



**North Kent College**

**(formerly North West Kent College)**

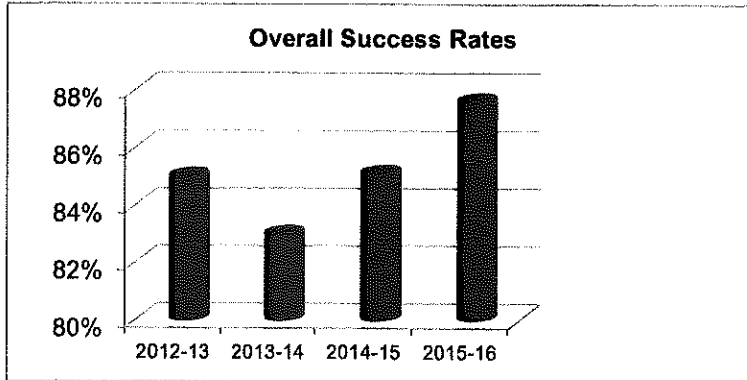
**Report and Financial Statements**

**For the year ended 31 July 2016**

## Key Performance Indicators from 2015-2016

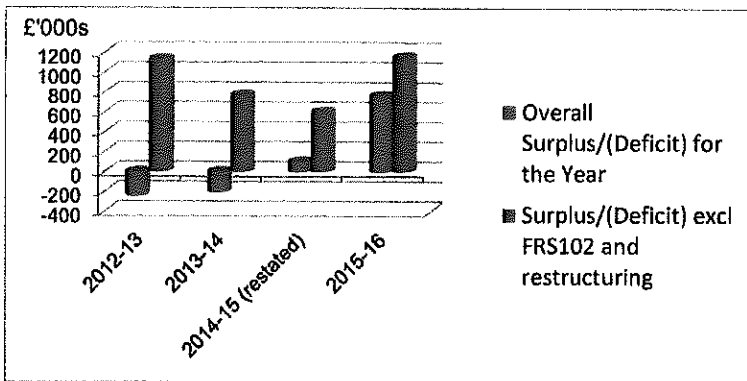
### Excellent success across the board

Students continue to prosper at NKC with increasing success.



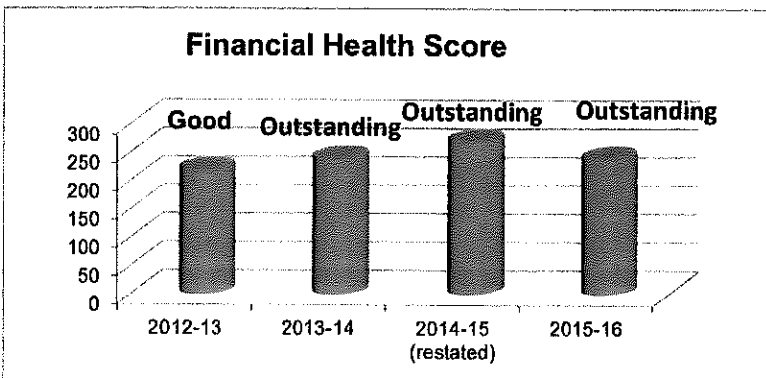
### Underlying operating surplus

Increasing result before restructuring and FRS102 delivering future investment potential.



### Solid financial health

The College increases its health score to outstanding as set by the Skills Funding Agency



The accounts have been prepared in 2015/16 on an FRS102 basis with 2014/15 restated. Financial Health scoring by the SFA changed for 2015/16.

<b>Contents</b>	<b>Page No.</b>
Report of the Governing body	1
Statement of Corporate Governance and Internal Control	9
Governing Body's Statement on the College's regularity, propriety and compliance with Funding Body Terms and conditions of funding	15
Statement of the Responsibilities of the Members of the Corporation	16
Independent Auditor's Report to the Corporation of North Kent College	17
Reporting Accountant's Assurance Report on Regularity	18
Statement of Comprehensive Income	19
Statement of Changes in Reserves	20
College Balance Sheet	21
Statement of Cash Flows	22
Notes to the accounts	23

## Report of the Governing Body

### NATURE, OBJECTIVES AND STRATEGIES

North Kent College is one of the leading education providers to the Thames Gateway, ideally situated in both Dartford and Gravesend which is an area of economic and social regeneration. The College successfully delivers training and education to around 6,000 students from South East London and Kent.

The College changed its name from North West Kent College to North Kent College on 14 September 2015.

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

### Legal Status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting North Kent College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

### Mission

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

To provide high quality education, learning and training which, through partnership working, offers young people and adults the opportunity to achieve their potential and contribute to the success of the community.

### Public Benefit

North Kent College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 9.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard to the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirements 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

### Implementation of Strategic Plan

The Strategic Vision for the College is to Excel and Inspire, and is underpinned by 5 aims and 10 objectives used to measure its progress. The Corporation monitors the College's performance against these plans, and are updated on its progress. These are set out below:

#### Aim 1 - Excellent Outcomes

- Objective - Our success rates maintain our position in the top 10% of Colleges nationally year after year.
- Objective - Our students will be equipped with the skills and experiences they need to progress and succeed in their chosen career path.

#### Aim 2 - Inspirational Teaching and Learning

- Objective - Our expectation is that all teaching and learning will be good or outstanding.
- Objective - Our culture will support innovation and experimentation to provide a unique and exciting learning experience.

#### Aim 3 - Excellent Engagement

- Objective - Our courses will constantly evolve to reflect the needs of local, regional and national employers to ensure our students have the best opportunity to secure employment.
- Objective - Our quality and reputation will be such that we will be seen as the first choice for the local community and regional stakeholders requiring a vocational training solution.

#### Aim 4 - Inspirational Staff

- Objective - Our people will constantly demonstrate that they are outstanding in their aspirations and commitment.
- Objective - Our people will be experts in their field and be supported to achieve their maximum potential.

#### Aim 5 - Excellent Resources

- Objective - Our courses are delivered in high quality accommodation and use equipment and facilities that are equivalent to national industry standards.
- Objective - Our financial position remains secure.

The College is on track to achieving this vision.

## Report of the Governing Body (continued)

### Financial Objectives

The College's financial objectives for 2015/16 were to:

- Achieve an underlying surplus in its operating result - Achieved
- To increase incrementally the percentage of alternative funding - Achieved
- Maintain cash days of 10 or more at all times - Achieved
- Have a current ratio of more than 1.0 - Achieved
- Meet the College's loan covenants - Achieved
- Maintain general reserves (excluding pension reserve) of at least 25% of income during the period - Achieved

### Performance Indicators

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success rates
- Learner destinations
- Satisfaction survey (formerly "learner views")
- Satisfaction survey (formerly "employer views")

In 2015/16 recruitment into the College was lower for its core 16-18 provision as a direct result of the new conditionality of funding requiring all students studying full time FE to study GCSE English and Maths if they had only a grade D at age 16. It also reflects the ongoing national demographic changes in the core student population.

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices website which looks 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 Finance Record produces a financial health grading. The funding bodies have made significant changes to the financial health grading with the adoption of FRS102 changes to the accounts format. The main difference is that the Gearing and Borrowing ratios have changed for 2015/16 and now reflect the amount of debt to income, whereas they were previously based on debt to assets. The current rating of Outstanding is considered above standard.

### Financial Results

The College achieved a surplus before other gains and losses of £763,000 (2014/15 restated: £103,000), with total comprehensive income of (£336,000), (2014/15 restated: (£1,519,000)).

The College has accumulated reserves and net assets of £5,098,000 (2014/15 restated: £5,435,000) and cash balances of £12,982,000 (2014/15: £10,918,000). The 2-year development plan underlying the College vision is to generate reserves which will be available for on-going re-investment in the organisation, as well as providing a safeguard in the current economic climate.

Tangible fixed asset additions during the year amounted to £903,000 to provide for high quality learning environments building on the significant investment in the Dartford and Gravesend campus re-developments.

The College has a strong reliance on funding from its main funding bodies for its principal funding source, largely from recurrent grants. For 2015/16, the funding bodies provided 81% of the College's total income. The College continues in its pursuit to increase the percentage of alternative funding to provide a balanced income portfolio.

The College had significant influence over the North West Kent College Training Trust (NWKCTT). This charity, in turn, owned 100% of the share capital of North West Kent Business Services Limited. North West Kent Business Services Limited was struck off on 11 August 2015, whilst North West Kent College Training Trust was struck off on 29 December 2015. The College also owned 100% of the share capital of Knowledge Warehouse Limited which was also struck off on 11 August 2015.

## **Report of the Governing Body (continued)**

### **Resources**

The College has various resources that it deploys in pursuance of its Strategic Aims.

#### **-Tangible**

North Kent College has two main sites in Dartford and Gravesend, with three additional specialist sites; a Maritime and Fire Fighting facility on the bank of the River Thames in Gravesend, the Learning Shop at Bluewater, and SusCon at The Bridge, Dartford.

#### **-Financial**

The College has £5.1 million of net assets (including £12.0 million of pension liability and long term loans of £10.8 million).

#### **-People**

The College employs 360 people (expressed as full-time equivalents), of whom 177 are teaching staff. The College's investment in staff was recognised in 2011/12 with the College achieving an Investors in People Bronze Award.

#### **-Reputation**

The College has a good reputation locally and regionally, and nationally for its specialist maritime provision.

### **Treasury Management**

The College has a treasury management policy in place to effectively manage the College's cashflows, its banking, money markets and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. Such arrangements are restricted by limits in the College's Financial Memorandum agreed with the Skills Funding Agency. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

The College has a number of borrowings related to the sites and developments, details of which are contained in the main body of the statutory accounts.

### **Cash Flows**

For 2016/16 the College had a cash inflow from operating activities of £3,911,000

### **Liquidity**

The College's liquidity improved in year, with a significant improvement in the cash balance at £12.98m (2014/15: £10.92m)

### **Reserves Policy**

The College's policy is to maintain general reserves (excluding pension reserve) of at least 25% of income during the period. When determining the appropriate level of reserves to hold the Governing Body considers the financial needs of the day-to-day running of the school along with the College's future plans and strategic objectives.

As at 31 July 2016 the College has accumulated reserves of £5,098,000 of which £97,000 are restricted for specific purposes, and £3,271,000 generated via past revaluation of assets. The College's income and expenditure reserve stands at £1,730,000. Excluding the pension reserve therefore, 'general reserves' total £13,770,000, representing approximately 49% of annual income for the year ended 31 July 2016.

### **Current and Future Development and Performance**

#### **Student numbers and Achievement**

In 2015/16 recruitment into the College was lower reflecting national demographic changes in the core student population.

Students continue to succeed at the College, with an increasing rise in achievement year-on-year. In 2015/16 the College success rate was 87.6%, for 2016/17 the rate is expected to be above this level.

## **Report of the Governing Body (continued)**

### **Current and Future Development and Performance (continued)**

#### **Curriculum developments**

The College was inspected by Ofsted in February 2014 and achieved a rating of good with some outstanding features.

The College identified in its Curriculum Strategy the following key strands in its offer:

- Vocational Qualifications
- Entry Level/Level 1
- Apprenticeships
- Functional Skills and GCSEs
- Study programmes and Higher Education

In October 2014, the College's Higher Education Provision was inspected by the QAA and assessed as meeting its requirements.

The College operates from two main sites. Major investment in facilities was completed in 2011 and further upgrading of resources is planned at these sites to maintain and support our quality provision.

Further enhancements to the Maths and English Strategy has been embedded in the curriculum, in line with the conditionality of funding for study programmes.

#### **Taxation**

The College is an exempt charity and not liable to corporation tax.

#### **Future Developments**

The College is working to complete campus changes on a smaller scale which were left outstanding from the demise of the central funding to complete the Estates Strategy.

Going forward Curriculum will be focused around ensuring delivery to the new landscape such as Study Programmes to ensure learners continue to prosper at the College.

The College has completed the campus changes at Gravesend over the Summer ready for September 2016. Plans to develop the Dartford campus are underway to help complete the site following the cessation of central funding.

#### **Going concern**

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in existence for the foreseeable future. In making this assessment, the Governing Body has taken into account the College's current & projected position and principal risk, with reference to a period in excess of 12 months from the date of approval of these financial statements.

## Report of the Governing Body (continued)

### PRINCIPAL RISKS AND UNCERTAINTIES

The College has embedded a system of internal controls, which include financial, operational and risk management which is designed to protect the College's assets and reputation.

A risk register is maintained at the College level which is reviewed regularly by the Audit Committee. 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.

#### 1. Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2015/16, 81% of the College's revenue was ultimately sector funded and this level of dependency is expected to continue. 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,

- The importance of GCSE English and Mathematics as a key component for study programmes going forward.
- The current economic conditions and continued uncertainty over government funding will continue to create a difficult market place to encourage growth in the sector. Only a drive for increased quality will it is hoped bring additional work through increased reputation.
- Ongoing reductions in adult funding.

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.

#### 2. Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50% in 2015/16. In line with the majority of other colleges, the College continues to review its tuition fees in accordance with the fee assumptions. This will impact on the growth strategy of the College.

Advanced Learning Loans have changed from 24+ loans to encompass students aged 19+ on a second Level 3 programme or above. It is expected that takeup of loans may be lower than the previous co-funded route. The Apprenticeship Levy changes are anticipated to begin in April 2017. This will see a gradual change in the format of income received as the College will eventually no longer receive a grant allocation.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus by ensuring value for money for student.
- Close monitoring of the demand for courses as prices change

## **Report of the Governing Body (continued)**

### **PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

#### **3. 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.

### **STAKEHOLDER RELATIONSHIPS**

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

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices/Regional Development Agencies;
- The local community;
- Other FE institutions;
- Trade Unions;
- Professional bodies.

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

### **Equal Opportunities Policies and Employment of disabled persons**

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, 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 Policy 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.

## Report of the Governing Body (continued)

### Disability statement

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

- a In 2006/07 the College secured a substantial grant from the Learning Skills Council (LSC) to undertake works at both Dartford and Gravesend campus which enabled us to comply with the Act and the capital redevelopment on both sites were designed to comply with the Act;
- b there is a list of specialist equipment, lighting for audio facilities, etc, which the College can make available for use by students;
- c the admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;
- d the College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities;
- e specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard College format; and
- f counselling and welfare services are available and are detailed in the College charter and the College's published Policy on Disability and Discrimination.

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

Approved by order of the members of the Governing Body/Corporation on 15 December 2016 and signed on its behalf by:



-----  
**Mr J Parkes**  
Chairman

## Report of the Governing Body (continued)

### Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2015/16:

David Glead	Principal; Accounting Officer
Rhiannon Hughes	Deputy Principal
Lawrence Jenkins	Vice Principal Finance and Resources
Yolanda Hughes	Clerk to the Corporation

### Professional advisers

Financial statements auditors and reporting accountants

Buzzacott LLP  
130 Wood Street  
London  
EC2V 6DL

Internal auditors:

Scrutton Bland  
Fitzroy House  
Crown Street  
Ipswich  
IP1 3LG

Bankers:

Lloyds Bank Plc  
High Street  
Dartford  
Kent  
DA1 1BY

Solicitors:

Thomson, Snell & Passmore  
3 Lonsdale Gardens  
Tunbridge Wells  
Kent  
TN1 1NX

## Statement of Corporate Governance and Internal Control

### The Corporation

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

**Table 1: Governors serving on the College board during 2015/16**

Name	Date of Appointment/ re-appointment	Term of Office	Date of Resignation	Status of Appointment	Committees Served
Mr J Parkes (Chairman)	December 2015 (Chair from July 2013)	4 years		External	Chair of Corporation; Member of Search, Governance & Remuneration Committee
Ms W Davies	Jul-12	4 years	Jul-16	Staff	Audit Committee
Ms E Birchenough	Mar-13	4 years		External	Search, Governance & Remuneration Committee (from May 2016) Audit Committee (from June 2016)
Mr R Singh Gill	Mar-12	4 years	May-16	External	Member of Search, Governance & Remuneration Committee
Mrs P Jones OBE	Jul-14	4 years		External	Member of Special Purposes Committee
Mr A Lewsley (Vice Chair from July 2015)	Dec-12	4 years		External	Vice of Corporation; Chair of Search, Governance & Remuneration Committee, Member of Special Purposes Committee
Mr D Gleed	Apr-10	Ex-officio		Principal	Search and Governance  (not a member of Remuneration D Gleed only attends in his capacity as Principal)
Cllr A Bardoe	Dec-15	4 years		External	Chair of Audit Committee
Mr A Lawson	Jul-12	4 years	May-16	External	Member of Audit Committee
Mr H Bates	Jan-16	1 year		Student	None
Mr M Ahman	Jan-16	1 year	Jun-16	Student	None
Mrs J Lewis	Feb-14	4 years	Oct-16	Staff	None
Niamh McInerney	Jul-14	4 Years		External	Chair of Special Purposes Committee
Mr P Hatton	May-16	4 Years		External	None
Mr J Gurney	May-16	4 Years		External	Member of Audit Committee
Mr P Green	May-16	4 Years		External	None
Dr R Longman	May-16	4 Years		External	None
Mr K Norman	May-16	4 Years		External	Member of Audit Committee
Mrs D Franks	Jul-16	4 Years		Staff	Member of Audit Committee

Attendance of meetings is as follows:

Corporation Board meetings (total of 8 meetings) – 88%

Audit Committee meetings (total of 3 meetings) – 100%

Search & Governance Committee meetings (total of 2 meetings held) – 100%

Special Purposes Committee - no meetings held

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

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 structure.

The College endeavours to conduct its business:

- i. In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness; integrity; objectivity; accountability; openness; honesty and leadership).
- ii. In full accordance with the guidance to colleges from the Association of Colleges in the Code of Good Governance for English Colleges ("the Code"); and
- iii. having due regard to the UK Corporate Governance Code 2014 ("the Code") insofar as it is applicable to the further education sector.

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

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2016. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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.

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets 8 times a year under a modified Carver model.

The Corporation conducts its business through the Corporate Board except for Audit and Search, Governance and Remuneration Committee. Each committee has terms of reference, which have been approved by the Corporation.

Audit meets not less than 3 times a year and the Search and Governors' Review Committee is convened as necessary.

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

North Kent College  
Oakfield Lane  
Dartford  
Kent DA1 2JT

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

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

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

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

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

### Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole.

There were two new student governors appointed in the year.

Members of the Corporation are appointed for a term of office not exceeding 4 years.

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

### Corporation Performance

**Governance is good.** Governors support the college with a very broad range of relevant experience and expertise that was refreshed and strengthened during the year. After an extensive skills audit and review of how governors are recruited, five new governors were appointed with expertise in finance, audit, policy, partnerships, maritime (an area the college works nationally in) and further education improvement. The board needs to renew efforts to better reflect the ethnic mix of the local community on the Board, following the departure of a long-standing Sikh member

Governors challenge college management appropriately in a number of areas and contribute to the development of a culture intended to establish the college as a preferred choice of potential learners and employers. Prudent financial management has enabled the college to continue the carefully planned updating programme of the college estate and resources at both sites, without incurring losses that could threaten the stability of the college. Learner outcomes and the quality of teaching and learning continue to improve, with members approving salaries and bonuses to staff that contribute to making NKC an attractive place to work. Members are planning to better understand the work of the college 'first-hand' through visits and observation of delivery.

The meetings structure is largely effective in facilitating timely governor monitoring of performance, key college operational issues and strategic direction. 2015-16 saw a pilot and the first full-year of a Carver model of meetings that was modified as the year progressed in order to facilitate high attendance, to six full meetings in 2016-17, along with termly audit committee meetings and biannual search & governance and remuneration committee meetings. We can still work further to improve the flow of meetings, especially on getting the right balance of challenge and being informed (and being content) on the 'for information' agenda items, which would have received greater attention from the relevant committees under the old system. In a full self-assessment and training meeting of governors in October 2016, the longer term members felt that the new structure had been beneficial to facilitating their role. Governors considered the strategic direction and risk management of the college at the annual corporate conference in summer 2016.

Governors are well served by an organised and effective clerk who maintains regular electronic contact with governors between meetings, alerting them to training opportunities and news of sector developments. Meeting papers are promptly circulated and governors are consulted for decisions between meetings where required. The business of meetings is carefully managed with timed agenda items. Governors receive appropriate training for their responsibilities, such as safeguarding and Prevent. A governor with responsibility for safeguarding liaises effectively with college managers to ensure that the college meets its statutory duties.

#### Areas that governors have identified to develop in 2016-17 include:

- Introduction of a paperless approach to governance with agenda papers and other updating through the use of electronic tablets issued to governors
- Direct Governor involvement in the Learner Council meetings, together with regular monitoring of the wider process
- Adopting a new and more effective approach to Governor visits to the College to directly observe and develop a clearer understanding of what constitutes good or better teaching and learning at the college
- Evaluation of report structures currently received on areas such as learner outcomes, value-added, in-year learner progress, teaching and learning, safeguarding and health and safety so that in future they will better equip governors with the required information to measure and challenge college performance against that of the sector
- The phased appointment of a new Chair of Governors so that shadowing will allow a developmental and well supported transition by the end of the academic year
- Empowering of student governors to better express the views of their peers in meetings, when relevant to discussions
- Further governor training to reinforce understanding of safeguarding, British values and the prevention of radicalisation
- Focusing on widening the diversity of board, as well as expertise, when recruiting new board members
- Any necessary training arising from the outcomes of area reviews during the coming year

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

### **Search, Governance & Remuneration Committee**

Throughout the year ended 31 July 2016, the College's Remuneration Committee comprised Mr J Parkes, Mr A Lewsley, Ms E Birchenough (from June 2016), Mr R Gill (Retired May 2016). The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other Senior Post holders.

Details of remuneration for the year ended 31 July 2016 are set out in notes 6 and 7 to the financial statements.

### **Audit Committee**

The Audit Committee comprises five members of the Corporation who exclude the Accounting Officer and Chair. The Committee operates in accordance with written terms of reference approved by the Corporation.

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

The College's internal auditors 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 undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

### **Internal Control**

#### **Scope of Responsibility**

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

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

### **Internal Control (continued)**

#### **Scope of Responsibility (continued)**

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 public funds and assets, for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal financial 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 objects; 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 North Kent 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 ended 31 July 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporations.

#### **Risk and Control Framework**

The system of internal financial 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.

The 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 a minimum, annually, the head of internal audit (HIA) provides the Governing Body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

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

### Review of Effectiveness

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

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments made by the College's financial statements auditors and the reporting accountants for regularity assurance 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 a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

Based on the advice of the Audit Committee and the Principal, 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 they continue to adopt the going concern basis in preparing the financial statements.

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in existence for the foreseeable future. In making this assessment, the Governing Body has taken into account the College's current & projected position and principal risk, with reference to a period in excess of 12 months from the date of approval of these financial statements.

Approved by order of the members of the Corporation on 15 December 2016 and signed on its behalf by:



Mr J Parkes  
Chairman



Mr D Gleed  
Accounting Officer

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

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

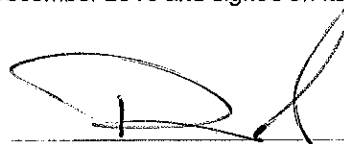
We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial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

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

Approved by order of the members of the Corporation on 15 December 2016 and signed on its behalf by:



Mr J Parkes  
Chairman



Mr D Gleed  
Accounting Officer

## Statement of the Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency and the Corporation of the College (the Corporation), through its Accounting Officer, is required to prepare the financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education and with the Accounts Directions 2015-16 issued jointly by the Skills Funding Agency and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

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

The Corporation is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the College, and 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 to safeguard assets of the College and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the 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 are used only in accordance with the Financial Memorandum with the Skills 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 to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure so that the benefits derived from the application of public funds from the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 15 December 2016 and signed on its behalf by:



.....  
Mr J Parkes  
Chairman

## Independent Auditor's Report to the Corporation of North Kent College

We have audited the financial statements of North Kent College for the year ended 31 July 2016 set out on pages 17 to 40. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

### Respective Responsibilities of the Corporation of North Kent College and Auditor

As explained more fully in the Statement of the Responsibilities of the Members of the Corporation set out on page 15, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

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

### Scope of the audit of the financial statements

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

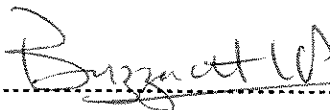
### Opinion on financial statements

In our opinion the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of North Kent College's affairs as at 31 July 2016 and of the College's surplus of income over expenditure for the year then ended

### Matters on which we are required to report by exception

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

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- all the information and explanations required for the audit were not received.



-----  
**Buzzacott LLP**  
Chartered Accountants and  
Registered Auditors  
130 Wood Street  
London  
EC2V 6DL

  
-----  
Date

## Reporting Accountant's Assurance Report on Regularity

**To: The Corporation of North Kent College and Secretary of State for Education acting through the Skills Funding Agency**

In accordance with the terms of our engagement letter dated 3 May 2016 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by North Kent 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 the Education Funding Agency. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency has other assurance arrangements in place.

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

### Respective Responsibilities of the Corporation of North Kent College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance 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.

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.

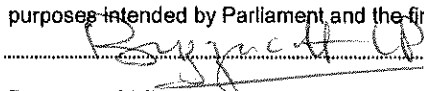
Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the College's income and expenditure.

The work undertaken to draw our conclusion includes:

- An assessment of the risk of material irregularity and impropriety across all of the College's activities. Further testing and review of self-assessment questionnaire including enquiry, identification of control processes and examination of supporting evidence across all areas identified as well as additional verification work where considered necessary; and
- Consideration of evidence obtained through the work detailed above and the work completed as part of our financial statements audit in order to support the regularity conclusion.

### 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.

  
**Buzzacott LLP**  
Chartered Accountants and  
Registered Auditors  
130 Wood Street  
London  
EC2V 6DL

  
Date

**Statement of Comprehensive Income  
for the year ended 31 July 2016**

		2016	Restated
	<i>Note</i>	£'000	2015 £'000
<b>Income</b>			
Funding body grants	2	22,562	23,671
Tuition fees and education contracts	3	2,536	2,192
Other income	4	2,808	2,493
Investment income	5	78	49
		<hr/>	<hr/>
<b>Total income</b>		<b>27,984</b>	<b>28,405</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Expenditure</b>			
Staff costs	6	14,450	15,174
Fundamental restructuring costs	6	301	486
Other operating expenses	8	8,440	8,194
Depreciation and amortisation	12	3,173	3,591
Interest and other financial costs	9	857	857
		<hr/>	<hr/>
<b>Total expenditure</b>		<b>27,221</b>	<b>28,302</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Surplus before tax</b>		<b>763</b>	<b>103</b>
Taxation	10	-	-
		<hr/>	<hr/>
<b>Surplus for the year</b>		<b>763</b>	<b>103</b>
		<hr/> <hr/>	<hr/> <hr/>
Actuarial loss in respect of pensions schemes	20	(1,099)	(1,622)
		<hr/>	<hr/>
<b>Total Comprehensive Expenditure for the year</b>		<b>(336)</b>	<b>(1,519)</b>
		<hr/> <hr/>	<hr/> <hr/>

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


**Statement of Changes in Reserves  
for the year ended 31 July 2016**

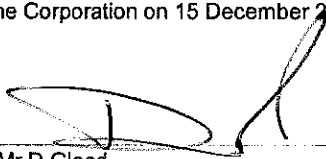
	Income and Expenditure account	Revaluation reserve	Restricted reserves	Total
	£'000	£'000	£'000	£'000
<b>Restated balance at 1st August 2014</b>	3,297	3,559	97	6,953
Surplus from the income and expenditure account	103	-	-	103
Other comprehensive income	(1,622)	-	-	(1,622)
Transfers between revaluation and income and expenditure reserves	144	(144)	-	-
<b>Total comprehensive expenditure for this year</b>	(1,375)	(144)	-	(1,519)
<b>Balance at 31st July 2015</b>	1,922	3,415	97	5,434
Surplus from the income and expenditure account	763	-	-	763
Other comprehensive income	(1,099)	-	-	(1,099)
Transfers between revaluation and income and expenditure reserves	144	(144)	-	-
<b>Total comprehensive expenditure for the year</b>	(192)	(144)	-	(336)
<b>Balance at 31st July 2016</b>	1,730	3,271	97	5,098

**Balance Sheet  
at 31 July 2016**

	<i>Note</i>	<b>2016 £'000</b>	Restated 2015 £'000
<b>Non-current assets</b>			
Intangible assets	11	-	-
Tangible fixed assets	12	<b>88,596</b>	90,867
Investments	13	<u>1</u>	<u>1</u>
		<b>88,597</b>	90,868
<b>Current assets</b>			
Stocks		<b>16</b>	19
Trade and other receivables	14	<b>1,018</b>	626
Cash and cash equivalents		<u>12,982</u>	<u>10,918</u>
<b>Total current assets</b>		<b>14,016</b>	11,563
<b>Less creditors: Amounts falling due within one year</b>	15	<b>(7,194)</b>	(7,955)
<b>Net current assets</b>		<u>6,823</u>	<u>3,608</u>
<b>Total assets less current liabilities</b>		<u>95,420</u>	<u>94,476</u>
<b>Less creditors: Amounts falling due after more than one year</b>	16	<b>(75,607)</b>	(77,990)
<b>Provisions</b>			
Defined benefit obligations	20	<b>(12,040)</b>	(10,110)
Other provisions	18	<b>(2,675)</b>	(941)
<b>Total net assets</b>		<u>5,098</u>	<u>5,435</u>
<b>Reserves</b>			
Revaluation reserve		<b>3,271</b>	3,415
Income and expenditure account		<b>1,730</b>	1,923
Restricted reserve		<b>97</b>	97
<b>Total reserves</b>		<u>5,098</u>	<u>5,435</u>

The financial statements on pages 17 to 40 were approved by the Corporation on 15 December 2016 and were signed on its behalf by:

  
 Mr J Parkes  
 Chairman

  
 Mr D Gleed  
 Accounting Officer

## Statement of Cash Flows

	2016 £'000	Restated 2015 £'000
<b>Cash inflow from operating activities</b>		
Surplus for the year	763	103
<b>Adjustment for non cash items</b>		
Depreciation	3,173	3,591
(Increase)/decrease in stocks	(3)	15
(Increase)/decrease in debtors	(392)	149
Increase/(decrease) in creditors due within one year	(777)	(206)
Increase/(decrease) in creditors due after one year	(1,826)	(1,876)
Increase/(decrease) in provisions	1,734	925
Pensions costs less contributions payable	462	376
<b>Adjustment for investing or financing activities</b>		
Investment income	(78)	(49)
Interest payable	857	857
Profit on sale of fixed assets	(2)	(9)
	<u>3,911</u>	<u>3,876</u>
<b>Net cash flow from operating activities</b>		
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	2	27
Investment income	78	49
Payments made to acquire fixed assets	(903)	(729)
	<u>(823)</u>	<u>(653)</u>
<b>Cash flows from financing activities</b>		
Interest paid	(486)	(515)
Repayments of amounts borrowed	(538)	(512)
	<u>(1,024)</u>	<u>(1,027)</u>
<b>Increase in cash and cash equivalents in the year</b>	<b>2,064</b>	<b>2,196</b>
Cash and cash equivalents at beginning of the year	<u>10,918</u>	<u>8,722</u>
Cash and cash equivalents at end of the year	<u>12,982</u>	<u>10,918</u>

## **Notes to the Accounts**

### **1 Accounting policies**

#### ***Statement of accounting policies***

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

#### ***Basis of preparation***

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the SORP) the Accounts Direction for 2015-16 financial statements and in accordance with Financial Reporting Standard 102 - "The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland" (FRS102). The College is a public benefit entity and has therefore applied the relevant public benefit requirement of FRS102.

#### ***Transition to the 2015 FE 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 24.

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.

#### ***Going Concern***

The activities of the College, together with the factors likely to affect its future development and performance are set out in the report of the Governing Body. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

The College currently has £11.333m of loans outstanding with bankers on terms negotiated in Autumn 2011 being secured by a fixed and floating charge on College assets. The terms of the existing agreement are up for review in January 2019. 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.

#### ***Basis of accounting***

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

#### ***Basis of consolidation***

In accordance with Financial Reporting Standard (FRS) 102, the activities of the student union have not been consolidated because the College does not control those activities.

## **Notes to the Accounts**

### **1 Accounting policies (*continued*)**

#### ***Recognition of income***

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

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income from tuition fees is recognised in the period for which it is received and includes all fees chargeable to students or their sponsors.

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

All income from short-term deposits is credited to the Statement of Comprehensive Income in the period in which it is earned.

#### ***Accounting for post employment benefits***

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P).

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 quinquennial valuations using a prospective benefit method. As stated in Note 21, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as 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 market 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 liability. 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 the other recognised gains and losses.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

## Notes to the Accounts

### 1 Accounting policies (continued)

#### **Short term employment benefits**

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

#### **Enhanced pensions**

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement of the ongoing pension of a former member of staff is charged in full to the college's Statement of Comprehensive 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 deemed 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 Statement of Comprehensive Income on an annual basis. Building improvements made since incorporation are included in the Balance Sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College. The College has adopted the transitional provisions of FRS 102 and has determined not to subsequently revalue its fixed assets from the amounts currently included within the financial statements. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 2 and 50 years.

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

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were re-valued in 1996, as deemed cost but not to adopt a policy of re-valuations 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.

## Notes to the Accounts

### 1 Accounting policies (continued)

#### *Subsequent expenditure on existing fixed assets*

Where significant expenditure is incurred on tangible fixed assets it is charged to the Statement of Comprehensive 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 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

Such expenditure termed short life accommodation will have an expected useful life of 10 years.

#### *Buildings owned by third parties*

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

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

#### *Equipment*

Individual equipment costing £1,000 and above is capitalised.

Equipment is depreciated over its useful economic life as follows:

Plant	15-25 years
Motor vehicles and general equipment	10 years
Computer equipment	4 years
Furniture and fittings	10 years

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

#### ***Tangible fixed assets (continued)***

#### ***Borrowing Costs***

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.

#### ***Investments***

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

#### ***Stocks***

Stocks are stated at the lower of their cost (using the first in first out method) and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

## Notes to the Accounts

### 1 Accounting policies (continued)

#### **Financial liabilities and equity**

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 College has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

#### **Foreign currency translation**

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year with all resulting exchange differences being taken to the Income and Expenditure Account in the period in which they arise.

#### **Taxation**

The College is considered to pass the test 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 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.

#### **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.

#### **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.

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

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

#### **Agency Arrangements**

The College acts as an agent in the collection and payment of Bursary and Learner Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Statement of Comprehensive Income and are shown separately in Note 22, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

## Notes to the Accounts

### 1 Accounting policies (continued)

#### *Judgements in applying accounting policies and key sources of estimation uncertainty*

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

- Determined 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.
- Determined whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty are:

- Tangible fixed assets

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

- 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 20, 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.

## Notes to the Accounts

### 2 Funding body grants

	2016 £'000	2015 £'000
<b>Recurrent grants:</b>		
Skills Funding Agency	3,785	4,599
Education Funding Agency	16,822	17,086
HEFCE	73	104
<b>Specific grants:</b>		
Releases of deferred capital grants (note 15)	1,882	1,882
<b>Total</b>	<b>22,562</b>	<b>23,671</b>

### 3 Tuition fees and education contracts

	2016 £'000	2015 £'000
Tuition fees	2,372	2,026
Education contracts	164	166
	<b>2,536</b>	<b>2,192</b>

### 4 Other income

	2016 £'000	2015 £'000
Residences, catering and conferences	718	601
Other income generating activities	105	45
Other income	1,985	1,847
	<b>2,808</b>	<b>2,493</b>

	2016 £'000	2015 £'000
Other income includes:		
Other grants	17	67
Nursery income	991	780
Examination and registration fees	100	105

### 5 Investment income

	2016 £'000	2015 £'000
Other interest receivable	78	49

## Notes to the Accounts

### 6 Staff numbers and costs

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

	2016 Number	2015 Number
Teaching staff	177	191
Non-teaching staff	<u>183</u>	<u>193</u>
	<u>360</u>	<u>384</u>

Staff costs for the above persons were as follows:

	2016 £'000	2015 £'000
Wages and salaries	11,172	11,980
Social security costs	864	843
Other pension costs	<u>2,004</u>	<u>1,922</u>
<b>Payroll sub-total</b>	<b>14,040</b>	<b>14,745</b>
Contracted out staffing services	<u>410</u>	<u>429</u>
	<u>14,450</u>	<u>15,174</u>
Fundamental restructuring costs - Contractual	<u>301</u>	<u>486</u>
<b>Total Staff Costs</b>	<b><u>14,751</u></b>	<b><u>15,660</u></b>

### 7 Key management personnel emoluments

Key management personnel are defined as the Accounting Officer and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2016 Number	2015 Number
The number of key management personnel including the Accounting Officer was:	<u>4</u>	<u>4</u>

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

	2016		2015	
	Number of key management personnel	Number of other staff	Number of key management personnel	Number of other staff
£20,001 - £30,000 p.a.	1	N/A	1	N/A
£40,001 - £50,000 p.a.	-	N/A	-	N/A
£60,001 - £70,000 p.a.	-	1	-	-
£70,001 - £80,000 p.a.	-	1	-	1
£80,001 - £90,000 p.a.	1	1	1	1
£90,001 - £100,000 p.a.	1	-	1	-
£140,001 - £150,000 p.a.	1	-	1	-
	<u>4</u>	<u>3</u>	<u>4</u>	<u>2</u>

No pay awards were made during the year.

## Notes to the Accounts

### 7 Key management personnel emoluments (continued)

Key management personnel emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries	346	343
Benefits in kind	13	13
Pension contributions	54	52
	<u>413</u>	<u>408</u>

The above emoluments include amounts payable to the Accounting Officer (who is also the highest paid key management personnel)

	2016 £'000	2015 £'000
Salaries	141	140
Benefits in kind	6	6
Pension contributions	22	22
	<u>169</u>	<u>168</u>

The pension contributions in respect of the Accounting Officer and Key management personnel are in respect of employer's contributions to the Teachers' Pension Scheme and Local Government Pension Scheme and are paid at the same rate as for other employees.

### Compensation for loss of office paid to a former Key management personnel or higher paid employee

	2016 £'000	2015 £'000
Compensation paid to the former key management personnel	<u>-</u>	<u>-</u>

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

### 8 Other operating expenses

	2016 £'000	2015 £'000
Teaching costs	2,043	1,965
Non-teaching costs	2,981	3,491
Premises costs	3,416	2,738
	<u>8,440</u>	<u>8,194</u>
Other operating expenses		
Auditor's remuneration:		
Financial statements audit:	32	29
Internal audit	23	23
Hire of other assets – operating leases	96	109
	<u>151</u>	<u>161</u>

## Notes to the Accounts

### 9 Interest and other finance costs

	2016 £'000	2015 £'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in less than 5 years	488	515
	<hr/>	<hr/>
	488	515
Pension finance costs (note 20)	369	342
	<hr/>	<hr/>
	<b>857</b>	<b>857</b>
	<hr/> <hr/>	<hr/> <hr/>

### 10 Taxation

The members of the Corporation do not believe that the College was liable for any corporation tax arising out of its activities during the year ended 31 July 2016 (2015 - £Nil).

### 11 Intangible fixed assets

The College has developed a reputation for teaching and learning around Sustainable Construction. From this the SUSCON brand has been established with the College.

The development of the SUSCON brand incurred a cost of £7,000, which is now fully amortised.

### 12 Tangible fixed assets

	Land & Buildings Freehold £'000	Assets under Construction £'000	Equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2015	102,766	160	18,627	121,553
Additions	245	149	509	903
Disposals	-	(11)	-	(11)
<b>At 31 July 2016</b>	<b>103,011</b>	<b>297</b>	<b>19,137</b>	<b>122,444</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Accumulated depreciation</b>				
At 1 August 2015	16,351	-	14,335	30,686
Charge for year	2,136	-	1,037	3,173
Disposals	-	(11)	-	(11)
<b>At 31 July 2016</b>	<b>18,487</b>	<b>(11)</b>	<b>15,372</b>	<b>33,848</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>				
<b>At 31 July 2016</b>	<b>84,524</b>	<b>308</b>	<b>3,765</b>	<b>88,596</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2015	86,415	160	4,292	90,867
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

## Notes to the Accounts

### 13 Investments

	2016 £'000	2015 £'000
Investment in The Retail Academy	1	1
<b>Total</b>	<b>1</b>	<b>1</b>

The Retail Academy was set up to promote training within the retail sector. The shares were purchased in April 2004, the College being one of many participating training providers involved with the Retail Academy.

The College had significant influence over the North West Kent College Training Trust, which was a registered charity (No 802702) and company limited by guarantee (No 02453237). The charity, in turn, owned 100% of the issued ordinary shares of North West Kent Business Services Ltd, a company incorporated in Great Britain and registered in England and Wales (No 02369960). North West Kent Business Services Limited was struck off on 11 August 2015, whilst North West Kent College Training Trust was struck off on 29 December 2015.

The College owned 100% of the issued ordinary £1 shares of The Knowledge Warehouse Ltd, a company incorporated in Great Britain and registered in England and Wales (No 06073562). Following a review of the business, the Directors agreed to transfer the operations to the College with effect from 1 August 2012, and this company was also struck off on 11 August 2015.

### 14 Trade and other receivables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	437	237
Prepayments and accrued income	581	389
	<b>1,018</b>	<b>626</b>

### 15 Creditors: Amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts (note 17)	549	534
Trade creditors	1,074	1,195
Other taxation and social security	282	294
Accruals and deferred income	2,606	3,237
Other creditors	823	813
Deferred income - government capital grants	1,860	1,882
	<b>7,194</b>	<b>7,955</b>

### 16 Creditors: Amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank loans (note 17)	10,784	11,340
Long Term Insurance Liability	63	63
Deferred income - government capital grants	64,760	66,587
	<b>75,607</b>	<b>77,990</b>

## Notes to the Accounts

### 17 Analysis of borrowings

#### Bank loans and overdrafts

	2016 £'000	2015 £'000
Bank loans and overdrafts are repayable as follows:		
In one or less	549	534
Between one and two years	568	549
Between two and five years	10,216	10,791
	<u>11,333</u>	<u>11,874</u>

Bank loans consist of long term loans of £10,000,000 fixed to January 2019 at 5.18% and a further £3,841,000 at 1% above 3 month LIBOR. Capital repayments on both facilities commenced in Autumn 2011. Both facilities are repayable on demand in 2019. Both loans are unsecured.

### 18 Provisions for liabilities

	Defined benefit Obligations £'000	Enhanced Pensions £'000	Building Dilapidations £'000	Other £'000	Total £'000
At 1 August 2015	10,110	11	930	-	11,051
Provision in the period	2,590	-	1,535	143	4,268
Expenditure in the period	(660)	56	-	-	(604)
	<u>12,040</u>	<u>67</u>	<u>2,465</u>	<u>143</u>	<u>14,715</u>

The pensions provision relates to staff who have already left the College's employment and represents the College commitment to their pension.

The buildings dilapidations relates to the Thameside campus leased by the College.

### 19 Cash and cash equivalents

	At 1 August 2015 £'000	Cash flows £'000	Other changes £'000	At 31 July 2016 £'000
Cash and cash equivalents	10,918	2,064	-	12,982
Debts due within 1 year	(534)	(14)	-	(548)
Debts due after 1 year	(11,340)	556	-	(10,784)
<b>Total</b>	<u>(956)</u>	<u>2,605</u>	<u>-</u>	<u>1,649</u>

## Notes to the Accounts

### 20 Pensions and similar obligations

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

	2016	2015
	£'000	£'000
<b>Total pension cost for the year</b>		
Teachers Pension Scheme: contributions paid	918	856
Local Government Pension Scheme:		
Contributions paid	640	690
FRS 102 (28) adjustment	446	361
<b>Total Pension Cost for Year</b>	<b>2,004</b>	<b>1,907</b>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuations of the TPS was 31 March 2012 and 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. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010, and from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools, and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

#### The Teachers' Pension Budgeting and Valuation Account

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

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

## Notes to the Accounts

### 20 Pensions and similar obligations (continued)

#### Valuation of the Teachers' Pension Scheme

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

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

The new employer contribution rate for the TPS 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 the 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 £918,000 (2015: £856,000).

#### FRS 102 (28)

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

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

## Notes to the Accounts

### 20 Pensions and similar obligations (continued)

#### Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by Kent County Council. The total contribution made for the year ended 31 July 2016 was £902,306 of which employer's contributions totalled £640,072 and employees' contributions totalled £262,234. The agreed contribution rates for future years are 17.3% for employers and between 5.5% and 12.5% for employees depending on their salary scale.

#### Principal Actuarial Assumptions:

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

	31 July 2016	31 July 2015
Inflation assumption (CPI)	2.20%	2.60%
Rate of increase in salaries	1.00%	4.40%
Rate of increase in pensions	2.20%	2.60%
Discount rate for scheme liabilities	2.80%	3.80%

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

	31 July 2016	31 July 2015
Retiring today		
Males	22.9	22.8
Females	25.3	25.2
Retiring in 20 yrs		
Males	25.2	25.1
Females	27.7	27.6

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

	Value at 31 July 2016 £'000	Value at 31 July 2015
Equities	17,120	15,930
Bonds	2,701	2,593
Property	3,547	2,896
Cash	606	637
Gilts	227	244
Target Return on Portfolio	1,100	1,011
<b>Total market value of assets</b>	<b>25,301</b>	<b>23,311</b>
<b>Actual return on plan assets</b>	<b>1,777</b>	<b>1,930</b>

## Notes to the Accounts

### 20 Pensions and similar obligations

#### Local Government Pension Scheme (continued)

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	25,301	23,311
Present value of plan liabilities	(37,341)	(33,421)
<b>Net pensions liability</b>	<b>(12,040)</b>	<b>(10,110)</b>

Amounts recognised in the Statement of Comprehensive Income in respect of the

	2016 £'000	2015 £'000
<b>Amounts included in staff costs</b>		
Current service cost	1152	1079
Past service cost	-	3
<b>Total</b>	<b>1152</b>	<b>1082</b>

Amounts included in interest cost

Net interest expense	369	342
	<b>369</b>	<b>342</b>

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	(889)	(1,016)
Changes in assumptions underlying the present value	1,988	2,638
Amount recognised in Other Comprehensive Income	<b>1,099</b>	<b>1,622</b>

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

	2016 £'000	2015 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(10,110)	(7,770)
Movement in year:		
Current service cost	(1,152)	(1,079)
Employer contributions	660	721
Past service cost	-	(3)
Net interest on the defined (liability)/asset	(369)	(342)
Administration expenses	30	(15)
Actuarial gain or loss	(1,099)	(1,622)
<b>Net defined liability at 31 July</b>	<b>(12,040)</b>	<b>(10,110)</b>

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations

	2016 £'000	2015 £'000
<b>Defined benefit obligations at start of period</b>	<b>33,421</b>	<b>28,902</b>
Current Service cost	1,152	1,079
Interest cost	1,257	1,256
Contributions by Scheme participants	263	281
Changes in financial assumptions	1,988	2,638
Estimated benefits paid	(626)	(738)
Past Service cost	-	3
Curtailments and settlements	(114)	-
<b>Defined benefit obligations at end of period</b>	<b>37,341</b>	<b>33,421</b>

## Notes to the Accounts

### 20 Pensions and similar obligations

#### Reconciliation of Assets

	2016 £'000	2015 £'000
<b>Fair value of plan assets at start of period</b>	23,311	21,132
Interest on plan assets	888	914
Return on plan assets	899	1,016
Employer contributions	660	721
Contributions by Scheme participants	263	281
Estimated benefits paid	(626)	(738)
Administration Expenses	(16)	(15)
Settlement Prices received/(paid)	(68)	-
	<u>25,301</u>	<u>23,311</u>
<b>Assets at end of period</b>	<b>25,301</b>	<b>23,311</b>

### 21 Related Party Transactions

Due to the nature of the College's operations and the composition of the Board of Governors being drawn from local public and private sector organisations it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving such organisations are conducted at arms length and in accordance with the College's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under UK Accounting Standards.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: None).

### 22 Amounts Disbursed as agent

#### Learner Support Funds

	2016 £'000	2015 £'000
Balance b/f	449	184
Grants	971	1,112
Clawback in the year	(62)	-
Disbursed to students	(822)	(813)
Administration costs	(35)	(34)
Balance under spent as at 31 July, included in creditors	<u>501</u>	<u>449</u>

## Notes to the Accounts

### 23 Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31 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 31 July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1 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	2015 £'000	2014 £'000
<b>Financial Position</b>			
<b>Total reserves under previous SORP</b>		<u>5,749</u>	<u>7,307</u>
Employee leave accrual	a	(314)	(354)
<b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>		<u>(314)</u>	<u>(354)</u>
<b>Total reserves under 2015 FE HE SORP</b>		<u><u>5,435</u></u>	<u><u>6,953</u></u>
<b>2015</b>			
<b>Financial Performance</b>			
<b>Surplus for the year after tax under previous SORP</b>		<u>478</u>	
Employee leave accrual	a	40	
Changes to measurement of net finance cost on defined benefit plans	b	(1,622)	
Pensions provision – actuarial loss	c	(414)	
<b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>		<u>(1,996)</u>	
<b>Total comprehensive income for the year under 2015 FE HE SORP</b>		<u><u>(1,518)</u></u>	

#### 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 meaning that, at the reporting date, there was 1,690 days unused leave for teaching and 832 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to five of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £315,000 was recognised at 1 August 2014, and £354,000 at 31 July 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £40,000 has been charged to the Statement of Comprehensive Income in the year ended 31 July 2016.

#### b) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Statement of Comprehensive Income for the year ended 31 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

#### c) 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.

### 24 Contingent Liabilities

The College could be liable for returning part of a grant it received in 1996 from the National Sea Training Trust for the cost of construction of a swimming pool. An estimate of the liability due received from solicitors is approximately £110,000 at 31 July 2016. This will reduce to a nil value by 2021.