# KIRKLEES COLLEGE

## Report and Financial Statements for the year ended 31 July 2013

**Report and Financial Statements**

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## Operating and Financial Review

### NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2013.

**Legal status**

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting the business of Huddersfield Technical College. The College is an exempt charity for the purposes of the Charities Act 2011.

The Corporation was incorporated as Huddersfield Technical College. However, on 1st August 2008 the College merged its activities with Dewsbury College and at that date all assets, liabilities and activities of Dewsbury College were transferred to Huddersfield Technical College and Dewsbury College was dissolved. The Secretary of State granted consent to the Corporation to change the College's name to Kirklees College with effect from this date.

**Mission**

Kirklees College is committed to creating a culture of continuous improvement that challenges and stretches our ambition. We aim to be a desirable place to work and learn, exhibiting values and behaviours that encourage staff and students to be aspirational for themselves and inspirational to others.

Governors reviewed the College's mission during 2011/12 and on 9 December 2011 adopted a revised mission statement as follows:

*'Creating opportunity, changing lives'*

This mission statement was agreed following an extensive consultation exercise with stakeholders. The roadmap to the delivery of this mission was then established through a revision to the college values and its strategic plan. This new mission celebrates the fact that for many of our students Kirklees College is a 'second chance' institution that changes lives through the power of high quality vocational education and training and successful qualification outcomes which meet individual and community needs.

**Implementation of strategic plan**

On 12 October 2012, the Corporation formally approved updates to the College's strategic plan for the period 2011 to 2013. This document outlined the College's strategic priorities and the values that the college aims to develop to create a 'culture' that underpins professional standards and behaviours.

The college values were agreed as:

| | |
|---|---|
| Excellence | Pursuit of <u>Excellence</u> to be the best that we can be as professionals, departmental teams and as a college. |
| Integrity | <u>Integrity</u>, transparency, fairness and honesty in our management and communications. |
| Equality | Active promotion of the College <u>Equality</u> and Diversity policy. |
| Respect | <u>Respectful</u> and supportive behaviour towards each other, our students and our community. |

| | |
|---|---|
| Caring | Playing our part in the provision of a Caring environment that is safe, healthy, supportive and student responsive |
| Efficient | Value for public money and Efficient in the use of all resources. |
| Innovation | Promoting an environment where Innovation and creativity are encouraged. |

The college strategic priorities were agreed as:

1. To relentlessly pursue excellence of service in everything we do with student success rates above national average at every level.
2. To provide responsive, efficient and enterprising education and training.
3. To develop and provide an inclusive learning environment that is safe, supportive, and focussed on success.
4. To develop specialist centres of vocational excellence and efficient estate management.
5. To ensure effective internal and external communication, marketing, customer friendly front line services and pro-active external partnerships.
6. To attract, nurture, develop and retain a highly skilled and professional workforce who work collectively to deliver the college strategic priorities.
7. To stabilise college finances, improve financial information, income generation and efficiency at every level of the college.
8. To support the delivery of learning by improving the effectiveness of MI, IT and examination services.

Against each of these objectives, critical success criteria and KPIs were set and performance against them monitored by corporation committees. Progress against these objectives has been very good. Key progress against the agreed objectives includes:

*1 To relentlessly pursue excellence of service in everything we do with student success rates above national average at every level.*

- Overall success rates have improved from 82% in 2010/11 to 88% in 2011/12 and further to 89.03% in 2012/13. The improvement can be seen across all levels of provision, student age groups, subject areas and ethnic groups.
- Long course success rates were 88.05% - in the top 10% of general FE colleges nationally.
- Long course retention rates for 2012/13 were 6.85% above national average at 90.61%.
- 87% of lesson observations were graded 'good' or better, a 15% improvement over two years, with 18% graded 'Outstanding'.
- 17 out of 19 (89%) of curriculum area self-assessments are graded good or better for teaching, learning and assessment.
- The college has self-assessed as 'Outstanding' for learner outcomes for 2012/13.

*2 To provide responsive, efficient, and enterprising education and training*

- The college has continued to positively engage with all major stakeholders to ensure that provision is responsive to the needs of our community. In 2012/13 this has resulted in the launch of a new construction academy at Dewsbury, a retail apprenticeship academy, the introduction of air cabin and ground crew training, and the college has offered basic skills, ESOL, foundation learning and IT provision from over 20 community based locations in response to community demand.

## Operating and Financial Review *Continued*

- The College was re-inspected by Ofsted Inspectorate under the new inspection framework in November 2012, and was assessed as 'Good' overall with Leadership and Management being 'Outstanding'

3 *To develop and provide an inclusive learning environment that is safe, supportive, and focussed on success.*

- "Equality and diversity are promoted extremely well. No significant differences exist between the performance of different groups and staff are very responsive to the different needs of learners" *(Ofsted 2012).*
- Retention and success for students in receipt of additional learner support are above college average.
- 92% of students agree that staff are supportive and helpful and 93% state that they feel that the college is a safe place to learn, with little evidence of bullying.
- Feedback has been used effectively to improve the learner experience. Student satisfaction responses from the student survey are at or above national benchmarks.
- Learner support funds are effectively used to promote student success, 95% of the 3,350 students receiving financial support were retained on programme.

4 *To develop specialist centres of vocational excellence and efficient estate management.*

- The college opened its £10m new engineering centre to students in August 2012, which was delivered on time and within budget
- The new Waterfront campus was opened to students from August 2013 offering a first class education environment.
- A further £760k has been invested during 2012/13 in upgrading other parts of the college estate as a continuation of the move to 'centres of excellence.' £120k in grant funding has been received from the SFA to support this investment.
- As part of the estate consolidation strategy, the college has disposed of two properties during the year, and a third was sold in August 2013. Leases were terminated on two further properties, with provision being consolidated into college owned centres.

5 *To ensure effective internal and external communication, marketing, customer friendly front line services and pro-active external partnerships.*

- 94% of support department self-assessments are graded good or better for 2012/13 (2011/12 86%).
- The external partnerships strategy has delivered significant levels of new business or 'in kind' contributions to the college.
- 97% of media coverage has been positive, with the local press being particularly positive about the opening of the new Waterfront campus.
- The college has focussed on:
  - ensuring consistent messages are promoted at all centres and in all teams on college priorities, strategies, values and behaviours;
  - improving awareness of the College's 16-18 offer and improving conversion rates of applicants.

6 *To attract, nurture, develop and retain a highly skilled and professional workforce who work collectively to deliver the college strategic priorities.*

- A comprehensive staff development offer, teaching and learning conferences and a highly effective teacher development team has resulted in improvements in the quality of teaching, learning and assessment to such an extent that the college self-assesses this aspect as 'Good, with outstanding aspects'.
- Good relationships with trades unions have been maintained despite the requirement to make significant staff savings in year to meet budget challenges.
- Rates of sickness absence were reduced by 0.4% due to a college wide proactive and consistent approach to managing sickness absence. College sickness absence rates now compare favourably with sector average.

7 *To stabilise college finances, improve financial information, income generation and efficiency at every level of the college.*

- The college has returned a financial performance for 2012/13 in line with the revised budget and is on track to meet strategic recovery plan targets
- Significant improvements have been made in financial and cash flow forecasting and planning.
- Staff costs have been effectively reduced, without impacting negatively on student success.
- Bank facilities have been agreed to support the college with cash flow through its recovery strategy.

8 *To support the delivery of learning by improving the effectiveness of MI, IT and examination services.*

- All data returns have been delivered to the required standards and in a timely manner.
- Progress has been good in further network improvements, through the installation of new data centres and Wi-Fi facilities.
- The quality of college data has been praised in the most recent Ofsted inspection, and is pleasing given the significant investment made in new student records systems.
- Electronic registers have been rolled out across College during 2012/13.

## Financial objectives

In January 2012 the college received a Financial Notice to Improve (FNtI) from the SFA. This was served as a result of a worsening financial position caused by a range of factors but substantially due to historical underperformance against funding contracts, falling funding allocations and increased costs of funding the new build projects due to the increase in the rate of VAT.

In response to the FNtI, the College prepared a Strategic Recovery Plan (SRP) that incorporated financial objectives to restore financial health within a timeframe acceptable to the SFA. The SRP was prepared and agreed by the Corporation in April 2012.

## Operating and Financial Review *Continued*

Three key financial objectives were identified in the SRP that would return the College to a financial health of 'good' by the end of 2015. These were:

- To focus on the management of solvency
- To improve budget planning and forecasting
- To increase the knowledge base of managers throughout the college

Significant progress has been made against all of these objectives, and the College is optimistic that the FNtI will be lifted in the near future

### Performance indicators

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

- Success rates
- Learner destinations
- Satisfaction survey (Formally "Learner views")
- Satisfaction survey (Formally "Employer views")

The College is committed to observing the importance of the measures and indicators within the Framework and is monitoring these through the governor sub committees.

## FINANCIAL POSITION

### Financial results

The College has outturned an operating deficit before exceptional items in the year of £1,066,000 (surplus of £598,000 in 2011/12). This operating deficit is after an FRS17 charge of £791,000 (£491,000 in 2011/12).

The College has adopted the measure of Operating Surplus for Performance Ratio (OSPR) for tracking financial performance. This measure adjusts the operating position for the major non cash transactions of depreciation, capital grant releases and the FRS17 operating charge. In 2012/13, the College outturned an OSPR of £1,456,000 against a revised budget target of £1,416,000.

The College's consolidated accounts show accumulated reserves of £2,130,000 prior to the pension deficit reserve of £15,218,000, i.e. a net deficit general reserve position of £13,088,000 compared to the net deficit general reserve of £15,961,000 in 2011/12. The improvement in this position is largely due to a reduction in the deficit pension reserve of £3,334,000. Note 23 to the Financial Statements explains the movement in this reserve in more detail.

Tangible fixed asset additions during the year amounted to £10,078,000 (£33,323,000 in 2011/12). This was split between freehold land and buildings acquired of £4,803,000 and equipment purchases of £5,275,000.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2012/13 the funding bodies provided 87% of the College's total income, down 1% from 2011/12.

The College has one wholly owned subsidiary company, Pennine College Limited. The principal activity of Pennine College Limited is to raise funds from commercial activities to advance the education of learners at the college. The amount transferred from the subsidiary company to the college under Gift Aid was £147,761.

### 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. In March 2010, the College agreed a long-term borrowing facility of £23.4m from the local authority at a fixed rate for 25 years of 5.08%. This loan was taken out as the agreed sum that the College would contribute towards the financing of the £85m major capital build projects in Huddersfield. A short-term loan was also approved at the same meeting, to be taken out as required to bridge the gap between the 3 year build period and the 5 year £55m SFA receipt of grant period. At the 31 July 2013 year end, the sum undrawn against this facility was £9.151m.

The loan agreement with the local authority had a number of conditions attached, one of which was to reach practical completion on the Waterfront development by 2 July 2012. This date was not met by 31 July 2012 and therefore, the College had not met this loan condition at the July 2012 year end.

Although the College received confirmation from the local authority after the July 2012 year end that a revised practical completion date had been agreed and therefore loan conditions had been met, this did not satisfy the technical accounting requirements of FRS25 Financial Instruments. As a result, at 31 July 2012 the College was required to classify the debt as due within one year. All loan conditions have been met in 2012/13, and the loan has been reclassified as due in over one year at 31 July 2013.

All other borrowing arrangements comply with the college Financial Regulations and Financial Memorandum of the SFA/EFA.

### Cash flows

There was a net cash inflow from operating activities of £3,685,000 in 2012/13 compared to £1,868,000 in 2011/12. Note 24 of the Financial Statements explains the movement in cash flows in more detail.

### Liquidity

During 2012/13, cash flow has been maintained within the parameters set in the recovery plan. Cash flow from operating activities has materially exceeded the cost of borrowing, and future budgets have been set to ensure that this remains the case as the College continues its financial recovery.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

### Student numbers

In 2012/13 the College has reported activity that has produced £37,520,000 in SFA/EFA funding (2011/12, £38,057,000). The College had approximately 17,000 funded learners from these allocations. The College also had 311 full time and part time HE students.

## Operating and Financial Review *Continued*

### Curriculum achievements

The College was inspected in November 2012 under the new Ofsted framework. The College was delighted with the outcome of 'Good' with 'Outstanding' leadership and management. Ofsted praised the steep rise in learner success rates, and value added scores. This was delivered through a relentless focus on improving teaching, learning and assessment, teachers being well qualified in their vocational and professional area of expertise and the ongoing focus on the identification and support for those students identified as being at risk of not completing their programme. All curriculum areas inspected were awarded the grade of 'Good'.

This will have significant benefits to the College going forward in terms of reputation and the ability to meet the needs of the community it serves.

The College moved from 230th out of 236 GFE Colleges in the National Success Rate Tables in 2009/10, to 17th out of 224 and the best in Yorkshire and Humber in 2012/13. The college now lies 3rd nationally of large Colleges (over 7000 starts) for overall long course success rates, 4th for the 16-18 age group and 1st for adults.

### Curriculum developments

Many of our learners have low levels of prior educational achievement, but despite this, outcomes for our learners have been excellent, with a 97% pass rate across the college and excellent value added scores.

We continue to offer a curriculum strong in breadth and depth, including courses offering Higher Education opportunities. We continue to work in partnership with universities in our region.

The above notwithstanding, the College is proactively looking to improve penetration of its community and SME provision, and continue to broaden its curriculum offer at the Dewsbury campus.

### Environmental matters

Whilst the College seeks to minimise its impact on the environment, the nature of some of its estate limits the extent of what it can do. Elements of the old estate are energy inefficient and some facilities and equipment are duplicated at the existing sites. The major capital new builds will go a long way to address this situation along with other measures we have introduced such as energy efficient lighting, improvements to our heating and water systems and improved control of energy and water usage. Both the new Engineering Centre and Waterfront buildings meet the Building Research Establishment Environmental Assessment Model (BREEAM) level of excellent rating.

### 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 year ended 31 July 2013, the College paid 92% of its invoiced values within 30 days (94% of invoice volumes). The College incurred no interest charges in respect of late payment for this period.

## Operating and Financial Review *Continued*

### Future developments

The major College development continues to be the enhancement of the College's estate. Whilst the completion of the new centre at the Waterfront in Huddersfield was delayed, the building was occupied over the summer of 2013 and was open to students from September 2013. Although the recent new buildings have been constructed in Huddersfield, the College remains committed to the development of its campus in Dewsbury, and will continue to work with our local communities and employers to deliver a curriculum offer that meets their needs.

Our College remains determined to continue raising standards in everything it does. We have demonstrated improvements to the learner experience, and the success of this strategy has been evidenced by improving success and satisfaction rates of our learners. This will continue to be a focus in future years.

### Going concern

A number of diverse factors came together in 2010/11 to place increased pressure on the College's finances. The college has continued to make good progress in addressing some of the contributory issues, and has delivered against the detailed recovery plan which sees the College returning to 'good' financial health by 2014/15. Actions delivered in 2012/13 include:

- A further review of the College's cost base – significant staff cost reductions between 2011/12 and 2012/13 can be seen in note 7 to the accounts.
- Improvements made in the use of data to inform business planning and monitoring, the success of this has been evidenced by the college being awarded growth in the adult skills budget allocation mid way through the year. The college delivered 99.75% of the revised allocation in 2012/13.
- Improvements in the quality and frequency of budgeting, financial monitoring and long term financial forecasting.

One of the key risks to the College continuing as a 'going concern' in a difficult financial position is maintaining its cash flow. The College has operated within its negotiated facilities during 2012/13 and has agreed bank facilities in place until the end of October 2014 sufficient to support the cash flow forecasts.

Whilst uncertainties remain in respect of changing funding methodologies, and the impact of lower than planned 16-18 learner numbers, the College believes it can manage these fluctuations, and therefore believes that presenting these financial statements on a going concern basis is appropriate,

## RESOURCES

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

Tangible resources as at 31st July 2013 include the main College sites in Huddersfield and Dewsbury and seven other specialist sites situated in the Kirklees area. Whilst the new Engineering Centre was occupied to plan throughout 2012/13, the Waterfront campus was opened to students from September 2013.

The College group has net assets of £64,430,000 as at 31st July 2013 (£56,200,000 in 2011/12), including a pension liability of £15,218,000 (£18,552,000 in 2011/12). The College employed an average of 829 full time equivalent staff in the year to 31st July 2013 (863 in 2011/12) of whom 386 (389 in 2011/12) are teaching staff.

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 Colleges assets and reputation.

The Risk Management Policy, Procedures and Register were fully embedded into college operations throughout 2012/13. All risks are linked to strategic objectives and are 'owned' by the strategic objective 'owner'. The Risk Register is reviewed with the Risk owners on a termly basis and then presented to the SLT for consideration before being presented to the Audit Committee and full Corporation.

We feel that our robust policy and procedures gives governors and other stakeholders assurance with regard to reducing and mitigating the risks where appropriate.

We apply a "heat map" procedure to assess levels of risk. 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. Using the heat map process, the risks are prioritised in a RAG (Red, Amber, Green) manner which gives the governors and SLT an easily recognised picture at a glance but with the detail beneath it as and when required. The Risk Management Policy and Procedures identify the inherent risks, the residual risks following implementation of appropriate controls and also show a target risk profile.

The Senior Leadership Team also consider any risks which may arise as a result of a new area of work being undertaken by the College, and have a separate risk register for the capital builds.

Outlined below is a list of the high risk factors that the College has assessed as its key risks. Whilst all risks are reported, the risks below form the focus of reports to Governors. Not all the factors are within the College's control. Other factors besides those listed may also adversely affect the College.

- Failure to dispose of properties, impacting on the ability to repay our loans;
- Contractors do not deliver the required quality in the new builds;
- Failure to have an effective disaster recovery plan;
- The curriculum plan is not driven by appropriate customer needs analysis;
- The curriculum plan is not achieved, resulting in a loss of funding and/or student numbers;
- Failure to have a market led approach to college strategy;
- Failure to manage the capital build to budget.

The above are some of the high risk areas identified by the Senior Leadership Team. The Risk Register lists all of the controls and risk reduction measures under every risk. We continue to monitor and mitigate our risks on a regular basis.

## STAKEHOLDER RELATIONSHIPS:

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

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Our bankers;
- Local Authorities;
- Government Offices/ LEP's;
- The local community;
- Other FE institutions;
- Trade unions; and
- 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.

**Disability statement**

The College seeks to achieve the objectives set down in the Equality Act 2010, and the Disability Discrimination Act 1995 as amended by the Special Educational Needs and Disability Acts 2001 and 2005.

**Equal opportunities and employment of disabled persons**

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

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

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

**Equality and Diversity**

It is our policy to provide equal opportunities to all who learn with and work for Kirklees College irrespective of gender, race, ethnic origin, disability, age, nationality, national origin, religious belief, sexual orientation or marital status. We oppose all forms of unlawful and unfair discrimination.

The College seeks to positively remove conditions and barriers which place people at a disadvantage and we will actively promote equality for all and celebrate diversity. To do this, we will monitor our performance and publish an annual report. We will ensure that all our procedures for both staff and students are open and easily accessible. We have developed an action plan specifically to ensure that we close any achievement gaps. In 2012/13 there were no significant achievement gaps. All students and staff will be helped and encouraged to

## Operating and Financial Review *Continued*

develop their full potential within an ethos which reflects the equal status of all members of the College.

The College has introduced its single Equality Action plan which is the response to the statutory general and specific duties enshrined in the Race Relations (Amendment) Act (2000), the Disability Discrimination Act (2005), the Equality Act (2006), and the SEND Act (2001).

The action plan highlights how the College plans to meet its statutory duties to promote race, disability and gender equality. The plan will also act as a framework for compliance with other legislation and policy guidance outlawing discrimination on the grounds of age, belief or sexual orientation.

The principles of equality and fair treatment for all are therefore to be the basis for every aspect of the Colleges business.

Under the Race Relations Amendment (2000) Act all public bodies, including Colleges have a legal responsibility to assess and consult on how their policies and functions affect different racial groups, and to monitor any possible negative impact on race equality. The purpose of equality impact assessment is to ensure that all the College's policies, procedures, practices, provisions and criteria are fair to all groups of people.

In addition, the Disability and Discrimination Act 2005 also demands a similar process of equality assessment in relation to disability, and clear outlines of how this will be undertaken. The Equality Act 2006 places a statutory duty upon public bodies when carrying out their public duties to have due regard of the need to eliminate unlawful discrimination and harassment and promote equality of opportunity between men and women. The general duty places a proactive responsibility upon all public bodies to ensure that their services, practices and policies are developed with the different needs of women and men in mind. This will lead to a more inclusive society with high quality contemporary services - targeted to meet the specific needs of men and women.

The College has extended its legal duty to undertake generic equality impact assessment, taking account of other equality dimensions outlined in anti-discrimination legislation covering gender, age, religion and sexual orientation. In addition the College wants to make sure that no other group or individual is treated unfairly for any other reason such as social class, part-time status etc.

### 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 13 December 2013 and signed on its behalf by:**

Signed ..............................................................................

Mr G Alvy, Chairman

Date 13/12/2013

## Professional advisers

### Financial statement and regularity auditors:

Grant Thornton (UK) LLP
No. 1 Whitehall Riverside
Whitehall Road
Leeds
LS1 4BN

### Internal auditors

Pricewaterhouse Coopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

### Bankers:

Lloyds Bank plc
1 Westgate
Huddersfield
HD1 2DN

Kirklees Council
Civic centre
3 Market Street
Huddersfield
HD1 1WG

### Solicitors:

Eversheds LLP
Bridgewater Place
Water Lane
Leeds
LS11 5DR

Eaton Smith LLP
14 High Street
Huddersfield
HD1 2HA

## Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code issued by the FRC in June 2010. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2013. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

### The Corporation

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

| Member | Date of Appointment | Term of Office Expires | Date of Resignation | Status of Appointment | Committees Served |
|---|---|---|---|---|---|
| Mr J Akhtar | 15.07.05. | 31.03.15 | | Independent member | Human Resources; Search & Governance, QPS |
| Mrs R N Afzaal-Khan | 01.08.08. | 31.03.16 | | Independent member | Human Resources |
| Mr G T Alvy (Chair from 26.1.13) | 01.08.08. | 31.03.16 | | Independent member | Audit (to 25.1.13); Search & Governance, Executive Employment, Finance |
| Mrs J Bracewell | 14.07.11 | 31.07.14 | | Independent member | Human Resources; QPS, EEC, Audit |
| Ms K Brooke | 11.10.13 | 31.7.16 | | Staff member (Curriculum) | Audit |
| Ms L Brooks | 11.10.13 | 31.7.14 | 7.11.13 | Student member | QPS |
| Mrs L Carruthers | 14.07.11 | 31.07.14 | | Independent member | Finance, Audit (not concurrently) |
| Mr J J Dakers (Chair to 25.1.13) | 09.10.92. | 31.03.14 | 25.01.13 | Independent member | Chair: Corporation Chair: Executive Employment; Finance; Search & Governance (ex officio); Core Vision Steering Group |
| Mr R A Dawson | 20.01.06. | 31.03.16 | | Independent member | Audit; QPS; Health & Safety |
| Ms J Gedman | 09.12.11 | 31.07.14 | | Independent member | |

## Statement of Corporate Governance and Internal Control *Continued*

| Member | Date of Appointment | Term of Office Expires | Date of Resignation | Status of Appointment | Committees Served |
|---|---|---|---|---|---|
| Prof. S A Frost | 08.12.06. | 31.03.13 | 31.03.13 | Independent member | Human Resources; QPS; Search & Governance; Students' Union Council |
| Ms C Gormley | 12.10.12 | 31.3.15 | 25.03.13 | Independent member | QPS |
| Mr R Gray | 30.11.10 | 31.08.13 | 31.08.13 | Staff member | Audit |
| Mrs S Hutton | 01.01.10 | 31.08.13 | 31.08.13 | Staff member | QPS |
| Mr S H Inniss | 09.10.92. | 31.03.13 | Deceased (March 2013) | Independent member | Human Resources; Health & Safety |
| Prof. C Jarvis | 22.03.13 | 31.03.16 | | Independent member | QPS |
| Mr K Levy | 27.03.09. | 31.07.13 | 31.07.13 | Student member | QPS |
| Mr P McCann | 01.06.11 | | | Principal | |
| Ms P McQuilkin | 11.10.13 | 31.7.16 | | Staff Member (Business Support) | QPS |
| Mrs J A Newbery (Vice-Chair) | 16.05.97. (Reappointed 01.04.07) | 31.03.15 | | Independent member | QPS; Finance; Executive Employment; Search & Governance Students' Union Council |
| Ms C Rowley | 19.09.11 | 31.07.14 | | Independent member | Finance |
| Mr J M Royle | 17.05.06. | 31.03.16 | | Independent member | Audit, Finance (not concurrently), Core Vision SG, QPS |
| Mr T Scaramuzza | 23.03.12 | 31.07.13 | 11.10.13 | Student member | QPS |
| Prof. J Thompson | 22.03.13 | 31.03.16 | | Independent member | Audit |
| Mr J Williams | 12.7.12 | 31.3.15 | | Independent member | Finance, Executive Employment |

**Statement of Corporate Governance and Internal Control** *Continued*

Mr D Winward acts as the Clerk to the Corporation.

The following persons, whilst not full members of the Corporation, served as external, co-opted members:-

Mr J Edwards (Quality, Performance & Standards Committee), Mrs G Ellis (Quality, Performance & Standards Committee), Mrs C Hardern (Finance Committee) and Mr R Tatnis (Audit Committee).

The following persons also acted as Directors of the College's wholly owned subsidiary, Pennine College Limited:-

Mr J J Dakers (to 25.1.13); Mr P McCann, Mrs R Meara and Mrs J A Newbery.

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

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality and curriculum matters and human resources related matters such as health and safety and environmental issues. The Corporation meets six times each year (or twice each academic term).

The Corporation conducts its business through a number of committees. Each committee has terms of reference which have been approved by the Corporation and are reviewed annually. These committees are Audit, Finance, Executive Employment, Human Resources, Quality, Performance & Standards and Search and Governance. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at: Kirklees College, Huddersfield Centre, Waterfront Quarter, Huddersfield, HD1 3HH or, alternatively, on the College's website: www.kirkleescollege.ac.uk

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

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

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

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

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

### Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance Committee which is comprised of five members (plus Chair of Corporation and Principal, ex officio), which is responsible for the selection and nomination of any new member, for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a single term of office not exceeding three years, except in the case of student members where the single term of office does not exceed one year.

### Executive Employment Committee

During the year ending 31 July 2013, the College's Executive Employment Committee comprised:-

Mrs J Bracewell, Mr G T Alvy, Mr J J Dakers, Mr J Williams, and Mrs J A Newbery.

The Committee's responsibilities are to make recommendations to the Corporation on the remuneration and benefits of the Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2013 are set out in notes 7 and 8 to the financial statements.

### Audit Committee

The Audit Committee comprises five members of the Corporation and one co-opted member. The Principal and the Chair of the Corporation are not eligible to be members of this committee. The Committee operates in accordance with written terms of reference approved by the Corporation and in line with those recommended in the Audit Code of Practice. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management, control and governance processes.

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

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and that 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/regularity auditors and their remuneration for both audit and non-audit work.

**Statement of Corporate Governance and Internal Control** *Continued*

## 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, not absolute, assurance against material misstatement or loss.

The Corporation has delegated to the Principal, as Accounting Officer, the day-to-day responsibility 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 the College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or break-downs in internal control.

*The Purpose of the System of Internal Control*

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at Kirklees College for the year-ended 31 July 2013 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 2013 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 Corporation 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; and
- The adoption of formal project management disciplines, where appropriate.

**Statement of Corporate Governance and Internal Control** *Continued*

Kirklees College has an internal audit service which operates in accordance with the requirements of the SFA's Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. PricewaterhouseCoopers LLP, who were the College's internal auditors for the year-ended 31 July 2013, provide the Corporation with an annual report on the internal audit activity in the College. The report includes an independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes. In addition to the report produced by the internal auditors, the Audit Committee also produces for the Corporation an annual audit report. The purpose of this report is to advise the Corporation on the Committee's views on the adequacy of the College's systems and arrangements for risk management and governance processes. The College's internal auditors also included a review of the College's arrangements for corporate governance in their annual programme of audits.

**Review of Effectiveness**

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

- The work of the internal auditors;
- The work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the College's financial statements and regularity auditors, the appointed funding auditors in their management letters and other reports

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

The Senior Leadership 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 Directorates and reinforced by risk awareness training. The Senior Leadership Team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement.

The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Leadership Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

At its 28$^{th}$ November 2013 meeting, the Audit Committee considered its annual report for the year ended 31 July 2013.

**Going Concern**

After considering the financial risks and uncertainties facing the College, and after making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**Statement of Corporate Governance and Internal Control** *Continued*

Approved by order of the Members of the Corporation on 13 December 2013 and signed on its behalf by:

Signed ..........................................................................................
**Mr G Alvy, Chairman**

Signed ..........................................................................................
**Mr P McCann, Principal**

Date ....13/12/13..........................................................................

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

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency/ Education Funding Agency and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction for 2012/13 financial statements issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of 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 accounting estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Corporation is also required to prepare an Operating and Financial Review 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 to enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the Skills Funding Agency and the 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 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, the Education Funding Agency and Kirklees Council are not put at risk.

## Statement of the Responsibilities of the Members of the Corporation (*continued*)

Approved by order of the Members of the Corporation on 13 December 2013 and signed on its behalf by:

Signed ..............................................................................................................

**Mr G Alvy, Chairman**

Date 13/12/13 .

## Independent Auditors' Report to the Corporation of Kirklees College

We have audited the financial statements ("the financial statements") of Kirklees College for the year ended 31 July 2013 which comprise of the consolidated income and expenditure account, the consolidated statement of historical cost surpluses and deficits, the consolidated statement of total recognised gains and losses, the balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the Corporation, as a body, in accordance with Article 16 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of the members of the Corporation of Kirklees College and auditor

As described in the Statement Responsibilities of the members of the Corporation set out on page 20, the college's Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 www.frc.org.uk/apb/scope/private.cfm.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Groups' and of the College's affairs as at 31 July 2013 and of the Group's deficit of income over expenditure for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions

**Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the YPLA and the Audit Code of Practice issued by the Learning and Skills Council**

In our opinion:

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
16 December 2013

## Independent Auditors' Report on Regularity to the Corporation of Kirklees College ('the Corporation') and the Chief Executive of the Skills Funding Agency

In accordance with the terms of our engagement letter and further to the requirements of the Chief Executive of Skills Funding, we have performed procedures to obtain assurance about whether, in all material respects, the expenditure disbursed and income received of Kirklees College ('the College') for the year ended 31 July 2013 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Corporation and the Chief Executive of Skills Funding. Our work has been undertaken so that we might state to the Corporation and the Chief Executive of Skills Funding those matters we are required to state to it 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 and the Chief Executive of Skills Funding, for our work, for this report, or for the opinion we have formed.

### Respective responsibilities of the Members of the Corporation of Kirklees College and Auditors

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

Our responsibilities for this work are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice as amended by the Joint Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, expenditure and income for the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Basis of opinion

We conducted our work in accordance with the Audit Code of Practice as amended by the Joint Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. Our work includes examination, on a test basis, of evidence relevant to the regularity and propriety of the College's income and expenditure.

### Opinion

In our opinion, in all material respects, the expenditure and income for the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants
LEEDS
16 December 2013

## Consolidated Income and Expenditure Account

***for the year ended 31 July 2013***

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Income** | | | |
| Funding body grants | *2* | 38,895 | 41,365 |
| Tuition fees and education contracts | *3* | 2,695 | 2,392 |
| Other grants and contracts | *4* | 97 | 184 |
| Other income | *5* | 2,055 | 1,519 |
| Investment income | *6* | 72 | 112 |
| **Total income** | | 43,814 | 45,572 |
| **Expenditure** | | | |
| Staff costs | *7* | 27,384 | 27,682 |
| Exceptional restructuring costs | *7* | 787 | 434 |
| Other operating expenses | *9* | 12,881 | 12,866 |
| Depreciation | *13* | 2,486 | 2,792 |
| Interest payable | *10* | 1,342 | 1,200 |
| **Total expenditure** | | 44,880 | 44,974 |
| **(Deficit)/surplus on continuing operations after depreciation of assets at valuation, and before exceptional items and tax** | | (1,066) | 598 |
| **Exceptional items:** | | | |
| Impairment of assets on revaluation | | (1,258) | - |
| Loss on disposal of assets | | (41) | - |
| **(Deficit)/surplus on continuing operations after depreciation of assets at valuation, impairment and exceptional items and before tax** | | (2,365) | 598 |
| Taxation | *11* | - | - |
| **(Deficit)/surplus on continuing operations after depreciation of assets at valuation, impairment, exceptional items and tax** | | (2,365) | 598 |

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

## Consolidated Statement of Historical Cost Surpluses and Deficits

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax | (2,365) | 598 |
| Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount | 1,203 | 849 |
| **Historical cost (deficit)/surplus for the year** | (1,162) | 1,447 |

## Consolidated Statement of Total Recognised Gains and Losses

***For the year ended 31 July 2013***

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax | (2,365) | 598 |
| Unrealised surplus on revaluation of fixed assets | 1,143 | - |
| FRS17 actuarial gain/(loss) in respect of the pension scheme | 4,125 | (7,701) |
| FRS12 actuarial loss | (91) | (41) |
| Unrealised movement on restricted reserve | 1 | - |
| **Total recognised gains/(losses) since last report** | 2,813 | (7,144) |

**Reconciliation**

| | | |
|---|---|---|
| Opening reserves | 3,471 | 10,615 |
| Total recognised gains/(losses) for the year | 2,813 | (7,144) |
| Closing reserves | 6,284 | 3,471 |

## Consolidated Balance Sheet
*at 31 July 2013*

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 13 | 109,047 | 103,445 |
| Investments | 14 | 7 | 6 |
| | | 109,054 | 103,451 |
| **Current assets** | | | |
| Stock | | 46 | 46 |
| Debtors | 15 | 4,965 | 5,808 |
| Assets held for resale | | 1,988 | 723 |
| Cash at bank and in hand | | 2,940 | 102 |
| | | 9,939 | 6,679 |
| **Creditors:** Amounts falling due within one year | 16 | (15,623) | (33,261) |
| **Net current liabilities** | | (5,684) | (26,582) |
| **Total assets less current liabilities** | | 103,370 | 76,869 |
| **Creditors:** Amounts falling due after more than one year | 17 | (21,581) | (11) |
| **Provisions for liabilities and charges** | 19 | (2,141) | (2,106) |
| Net Assets excluding pension liability | | 79,648 | 74,752 |
| Net pension liability | 23 | (15,218) | (18,552) |
| **Net assets including pension liability** | | 64,430 | 56,200 |
| **Deferred capital grants** | 20 | 58,146 | 52,729 |
| **Reserves** | | | |
| Income and expenditure account excluding pension reserve | 22 | 2,130 | 2,591 |
| Pension reserve | 23 | (15,218) | (18,552) |
| Income and expenditure account including pension reserve | 22 | (13,088) | (15,961) |
| Restricted reserve | | 39 | 38 |
| Revaluation reserve | 21 | 19,333 | 19,394 |
| | | 6,284 | 3,471 |
| **Total Funds** | | 64,430 | 56,200 |

The financial statements on pages 25 to 55 were approved by the Corporation on 13 December 2013 and were signed on its behalf by:

**Mr G Alvy, Chairman** ..................................................

**Mr P McCann, Principal** ..................................................

## College Balance Sheet
*at 31 July 2013*

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 13 | 105,244 | 98,173 |
| Investments | 14 | 3,107 | 3,106 |
| | | 108,351 | 101,279 |
| **Current assets** | | | |
| Stock | | 46 | 46 |
| Debtors | 15 | 6,033 | 6,863 |
| Assets held for resale | | 1,753 | 723 |
| Cash at bank and in hand | | 2,846 | 44 |
| | | 10,678 | 7,676 |
| **Creditors:** Amounts falling due within one year | 16 | (15,647) | (33,310) |
| **Net current liabilities** | | (4,969) | (25,634) |
| **Total assets less current liabilities** | | 103,382 | 75,645 |
| **Creditors:** Amounts falling due after more than one year | 17 | (21,581) | (11) |
| **Provisions for liabilities and charges** | 19 | (2,141) | (2,106) |
| Net Assets excluding pension liability | | 79,660 | 73,528 |
| Net pension liability | 23 | (15,218) | (18,552) |
| **Net Assets including pension liability** | | 64,442 | 54,976 |
| **Deferred capital grants** | 20 | 58,146 | 52,729 |
| **Reserves** | | | |
| Income and expenditure account excluding pension reserve | 22 | 3,054 | 3,431 |
| Pension reserve | 23 | (15,218) | (18,552) |
| Income and expenditure account including pension reserve | 22 | (12,164) | (15,121) |
| Restricted reserve | | 39 | 38 |
| Revaluation reserve | 21 | 18,421 | 17,330 |
| | | 6,296 | 2,247 |
| **Total Funds** | | 64,442 | 54,976 |

The financial statements on pages 25 to 55 were approved by the Corporation on 13 December 2013 and were signed on its behalf by:

**Mr G Alvy, Chairman** ..........................................

**Mr P McCann, Principal** ..........................................

## Consolidated Cash Flow Statement

***for the year ended 31 July 2013***

| | Note | **2013** **£'000** | 2012 £'000 |
|---|---|---|---|
| Cash flow from operating activities | *24* | 3,685 | 1,868 |
| Returns on investments and servicing of finance | *26* | (1,341) | (1,186) |
| Capital expenditure and financial investment | *26* | (1,961) | (13,860) |
| Cash inflow/(outflow) before use of liquid resources and financing | | 383 | (13,178) |
| Management of liquid resources | 26 | - | - |
| Financing | *26* | 5,745 | 2,721 |
| Increase/(decrease) in cash in the period | | 6,128 | (10,457) |

### Reconciliation of Net Cash Flow to Movement in Net Funds

| | Note | **2013** **£'000** | 2012 £'000 |
|---|---|---|---|
| Increase/(decrease) in cash in the period | | 6,128 | (10,457) |
| Cash inflow from new secured loan | | (9,500) | (3,225) |
| Change in net debt resulting from cash flows | *26* | 3,755 | 504 |
| Movement in net funds in period | | 383 | (13,178) |
| Net funds at 1 August | | (28,778) | (15,600) |
| **Net funds at 31 July** | | (28,395) | (28,778) |

## Notes

*(forming part of the financial statements)*

### 1 Statement of accounting policies

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

***Basis of preparation including going concern assumption***

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP), the Accounts Direction for 2012/13 financial statements and in accordance with applicable accounting standards.

***Basis of accounting***

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

***Going concern***

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

The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. Accordingly, the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

***Basis of consolidation***

The consolidated financial statements include the financial statements of the College and its subsidiary, Pennine College Limited. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income and expenditure account from the date of acquisition to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements of group members are made up to 31 July 2013.

***Recognition of income***

The recurrent grant from the funding bodies is that receivable as determined by the results of the funding audit undertaken. The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account.

Income from tuition fees is recognised in the period for which it is receivable and includes all fees chargeable to students or their sponsors.

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

## Notes *(continued)*

### 1 Statement of accounting policies *(continued)*

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

***Post retirement benefits***

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

Contributions to the TPS are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 23, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

***Enhanced Pensions***

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

***Tangible fixed assets***

*Land and buildings*

Some of the College's buildings are specialised buildings and therefore it is not appropriate to value all of them at open market value. Land and buildings are stated in the Balance Sheet at valuation on the basis of a revaluation exercise carried out in July 2013, carried out by an independent surveyor. Valuation is stated on the most appropriate basis of open market value or depreciated replacement cost. Freehold land is not depreciated.

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

## Notes *(continued)*

### 1 Statement of accounting policies *(continued)*

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

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

*Assets under construction*

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

*Subsequent expenditure on existing fixed assets*

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

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

The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 10 and 50 years.

***Equipment***

Equipment costing less than £1,000 per individual item (excluding IT equipment purchased in bulk) is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Equipment is depreciated on a straight line basis over its useful economic life as follows:

| | | |
|---|---|---|
| Motor vehicles and general equipment | - | 15% per annum |
| Computer equipment | - | 33⅓ % per annum |

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

***Stocks***

Stocks consist of catering, hair and beauty, bookshops and bar stocks and are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

## Notes *(continued)*

### 1 Statement of accounting policies *(continued)*

***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 different currencies are translated at the rates of exchange ruling at the end of the financial year with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

***Maintenance of premises***

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

***Taxation***

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

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

The College's subsidiary company is subject to corporation tax and VAT in the same way as any commercial organisation.

***Liquid resources***

Liquid resources include sums on short-term deposits with recognised banks.

***Provisions***

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

***Investments***

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

## 1 Statement of accounting policies *(continued)*

### *Agency arrangements*

The College acts as an agent in the collection and payment of discretionary learner support funds and bursary funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 32, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant. The College employs four members of staff dedicated to the administration of Learner Support Fund applications and payments.

Income and expenditure related to subcontracted activity is reflected gross in the accounts. Under the principles of FRS 5, the College has the right to adopt this policy on the basis that it controls this activity and bears a significant element of the related risk.

## Notes *(continued)*

### 2 Funding body grants

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| SFA/EFA grants | 37,520 | 40,215 |
| HEFCE grant | 732 | 930 |
| Releases of deferred capital grants (note 20) | 643 | 220 |
| **Total** | 38,895 | 41,365 |

### 3 Tuition Fees and Education Contracts

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Tuition Fees | 2,412 | 2,105 |
| Education contracts | 283 | 287 |
| | 2,695 | 2,392 |

No fees were funded by bursaries.

### 4 Other grants and contracts

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Other grants and contracts | 97 | 184 |
| | 97 | 184 |

## 5 Other income

| | **2013** **£'000** | 2012 £'000 |
|---|---|---|
| Residences, catering and conferences | 381 | 423 |
| Examination fees receivable | 90 | 135 |
| Nursery income | 149 | 310 |
| Releases from deferred capital grants (non-funding body) | 112 | 54 |
| Other income | 1,323 | 597 |
| | 2,055 | 1,519 |

## 6 Investment income

| | **2013** **£'000** | 2012 £'000 |
|---|---|---|
| Other interest receivable | 1 | 14 |
| Pension finance income | 71 | 98 |
| | 72 | 112 |

## 7 Staff costs

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

| | **2013 Number** | 2012 Number |
|---|---|---|
| Teaching staff | 386 | 389 |
| Non teaching staff | 443 | 474 |
| | 829 | 863 |

Staff costs for the above persons were as follows:

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Wages and salaries | 22,549 | 23,030 |
| Social security costs | 1,529 | 1,560 |
| Pension Costs | 2,444 | 2,503 |
| FRS 17 adjustments | 862 | 589 |
| Subtotal | 27,384 | 27,682 |
| Exceptional Restructuring costs | 787 | 434 |
| | 28,171 | 28,116 |

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

| | **Number of senior post-holders 2013** | Number of senior post-holders 2012 |
|---|---|---|
| £40,001 to £50,000 | 1 | 1 |
| £100,001 to £110,000 | 2 | 2 |
| £130,001 to £140,000 | - | - |
| £150,001 to £160,000 | 1 | 1 |
| | 4 | 4 |

## 8 Emoluments of senior post holders and members

Senior postholders are defined as the Principal (Chief Executive) and holders of other senior posts whom the Corporation have selected for the purposes of the Articles of Government of the College relating to the appointment and promotion of staff who are appointed by the Corporation.

| | **2013 Number** | 2012 Number |
|---|---|---|
| The number of senior post-holders including the Principal was | 4 | 4 |

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Salaries | 363 | 363 |
| Pension contributions | 50 | 49 |
| Total emoluments | 413 | 412 |

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Salaries | 140 | 140 |
| Pension contributions | 20 | 20 |
| Total emoluments | 160 | 160 |

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and the West Yorkshire Superannuation Fund, and are paid at the same rate as for other employees.

The members of the Corporation other than the Principal and the staff members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. In total, £556 in expenses was reimbursed to members of the Corporation.

## Notes *(continued)*

### 9 Other operating expenses

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Teaching costs | 5,638 | 5,978 |
| Non-teaching costs | 3,843 | 3,878 |
| Premises Costs | 3,400 | 3,010 |
| | 12,881 | 12,866 |
| Other operating expenses include: | | |
| Auditors remuneration: | | |
| Financial statements audit | 28 | 27 |
| Internal audit | 36 | 51 |
| Hire of land and buildings – operating leases | 174 | 95 |

### 10 Interest payable

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| On bank loans, overdrafts and other loans: | | |
| Repayable wholly or partly in more than five years | 1,342 | 1,200 |
| | 1,342 | 1,200 |

### 11 Taxation

The Members do not believe the College was liable for any corporation tax arising out of its activities during either period.

### 12 (Deficit)/surplus on continuing operations for the year

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| College's (deficit)/surplus for the year | (1,079) | 565 |
| Surplus generated by subsidiary undertakings and transferred to College under Gift Aid | 148 | 168 |
| Deficit retained by subsidiary undertaking | (135) | (135) |
| | (1,066) | 598 |

## 13 Tangible fixed assets

*Group*

| | Land and Buildings Freehold | Land and Buildings Under Construction | Equipment | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| ***Cost or valuation*** | | | | |
| At 1 August 2012 | 30,351 | 71,269 | 15,722 | 117,342 |
| Additions | 768 | 4,035 | 5,275 | 10,078 |
| Disposals | - | - | (739) | (739) |
| Transfers | 10,112 | (10,112) | - | - |
| Revaluations | 1,399 | - | - | 1,399 |
| Impairments | (5,128) | - | - | (5,128) |
| Transfer to fixed asset held for resale | (1,875) | - | - | (1,875) |
| **At 31 July 2013** | 35,627 | 65,192 | 20,258 | 121,077 |
| ***Accumulated depreciation*** | | | | |
| At 1 August 2012 | 2,628 | - | 11,269 | 13,897 |
| Charge for year | 1,034 | - | 1,452 | 2,486 |
| Eliminated in respect of disposals | - | - | (739) | (739) |
| Revaluations | (1,935) | - | - | (1,935) |
| Impairments | (1,679) | - | - | (1,679) |
| **At 31 July 2013** | 48 | - | 11,982 | 12,030 |
| ***Net book value*** | | | | |
| **At 31 July 2013** | **35,579** | **65,192** | **8,276** | **109,047** |
| At 31 July 2012 | 27,723 | 71,269 | 4,453 | 103,445 |

The College's properties of New North Road, Batley and Highfields Theatre are surplus to requirements and have been marketed for sale. The carrying value of the land and buildings is £1,875,000. These properties have been included in Current Assets at the lower of cost and net realisable value in recognition of the College's intention to sell the properties.

Land and buildings were valued for the purpose of the 2013 financial statements at the most appropriate of open market value or depreciated replacement cost by a firm of independent chartered surveyors, Eddisons Commercial, in accordance with RICS Statement of Asset Valuation Practice and Guidance notes.

## Notes *(continued)*

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

***College***

| | Land and Buildings Freehold | Land and Buildings Under Construction | Equipment | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| ***Cost or valuation*** | | | | |
| At 1 August 2012 | 24,751 | 71,269 | 15,722 | 111,742 |
| Additions | 768 | 4,035 | 5,275 | 10,078 |
| Disposals | - | - | (739) | (739) |
| Transfers | 10,112 | (10,112) | - | - |
| Revaluations | 1,408 | - | - | 1,408 |
| Impairments | (3,623) | - | - | (3,623) |
| Transfer to fixed asset held for resale | (1,640) | - | - | (1,640) |
| **At 31 July 2013** | 31,776 | 65,192 | 20,258 | 117,226 |
| ***Depreciation*** | | | | |
| At 1 August 2012 | 2,300 | - | 11,269 | 13,569 |
| Charge for year | 899 | - | 1,452 | 2,351 |
| Eliminated in respect of disposals | - | - | (739) | (739) |
| Revaluations | (1,919) | - | - | (1,919) |
| Impairments | (1,280) | - | - | (1,280) |
| **At 31 July 2013** | - | - | 11,982 | 11,982 |
| ***Net book value*** | | | | |
| **At 31 July 2013** | **31,776** | **65,192** | **8,276** | **105,244** |
| At 31 July 2012 | 22,451 | 71,269 | 4,453 | 98,173 |

## Notes *(continued)*

### 14 Investments

| | Group 2013 £'000 | College 2013 £'000 | Group 2012 £'000 | College 2012 £'000 |
|---|---|---|---|---|
| Listed investments | 7 | 7 | 6 | 6 |
| Investment in subsidiary | - | 3,100 | - | 3,100 |
| | 7 | 3,107 | 6 | 3,106 |

The College owns 100% of the 902 issued ordinary £1 shares of Pennine College Limited, a company incorporated in Great Britain and registered in England and Wales. The consideration paid for these shares was £3,100,002. The principal business activity of Pennine College Ltd is to enhance the education and training facilities of Kirklees College by the raising of funds from commercial activities.

### 15 Debtors

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 404 | 404 | 388 | 388 |
| Amounts owed by subsidiary undertakings | - | 1,068 | - | 1,055 |
| Other debtors | 100 | 100 | 33 | 33 |
| Amounts owed by the SFA | 3,693 | 3,693 | 5,100 | 5,100 |
| Prepayments and accrued income | 768 | 768 | 287 | 287 |
| | 4,965 | 6,033 | 5,808 | 6,863 |

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Local Authority loans | 5,557 | 5,557 | 25,590 | 25,590 |
| Bank loans | 4,500 | 4,500 | | |
| Overdraft | - | - | 3,290 | 3,290 |
| Payments received on account | 29 | 29 | 218 | 218 |
| Trade creditors | 740 | 735 | 356 | 345 |
| Amounts owed to subsidiary undertakings | - | 29 | - | 60 |
| Other Creditors | 283 | 283 | 116 | 116 |
| Other taxation and social security | 611 | 611 | 816 | 816 |
| Accruals | 3,903 | 3,903 | 2,875 | 2,875 |
| | 15,623 | 15,647 | 33,261 | 33,310 |

## Notes *(continued)*

### 16 Creditors: Amounts falling due within one year (*continued*)

In March 2010, the College agreed a loan arrangement with the local authority to finance its capital developments. The facility was for a term loan of £23,349,000 for 25 years, and a further £14,151,000 revolving facility to bridge the timing difference between the costs of the capital project and the receipt of grant from the Skills Funding Agency.

The loan agreement had a number of conditions attached, one of which was to reach practical completion on the Waterfront development by 2 July 2012. This condition was not met by 31 July 2012 and, therefore, the College had not met this loan condition at the 2012 year end.

Although the College received confirmation from the local authority after the 2012 year end that a revised practical completion date had been agreed and therefore loan conditions were remedied, this did not satisfy the technical accounting requirements of FRS25 Financial Instruments. As a result, the College was required to classify the debt as due within one year in the financial statements to 31 July 2012. Practical completion on the Waterfront project was reached within the revised agreed timescale, and therefore the loan covenant was not breached further. As a result the loan is reclassified as falling due after more than one year for the July 2013 year end.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Local authority loans | 21,278 | 21,278 | - | - |
| Other creditors | 303 | 303 | 11 | 11 |
| | 21,581 | 21,581 | 11 | 11 |

### 18 Analysis of borrowings

***Local Authority loans and bank overdrafts***

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Local Authority loans and bank overdrafts are repayable as follows: | | | | |
| Within one year | 10,057 | 10,057 | 28,880 | 28,880 |
| Between one and two years | 586 | 586 | - | - |
| Between two and five years | 1,946 | 1,946 | - | - |
| In five years or more | 18,746 | 18,746 | - | - |
| | 31,335 | 31,335 | 28,880 | 28,880 |

Local authority loans include a 25 year term loan of £21,835,061 at 5.08% and short term revolving facilities of £5,000,000 (2012: £3,225,000) at LIBOR plus 1%. These are secured on a portion of freehold land and buildings of the college. Short term borrowings also include an unsecured revolving facility of £4,500,000 with Lloyds Bank payable at LIBOR plus 2.5%.

## 19 Provisions for liabilities and charges

Group and College

| | Enhanced Pensions £'000 |
|---|---|
| At 1 August 2012 | 2,106 |
| Expenditure in the period | (137) |
| Transferred from income and expenditure account | 172 |
| **At 31 July 2013** | 2,141 |

The principal assumptions for the enhanced pension provision are:-

| | **2013** | **2012** |
|---|---|---|
| Interest Rate | 4.28% | 3.89% |
| Discount Rate | 2.50% | 2.50% |

## 20 Deferred capital grants

***Group and College***

| | SFA/EFA £'000 | Other grants £'000 | Total £'000 |
|---|---|---|---|
| At 1 August 2012 | | | |
| Land and buildings | 45,417 | 3,151 | 48,568 |
| Equipment | 3,967 | 194 | 4,161 |
| Cash received: | | | |
| Land and buildings | 2,262 | 440 | 2,702 |
| Equipment | - | 13 | 13 |
| Grant Receivable: | | | |
| Land and buildings | 3,458 | - | 3,458 |
| Released to income and expenditure account: | | | |
| Land and buildings | 566 | 42 | 608 |
| Equipment | 78 | 70 | 148 |
| **At 31 July 2013** | | | |
| **Land and buildings** | 50,571 | 3,549 | 54,120 |
| **Equipment** | 3,889 | 137 | 4,026 |
| | 54,460 | 3,686 | 58,146 |

## Notes *(continued)*

### 21 Revaluation reserve

| | Group £'000 | College £'000 |
|---|---|---|
| At 1 August 2012 | 19,394 | 17,330 |
| Revaluations in the year | 1,142 | 2,242 |
| Transfer from revaluation reserve to income and expenditure account in respect of: | | |
| Depreciation on revalued assets | (1,203) | (1,151) |
| **At 31 July 2013** | 19,333 | 18,421 |

### 22 Movement on general reserves

| | **Group 2013 £'000** | **College 2013 £'000** | Group 2012 £'000 | College 2012 £'000 |
|---|---|---|---|---|
| At 1 August | (15,961) | (15,121) | (9,666) | (8,908) |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax | (2,365) | (2,229) | 598 | 732 |
| Transfer from revaluation reserve to income and expenditure account | 1,203 | 1,151 | 849 | 797 |
| Actuarial gain/(loss) and past service gains in respect of pension scheme | 4,035 | 4,035 | (7,742) | (7,742) |
| **At 31 July** | (13,088) | (12,164) | (15,961) | (15,121) |

**Balance represented by:**

| | | | | |
|---|---|---|---|---|
| Income and expenditure account reserve excluding pension reserve | 2,130 | 3,054 | 2,591 | 3,431 |
| Pension Reserve | (15,218) | (15,218) | (18,552) | (18,552) |
| | (13,088) | (12,164) | (15,961) | (15,121) |

## 23 Pensions and similar obligations

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

**Total pension cost for the year**

| | | 2012/13 £000s | | 2011/12 £000s |
|---|---|---|---|---|
| Teachers Pension Scheme: contributions paid | | 1,346 | | 1,381 |
| Local Government Pension Scheme | | | | |
| Contributions Paid | 1,117 | | 1,142 | |
| FRS 17 Charge | 862 | | 589 | |
| Charge to Income and Expenditure Account (staff costs): | | 1,979 | | 1,731 |
| | | | | |
| Total Pension Cost for the Year | | **3,325** | | **3,112** |

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuations of the TPS was 31 March 2004 and the LGPS 31 March 2010. Contributions amounting to £133,896 (2012 £315,979) were payable to the schemes at 31 July and are included within creditors.

**Teachers' Pension Scheme**

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

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

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.
The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

## Notes *(continued)*

### 23 Pensions and similar obligations *(continued)*

**Valuation of the Teachers' Pension Scheme**

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

The last valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75%, and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

**Scheme Changes**

From 1 April 2012 to 31 March 2013, the employee contribution rate will range between 6.4% and 8.8%, depending on a member's Full Time Equivalent salary. Further changes to the employee contribution rate will be applied in 2013-14 and 2014-15.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the Proposed Final Agreement, and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme, and this process will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:

http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf

The employers pension costs paid to TPS in the year amounted to £1,368,814 (2012: £1,379,660)

## 23 Pensions and similar obligations (*continued*)

### FRS 17

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

Accordingly, the College has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

### Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by the West Yorkshire Pension Fund. The total contribution made for the year ended 31 July 2013 was £1,667,626 of which employer's contributions totalled £1,123,503 and employee's contributions totalled £544,123. The agreed contribution rates until 31 March 2013 are 13.1% for the employer and range from 5.5% to 7.5% for employees depending on salary. From 1 April 2014, the employee range increases to between 5.5% and 12.5% depending on salary.

### FRS 17

### Principal Actuarial Assumptions

| | **31 July 2013** | **31 July 2012** |
|---|---|---|
| Rate of increase in salaries | 4.60% | 4.60% |
| Rate of increase in pensions | 2.70% | 2.10% |
| Discount rate for scheme liabilities | 4.50% | 4.10% |
| Inflation (RPI) | 3.60% | 3.10% |
| Inflation (CPI) | 2.70% | 2.10% |
| Commutation of pensions to lump sums: | | |
| Each member % of maximum pre 1 April 2010 entitlement | 50% | 50% |
| Each member % of maximum post 31 March 2010 entitlement | 75% | 75% |

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

| | **31 July 2013 Years** | 31 July 2012 Years |
|---|---|---|
| *Retiring today* | | |
| Males | 22.1 | 22.0 |
| Females | 24.3 | 24.1 |
| | | |
| Retiring in 20 years | | |
| Males | 23.9 | 23.8 |
| Females | 26.2 | 26.1 |

## Notes *(continued)*

### 23 Pensions and similar obligations *(continued)*

**Determination of expected rate of return on assets**

Kirklees College employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistently with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 July 2013.

The assets in the scheme and the expected rates of return were:

| | **Long term rate of return expected at 31 July 2013** | **Value at 31 July 2013** | Long term rate of return expected at 31 July 2012 | Value at 31 July 2012 |
|---|---|---|---|---|
| | | **£'000** | | £'000 |
| Equities | 7.80% | 33,054 | 7.50% | 26,893 |
| Government Bonds | 3.30% | 5,162 | 2.50% | 5,117 |
| Other Bonds | 4.00% | 2,581 | 3.20% | 2,193 |
| Property | 7.30% | 1,358 | 7.00% | 1,385 |
| Cash/Liquidity | 0.90% | 1,721 | 1.40% | 1,077 |
| Other | 7.80% | 1,403 | 7.50% | 1,808 |
| **Total market value of assets** | | 45,279 | | 38,473 |
| Present value of scheme liabilities | | (60,497) | | (57,025) |
| Related Deferred Tax liability | | - | | - |
| Deficit in the scheme | | (15,218) | | (18,552) |

**Analysis of the amount charged to the income and expenditure account**

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Employer service cost (net of employee contributions) | 747 | 526 |
| Past service cost | 115 | 63 |
| Total operating charge | 862 | 589 |

**Analysis of pension finance income**

| | | |
|---|---|---|
| Expected return on pension scheme assets | 2,426 | 2,662 |
| Interest on pension liabilities | (2,355) | (2,564) |
| Pension finance income | 71 | 98 |

## 23 Pensions and similar obligations *(continued)*

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Actuarial gains/(losses) on pension scheme asset | 4,423 | (2,036) |
| Actuarial losses on scheme liabilities | (298) | (5,665) |
| Actuarial gain/(loss) recognised in STRGL | 4,125 | (7,701) |

### Movement in deficit during year

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Deficit in scheme at beginning of year | (18,552) | (10,360) |
| Movement in year: | | |
| Current service charge | (1,984) | (1,733) |
| Contributions | 1,237 | 1,207 |
| Curtailment loss | | - |
| Past service costs | (115) | (63) |
| Net interest/return on assets | 71 | 98 |
| Movements through STRGL | 4,125 | (7,701) |
| Deficit in scheme at end of year | (15,218) | (18,552) |

### Asset and Liability Reconciliation

| Reconciliation of Liabilities | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Liabilities at start of period | 57,025 | 47,959 |
| Service Cost | 1,984 | 1,733 |
| Interest Cost | 2,355 | 2,564 |
| Employee contributions | 543 | 557 |
| Actuarial loss | 298 | 5,665 |
| Benefits paid | (1,823) | (1,516) |
| Past service costs | 115 | 63 |
| Liabilities at end of period | 60,497 | 57,025 |

## Notes *(continued)*

### 23 Pensions and similar obligations *(continued)*

| Reconciliation of Assets | **2013** **£'000** | 2012 £'000 |
|---|---|---|
| Assets at start of period | 38,473 | 37,599 |
| Expected return on assets | 2,426 | 2,662 |
| Actuarial gain/(loss) | 4,423 | (2,036) |
| Employer contributions | 1,237 | 1,207 |
| Employee contributions | 543 | 557 |
| Benefits paid | (1,823) | (1,516) |
| Assets at end of period | 45,279 | 38,473 |

**History of experience gains or losses**

| | **2013** **£'000** | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets: | | | | | |
| Amount | **4,423** | (2,036) | 1,961 | 2,270 | (3,231) |
| Experience gains and losses on scheme Liabilities: | | | | | |
| Amount | **(22)** | (252) | 5,837 | 365 | (105) |
| Total amounts recognised in the STRGL | | | | | |
| Amount | **4,125** | (7,701) | 8,196 | 4,531 | (4,384) |

The estimated value of employer contributions for the year ended 31st July 2014 is £1,103,000.

## Notes *(continued)*

### 24 Reconciliation of operating deficit to net cash inflow from operating activities

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax | (2,365) | 598 |
| Depreciation | 2,486 | 2,792 |
| Impairment of assets | 1,258 | - |
| Deferred capital grants released to income | (756) | (274) |
| Interest receivable | (1) | (14) |
| Interest payable | 1,342 | 1,200 |
| Loss on asset sale | 41 | - |
| Pension cost less contributions payable | 862 | 589 |
| FRS17 Pension finance income | (71) | (98) |
| Decrease in stocks | - | 13 |
| (Increase)/decrease in debtors | (532) | 112 |
| Increase/(decrease) in creditors | 1,477 | (3,051) |
| (Decrease)/increase in provisions | (56) | 1 |
| **Net cash inflow from operating activities** | 3,685 | 1,868 |

### 25 Analysis of changes in net funds

| | At 1 August 2012 £'000 | Cash flows £'000 | Other Changes £'000 | At 31 July 2013 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 102 | 2,838 | - | 2,940 |
| Overdrafts | (3,290) | 3,290 | - | - |
| | (3,188) | 6,128 | - | 2,940 |
| Debts due after 1 year | (21,835) | 557 | - | (21,278) |
| Debts due within 1 year | (3,755) | (6,302) | - | (10,057) |
| | (28,778) | 383 | - | (28,395) |

## Notes *(continued)*

### 26 Analysis of cash flows for headings netted in the cash flow statement

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | 1 | 14 |
| Interest paid | (1,342) | (1,200) |
| Interest element of finance lease rental payment | | |
| **Net cash outflow from returns on investments and servicing of finance** | (1,341) | (1,186) |
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets | (10,078) | (33,323) |
| Sales of tangible fixed assets | 569 | - |
| Deferred capital grants received | 7,548 | 19,463 |
| **Net cash outflow for capital expenditure and financial investment** | (1,961) | (13,860) |
| **Financing** | | |
| Debt due beyond a year: | | |
| New loans repayable by 2035 | (20,650) | (8,225) |
| Repayment of amounts borrowed | 14,905 | 5,504 |
| Capital element of finance lease rental payments | - | - |
| **Net cash inflow from financing** | (5,745) | (2,721) |

### 27 Post balance sheet events

There have been no post balance sheet events.

### 28 Capital commitments

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Group £'000 | College £'000 | Group £'000 | College £'000 |
| Commitments contracted for at 31 July | 3,175 | 3,175 | 8,564 | 8,564 |
| | 3,175 | 3,175 | 8,564 | 8,564 |

## 29 Financial commitments

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

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Land and buildings | | |
| Expiring within one year | 23 | 50 |
| Expiring within two and five years inclusive | 20 | 26 |
| Expiring in over five years | 72 | - |
| | 115 | 76 |

## 30 Contingent liabilities

The College is in dispute with the construction company that built the new Waterfront centre over the final sums due for the project. Both parties have engaged in mediation, but have not reached an agreed settlement. The mediation is continuing but no provision has been made in the financial statements for the year ended 31 July 2013 for any further amounts which may become due on agreement of the final sums for the project. This is because the final settlement is contingent on the outcome of mediation which cannot be estimated with any degree of certainty.

## 31 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 organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

87% of College income has been received from the SFA/EFA (88% 2011/12) as documented in Note 2 to the accounts.

## Notes *(continued)*

### 32 Learner support funds

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| SFA/EFA grants | 2,097 | 1,565 |
| HEFCE grants | 8 | 6 |
| Interest earned | | - |
| Disbursed to students | 1,992 | 1,487 |
| Administrative costs | 105 | 78 |
| Balance unspent at 31 July | 8 | 6 |

Funding council grants are available solely for students. In the majority of cases, the College only acts as paying agent. In these circumstances, the grants and related disbursements have therefore been excluded from the income and expenditure account.