value	15,125	14,619	1,880	31,624

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 in September 1994 for the purpose of the financial statements at depreciated replacement cost by a firm of independent chartered surveyors, J Trevor and Webster, in accordance with the Royal Institution of Chartered Surveyors Statements 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 £5,247,000 have been funded from Local Education Authority sources.

Prior to incorporation, a right existed for the County Council to receive funds of £1,000,000 from the William Price Charitable Trust in respect of a contribution towards the costs of the new building built by the County Council for the College in 1987. The agreement also provided for a proportion of those funds to be repaid in the event of a disposal of the buildings identified in relation to this contribution. The agreement has been varied following the sale of the recent land to Bloor Homes Limited such that should the College sell any of the land now owned or if the land now owned ceases to be used for educational purposes, then an amount corresponding to 7.33% of the value would be repayable to the Trust.

Notes to the Accounts (continued)

	2015	2014
12 Debtors		
Current debtors		
	£000	£000
Amounts falling due within one year		
Trade debtors	70	120
Prepayments and accrued income	365	230
Debtor for sale of land	8,595	-
Total	9,030	350
Non-current Debtors		
Debtors receivable in more than one year	-	8,595
	-	8,595

13 Creditors: Amounts falling due within one year

	2015	2014
	£000	£000
Bank loans and overdrafts	5,500	-
Payments received in advance	100	105
Trade creditors	241	646
Other creditors	187	161
Other taxation and social security	169	159
Accruals	685	386
Accruals land sale/fixed asset purchase	1,523	1,046
Other amounts owed to funding Bodies	320	104
Solent LEP loan	575	300
Community Infrastructure Levy	150	-
Total	9,450	2,907

14 Creditors: Amounts falling due after more than one year

	2015	2014
	£000	£000
Accruals land sale/fixed asset purchase	-	491
Solent LEP loan	2,125	2,400
Community Infrastructure Levy	-	150
Total	2,125	3,041

The Solent LEP is the Solent Local Enterprise Partnership and the above is the amount advanced as at 31 July 2015 to the College from a total loan of £3,000,000 which includes £75,000 (2.5%) administration fee. The borrowing is for a 5 year interest-free term and is part of the financing towards the College's under construction CEMAST project.

Notes to the Accounts (continued)

15 Borrowings

Bank loans, other loans and overdrafts

	2015 £000	2014 £000
In one year or less	6,075	-
Between one and two years	800	-
Between two and five years	1,325	-
In Five years or more	-	-
Total	8,200	-

6 Provisions for Liabilities and Charges

	Pensions £'000
At 1 August 2014	650
Expenditure in the period	(50)
Transfer to income and expenditure account	26
Transfer to STRGL	23
At 31 July 2015	649

The enhanced pension provision relates to the cost of staff who have already left the College and represent commitments from which the College cannot reasonably withdraw at the balance sheet date. The provision has been recalculated in accordance with guidance issued by the LSC and its successor organisations.

17 Deferred Capital Grants

	Funding Grants £000	Other Grants £000	Total £000
At 1 August 2014			
Land and buildings	4,054	4,450	8,504
Equipment	451	56	507
Cash received			
Land and buildings	2,803	253	3,056
Equipment	887	1,296	2,183
Released to income and expenditure account			
Land and buildings	(57)	(93)	(150)
Equipment	(82)	(352)	(434)
Total	8,056	5,610	13,666
At 31 July 2015			
Land and buildings	6,800	4,610	11,410
Equipment	1,256	1,000	2,256
Total	8,056	5,610	13,666

Notes to the Accounts (continued)**18 Revaluation Reserve**

	2015	2014
	£000	£000
At 1 August 2014	5,278	9,576
Transfer from revaluation reserve to General reserve in respect of:		
Transfer on disposal of property	-	(4,146)
Depreciation on inherited assets	(185)	(152)
At 31 July 2015	<u>5,093</u>	<u>5,278</u>

19 Movement on General Reserves

	2015	2014
	£000	£000
Income and Expenditure Account Reserve		
At 1 August 2014	7,034	(2,738)
Surplus on continuing operations	459	4,965
Transfer on disposal of property	-	4,146
Transfer from revaluation reserve	185	152
Actuarial (loss)/gain in respect of pension scheme	(514)	509
At 31 July 2015	<u>7,164</u>	<u>7,034</u>
Balance represented by pension reserve	(4,374)	(3,894)
Income and Expenditure account reserve excluding pension reserve	<u>11,538</u>	<u>10,928</u>
	<u>7,164</u>	<u>7,034</u>

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

	2015	2014
	£000	£000
Surplus on continuing operations after depreciation of assets at valuation	459	4,965
Depreciation (notes 1 and 11)	1,090	752
Deferred capital grants released to income (note 16)	(584)	(183)
(Loss)/Profit on disposal of tangible fixed assets	194	(4,494)
Interest receivable (note 21)	(11)	(9)
(increase) in operating debtors	(85)	(36)
(decrease)/increase in operating creditors	(69)	1,405
increase/(decrease) in pension provision and liability	479	(512)
(decrease)/increase in reserves in respect of pension Note 18	(514)	509
Net cash inflow from operating activities	<u>959</u>	<u>2,397</u>

21 Returns on investments and servicing of finance

	2015 £'000	2014 £'000
Other interest received	11	9
Net cash inflow from returns on investment & services of finance	<u>11</u>	<u>9</u>

22 Capital expenditure and financial investment

	2015 £'000	2014 £'000
Purchase of tangible fixed assets	(13,904)	(12,148)
Sales of tangible fixed assets	4	955
Deferred capital grants received	5,239	6,846
Net cash (outflow) from capital expenditure	<u>(8,661)</u>	<u>(4,347)</u>

23 Financing

	2015 £'000	2014 £'000
Debt due beyond a year:		
Unsecured LEP loan (CEMAST)	2,125	2,400
Debt due within a year:		
Revolving credit facility	5,500	-
Unsecured LEP loan (CEMAST)	575	300
Total	<u>8,200</u>	<u>2,700</u>

24 Analysis of changes in net funds

	At 1 August 2014	Cash flows	At 31 July 2015
	£'000	£'000	£'000
Cash in hand and at bank	4,059	(2,191)	1,868
Overdraft	-	-	-
Debt due within 1 year	(300)	(5,775)	(6,075)
Debt due after 1 year	(2,400)	275	(2,125)
	<u>1,359</u>	<u>(7,691)</u>	<u>(6,332)</u>

Notes to the Accounts (continued)**25 Pension and similar obligations**

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

Total pension cost for the year	2015	2014
	£'000	£'000
Teachers' Pension Scheme – contributions paid	419	480
Local Government Pension Scheme:		
Contributions paid	340	326
FRS 17 charge	(10)	(16)
Charge to the Income and Expenditure Account (staff costs)	330	310
Total pension cost for the year	749	790

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Teachers' Pension Scheme

The TPS is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers Pensions Regulations 2010. Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (increase) Acts are, as provided for in the Superannuation Act of 1972, paid out of monies provided by Parliament. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.

The pensions cost is normally assessed no less than every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation (under the new provisions)	31 March 2012
Actuarial method	Prospective benefits

Notional value of assets at date of last valuation	£176,600 million
--	------------------

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. From 1 April 2014 to 31st March 2015, the employee contribution rate ranged between 7.4% and 11.7% depending on the member's salary, with employer contributions set at 14.1%. For the four year period from 1 September 2015 the employer contribution rate payable is 16.4% of pensionable pay.

Notes to the Accounts (continued)**FRS 17**

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

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

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in a separate fund administered by Hampshire County Council. The total contribution made for the year ended 31 July 2015 was £440,000 of which employer's contributions totalled £340,000 and employees' contributions totalled £100,000. The agreed contribution rate for future years is 13.1% plus a fixed amount of £102,699 for the employer; employee contributions are salary banded and range from 5.5% to 12.5%.

FRS 17**Principal Actuarial Assumptions**

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

	At 31 July 2015	At 31 July 2014
Rate of increase in salaries	3.6%	3.7%
Rate of increase for pensions in payment / inflation	2.1%	2.2%
Discount rate for scheme liabilities	3.6%	4.1%
Inflation assumption (CPI)	2.1%	2.2%

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

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

	At 31 July 2015	At 31 July 2014
<i>Retiring today</i>		
Males	24.5	24.4
Females	26.3	26.2
<i>Retiring in 20 years</i>		
Males	26.6	26.5
Females	28.6	28.5

Notes to the Accounts (continued)

The College's share of the assets and liabilities in the scheme were:

	Value at July 2015 £'m	Value at July 2014 £'m
Total market value of assets	8.0	7.1
Present value of scheme liabilities		
Funded	(12.4)	(11.0)
Unfunded	-	-
(Deficit) in the scheme	<u>(4.4)</u>	<u>(3.9)</u>

Analysis of the amount charged in the income and expenditure account

	2015 £'000	2014 £'000
Current service costs (net of employee contributions)	290	310
Past service cost	40	45
Total operating charge	<u>330</u>	<u>355</u>

Analysis of pension finance costs

	2015 £'000	2014 £'000
Expected return on pension scheme assets	430	420
Interest on pension liabilities	(470)	(500)
Pension finance costs	<u>(40)</u>	<u>(80)</u>

Notes to the Accounts (continued)**Amount recognised in the statement of total recognised gains and losses (STRGL)**

	2015	2014
	£'000	£'000
Actual return less expected return on pension scheme assets	370	(100)
Actuarial (loss)/gain arising on the scheme liabilities	(820)	680
Actuarial (loss)/gain recognised in STRGL	<u>(450)</u>	<u>580</u>

Movement in deficit during the year

	2015	2014
	£'000	£'000
Deficit in scheme at 1 August	(3,894)	(4,410)
Movement in year:		
Employer service cost (net of employee contributions)	(330)	(310)
Employer contributions	340	326
Net interest / return on assets	(40)	(80)
Actuarial loss	(450)	580
Deficit in scheme at 31 July	<u>(4,374)</u>	<u>(3,894)</u>

Actual return on assets

	2015	2014
	£'000	£'000
Expected return on assets	430	420
Actuarial gain/(loss) on assets	370	(100)
Actuarial return on assets	<u>800</u>	<u>320</u>

Changes in the present value of the defined benefit obligation are as follows:

Reconciliation of Liabilities

	2015	2014
	£'000	£'000
Liabilities at 1 August	10,990	11,020
Service cost	330	310
Interest cost	470	500
Employee contributions	100	100
Actuarial (loss)/gain	820	(680)
Benefits paid	(330)	(260)
Liabilities at 31 July	<u>12,380</u>	<u>10,990</u>

Notes to the Accounts (continued)**Reconciliation of Assets**

	2015	2014
	£m	£m
Assets at start of period	7.1	6.6
Expected return on assets	0.4	0.4
Actuarial gain/(loss)	0.4	(0.1)
Employer contributions	0.3	0.3
Employee contributions	0.1	0.1
Benefits paid	(0.3)	(0.2)
Assets at end of period	8.0	7.1

Amounts for the current and previous five periods are as follows:

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Fair value of plan assets as at 31 July	8.01	7.10	6.61	5.60	5.34
Present value of defined benefit obligation at 31 July	(12.38)	(10.99)	(11.02)	(10.30)	(8.87)
Deficit in the plan	(4.37)	(3.89)	(4.41)	(4.70)	(3.53)
Experience adjustments arising on asset plan	0.37	(100)	0.60	(0.13)	(0.09)
Experience adjustments arising on plan liabilities	0.07	0.19	(0.01)	(0.06)	0.22

26 Post Balance Sheet Events

There have been no post balance sheet events.

27 Financial Commitments

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

	2015	2014
	£'000	£'000
Land and Buildings		
Expiring within one year	-	84
Expiring between two and five years inclusive	-	-
	-	84
Other		
Expiring within one year	3	3
Expiring between two and five years inclusive	-	-
	3	3
	85	85

28 Related Party Transactions

Owing to the nature of the College's operations and the composition of the Board of Governors (being drawn from 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 an organisation in which a member of the Board may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. The Board of Governors did not receive any payments other than reimbursement of travel and subsistence.