



Report and Financial Statements
for the year ended 31 July 2016

Fareham College Financial Statements for the Year Ended 31 July 2016

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Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel were represented by the following in 2015/16:

Nigel Duncan Principal and CEO; Accounting Officer
Andrew Kaye Deputy Principal
Emma Baxter Director of Finance and Funding
Angie Hinton Executive Director of Human Resources

Board of Governors

A full list of Governors is given on page 13 of these financial statements.

Mrs J Eayrs Clerk to the Corporation.

Professional Advisers

Financial statements auditors and reporting accountants:

Grant Thornton UK LLP
1020 Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

Internal auditors:

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

Bankers:

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

Solicitors:

Glanvilles
151 West Street
Fareham
PO16 0BG

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STRATEGIC REPORT

NATURE, OBJECTIVES AND STRATEGIES:

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

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

To prepare our students for meaningful careers through the provision of outstanding technical and professional programmes of study.

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, learning and assessment by highly effective and dedicated staff
- Delivering a rich, inclusive and holistic student experience that provides our students with a 'direct line of sight' to sustainable careers
- Leading innovation in learning and skills
- Delivering a responsive and accessible curriculum that provides opportunities and supports the development of the local workforce and the regional economy
- Working in partnership to deliver a better future for all of our students.

Public Benefit

Fareham College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 13.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

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Implementation of strategic plan

In July 2016 the College adopted a strategic plan for the period 2016 to 2018. This strategic plan includes property and financial plans. 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 are as follows:

Strategic Priority 1: Quality of Teaching & Learning

By 2017, we will be an outstanding College of Further Education that places learning, support and destination advice at the heart of the student experience. Responding to the needs of employers and the community, we will deliver study programmes that provide learners with the professional and personal skills to succeed in their future careers.

Strategic Priority 2: Student and Staff Experience

Our College will provide opportunities for learners to develop a broad set of skills and will be a place where respect, innovation and the opportunity to excel are core values in our students and our staff.

Strategic Priority 3: Responsive Curriculum

We will deliver a comprehensive range of academically challenging, technical 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.

Strategic Priority 4: Developing Our Resources

Fareham College will be the college of choice providing world-class learning environments and learning experiences for all its students (supporting local, regional and national key objectives).

Strategic Priority 5: Relationships & Reputation

We will work in partnership to develop and strengthen our provision in order to:

- deliver high quality, relevant, job related technical and professional study programmes and apprenticeships at all levels
- achieve growth and resilience
- streamline operational activities to secure increased market share.

Financial objectives

The College's financial objectives are:

- Implement an annual financial plan that will maintain our financial position for the next two years and beyond 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.
- Develop and implement a cost centre financial modelling and monitoring system in the College to promote efficiency and effectiveness in resource deployment.

A series of performance indicators have been agreed to monitor the successful implementation of the policies.

Fareham College Financial Statements for the Year Ended 31 July 2016

Performance indicators

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website as well as nationally prepared data sets such as MiDES to assess its performance against like organisations. Both sets of data look at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency/Education Funding Agency ("EFA"). The College is assessed by the Skills Funding Agency/Education Funding Agency as having a "Good" financial health grading. The current rating of Good is considered an acceptable outcome.

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

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

The College closely monitors EBITDA for the purposes of cash flow planning and banking covenants, as well as debt service cover and interest cover.

FINANCIAL POSITION

Financial results

The College generated a deficit before other gains and losses in the year of £54k (2014/15 – surplus of £650k), with total comprehensive income deficit of £1,822k (2014/15 - £125k). The total comprehensive income in 2015/16 is stated after accounting for an increased actuarial loss in respect of pension schemes as a result of the adoption of FRS102 assumptions.

The College has accumulated reserves of £10,227k and cash balances of £2,922k.

Tangible fixed asset additions during the year amounted to £1,793k. This was split between land and buildings acquired of £719k and equipment purchased of £1,074k. In the main, this related to the completion of the BRC development.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. The College is actively reducing its reliance on SFA/EFA funding and this stands at 77% at the 31st July 2016 (2015 80%).

Fareham College Financial Statements for the Year Ended 31 July 2016

Treasury policies and objectives

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

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum. 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 £2,125k in relation to the refinancing of the LEP loan in 2017 and 2018 and £1,475k to complete the BRC campus development.

Cash flows and liquidity

Cash and cash equivalents have increased by £1,050k (2014/15 decrease of £2,190k). The net cash-flow resulted from the receipt of the sale of land to Bloor Homes and the receipt of the Santander loan offset by the costs of completion of the BRC campus and repayment of the Santander revolving loan facility.

During the year the College took out the forward fixed unsecured loan of £875k as well as an additional £600k fixed rate to complete the BRC campus development.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow.

Reserves Policy

The College has no formal Reserves Policy, but recognises the importance of reserves in the financial stability of the organisation, whilst ensuring that adequate resources are provided for the College's core business. The College also recognises the importance of maintaining sufficient reserves to enable it to meet its short term financial obligations in the event of an unexpected revenue shortfall.

The College currently holds no restricted reserves. As at the balance sheet date, the Income and Expenditure account reserve stands at £5,300k (2015: £7,100k). As the College campus development has now been completed and there are no Strategic plans for further significant capital investment, the Corporation's view is that this level of unrestricted reserves is appropriate for the College.

It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses.

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CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2015/16 the College has delivered activity that has produced £11,772k in funding body main allocation funding (2014/15 – £12,366k).

During 2015/16, the College filled 789 Apprenticeship places and delivered short course provision to 657 clients that included local employers. In 2015/16, there were a total of c. 3,768 learners at the College and we delivered provision across a broad range of curriculum areas. We have 184 adults attending the College studying Higher Education courses. The College supports a wide range of students, including those from disadvantaged communities and those with learning difficulties and disabilities.

Student achievements

- The timely success rate of all classroom learning enrolments is 85.2%, up from 82.9% in the previous academic year and demonstrating a three-year trend of improvement.
- Where English and mathematics Functional Skills and GCSE's are excluded from the outcomes analysis the success rate of all classroom learning core qualifications is 90.5% which is 2.2% better than 2014/15.
- The success rates for full level 2 (87.9%) and level 3 (89.9%) qualifications for 16- 18 year olds are outstanding, improved from 2014/15 and above national averages.
- Timely success rates for apprentices at 68% are good and above the national average for all ages / all levels, however this achievement measure has declined from 72.5% in 2014/15.
- Overall Functional Skills success rates have declined from 65.1% to 61.3% and are below national averages. The number of enrolments for these subjects has reduced from 860 to 524.
- GCSE maths A*-C rate for 16-18 year olds has improved by 10.1% and at 23.4% is now close to the national average for students retaking this qualification after Key Stage 4.
- GCSE English A*-C rate for 16-18 year olds is 47.9% and is 4.0% above national average, but as the number of enrolments has increased from 173 to 401 the outcomes (A*-C) have declined by 5.9%

In the college self-assessment report for 2015/16 outcomes for learners will be reported as Good. The achievement rates of the core study programme qualifications are outstanding; the significant majority of departments have shown an improvement from the previous academic year and all bar two departments have achievement rates above national average, ranging from 3.4% to 10.1% above benchmark.

CURRICULUM DEVELOPMENTS

We will be focusing our delivery on the following key markets over the next two years:

- Young people (16-18 year olds) inc. Apprenticeships and Traineeships
- Adults (19+) inc. adult Apprenticeships and Traineeships
- Employers Responsive/Workforce Development and Upskilling inc. full cost
- Higher Education
- International

Fareham College Financial Statements for the Year Ended 31 July 2016

Fareham College will deliver a distinctive and responsive curriculum for each of these market groups with multiple entry points across the year and flexible modes of delivery including distance and remote learning. We will also ensure that our internal structures are fit for purpose and that we have the capacity to respond quickly to new needs and capture the potential of emerging markets. We will ensure that we have a responsive and customer-focused business culture across all parts of our organisation.

Fareham College will be a destination of first choice for learners who are seeking education and training opportunities that relate to the world of work and further study. The College is committed to delivering education and training to a broad range of young people from the age of 16, including those who may not have had the opportunity to fulfil their potential at school.

Fareham College will retain a curriculum offer that meets the diverse needs and aspirations of a wide range of students from Fareham, Gosport and the wider Solent area that we serve. Alongside this broad offer, we will develop areas of expertise that will extend our reputation and broaden our intake from across South East Hampshire and beyond. We will also deliver a much more distinctive part-time offer for adults by 2017 and will ensure that appropriate support and guidance is available for our adult students. We will continue to offer a mix of learning opportunities in the College and in the workplace. Apprenticeships will remain a key element of our workplace delivery and we will increase the breadth and volume of places that we offer. We remain committed to delivering a Higher Education curriculum and will seek opportunities to expand this offer further. In particular, we will develop new provision at Level 4, in order to extend our expertise as a provider of specialist, higher level technical education and training.

Our curriculum offer will be both focused and responsive, building on our areas of strength in the Arts, Engineering, Service Industries and Trades and embedding the principles of Enterprise and Customer Care across all areas of our delivery. Our broad strategy will be built around the provision of full-time learning for young people and part-time learning for adults.

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 2015/16 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.

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Three Year Table of Self-Assessment Grades

1 = Outstanding 2 = Good 3 = Requires improvement 4 = Inadequate

Department <small>(Matched to nearest if name has changed/amalgamated)</small>	Grade Nov-14	Grade Nov-15	Grade Oct-16
Health, Care and Early Years	4	3	2
Art, Design and Fashion	3	2	2
Media and Performing Arts	2	2	2
Enterprise and Digital Industries	3	3	2
Hairdressing and Beauty Therapy	2	2	1
English	3	3	2
Maths	3	3	3
Automotive	2	3	2
Sport / Public Services	3	3	3
Hospitality and Travel	2	2	1
Technical Engineering	2	2	2
Construction and the Built Environment	3	2	3
Manufacturing and Marine	1	1	2

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 1 August 2015 to 31 July 2016, the College paid 85% per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There have been no post balance sheet events.

Future prospects

One of the key aims of our financial strategy is to further increase our income, building on the success of previous years where we have diversified income streams and generated additional income. We will continue to grow both our recurrent and our project funding so that we can generate a surplus and reinvest this in the College. The College would like to reduce dependency on the funding bodies and is seeking opportunities particularly with respect to HEFCE funding, International Students and Full Cost work.

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We will also develop new areas of provision that capture emerging markets and pro-actively seek project funding that enables us to develop work with new groups of learners. We will continue to diversify our funding streams and generate additional income, in order to create a surplus that will ensure our future financial stability and allow us to re-invest in our students' learning environments. Whilst our estate has benefited from much needed renewal and investment, there is a strong commitment on behalf of the College Corporation and Management Team to continue to find new and innovative ways to secure additional funding so as to continue to invest in our resources, in line with our core values and the ambitions of our strategic plan.

The College aims to continuously review its cost base in order to improve financial stability, and where possible, identify further opportunities to achieve further efficiency savings.

The College is required to submit a 3-year financial plan to the SFA, and this has been graded as 'Good'. The financial plan and commentary have been reviewed and approved by Governors along with the SFA financial plan checklist.

The College has recently taken part in the area based review process and has explored the possibility of collaborating with Eastleigh College on mutually beneficial projects. The published options analysis from June 2016 states that Fareham College's current performance and post CSR financial plan indicates that it is financially stable and could stand alone in the longer term. The collaboration with Eastleigh should benefit both colleges, but the potential impact of this collaboration plan cannot yet be assessed.

The College adopts a comprehensive approach to Risk Management with regular management review. These risks are regularly reported to Governors with actions to mitigate them. These risks are detailed further under the section: Principal Risks and Uncertainties.

These external and internal assessments give rise to the College's belief that it can continue to operate and meet its liabilities in the short to medium term, and that the College can continue to grow from a stable base in the longer term.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the main BRC site, which has benefitted from a £17m investment programme, and the £11m CEMAST site opened in September 2014.

Financial

The College has £10,227k of net assets at 31 July 2016 (2015 £12,233k) and long term debt of £3,600k (2015:£2,125k).

People

The College employs 243 people (expressed as full time equivalents)(2015:229), of whom 102 are teaching staff (2015:90).

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

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

A risk register is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent 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. Other factors besides those listed below may also adversely affect the College.

Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2015/16, 84% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue, although the College has a strategy to reduce its reliance on FE funding. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College is aware of several issues which may impact on future funding:

- Changes in Apprenticeship funding and the Employer Levy
- Capital, Adult or Apprenticeship funding going directly to LEP's under devolution plans
- Student loans for 19+
- Possible requirement to remove sub contracting provision

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding
- Regular dialogue with funding bodies

Fareham College Financial Statements for the Year Ended 31 July 2016

Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50%. In line with the majority of other colleges, Fareham College will seek to increase tuition fees in accordance with the fee assumptions. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses as prices change
- Ensuring we maximize the use of 19+ loans

Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. Note 23 to the Statutory Accounts shows the Pension scheme deficit of £6,170k (2015:£4,370k). 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.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Local Enterprise Partnerships (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.

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Equal opportunities

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.

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Disability statement

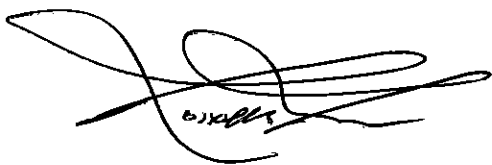
The College seeks to achieve the objectives set down in the Equality Act 2010 relating to Disability as amended by the Special Education Needs and Disability Order 2005.

- 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 into the College Property Strategy and Maintenance Programme and all buildings are now fully accessible.
- 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 auditors

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

Approved by order of the members of the Corporation on 7th December 2016 and signed on its behalf by:



Mr Russell Kew

Chair

Date: 7.12.16

Fareham College Financial Statements for the Year Ended 31 July 2016

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

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 English Colleges Foundation Code of Governance (“the Foundation Code”)
- 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. These 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.

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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 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 Accounting Officer are separate.

THE CORPORATION

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

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance*
Miss H Ashworth	09.12.15	3 years (1 st term)	Ceased to be a student 1.07.16	Student Governor	Teaching, Students, Curriculum &	14%
Miss F Bojang	09.12.15	3 years (1 st term)	Ceased to be a student 1.07.16	Student Governor	Teaching, Students, Curriculum &	14%
Mr K Briscoe	02.04.14	3 years (1 st term)		Independent Member	Teaching, Students, Curriculum &	81%
Mr S Carter	09.12.09 Reappointed 12.12.12	3 years (2 nd term)	2 nd term ended 31.12.15 did not apply for 3 rd and final term of office.	Independent Member	Audit Committee and Property Strategy Group.	75%
Miss E Champion	02.07.14	3 years (1 st term)		Independent Member	Teaching, Students, Curriculum &	90%
Mr S Christian	23.09.15	3 years (1 st term)		Teaching Staff Member	Teaching, Students, Curriculum &	80%
Mr N Duncan	05.10.10	n/a		Principal & Chief Executive	Appointed Principal 28.03.12. As Principal he is <i>ex-officio</i> member of	94%

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	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance*
Mr P Fielon	08.12.10 Reappointed 11.12.13	3 years (2 nd term)	15.05.16	Independent Member	Finance & Resources Committee	46%
Mr R Forster	09.12.15	3 years (1 st term)	Ceased to be a student 1.07.16	Student Governor	Teaching, Students, Curriculum and Quality	33%
Mr P Grimwood	27.06.12 Reappointed 24.06.15	3 years (2 nd term)		Independent Member	Finance & Resources Committee and Property Strategy	81%
Mr D Hart	02.04.08 Reappointed 02.04.14	3 years (3 rd term)		Independent Member	Teaching, Students, Curriculum & Quality. Elected as Vice-Chair of	87%
Mr R Kew	08.12.10 Reappointed 11.12.13	3 years (2 nd term)		Independent Member	Finance & Resources Committee and Property Strategy Group. Elected Chair of Corp	94%
Mrs J Lancaster	07.12.11 Reappointed 10.12.14	3 years (2 nd term)		Support Staff Member	Audit Committee	90%
Mr C Magee	10.12.14		Ceased to be a student 1.07.16	Student Governor	Teaching, Students, Curriculum & Quality	31%
Mr M Mansergh	02.04.14	3 years (1 st term)		Independent Member	Finance & Resources Committee and Property Strategy	64%
Mr A Ramsay	29.06.16	3 years (1 st term)		Independent Member	Teaching, Students, Curriculum &	70%
Mr A Spires	09.12.15	3 years (1 st term)		Independent Member	Audit Committee. Elected Chair of Audit March 2016	87.5%
Dr C Thomas	10.12.14	3 years (1 st term)		Independent Member	Audit Committee	100%

Fareham College Financial Statements for the Year Ended 31 July 2016

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance*
Mrs P Tilt	27.06.12 Reappointed 24.06.15	3 years (2 nd term)		Independent Member	Teaching, Students, Curriculum & Quality	85%
Ms K Woods	02.04.14	3 years (1 st term)		Independent Member	Finance & Resources Committee	87.5%

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, consisting of three members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

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

Corporation performance

The Corporation undertakes an annual self-assessment of its effectiveness and consideration of the arrangements for this process is discussed and agreed at the Spring Term Board meeting every year. Last year, members discussed the self-assessment process and the way some questions could be interpreted differently which could potentially have a negative impact on the outcomes. Members agreed that, having the discussion part of the process before completing the questionnaire would be informative and more beneficial to the process outcomes. As a result, a separate dedicated session was convened on the 3rd June 2015 which provided the opportunity to have some informal discussion about the sector and to provide clarification of any issues raised in the self-assessment questionnaire. Members received the analysis from the completed questionnaires at a Feedback session on the 14th October 2015. The strengths and areas for improvement were identified, discussed and actions agreed which were presented to the full Board for approval at its December 2015 meeting.

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 2016 are set out in Note 8 to the financial statements.

Fareham College Financial Statements for the Year Ended 31 July 2016

Audit Committee

The Audit Committee comprises three members of the Corporation (excluding the Accounting Officer 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, reporting accountants and financial statements auditor, 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 review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed 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, reporting accountants and financial statements auditors and their remuneration for audit and non-audit work.

Internal control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Fareham College for the year ended 31 July 2016 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2016 and

Fareham College Financial Statements for the Year Ended 31 July 2016

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 and 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 minimum annually, the Internal Auditor provides the governing body with a report on internal audit activity in the College. The report includes the auditor'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 auditor, the reporting accountant for regularity assurance, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor and other sources of assurance and 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 and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2016 meeting, the Corporation

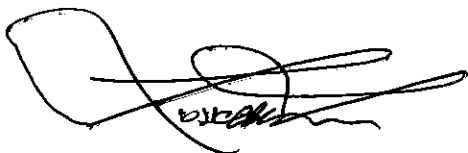
Fareham College Financial Statements for the Year Ended 31 July 2016

will carry out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016. Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for *“the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets”*.

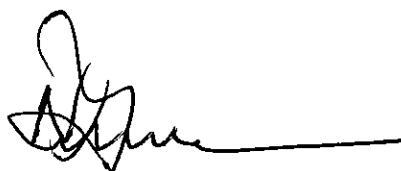
Going concern

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 7th December 2016 and signed on its behalf by:



Russell Kew
Chair



Nigel Duncan
Accounting Officer

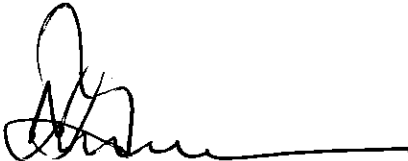
Fareham College Financial Statements for the Year Ended 31 July 2016

GOVERNING BODY'S STATEMENT ON THE COLLEGE'S REGULARITY, PROPRIETY AND COMPLIANCE WITH FUNDING BODY TERMS AND CONDITIONS OF FUNDING

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

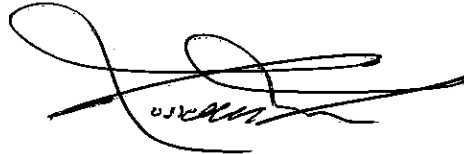
We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency/Education Funding Agency's terms and conditions of funding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

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



Nigel Duncan
Accounting Officer

Date: 7.12.16



Russell Kew
Chair of Governors

Date: 7.12.16

Fareham College Financial Statements for the Year Ended 31 July 2016

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 / Education Funding Agency and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

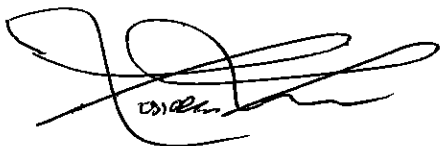
The Corporation is also required to prepare a Strategic Plan which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and 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 / Education Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency / Education 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 / Education Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 7th December 2016 and signed on its behalf by:



Mr Russell Kew

Chair

Date: 7.12.16

Fareham College Financial Statements for the Year Ended 31 July 2016

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 2016 which comprise of the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the College's 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 College's Corporation those matters we are required to state to it 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 College's Corporation as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporation and auditor

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 24, 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

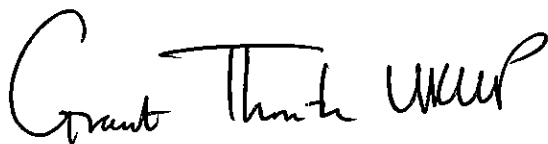
In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of its deficit 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 Statement of Recommended Practice – Accounting for Further and Higher Education issued in March 2014.

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading

Date: 9 DECEMBER 2016

Fareham College Financial Statements for the Year Ended 31 July 2016

REPORTING ACCOUNTANT'S ASSURANCE REPORT ON REGULARITY

To the corporation of Fareham College and the Secretary of State for Education acting through Skills Funding Agency and Education Funding Agency

In accordance with the terms of our engagement letter dated 31 May 2016 and further to the requirements of the financial memorandum with Skills Funding Agency / funding agreement with Education Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that, in all material respects, the expenditure disbursed and income received by Fareham College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency in June 2016. In accordance with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the Skills Funding Agency / Education Funding Agency has other assurance arrangements in place.

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

Respective responsibilities of Fareham College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom as imposed by the law, professional standards and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that, in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

Fareham College Financial Statements for the Year Ended 31 July 2016

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

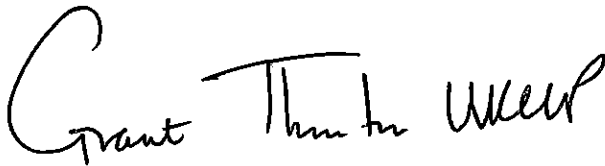
Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the college's income and expenditure.

The work undertaken to draw our conclusion includes:

- an assessment of the risk of material irregularity and impropriety across the college's activities;
- evaluation of the processes and controls established and maintained in respect of regularity and propriety for the use of public funds through observation of the arrangements in place and enquiries of management;
- consideration and corroboration of the evidence supporting the Accounting Officer's statement on regularity, propriety and compliance and that included in the self-assessment questionnaire (SAQ); and
- limited testing, on a sample basis, of income and expenditure for the areas identified as high risk and included on the SAQ.

Conclusion

In the course of our work, nothing has come to our attention which suggests that, in all material respects, the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Grant Thornton UK LLP
Chartered Accountants
Reading, Berkshire

Date: 9 DECEMBER 2016

Fareham College Financial Statements for the Year Ended 31 July 2016

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 £'000	Restated 2015 £'000
INCOME			
Funding body grants	2	11,772	12,366
Tuition fees and education contracts	3	1,275	1,261
Other grants and contracts	4	153	64
Other income	5	798	738
Investment income	6	6	11
Donations and Endowments	7	24	5
Total income		14,028	14,445
EXPENDITURE			
Staff costs	8	7,969	7,591
Fundamental restructuring costs	8	26	59
Other operating expenses	9	4,445	4,984
Depreciation	12	1,470	1,090
Interest and other finance costs	10	172	71
Total expenditure		14,082	13,795
(Deficit)/surplus before other gains and losses		(54)	650
Loss on disposal of assets	12	(302)	(196)
(Deficit)/surplus for the year		(356)	454
Transfer from revaluation reserve		184	185
Actuarial loss in respect of pensions schemes	23	(1,650)	(514)
Total Comprehensive Income for the year		(1,822)	(125)
Represented by:			
Restricted comprehensive income			
Unrestricted comprehensive income		(1,822)	(125)
		(1,822)	(125)

Fareham College Financial Statements for the Year Ended 31 July 2016

STATEMENT OF CHANGES IN RESERVES

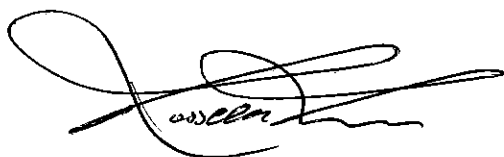
	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Restated Balance at 1st August 2014	7,015	5,278	12,293
Surplus from the income and expenditure account	454	-	454
Other comprehensive income	(514)	-	(514)
Transfers between revaluation and income and expenditure reserves	185	(185)	
	125	(185)	(60)
Balance at 31st July 2015	7,140	5,093	12,233
Surplus from the income and expenditure account	(356)	-	(356)
Other comprehensive income	(1,650)	-	(1,650)
Transfers between revaluation and income and expenditure reserves	184	(184)	-
Total comprehensive income for the year	(1,822)	(184)	(2,006)
Balance at 31 July 2016	5,318	4,909	10,227

Fareham College Financial Statements for the Year Ended 31 July 2016

BALANCE SHEET AS AT 31 JULY 2016

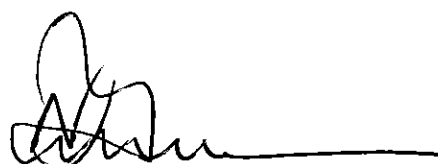
	Notes	2016 £'000	Restated 2015 £'000
Non current assets			
Tangible Fixed assets	12	31,940	31,624
		<u>31,940</u>	<u>31,624</u>
Current assets			
Trade and other receivables	13	606	9,030
Cash and cash equivalents	18	2,922	1,868
		<u>3,528</u>	<u>10,898</u>
Less: Creditors – amounts falling due within one year	14	(3,579)	(10,264)
Net current assets		<u>(51)</u>	<u>634</u>
Total assets less current liabilities		31,889	32,258
Creditors – amounts falling due after more than one year	15	(14,831)	(15,002)
Provisions			
Defined benefit obligations	17	(6,174)	(4,374)
Other provisions	17	(657)	(649)
Total net assets		<u>10,227</u>	<u>12,233</u>
Unrestricted Reserves			
Income and expenditure account		5,318	7,140
Revaluation reserve		4,909	5,093
Total unrestricted reserves		<u>10,227</u>	<u>12,233</u>

The financial statements on pages 25 to 53 were approved and authorised for issue by the Corporation on 7th December 2016 and were signed on its behalf on that date by:



Mr Russell Kew

Chair



Mr Nigel Duncan

Accounting Officer

Fareham College Financial Statements for the Year Ended 31 July 2016

STATEMENT OF CASH FLOWS

	Notes	2016 £'000	Restated 2015 £'000
Cash flow from operating activities			
(Deficit) /Surplus/ for the year		(356)	454
Adjustment for non-cash items			
Depreciation		1,470	1,090
Increase in debtors		(171)	(85)
Decrease in creditors due within one year		(1,549)	(648)
Decrease in creditors due after one year		(1,579)	-
Increase/(decrease) in provisions		1,808	(35)
Adjustment for investing or financing activities			
Interest receivable		(6)	(11)
Loss on sale of fixed assets		306	194
Net cash flow from operating activities		<u>(77)</u>	<u>959</u>
Cash flows from investing activities			
Proceeds from sale of fixed assets		8,599	4
Capital Grant receipts		-	5,239
Interest receivable		6	11
Payments made to acquire fixed assets		(1,793)	(13,904)
		<u>6,812</u>	<u>(8,650)</u>
Cash flows from financing activities			
New unsecured loans		1,469	5,500
Repayments of amounts borrowed		(7,150)	-
		<u>(5,681)</u>	<u>5,500</u>
Increase / (decrease) in cash and cash equivalents in the year		<u>1,054</u>	<u>(2,191)</u>
Cash and cash equivalents at beginning of the year	18	1,868	4,059
Cash and cash equivalents at end of the year	18	<u>2,922</u>	<u>1,868</u>

Fareham College Financial Statements for the Year Ended 31 July 2016

NOTES TO THE ACCOUNTS

1. Accounting Policies

Statement of accounting policies and estimation techniques

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

Basis of preparation

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

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

Transition to the 2015 FE HE SORP

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 25.

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

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

- the transitional provision to retain the book value of land and buildings, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Fareham College Financial Statements for the Year Ended 31 July 2016

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with Financial Reporting Standard 102 – *“The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland”* (FRS 102).

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 presented in the Financial Statements and accompanying Notes.

The College currently has £1.5m of loans outstanding with Santander, which are fixed rate interest over a period of 14 years with a 23-year amortisation profile. The College also has a loan of £2.1m with the Local Education Partnership, this will be paid back over the next two years with a further forward fixed rate loan from Santander. 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

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

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

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

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

Fareham College Financial Statements for the Year Ended 31 July 2016

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

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

Accounting for post-employment benefits

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

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

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

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

Short term Employment benefits

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

Fareham College Financial Statements for the Year Ended 31 July 2016

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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.

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

Assets under construction

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

Fareham College Financial Statements for the Year Ended 31 July 2016

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it 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 recognised as expenditure 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.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised, otherwise, borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets

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

Cash and cash equivalents

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

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Fareham College Financial Statements for the Year Ended 31 July 2016

Financial liabilities and equity

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

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

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 sections 478-488 of the 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 the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Provisions and contingent liabilities

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

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

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

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

Fareham College Financial Statements for the Year Ended 31 July 2016

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Other key sources of estimation uncertainty

- Tangible fixed assets

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

- Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Fareham College Financial Statements for the Year Ended 31 July 2016

2 Funding body grants

	2016	2015
	£'000	£'000
Recurrent grants		
Skills Funding Agency	3,551	3,542
Education Funding Agency	6,875	7,658
Higher Education Funding Council	141	50
Specific grants		
Skills Funding Agency	184	270
Education Funding Agency	232	269
Releases of government capital grants	789	577
Total	11,772	12,366

3 Tuition fees and education contracts

	2016	2015
	£'000	£'000
Tuition Fees	1,142	1,206
Education contracts	133	55
Total	1,275	1,261

4 Other grants and contracts

	2016	2015
	£'000	£'000
European Commission	47	63
Other grants and contracts	106	1
Total	153	64

5 Other income

	2016	2015
	£'000	£'000
Catering and residences	327	325
Other income generating activities	154	126
Miscellaneous income	317	287
Total	798	738

Fareham College Financial Statements for the Year Ended 31 July 2016

6 Investment income

	2016	2015
	£'000	£'000
Other interest receivable	6	11
Total	6	11

7 Donations

	2016	2015
	£'000	£'000
Unrestricted donations	24	5
Total	24	5

Fareham College Financial Statements for the Year Ended 31 July 2016

8 Staff costs

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

	2016	2015
	No.	No.
Teaching staff	102	90
Non-teaching staff	141	139
	<u>243</u>	<u>229</u>
Staff costs for the above persons		
	2016	2015
	£'000	£'000
Wages and salaries	6,488	6,373
Social security costs	485	450
Other pension costs	913	720
	<u>7,886</u>	<u>7,543</u>
Payroll sub total		
Contracted out staffing services	83	48
	<u>7,969</u>	<u>7,591</u>
Fundamental restructuring costs – Contractual	15	36
– Non contractual	11	23
	<u>7,995</u>	<u>7,650</u>
Total Staff costs		

Fareham College Financial Statements for the Year Ended 31 July 2016

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Principal, Vice Principal, Executive Director of HR and Director of Finance and Funding. Staff costs include compensation paid to key management personnel for loss of office.

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

	2016	2015
	No.	No.
The number of key management personnel including the Accounting Officer was:	4	3

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

	Key management personnel		Other staff	
	2016	2015	2016	2015
	No.	No.	No.	No.
£40,001 to £60,000 p.a.	2	1	-	-
£60,001 to £70,000 p.a.	-	-	1	1
£70,001 to £80,000 p.a.	1	1	-	-
£90,001 to £100,000 p.a.	-	-	-	-
£100,001 to £110,000 p.a.	1	1	-	-
	<u>4</u>	<u>3</u>	<u>1</u>	<u>1</u>

Key management personnel compensation is made up as follows:

	2016	2015
	£'000	£'000
Salaries	273	214
Employers National Insurance	30	23
Benefits in kind	2	2
	<u>305</u>	<u>239</u>
Pension contributions	41	30
Total key management personnel compensation	<u>346</u>	<u>269</u>

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

	2016	2015
	£'000	£'000
Salaries	102	102
Benefits in kind	2	2
	<u>104</u>	<u>104</u>
Pension contributions	<u>16</u>	<u>14</u>

Fareham College Financial Statements for the Year Ended 31 July 2016

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

9 Other Operating expenses

	2016	2015
	£'000	£'000
Teaching costs	1,665	1,682
Non-teaching costs	1,494	1,655
Examination costs	345	372
Premises costs	941	1,275
	<hr/>	<hr/>
Total	4,445	4,984
	<hr/>	<hr/>
Other operating expenses include:	2016	2015
	£'000	£'000
Auditors' remuneration:		
Financial statements audit	25	22
Internal audit	14	13
Hire of assets under operating leases	91	175
	<hr/>	<hr/>

10 Interest and other finance costs

	2016	2015
	£'000	£'000
On bank loans, overdrafts and other loans:	6	4
	<hr/>	<hr/>
	6	4
Pension finance costs (note 23)	166	67
	<hr/>	<hr/>
Total	172	71
	<hr/>	<hr/>

11 Taxation

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

Fareham College Financial Statements for the Year Ended 31 July 2016

12 Tangible fixed assets

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2015	16,977	-	5,968	14,619	37,564
Additions	719	-	1,069	5	1,793
Transfers	13,935	-	684	(14,619)	-
Disposals	-	-	(1,006)	-	(1,006)
At 31 July 2016	31,631		6,715	5	38,351
Depreciation					
At 1 August 2015	1,853	-	4,088	-	5,941
Charge for the year	603	-	867	-	1,470
Elimination in respect of disposals	-	-	(1,000)	-	(1,000)
At 31 July 2016	2,456		3,955		6,411
Net book value at 31 July 2016	29,175		2,760	5	31,940
Net book value at 31 July 2015	15,125	-	1,880	14,619	31,624

13 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade receivables	221	70
Prepayments and accrued income	42	123
Amounts owed by the Skills Funding Agency/EFA	343	242
Debtor for sale of land	-	8,595
Total	606	9,030

Fareham College Financial Statements for the Year Ended 31 July 2016

14 Creditors: amounts falling due within 1 year	2016	2015
	£'000	£'000
Bank loans and overdrafts	64	5,500
Trade payables	28	241
Payments received in advance	89	100
Other creditors	143	187
Other taxation and social security	155	169
Accruals and deferred income	411	729
Land Purchase	693	1,523
Deferred income - government capital grants	807	770
Amounts owed to the Skills Funding Agency/EFA	164	320
Solent LEP loan	800	575
Community Infrastructure Levy	225	150
Total	<u>3,579</u>	<u>10,264</u>

15 Creditors: amounts falling due after 1 year	2016	2015
	£'000	£'000
Bank loans	1,406	-
Solent LEP	1,325	2,125
Community Infrastructure Levy	2	-
Deferred income - government capital grants	12,098	12,877
Total	<u>14,831</u>	<u>15,002</u>

16 Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	2016	2015
	£'000	£'000
In one year or less	864	6,075
Between one and two years	1,389	800
Between two and five years	192	1,325
In five years or more	1,150	-
Total	<u>3,595</u>	<u>8,200</u>

Fareham College Financial Statements for the Year Ended 31 July 2016

17 Provisions

	Defined benefit obligations	Restructuring	Enhanced pensions	Total
	£'000	£'000	£'000	£'000
At 1 August 2015	(4,374)	-	(649)	(5,023)
Expenditure in the period	360	-	49	409
Additions in period	(2,160)	-	(57)	(2,217)
At 31 July 2016	(6,174)	-	(657)	(6,831)

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 23.

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

The principal assumptions for this calculation are:

	2016	2015
Price inflation	1.30%	1.71%
Discount rate	1.0%	1.75%

18 Cash and cash equivalents

	At 1 August 2015	Cash flows	Other changes	At 31 July 2016
	£'000	£'000	£'000	£'000
Cash and cash equivalents	1,868	1,054	-	2,922
Total	1,868	1,054	-	2,922

19 Capital and other commitments

	2016	2015
	£'000	£'000
Commitments contracted for at 31 July	-	-

Fareham College Financial Statements for the Year Ended 31 July 2016

20 Lease obligations

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

	2016 £'000	2015 £'000
Future minimum lease payments due		
Other		
Not later than one year	78	86
Later than one year and not later than five years	72	149
Later than five years	-	-
	<u>150</u>	<u>235</u>

21 Contingent liabilities

There are no contingent liabilities at the reporting date.

22 Events after the reporting period

There are no events after the reporting period.

Fareham College Financial Statements for the Year Ended 31 July 2016

23 Defined benefit obligations

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

Total pension cost for the year	2016	2015
	£000	£000
Teachers' Pension Scheme: contributions paid	508	419
Local Government Pension Scheme:		
Contributions paid	360	340
FRS 102 charge	60	(10)
Charge to the Statement of Comprehensive Income	420	330
Enhanced pension charge to Statement of Comprehensive Income	-	-
Total Pension Cost for Year within staff costs	928	749

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

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Fareham College Financial Statements for the Year Ended 31 July 2016

Valuation of the Teachers' Pension Scheme

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

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

The new employer contribution rate for the TPS was implemented in September 2015.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £508,000 (2015: £419,000)

FRS 102

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

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

Fareham College Financial Statements for the Year Ended 31 July 2016

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire County Council. The total contributions made for the year ended 31 July 2016 were £480,000, of which employer's contributions totalled £360,000 and employees' contributions totalled £120,000. The agreed contribution rates for future years are 13.1% with a fixed contribution of £111,800 for employers and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

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

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	3.3%	3.6%
Future pensions increases	1.8%	2.1%
Discount rate for scheme liabilities	2.4%	3.6%
Inflation assumption (CPI)	1.8%	2.1%

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

	At 31 July 2016 years	At 31 July 2015 years
<i>Retiring today</i>		
Males	24.6	24.5
Females	26.4	26.3
<i>Retiring in 20 years</i>		
Males	26.7	26.6
Females	28.7	28.6

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

	2016 £'000	2015 £'000
Fair value of plan assets	9,220	8,010
Present value of plan liabilities	(15,390)	(12,380)
Net pensions liability (Note 19)	<u>(6,170)</u>	<u>(4,370)</u>

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	410	290
Past service cost	10	40
Total	<u>420</u>	<u>330</u>
Net Pension Finance cost	(150)	(40)
	<u>(150)</u>	<u>(40)</u>

Fareham College Financial Statements for the Year Ended 31 July 2016

Amount recognised in Other Comprehensive Income

Return on pension plan assets	730	(1,876)
Experience losses arising on defined benefit obligations	(2,362)	(250)
Past service cost/other charges	(18)	(41)
Amount recognised in Other Comprehensive Income	(1,650)	(514)

Movement in net defined benefit (liability)/asset during year

	2016	2015
	£'000	£'000
Net defined benefit (liability)/asset in scheme at 1 August	(4,374)	(3,894)
Movement in year:		
Current service cost	(410)	(290)
Employer contributions	360	340
Past service cost	(10)	(40)
Net interest on the defined (liability)/asset	(150)	(40)
Actuarial gain or loss	(1,590)	(450)
Net defined benefit (liability)/asset at 31 July	(6,174)	(4,374)

Asset and Liability Reconciliation

	2016	2015
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	12,380	10,990
Current service cost	410	290
Interest cost	440	470
Contributions by Scheme participants	120	100
Experience gains and losses on defined benefit obligations	2,320	820
Estimated benefits paid	(290)	(330)
Past Service cost	10	40
Defined benefit obligations at end of period	15,390	12,380

Changes in fair value of plan assets

	2016	2015
	£'000	£'000
Fair value of plan assets at start of period	8,010	7,100
Interest on plan assets	290	290
Actuarial Gain/(loss)	730	510
Employer contributions	360	340
Contributions by Scheme participants	120	100
Estimated benefits paid	(290)	(330)
Fair value of plan assets at end of period	9,220	8,010

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24 Related party transactions

Owing to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. The Board of Governors did not receive any payments other than reimbursement of travel and subsistence.

25 Transition to FRS 102 and the 2015 FE HE SORP

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

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

	Note	1 st August 2014		31st July 2015	
		Restated £'000	Approved £'000	Restated £'000	Approved £'000
Financial Position					
Total reserves under previous SORP		12,312	12,312	12,257	12,257
Employee leave accrual	(a)	(47)		(43)	
Release of non-government capital grants	(b)	28		19	
Changes to measurement of net finance cost on defined benefit plans	(c)	-		-	
Total effect of transition to FRS 102 and 2015 FE HE SORP		<u>(19)</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
Total reserves under 2015 FE HE SORP		<u>12,293</u>	<u>12,312</u>	<u>12,233</u>	<u>12,257</u>
Year ended 31st July 2015					
		Restated £'000	Approve £'000		
Financial performance					
Surplus for the year after tax under previous SORP		459	459		
Release of non-government grants received	(b)	-	-		
Reversal of capital grants amortisation	(b)	(9)	-		
Employee leave accrual	(a)	4	-		
Changes to measurement of net finance cost on defined benefit plans	(c)	-	-		
Total effect of transition to FRS 102 and 2015 FE HE SORP		<u>(5)</u>	<u>-</u>		
Total comprehensive income for the year under 2015 FE HE SORP		<u>454</u>	<u>459</u>		

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a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff. Teaching staff are not contractually paid for holiday, and therefore a holiday payment would never be due or paid in August and it is therefore not appropriate to make an accrual. For support staff an accrual has been made for the amount of pro-rata holiday pay due in August. Support staff are not entitled to carry forward unused holiday except in exceptional circumstances and therefore this is not deemed to be material in the context of the accounts. An accrual of £38k was recognised at 1 August 2014, £43k at 31 July 2015 and £45k at 31 July 2016.

b) Non-government grants accounted for under performance model

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

c) Change in recognition of defined benefit plan finance costs

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

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

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

