

**PAPER FOR GOVERNORS  
PAPER LMC/C/31/16**

# **LANCASTER & MORECAMBE COLLEGE**

**Report and Financial Statements  
For the Year Ended 31 July 2016**

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Key Management Personnel, Board of Governors and Professional Advisers

#### Key Management Personnel

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

<b>D Wood</b>	<b>Principal and CEO; Accounting Officer</b>
<b>P France</b>	<b>Vice Principal: Finance &amp; Resources</b>
<b>G Atherton</b>	<b>Vice Principal: Curriculum &amp; Quality Standards</b>
<b>J Hughes</b>	<b>Director of Business Development</b>

#### Board of Governors

A full list of Governors is given on pages 9 and 10 of these financial statements.

J Wilkinson acted as Clerk to the Corporation from 1 August to 1 November 2015 and O Cushen took over for the remainder of the period.

#### Professional Advisers

A full list of Governors is given on pages 9 and 10 of these financial statements.

Financial Statements auditors and reporting accountants:

RSM UK Audit LLP  
3 Hardman Street  
Manchester  
M3 3HF

Internal Auditors:

RSM Risk Assurance Services LLP (formerly  
Baker Tilly Risk Advisory Services LLP)  
1 Hollinswood Court  
Stafford Park 1  
Telford  
Shropshire  
TF3 3DE

Bankers:

Barclays Bank Plc  
Barclays Business Centre  
38 Market Street  
Lancaster  
LA1 1HR

Barclays Wealth  
1 Churchill Place  
London  
E14 5HP

CAF Bank  
25 Kings Hill Avenue  
Kings Hill  
West Malling  
Kent  
ME19 4JQ

Lloyds Bank Plc  
25 Gresham Street  
London  
EC2V 7HN

Santander Corporate Banking  
298 Deansgate  
Manchester  
M3 4HH

Solicitors:  
Eversheds LLP  
Eversheds House  
70 Great Bridgewater Street  
Manchester  
M1 5ES

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Contents

Members' Report	3 - 8
Statement of Corporate Governance and Internal Control	9 - 14
Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding	15
Statement of Responsibilities of the Members of the Corporation	16
Independent Auditor's Report to the Corporation of Lancaster & Morecambe College	17 – 18
Statement of Comprehensive Income	19
College Statement of Changes in Reserves	20
Balance Sheet as at 31 July	21
Statement of Cash Flows	22
Notes to the Accounts	23 – 43

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Members' Report

#### NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements of Lancaster & Morecambe College (the College) 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 the affairs of Lancaster & Morecambe College. The corporation was incorporated as Lancaster & Morecambe College on 1 April 1993. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

#### MISSION

“Inspiring and developing individuals and businesses through high quality work-related education and training”.

#### PUBLIC BENEFIT

Lancaster & Morecambe College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 9 to 10.

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

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

- High-quality teaching;
- Widening participation and tackling social exclusion;
- Excellent employment record for students;
- Strong student support systems;
- Maintain good financial health and continue to improve the College's estate and resources.

#### IMPLEMENTATION OF STRATEGIC PLAN

During the year the Corporation monitored the College against its 2015-2016 Strategic Plan which covered the period from 1 August 2015 to 31 July 2016. The Strategic Plan is updated each year and contains targets across the following core strategies:

- Sustain and develop the College community, its culture, values and wellbeing;
- Provide all students with a high quality learning experience that supports them to aspire, achieve and progress;
- Forge partnerships with businesses, LEPs, schools, universities and local authorities to lead in planning and developing successful local education and skills;
- Providing its students and staff with an outstanding environment in which to learn, teach and work.

A selection of the College's specific targets and achievement of those targets in 2015/2016 are shown below:

- 85% of learners surveyed would recommended the College to a friend compared to a target of 95%;
- Recruited 1,280 16/18 FE learners against a target of 1,253;
- 93% of teaching staff qualified against a target of 95%;
- Staff sickness 4.5% against a target of 4.5%

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Members' Report (continued)

#### Financial Objectives

The College's overriding financial objective is to maintain its financial health grade as 'Outstanding'.

Specific financial targets included:

- Generate a positive cash flow from operations each year;
- Maintain at least 100 cash days in hand;
- Maintain a positive reserve on the income and expenditure account;
- Generate an underlying surplus each year;
- Restrict total borrowing to 0% of total annual income;
- Maintain a current ratio of at least 1.5.

The College met 4 of the above targets, and its grade for financial health remains as 'Outstanding'.

#### PERFORMANCE INDICATORS

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

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

The College is committed to observing the importance sector measures and indicators and uses the FE Choices data available on the GOV.UK 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. The College is assessed by the Skills Funding Agency/Education Funding Agency as having an "Outstanding" financial health grading. The current rating of Outstanding is considered an acceptable outcome.

### FINANCIAL POSITION

#### FINANCIAL RESULTS

The College generated an operating deficit in the year of £855k (2015 : £90k), with total comprehensive income of (£2,704k) (2015 : (£838k)).

At 31 July 2016 the College had accumulated reserves of £14,179k (2015 : £16,883k) and cash balances of £4,736k (2015 : £5,381k). The cash surplus is intended for the development of existing accommodation.

The College has no subsidiary companies.

Tangible fixed asset additions during the year amounted to £611k. This included £199k relating to Assets still under Construction at 31 July 2016. These investments related to new facilities for Hair and Beauty and Childcare provision.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 76.9% of the College's total income.

#### TREASURY POLICIES AND OBJECTIVES

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

The College has a separate treasury management policy in place.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### **Members' Report (continued)**

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

#### **CASH FLOWS AND LIQUIDITY**

At £(64)k (2014/15 £1,120k), operating cash outflow was insignificant.

The College has no borrowings.

### **CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**

#### **STUDENT NUMBERS**

In 2015/16 the College has delivered activity that has produced £8,242k in funding body main allocation funding (2014/15 : £8,471k). The College had 3,696 (2014/15 : 3,483) funded and 1,100 (2014/15 : 1,415) non-funded students.

#### **STUDENT ACHIEVEMENTS**

Success rates across all qualifications were 77.1% (2014/15 : 75.8%)

#### **CURRICULUM DEVELOPMENTS**

The College rigorously reviews and plans its curriculum offering each year on a course by course basis. Individual courses are assessed for quality, fulfilment of learner needs, financial viability and contribution to government targets.

During 2015/2016 the College introduced a range of distance learning.

#### **PAYMENT PERFORMANCE**

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2015 to 31 July 2016, except where custom and practice has dictated otherwise, the College has endeavoured to pay suppliers within 30 days. The College incurred no interest charges in respect of late payment for this period.

#### **POST BALANCE SHEET EVENTS**

There were no post balance sheet events.

#### **FUTURE DEVELOPMENTS**

For 2016/17 the College has received funding allocations from the Skills Funding Agency of £1,592k for its adult provision, £522k for 24+ loan funded learners and £934k for 16-18 Apprentices. The Education Funding Agency has confirmed the college's allocation of £6,451k for 16-18 provision (including some 19-24 learners with high learning support needs).

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### **Members' Report (continued)**

Construction work will continue into 2016/2017 on the Heysham - M6 link road that will cut through the college campus. The College has reached an agreement with Lancashire County Council in respect of mitigation measures and the works around the College have been planned to minimise any disruption to its activities.

The College will continue to upgrade its campus through the implementation of the Property Master Plan. During 2016/17 new improved College entrances will be constructed and the external facades of the Music and Media Building will be upgraded. These improvements will be funded from College cash reserves.

The College will be part of the Area Review of Lancashire Colleges that will be taking place throughout 2016/17. The Area Review Team will review Further Education provision within Lancashire and make recommendations regarding future provision which may lead to some Colleges merging. The College has considered its options and has concluded that its preferred option is to remain as an independent College as per the current position. The Area Review is due to be completed by April 2017 and any recommendations made will have to be formally approved by the Corporation.

### **RESOURCES**

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

Tangible resources include the main college site.

#### **FINANCIAL**

The College has £14,179k of net assets (including £8,042k pension liability). It has no long term debt.

The College has cash reserves of £4,736k. The Corporation has resolved to utilise these reserves to undertake further phases of the College's accommodation strategy whilst retaining sufficient cash balances to maintain appropriate levels of cash days in hand.

#### **PEOPLE**

The College employs 300 people (expressed as full time equivalents), of whom 104 are teaching staff.

#### **REPUTATION**

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

### **PRINCIPAL RISKS AND UNCERTAINTIES**

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

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Members' Report (continued)

Outlined below are examples 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.

- Failure to meet learner numbers and funding targets. The College prepares a detailed curriculum plan that will deliver learner number and funding targets. Learner number and funding performance against targets are closely monitored by the Senior Management Team and action is taken where necessary.
- Failure to meet target success rates. The College has embedded quality systems and action is taken to address under-performing courses.

### STAKEHOLDER RELATIONSHIPS

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

- Students;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Education sector funding bodies;
- FE Commissioner;
- Government Offices/ Regional Development Agencies/LEPs;
- 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.

### EQUALITY AND DIVERSITY

The College has a comprehensive Single Equality Scheme and firmly believes that individuals are entitled to the same rights and responsibilities, regardless of race, colour, gender, age, religious belief, language, disability/learning difficulty, sexuality, culture or marital status.

The College has set targets for equality and diversity within the strategic key performance indicators which are monitored on a frequent basis.

Equality and Diversity Targets and Actuals for 2015/16 were:

	<b>Target 2015/2016</b>	<b>Actual 2015/2016</b>
Reduce the non disclosure of disability by students	<3%	1.4%
Narrow success rates between 16/18 FE males and females.	<2%	1.5%

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### **Members' Report (continued)**

#### **DISABILITY EQUALITY**

The College seeks to achieve the objectives set down in the Disability Discrimination Act 2000 as amended by the Special Educational Needs and Disability Acts 2001 and 2005. The college published its Single Equality Scheme in June 2010. This is available on request in Braille, large print, audio tape and is published on the college website and intranet.

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.

#### **GENDER EQUALITY**

The College has a legal duty to positively promote gender equality and its Single Equality Scheme was published on the college website and intranet in June 2010 and is available on request in Braille, large print and audio tape.

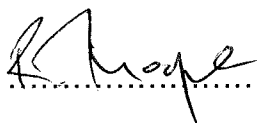
#### **RACE EQUALITY**

As a result of the Race Relations Act 1976 (as amended by the Race Relations (Amendment) Act 2001) the College has developed a comprehensive Single Equality Scheme and procedures to ensure that individuals and communities have equal access to our learning programmes and facilities. This is available on request in Braille, large print or audio tape, and is published on the college website and intranet.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

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

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



.....

**R Thorpe**  
**Chairman**

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); and
- ii. in full accordance with the guidance to colleges from the Association of Colleges Code of Good Governance for English Colleges.

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 of Good Governance for English Colleges. We have not adopted and, therefore, do not comply with 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 of Good Governance for English Colleges, 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. In carrying out its responsibilities, it takes full account of the Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in June 2015.

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

### THE CORPORATION

The Governors who served on the Board during the year and up to the date of signature of this report were as follows:

Name	Date of Appointment	Term of Office	Date of Resignation	Status of appointment	Committees Served	Meeting Attendance
Mr R Thorpe	26 March 2012 (Re-appointed 1 April 2016)	4 years		Chair w.e.f 1 April 2014 Independent Member	Remuneration; Search	100%
Mr A Cheetham	1 August 2008 (Re-appointed 26 March 2012)  Extended on 17 November 2014	4 years  1 year		Vice Chair w.e.f 1 September 2012 Re-appointed 1 April 2015 Independent Member	Audit; Remuneration ; Search	77%
Mrs T Aye	1 April 2016	4 years		Independent Member	N/a	100%
Ms H Bailey	1 April 2014	4 years	27 November 2015	Independent Member	Remuneration	66%
Dr A Bathgate	22 September 2008 (Re-appointed 1 April 2012)	4 years	31 March 2016	Staff Member (Support)	N/a	100%
Ms L Briggs	1 April 2016	4 years		Independent Member	Remuneration	66%

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

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

Mr M Burrow	7 November 2012	4 years	31 March 2016	Independent Member	Audit;	83%
Mrs S Cassey	1 April 2012 (Re-appointed 1 April 2016)	4 years		External Member	Audit	100%
Mrs L Evans	1 April 2016	4 years		Staff Member (Support)	N/a	100%
Miss G Glazier	1 July 2015	2 years	1 November 2015	Student Member	N/a	0%
Mr I Haines	23 March 2015	4 years		Independent Member	Audit	67%
Mr B Jefferson MBE	19 February 2007 (Re-appointed 1 April 2011)  (Re-appointed 17 November 2014)	4 years  1 year	31 March 2016	Independent Member	Search	83%
Mr J Kirton	13 July 2009 (Re-appointed 8 July 2013)	4 years		Independent Member	Remuneration; Search	100%
Mr M Leather	25 March 2013	4 years		Independent Member	Audit	70%
Mr G Mervin	1 April 2012	4 years		Staff Member (Academic)	N/a	71%
Mr D Percival	1 October 2015	2 years	30 June 2016	Student Member	N/a	33%
Mrs K Selby	17 November 2014	4 years		Independent Member	Audit	70%
Mrs H Shukla MBE	1 August 2008 (Re-appointed 26 March 2012)	4 years	31 March 2016	Independent Member	Search	33%
Mrs V White	1 April 2008 (Re-appointed 26 March 2012)	4 years	31 March 2016	Independent Member	Audit; Remuneration Search	67%
Mr D Wood	27 August 2003			Staff Member (Principal)	Search In attendance at Remuneration;	100%
Mr J Yazdani	15 November 2010 (Re-appointed 23 March 2015)	4 years		Independent Member	Remuneration	88%
Julie Wilkinson acted as Clerk to the Corporation until 1 November 2015. Oona Cushen acted as Clerk to the Corporation from 1 November 2015.						

The Corporation conducts its business within a revised governance structure, with only Audit, Remuneration and Search Committees. The Corporation meets monthly September to December, February, March and May to July.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

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

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

The Corporation is provided with regular and timely information on the overall financial performance of the College, against funding targets, proposed capital expenditure, quality matters, teaching and learning performance and personnel-related matters such as health and safety and environmental issues. The Corporation meets at least twice each term.

Agendas and full minutes of all meetings, except those deemed to be confidential by the Corporation, are available for inspection on the College's website or from the Clerk to the Corporation at:

Lancaster & Morecambe College  
Morecambe Road  
Lancaster  
LA1 2TY

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 and on the college website.

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

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

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

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

#### **APPOINTMENTS TO THE CORPORATION**

Members of the Corporation are appointed for a term of office not exceeding four years, but can be re-appointed for a further 4 years; 8 years maximum. In exceptional circumstances, this may be extended for a further year. The Corporation is responsible for ensuring that appropriate training is provided as required.

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

#### **SEARCH COMMITTEE**

The Corporation has a search committee, comprising five members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The rules and remit of the search committee are published on the College's website.

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

**CORPORATION PERFORMANCE**

Governors self-assessed their collective performance during the year as Requires Improvement. This grade was informed by the Ofsted inspection and their own self-assessment, which highlighted some areas for improvement around rigorous challenge and scrutiny of the performance management of teaching, learning and assessment, learner outcomes and adequate assurance that the College has the capacity for sustainable improvement.

**REMUNERATION COMMITTEE**

Throughout the year ending 31 July 2016 the College's remuneration committee comprised six members (reducing to five members from 1 April 2016). The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer, Clerk and other senior post-holders.

Details of remuneration for the year ended 31 July 2016 are set out in notes 7 and 8 to the financial statements.

**AUDIT COMMITTEE**

The audit committee comprises of five members of the Corporation (excluding the Accounting Officer). The committee operates in accordance with written terms of reference approved by the Corporation.

The audit committee meets at least on a termly basis and provides a forum for reporting by the College's internal and financial statements and regularity 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 undertakes 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 and regularity auditors and their remuneration for both audit and non-audit work as well a 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.

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

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

*The purpose of the system of internal control*

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

*Capacity to handle risk*

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

*The risk and control framework*

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

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

Lancaster & Morecambe College has an internal audit service, which operates in accordance with the requirements of the EFA's 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 and a programme of assurance 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. The audit committee was provided with regular internal audit reports on this assurance activity; these reports did not identify any significant actions required.

*Review of effectiveness*

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

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

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

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

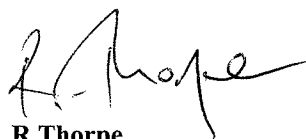
The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Principal and senior management team and the audit committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 16 November 2016 meeting the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

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

#### GOING CONCERN

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

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



**R Thorpe**  
Chair



**D Wood**  
Accounting Officer

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

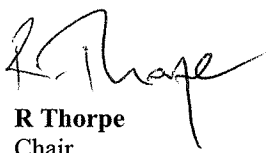
### **Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding**

The Corporation has considered its responsibility to notify the Skills Funding Agency 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.

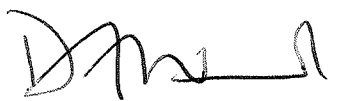
We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial 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 7 December 2016 and signed on its behalf by:



**R Thorpe**  
Chair



**D Wood**  
Accounting Officer

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

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

The members of the Corporation who act as trustees for the charitable activities of the College are required to present audited financial statements for each financial year.

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

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

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

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

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

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

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



**R Thorpe**  
Chair

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### **Independent Auditors' Report to the Corporation of Lancaster & Morecambe College**

We have audited the College financial statements ("the financial statements") set out on pages 19 to 43. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", as set out in our engagement letter dated 21 December 2015.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency and our engagement letter dated 21 December 2015. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 21 December 2015 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 Lancaster & Morecambe College and Auditor**

As explained more fully in the Statement of the Corporation's Responsibilities 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 the terms of our engagement letter dated 21 December 2015, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

# LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

## **Independent Auditors' Report to the Corporation of Lancaster & Morecambe College (Continued)**

### **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:

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

*RSM UK Audit LLP*

RSM UK Audit LLP  
Chartered Accountants  
3 Hardman Street  
Manchester  
M3 3HF

Date: *16 December 2016*

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
<b>INCOME</b>			
Funding body grants	2	9,621	9,610
Tuition fees and education contracts	3	1,328	1,542
Other grants and contracts	4	290	769
Other income	5	1,247	1,488
Investment income	6	30	38
<b>TOTAL INCOME</b>		<b>12,516</b>	<b>13,447</b>
<b>EXPENDITURE</b>			
Staff costs	7	8,923	8,811
Other operating expenses	8	3,301	3,564
Depreciation	11	938	967
Interest and other finance costs	9	209	195
<b>TOTAL EXPENDITURE</b>		<b>13,371</b>	<b>13,537</b>
<b>DEFICIT BEFORE TAX</b>		<b>(855)</b>	<b>(90)</b>
Taxation	10	-	-
<b>DEFICIT FOR THE YEAR</b>		<b>(855)</b>	<b>(90)</b>
Actuarial loss in respect of pension scheme	20	(1,849)	(748)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(2,704)</b>	<b>(838)</b>

The Income and Expenditure Account is in respect of continuing activities.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### College Statement of Changes in Reserves

	Income and expenditure account £'000	Revaluation reserve £'000	Total £'000
<b>RESTATED BALANCE AT 1 AUGUST 2014</b>	10,716	7,005	17,721
(Deficit) from the income and expenditure account	(90)	-	(90)
Other comprehensive income	(748)	-	(748)
Transfer between revaluation and income and expenditure reserves	194	(194)	-
	(644)	(194)	(838)
<b>BALANCE AT 31 JULY 2015</b>	10,072	6,811	16,883
Surplus/(deficit) from the income and expenditure account	(855)	-	(855)
Other comprehensive income	(1,849)	-	(1,849)
Transfers between revaluation and income and expenditure reserves	194	(194)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	(2,510)	(194)	(2,704)
<b>BALANCE AT 31 JULY 2016</b>	7,562	6,617	14,179

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

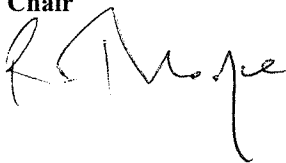
### BALANCE SHEET AS AT 31 JULY

	Notes	2016 £'000	2015 £'000
<b>NON CURRENT ASSETS</b>			
Tangible assets	11	23,685	24,012
		<b>23,685</b>	<b>24,012</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	12	379	544
Cash and cash equivalents		4,736	5,381
		5,115	5,925
<b>Less: CREDITORS: amounts falling due within one year</b>	13	(1,763)	(2,326)
<b>NET CURRENT ASSETS</b>		<b>3,352</b>	<b>3,599</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>27,037</b>	<b>27,611</b>
Creditors – amounts falling due after more than one year	14	(4,816)	(4,943)
<b>PROVISIONS</b>			
Defined benefit obligations	15	(8,042)	(5,785)
<b>TOTAL NET ASSETS</b>		<b>14,179</b>	<b>16,883</b>
<b>UNRESTRICTED RESERVES</b>			
Income and expenditure account		7,562	10,072
Revaluation reserve		6,617	6,811
<b>TOTAL UNRESTRICTED RESERVES</b>		<b>14,179</b>	<b>16,883</b>

The financial statements on pages 19 to 43 were approved and authorised for issue by the Corporation on 7 December 2016 and were signed on its behalf on that date by:

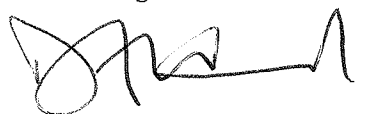
**R Thorpe**

Chair



**D Wood**

Accounting Officer



# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### STATEMENT OF CASH FLOWS

	Notes	2016 £'000	2015 £'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
(Deficit) for the year		(855)	(90)
<b>ADJUSTMENT FOR NON-CASH ITEMS</b>			
Depreciation		938	967
Decrease/(Increase) in debtors		165	(209)
(Decrease)/Increase in creditors due within one year		(563)	238
(Decrease) in creditors due after one year		(127)	(54)
Pension costs less contributions payable		408	303
<b>ADJUSTMENT FOR INVESTING OR FINANCING ACTIVITIES</b>			
Investment income		(30)	(38)
Interest payable		-	3
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>(64)</b>	<b>1,120</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income		30	38
Payments made to acquire fixed assets		(611)	(2,247)
		(581)	(2,209)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		-	(3)
		-	(3)
<b>DECREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR</b>		<b>645</b>	<b>1,092</b>
Cash and cash equivalents at beginning of the year		5,381	6,473
Cash and cash equivalents at end of the year		<b>4,736</b>	5,381

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES

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

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

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2015-16 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

##### **Transition to the 2015 FE HE SORP**

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 23.

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

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

Revaluation as deemed cost – at 1 August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value.

Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.

Monetary amounts in these financial statements are rounded to the nearest £1,000 except where otherwise indicated.

##### **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.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

##### Going concern

The activities of the College, together with the factors likely to affect its future development and performance, are set out in the Members Report. The financial position of the College, its cash flow and liquidity are presented in the Financial Statements and accompanying Notes. The College currently has no borrowings.

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

##### Recognition of income

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

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

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

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

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

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

##### Accounting for post-employment benefits

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

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

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

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

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

#### Short Term Employment benefits

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

#### Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

#### LAND AND BUILDINGS

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the college of between 38 and 50 years.

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

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

On adoption of FRS 102, the college followed the transitional provisions to retain the book value of land and buildings, which were revalued in 1994, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

##### ASSETS UNDER CONSTRUCTION

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

##### SUBSEQUENT EXPENDITURE ON EXISTING FIXED ASSETS

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

##### EQUIPMENT

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

Motor vehicles and general equipment	-	4 years
Computer equipment	-	4 years
Other assets	-	10 years
Assets in course of construction	-	Nil

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

##### LEASED ASSETS

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives relating to leases signed after 1 August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

There are no finance leases.

##### Cash and cash equivalents

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

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

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

##### Financial liabilities and equity

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

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

##### Foreign currency translation

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

##### Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 of the 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 it can only recover around 3% 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 are tangible fixed assets by nature.

##### Provisions and contingent liabilities

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

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

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

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

##### Agency arrangements

The College acts as an agent in the collection and payment of Discretionary Support and Bursary Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

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

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

- Determine whether leases entered into by the College, either as a lessor or a lessee, are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College'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.
- Tangible fixed assets are depreciated over their expected 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.
- The present value of the Local Government Pension Scheme defined 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.

#### 2 FUNDING BODY GRANTS

	2016 £'000	2015 £'000
<b>Recurrent Grants</b>		
Recurrent grant – Education Funding Agency	6,291	6,302
Recurrent grant – Skills Funding Agency	1,895	2,165
Higher Education Funding Council	86	116
Provision for repayment of Adult funding in previous year no longer required to be repaid – Skills Funding Agency	56	4
<b>Specific Grants</b>		
Work Based Learning	905	770
Releases of government capital grants	125	116
Other Funds	263	137
<b>TOTAL</b>	<b>9,621</b>	<b>9,610</b>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 3 TUITION FEES AND EDUCATION CONTRACTS

	2016 £'000	2015 £'000
Adult education fees	96	112
Fees for FE loan supported courses	350	315
Fees for HE loan supported courses	420	424
	<hr/>	<hr/>
Total tuition fees	866	851
Education contracts	462	691
	<hr/>	<hr/>
<b>TOTAL</b>	<b>1,328</b>	<b>1,542</b>
	<hr/>	<hr/>

#### 4 OTHER GRANTS AND CONTRACTS

	2016 £'000	2015 £'000
European Commission	290	769
	<hr/>	<hr/>
<b>TOTAL</b>	<b>290</b>	<b>769</b>
	<hr/>	<hr/>

#### 5 OTHER INCOME

	2016 £'000	2015 £'000
Catering	206	266
LCC contribution re M6 Link	-	165
Post 16 High Needs Student Funding	190	154
Other income (including Exam Fees, Nursery Fees and Sales from Training Activities)	851	903
	<hr/>	<hr/>
<b>TOTAL</b>	<b>1,247</b>	<b>1,488</b>
	<hr/>	<hr/>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 6 INVESTMENT INCOME

	2016 £'000	2015 £'000
Other interest receivable	30	38
<b>TOTAL</b>	<b>30</b>	<b>38</b>

#### 7 STAFF COSTS

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

	2016 Number	2015 Number
Teaching staff	104	105
Non teaching staff	196	203
<b>TOTAL</b>	<b>300</b>	<b>308</b>

#### Staff costs for the above persons

	2016 £'000	2015 £'000
Wages and salaries	7,157	7,265
Social security costs	441	412
Other pension costs	1,256	1,112
	<b>8,854</b>	<b>8,789</b>
Restructuring costs	69	22
<b>TOTAL</b>	<b>8,923</b>	<b>8,811</b>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which include the Principal, Vice Principal: Finance & Resources, Vice Principal: Curriculum & Quality Standards and the Director of Business Development. Staff costs include compensation paid to key management personnel for loss of office.

#### Emoluments of Key Management Personnel, Accounting Officer and other higher paid staff

The number of key management personnel including the Accounting Officer was:	4	4
--	---	---

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 7 STAFF COSTS (CONTINUED)

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

	Key management personnel		Other staff	
	2016 Number	2015 Number	2016 Number	2015 Number
£50,001 to £60,000	2	2	1	-
£60,001 to £70,000	-	-	-	-
£70,001 to £80,000	1	1	-	-
£100,001 to £110,000	1	1	-	-
	<u>4</u>	<u>4</u>	<u>-</u>	<u>-</u>

Key management personnel emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries	325	267
Pension contributions	34	32
	<u>359</u>	<u>299</u>

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

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

	2016 £'000	2015 £'000
Salaries	107	107
	<u>14</u>	<u>14</u>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 7 STAFF COSTS (CONTINUED)

##### Compensation for loss of office paid to former key management personnel

	2016 £'000	2015 £'000
Compensation paid to the former post-holder - <b>contractual</b>	17	-

The severance payment was approved by the College's Remuneration Committee.

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

#### 8 OTHER OPERATING EXPENSES

	2016 £'000	2015 £'000
Teaching costs	1,316	1,431
Non teaching costs	1,305	1,384
Premises costs	680	749
<b>TOTAL</b>	<b>3,301</b>	<b>3,564</b>

##### Other operating expenses include:

	2016 £'000	2015 £'000
Auditors' remuneration:		
Financial statements audit	13	13
Internal audit	11	11
Other services provided by the financial statements auditors	4	4
Operating leases – other equipment	13	33
Losses/(Gains) on foreign exchange	(46)	42

#### 9 INTEREST AND OTHER FINANCE COSTS

	2016 £'000	2015 £'000
Interest	-	3
Pension finance costs (note 20)	209	192
<b>TOTAL</b>	<b>209</b>	<b>195</b>

#### 10 TAXATION

The members do not believe the College is liable for any corporation tax arising out of its activities during the year (2015- £nil).

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 11 TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2015	29,958	7,211	14	37,183
Additions	228	184	199	611
Disposals	-	-	-	-
Transfer	14	-	(14)	-
<b>At 31 July 2016</b>	<b>30,200</b>	<b>7,395</b>	<b>199</b>	<b>37,794</b>
<b>Depreciation</b>				
At 1 August 2015	6,763	6,408	-	13,171
Charge for the year	612	326	-	938
Disposals	-	-	-	-
<b>At 31 July 2016</b>	<b>7,375</b>	<b>6,734</b>	<b>-</b>	<b>14,109</b>
<b>Net book value at 31 July 2016</b>	<b>22,825</b>	<b>661</b>	<b>199</b>	<b>23,685</b>
<b>Net book value at 31 July 2015</b>	<b>23,195</b>	<b>803</b>	<b>14</b>	<b>24,012</b>

Inherited land and buildings were valued for the purpose of the 1994 financial statements at depreciated replacement cost by Mr J J Worsnop ARICS, an employee of the Valuation Office Agency, a firm of Independent Chartered Surveyors. Other tangible fixed assets inherited from the Local Education Authority at Incorporation have been valued by the Corporation on a depreciated replacement cost basis.

#### 12 DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade receivables	56	138
Prepayments and accrued income	323	406
<b>TOTAL</b>	<b>379</b>	<b>544</b>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Trade payables	257	439
Other taxation and social security	257	239
Amounts due to Education Funding Agency	40	100
Amounts due to Skills Funding Agency	137	322
Accruals and deferred income	946	1,102
Deferred income – government capital grants	126	124
<b>TOTAL</b>	<b>1,763</b>	<b>2,326</b>

#### 14 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2016 £'000	2015 £'000
Deferred income – government capital grants	4,816	4,943
<b>TOTAL</b>	<b>4,816</b>	<b>4,943</b>

#### 15 PROVISIONS

	Defined benefit obligations £'000	Total £'000
At 1 August 2015	5,785	5,785
Expenditure in the period	(564)	(564)
Additions in the period	2,821	2,821
<b>TOTAL</b>	<b>8,042</b>	<b>8,042</b>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 20.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 16 CASH AND CASH EQUIVALENTS

	At 1 August 2015 £'000	Cash flows £,000	Other changes £,000	At 31 July 2016 £,000
Cash and cash equivalents	5,381	(645)	-	4,736
<b>TOTAL</b>	<b>5,381</b>	<b>(645)</b>	<b>-</b>	<b>4,736</b>

#### 17 CAPITAL AND OTHER COMMITMENTS

	2016 £'000	2015 £'000
Commitments contracted for at 31 July	215	69

#### 18 LEASE OBLIGATIONS

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

	2016 £'000	2015 £'000
<b>Other Equipment</b>		
Not later than one year	13	13
<b>Total</b>	<b>13</b>	<b>13</b>

#### 19 EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period.

#### 20 DEFINED BENEFIT 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 Lancashire County Council. Both are multi-employer defined-benefit schemes.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 20 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

	2016	2015
	£'000	£'000
<b>Total pension cost for the year</b>		
Teachers Pension Scheme: contributions paid	493	452
Local Government Pension Scheme:		
Contributions paid	564	549
FRS 102 (28) charge	199	111
Charge to the Statement of Comprehensive Income	763	660
<b>Total Pension Cost for Year</b>	<b>1,256</b>	<b>1,112</b>

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

#### Teachers' Pension Scheme

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

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

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

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

**Notes to the Accounts (continued)**

**20 DEFINED BENEFIT 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:

- new employer contribution rates were set at 16.4% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

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

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

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

**Scheme Changes**

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

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

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

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

The pension costs paid to TPS in the year amounted to £493,000 (2015: £452,000)

**FRS 102 (28)**

Under the definitions set out in FRS 102 (28.11) the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the 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 scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 20 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

##### LOCAL GOVERNMENT PENSION SCHEME

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Lancashire County Council. The total contributions made for the year ended 31 July 2016 were £788,000, of which employer's contributions totalled £564,000 and employees' contributions totalled £224,000. The agreed contribution rates for future years are 13.0% for employers and between 5.5% and 11.4% for employees, depending on salary. The College has been paying a further deficit recovery payment of £11,217 per month from August 2015 to March 2016 and £11,675 per month from April to July 2016.

Principal Actuarial Assumptions	At 31 July 2016	At 31 July 2015
Rate of CPI inflation	1.7%	2.2%
Rate of increase in salaries	3.2%	3.7%
Rate of increase for pensions in payment	1.8%	2.2%
Discount rate for scheme liabilities	2.5%	3.8%
Commutations of pensions to lump sums	50%	50%

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

	At 31 July 2016	At 31 July 2015
<i>Retiring today</i>		
Males	23.0	22.9
Females	25.6	25.4
<i>Retiring in 20 years</i>		
Males	25.2	25.1
Females	27.9	27.8

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

	Fair Value at 31 July 2016 £'000	Fair Value at 31 July 2015 £'000
Equities	7,495	5,519
Government Bonds	-	883
Other Bonds	486	417
Property	1,845	1,460
Cash	680	209
Other	8,914	7,558
<b>Total fair value of plan assets</b>	<b>19,420</b>	<b>16,046</b>
 Actual return on plan assets	 3,162	 1,530

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 20 DEFINED BENEFIT OBLIGATIONS (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	19,420	16,046
Present value of plan liabilities	(27,462)	(21,831)
	<hr/>	<hr/>
<b>Net Pensions (liability) (Note 15)</b>	<b>(8,042)</b>	<b>(5,785)</b>
	<hr/>	<hr/>

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

#### Amounts included in staff costs

	2016 £'000	2015 £'000
Current service cost	763	660
	<hr/>	<hr/>
<b>Total</b>	<b>763</b>	<b>660</b>
	<hr/>	<hr/>

#### Amounts included in interest and other finance costs

	2016 £'000	2015 £'000
Pension finance costs	209	192
	<hr/>	<hr/>
	209	192
	<hr/>	<hr/>

#### Amount recognised in Other Comprehensive Income

	2016 £'000	2015 £'000
Return on pension plan assets	2,548	924
Experience gains and losses arising on defined benefit obligations	(4,397)	(1,672)
	<hr/>	<hr/>
<b>Amount recognised in Other Comprehensive Income</b>	<b>(1,849)</b>	<b>(748)</b>
	<hr/>	<hr/>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 20 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

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

	£'000	£'000
Net defined (liability) in scheme at 1 August	(5,785)	(4,734)
Current Service cost	(763)	(660)
Net interest on the defined (liability)	(209)	(192)
Employer contributions	564	549
Actuarial (loss)/(gain)	(1,849)	(748)
Net defined (liability) at 31 July	<b>(8,042)</b>	<b>(5,785)</b>

##### Changes in the present value of defined benefit obligations

	2015 £'000	2015 £'000
Defined benefit obligations at start of period	21,831	19,006
Current Service cost	750	647
Interest cost	823	811
Contributions by scheme participants	205	200
Changes in financial assumptions	4,397	1,672
Estimated benefits paid	(544)	(505)
Net defined benefit (liability) at 31 July	<b>27,462</b>	<b>21,831</b>

##### Changes in fair value of plan assets

	2015 £'000	2015 £'000
Fair value of plan assets at start of period	16,046	14,272
Interest on plan assets	614	619
Return on plan assets	2,548	924
Administration expenses	(13)	(13)
Employer contributions	564	549
Contributions by scheme participants	205	200
Estimated benefits paid	(544)	(505)
Fair value of plan assets at end of period	<b>19,420</b>	<b>16,046</b>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### Notes to the Accounts (continued)

#### 21 RELATED PARTY TRANSACTIONS

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

The total expenses paid to or on behalf of the Governors during the year was £1,632; 4 governors (2014/15: £801; 2 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor, other than Staff Governors, has received any remuneration or waived payments from the College or its subsidiaries during the year (2014/15: None).

The College is one of fourteen members of The Lancashire Colleges Limited, a company limited by guarantee and registered in England and Wales. The principal activity of the Lancashire Colleges Limited is to co-ordinate bids for ESF and other external funding. The College's investment is not considered material to consolidate.

During the year ended 31 July 2016 the College received income of £nil k (2014/15: £nil k) and paid £7k (2014/15: £8k) to the Lancashire Colleges Limited. As at 31 July 2016 £nil k (2014/15: nil k) was outstanding from The Lancashire Colleges Limited.

#### 22 AMOUNTS DISBURSED AS AGENT

##### Education Funding Agency – 16-19 Bursary Fund

	2016 £'000	2015 £'000
Funding body grants	348	309
	<hr/>	<hr/>
	348	309
	<hr/>	<hr/>
Disbursed to students	298	270
Administration costs	10	10
	<hr/>	<hr/>
	308	280
	<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors	40	29
	<hr/>	<hr/>

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 22 AMOUNTS DISBURSED AS AGENT (CONTINUED)

##### Skills Funding Agency – Adult Discretionary Support

	2016 £'000	2015 £'000
Funding body grants	225	277
	225	277
Disbursed to students	180	188
Administration costs	10	11
	190	199
Balance unspent as at 31 July, included in creditors	35	78

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

#### 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	1 August 2014 £'000	31 July 2015 £'000
<b>FINANCIAL POSITION</b>			
<b>Total reserves under previous SORP</b>		17,952	17,114
Employee leave accrual	(a)	(231)	(231)
<b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>		(231)	(231)
<b>Total reserves under 2015 FE HE SORP</b>		17,721	16,883

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

### Notes to the Accounts (continued)

#### 23 TRANSITION TO FRS 102 AND THE 2015 FE HE SORP (CONTINUED)

		Year ended 31 July £'000
<b>FINANCIAL PERFORMANCE</b>		
<b>(Deficit) for the year after tax</b>		(90)
Pensions provision – actuarial loss	(b)	(748)
<b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>		(748)
<b>Total comprehensive income for the year under 2015 FE HE SORP</b>		(838)

#### 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 31 July each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 7 days unused leave for staff. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £231k was recognised at 1 August 2014, and at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £18k has been charged to 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 Income and Expenditure account 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.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

---

### **Reporting Accountant's Assurance Report on Regularity**

To: The Corporation of Lancaster & Morecambe College and Secretary of State for Business, Innovation and Skills acting through the Skills Funding Agency.

In accordance with the terms of our engagement letter dated 21 December 2015 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 Lancaster & Morecambe College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In 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 Lancaster & Morecambe 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 Lancaster & Morecambe 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 Lancaster & Morecambe College and Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

### **Respective responsibilities of Lancaster & Morecambe College and the reporting accountant**

The corporation of Lancaster & Morecambe 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 and our engagement letter.

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.

# LANCASTER & MORECAMBE COLLEGE

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

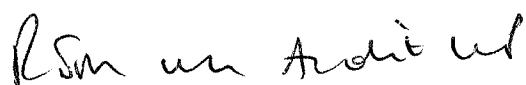
---

### Reporting Accountant's Assurance Report on Regularity (Continued)

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including high level financial control areas where we identified areas where a material irregularity is likely to arise. We undertook detailed testing, based on our identification of the areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions. This work was integrated with our audit on the financial statements to the extent evidence from the conduct of that audit supports 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.



RSM UK AUDIT LLP  
Chartered Accountants  
3 Hardman Street  
Manchester  
M3 3HF

Date: 16 December 2016