

**LANCASTER & MORECAMBE
COLLEGE**

**Report and Financial Statements
For the Year Ended 31 July 2018**

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Key Management Personnel, Board of Governors and Professional Advisers

Key Management Personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2017/18:

| | |
|--------------------|--|
| W Johnson | Principal and CEO; Accounting Officer |
| D Wood | Principal and CEO; Accounting Officer |
| P France | Vice Principal: Finance & Resources |
| G Atherton | Vice Principal: Curriculum & Quality Standards |
| I Parkinson | Director of Curriculum & Innovation |
| C Rawes | Director of Apprenticeships and Employer Engagement |
| M Dodd | Director of Personal Development & Welfare |
| A Bathgate | Director of HR Strategy & Support |

Board of Governors

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

O Cushen acted as Clerk to the Corporation throughout the period.

Professional Advisers

Financial Statements auditors and reporting accountants:

RSM UK Audit LLP
Bluebell House
Brian Johnson Way
Preston
Lancashire
PR2 5PE

Internal Auditors:

RSM Risk Assurance Services LLP
1 Hollinswood Court
Stafford Park 1
Telford
Shropshire
TF3 3DE

Bankers:

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

Barclays Wealth
1 Churchill Place
London
E14 5HP

Santander Corporate Banking
298 Deansgate
Manchester
M3 4HH

Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

Solicitors:

Napthens Solicitors
Greenbank Court
Challenge Way
Greenbank Business Park
Blackburn
BB1 5QB

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

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LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements of Lancaster & Morecambe College (the College) for the year ended 31 July 2018.

LEGAL STATUS

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting the affairs of Lancaster & Morecambe College. The corporation was incorporated as Lancaster & Morecambe College on 1 April 1993. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

MISSION

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

PUBLIC BENEFIT

Lancaster & Morecambe College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 9 to 10.

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

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

- High-quality teaching;
- Widening participation and tackling social exclusion;
- Excellent employment record for students;
- Strong student support systems;
- Links with employers, industry and commerce;
- Links with Local Enterprise Partnerships (LEPs).

IMPLEMENTATION OF STRATEGIC PLAN

During the year the Corporation monitored the College against its 2017-2018 Strategic Plan which covered the period from 1 August 2017 to 31 July 2018. The Strategic Plan is updated each year and contains targets across the following core strategies:

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

A selection of the College's specific targets and achievement of those targets in 2017/2018 are shown below:

- 99% of learners surveyed would recommended the College to a friend compared to a target of 95%;
- Learner attendance at 93% against a target of 90%
- 83% of lesson observations graded outstanding or good compared to a target of 82%
- Overall positive destinations for FE learners of 90% compared to a target of 85%

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report (continued)

Financial Objectives

The College's overriding financial objective is to achieve a financial health grade of 'Good'.

Specific financial targets included:

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

The College met 4 of the above targets, and its grade for financial health was 'Satisfactory'.

PERFORMANCE INDICATORS

- Achievement rates – 86%;
- Learner destinations;
- Satisfaction (formerly "learner views") – 8.5 out of 10;
- Satisfaction survey (formerly "employer views") - 8.1 out of 10.

The College is committed to observing the importance sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency ("ESFA"). The College is assessed by the ESFA as having a "Satisfactory" financial health grading. The current rating of Satisfactory is considered an acceptable outcome.

FINANCIAL POSITION

FINANCIAL RESULTS

The College generated an operating deficit in the year of £1,892k (2017 : £1,223k), with total comprehensive income of £1,165k (2017 : (£587k)).

At 31 July 2018 the College had accumulated reserves of £14,757k (2017 : £13,592k) and cash balances of £2,591k (2017 : £4,411k). The cash balances will be used to fund investment in IT and also as a contingency for unforeseen risks.

The College has no subsidiary companies.

Tangible fixed asset additions during the year amounted to £997k.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18 the FE funding bodies provided 74.3% of the College's total income.

TREASURY POLICIES AND OBJECTIVES

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

The College has a separate treasury management policy in place.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report (continued)

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

CASH FLOWS AND LIQUIDITY

At (£844k) (2016/17 £90k), operating cash outflow was in line with expectations.

The College has no borrowings.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

STUDENT NUMBERS

In 2017/18 the College has delivered activity that has produced £7,023k in funding body main allocation funding (2016/17 : £8,416k). The College had 4,471 (2016/17 : 4,297) funded and 991 (2016/17 : 928) non-funded students.

STUDENT ACHIEVEMENTS

Success rates across all qualifications were 86.2% (2016/17 : 85%).

CURRICULUM DEVELOPMENTS

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

PAYMENT PERFORMANCE

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2017 to 31 July 2018, except where custom and practice has dictated otherwise, the College has endeavoured to pay suppliers within 30 days. The College incurred no interest charges in respect of late payment for this period.

POST BALANCE SHEET EVENTS

There were no post balance sheet events.

FUTURE DEVELOPMENTS

For 2018/19 the College has received funding allocations from the ESFA of £1,572k for its adult provision and £522k for 24+ loan funded learners. Apprenticeships will be funded through a combination of allocations and through the new apprenticeship levy following the implementation of Apprenticeship reforms. The ESFA has also confirmed the College's allocation of £5,476k for 16-18 provision (including some 19-24 learners with high learning support needs).

The College will continue to upgrade its campus based on a full condition survey that was undertaken in 2016/17. The condition survey will be used to prioritise works in 2018/19.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report (continued)

RESOURCES

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

Tangible resources include the main college site.

FINANCIAL

The College has £14,757k of net assets (including £5,652k pension liability). It has no debt at all.

The College has cash reserves of £2,591k. The Corporation has resolved to upgrade the College's IT infrastructure whilst retaining sufficient cash balances to maintain appropriate levels of cash days in hand.

PEOPLE

The College employs 287 people (expressed as full time equivalents), of whom 93 are teaching staff.

REPUTATION

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

Outlined below are examples of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report (continued)

STAKEHOLDER RELATIONSHIPS

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

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

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

TRADE UNION FACILITY TIME

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college.

| | |
|---|---|
| Number of trade union representatives employed during the year ended 31 July 2018 | 1 |
|---|---|

| Percentage of time spent on facility time | Number of employees |
|---|---------------------|
| 0% | - |
| 1-50% | 1 |
| 51-99% | - |
| 100% | - |

| | |
|---|---------|
| Total cost of facility time | £5.4k |
| Total pay bill | £9,197k |
| Percentage of total bill spent on facility time | 0.06% |

| | |
|---|------|
| Time spent on paid trade union activities as a percentage of total paid facility time | 100% |
|---|------|

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Members' Report (continued)

EQUALITY AND DIVERSITY

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

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

Equality and Diversity Targets and Actuals for 2017/18 were:

| | Target 2017/2018 | Actual 2017/2018 |
|--|---------------------|---------------------|
| Narrow the achievement gap between FE learners with disclosed disability and non-disclosed | 4% | 4.9% |
| Narrow the achievement gap between apprentices with disclosed disability and non-disclosed | 5% | 1.8% |

DISABILITY EQUALITY

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

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

GENDER EQUALITY

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

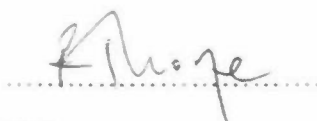
RACE EQUALITY

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:



R Thorpe
Chairman

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); and
- ii. in full accordance with the guidance to colleges from the Association of Colleges Code of Good Governance for English Colleges (“the Code”); and
- iii. having due regard to the UK Corporate Governance Code 2016 insofar as it is applicable to the further education sector.

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

In the opinion of the Governors, the College complies with all the provisions of the Code of Good Governance for English Colleges, and it has complied throughout the year ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of the Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in June 2015.

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

THE CORPORATION

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

| Name | Date of Appointment | Term of Office | Date of Resignation | Status of appointment | Committees Served | Meeting Attendance |
|-------------|--|----------------|---------------------|--|---------------------------------|--------------------|
| Mr R Thorpe | 26 March 2012 (Re-appointed 1 April 2016) | 4 years | | Chair w.e.f 1 April 2014 Re-appointed annually for maximum term of 6 years. Independent Member | Remuneration; Search | 100% |
| Mr I Haines | 23 March 2015 | 4 years | | Vice Chair w.e.f 1 August 2017 Independent Member | Audit Remuneration Search | 72% |
| Mrs T Aye | 1 April 2016 | 4 years | | Independent Member | Audit Remuneration Search | 72% |
| Ms L Briggs | 1 April 2016 | 4 years | 23 February 2018 | Independent Member | Remuneration Search | 88% |

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Corporate Governance and Internal Control (continued)

| | | | | | | |
|--|--|--------------------------------------|-------------------|--|--|------|
| Mrs S Cassey | 1 April 2012 (Re-appointed 1 April 2016) | 4 years | | External Member | Audit | 100% |
| Mr A Cheetham | 1 August 2008 (Re-appointed 26 March 2012) Extended on 17 November 2014 20 September 2017 | 4 years 2 years 1 year | 31 July 2018 | Vice Chair w.e.f. 1 September 2012 Re-appointed 1 April 2015 Independent Member Co-opted Member | Audit; Search | 71% |
| Mrs L Evans | 1 April 2016 | 4 years | | Staff Member (Support) | N/a | 82% |
| Mrs N Hall | 1 March 2018 | 4 years | | Independent Member | N/a | 67% |
| Miss R Hawkesford | 8 February 2017 | 2 years | 13 April 2018 | Student Member | N/a | 40% |
| Mr P Ineson | 1 October 2017 | 4 years | | Staff Member (Academic) | N/a | 78% |
| Mr W Johnson | 1 April 2017 | N/a | | Staff Member (Principal) | Search In Attendance: Remuneration | 100% |
| Mr J Kirton | 13 July 2009 (Re-appointed 8 July 2013) | 4 years | 30 September 2017 | Independent Member | Search | 100% |
| Mr M Leather | 25 March 2013 Re-appointed 1 April 2017 | 4 years | 11 January 2018 | Independent Member | Audit | 100% |
| Mr P McKenzie | 1 March 2018 | 4 years | | Independent Member | Audit Remuneration | 100% |
| Mr G Mervin | 1 April 2012 Re-appointed 1 April 2016 | 4 years | 1 September 2017 | Staff Member (Academic) | N/a | 100% |
| Mr Y Patel | 18 September 2018 | 4 years | | Independent Member | N/a | 50% |
| Ms C Povah | 18 September 2018 | 4 years | | Independent Member | N/a | 100% |
| Mr C Redpath | 9 October 2018 | 2 years | | Student Member | N/a | 0% |
| Mr S Wood | 18 September 2018 | 4 years | | Independent Member | N/a | 50% |
| Mr J Yazdani | 15 November 2010 (Re-appointed 23 March 2015) | 4 years | | Independent Member | Remuneration | 100% |
| Oona Cusben acted as Governance Adviser and Clerk. | | | | | | |

The Corporation conducts its business within a revised governance structure, with only Audit, Remuneration and Search Committees. Appeals and Special Committees will only be called as and when required. The Corporation meets monthly September to December, February to July.

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Corporate Governance and Internal Control (continued)

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

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

Lancaster & Morecambe College
Morecambe Road
Lancaster
LA1 2TY

The Governance Adviser and Clerk maintains a register of financial and personal interests of the Governors. The register is available for inspection at the above address and on the college website.

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

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

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

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

APPOINTMENTS TO THE CORPORATION

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

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

SEARCH COMMITTEE

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

CORPORATION PERFORMANCE

Governance self-assessment has been graded as Requires Improvement, aligned to the outcomes from the Ofsted inspection in March 2018 and the College's overall leadership and management grade. Although overall College performance is improving, it is recognised that the Governors' impact on teaching, learning and assessment and learner progress and outcomes is not yet sufficiently evidenced. The Corporation has appointed five new Governors to strengthen the skills and diversity of the Board, which is now a recognised strength by Ofsted.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Corporate Governance and Internal Control (continued)

REMUNERATION COMMITTEE

Throughout the year ending 31 July 2018 the College's Remuneration Committee comprised five members. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer, Governance Adviser and Clerk and other senior post-holders.

Details of remuneration for the year ended 31 July 2018 are set out in notes x and x to the financial statements.

AUDIT COMMITTEE

The Audit Committee comprises of four members of the Corporation (excluding the Chair of the Corporation and the Accounting Officer). The Committee operates in accordance with written terms of reference approved by the Corporation.

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

The College's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

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

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

INTERNAL CONTROL

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Lancaster & Morecambe College for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Corporate Governance and Internal Control (continued)

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 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

Lancaster & Morecambe College has an internal audit service, which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the college is exposed, and annual internal audit plans and a programme of assurance are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. The Audit Committee was provided with regular internal audit reports on this assurance activity; these reports did not identify any significant actions required.

Review of effectiveness

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

- the work of the internal auditors;
- the work of the senior managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements auditors and the reporting accountant for regularity assurance in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Principal and senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 27 November 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

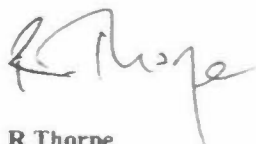
Statement of Corporate Governance and Internal Control (continued)

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

GOING CONCERN

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

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:



R Thorpe
Chair



W Johnson
Accounting Officer

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Regularity, Propriety and Compliance

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

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

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

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:



R Thorpe
Chair



W Johnson
Accounting Officer

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Statement of Responsibilities of the Members of the Corporation

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

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Education and Skills Funding Agency and the Corporation of the College requires the Corporation of the College to prepare financial statements and the Report of the Governing Body for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and the Annual College Accounts Direction 2017-18 issued by the Education and Skills Funding Agency and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), and which give a true and fair view of the state of affairs of the College and of the College's deficit of income over expenditure for that period.

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

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

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and other relevant accounting standards. It is responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:



R Thorpe
Chair

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

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

Opinion

We have audited the financial statements of Lancaster & Morecambe College (the "College") for the year ended 31 July 2018 which comprise the college statement of comprehensive income, the college balance sheet, the college statement of changes in reserves, the college statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as set out in our engagement letter dated 19 October 2017.

- give a true and fair view of the state of the College's affairs as at 31 July 2018 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The governors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2017 to 2018 issued by the Department for Education requires us to report to you if, in our opinion:

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

Responsibilities of the Corporation of Lancaster & Morecambe College

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 16, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation either intend to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities> this description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency and our engagement letter dated 19 October 2017. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 19 October 2017 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.

RSM UK Audit LLP

RSM UK Audit LLP
Chartered Accountants
Bluebell House
Brian Johnson Way
Preston
Lancashire
PR2 5PE

Date: *17 December 2018*

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

| | Notes | Year ended 31 July 2018 £'000 | Year ended 31 July 2017 £'000 |
|--|-------|----------------------------------|----------------------------------|
| INCOME | | | |
| Funding body grants | 2 | 9,036 | 9,729 |
| Tuition fees and education contracts | 3 | 1,299 | 1,386 |
| Other grants and contracts | 4 | 419 | 374 |
| Other income | 5 | 1,379 | 1,214 |
| Investment income | 6 | 21 | 29 |
| TOTAL INCOME | | 12,154 | 12,732 |
| EXPENDITURE | | | |
| Staff costs | 7 | 9,197 | 9,291 |
| Other operating expenses | 8 | 3,651 | 3,532 |
| Depreciation | 11 | 997 | 939 |
| Interest and other finance costs | 9 | 201 | 193 |
| TOTAL EXPENDITURE | | 14,046 | 13,955 |
| DEFICIT BEFORE TAX | | (1,892) | (1,223) |
| Taxation | 10 | - | - |
| DEFICIT FOR THE YEAR | | (1,892) | (1,223) |
| Actuarial gain in respect of pension scheme | 21 | 3,057 | 636 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 1,165 | (587) |

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

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

College Statement of Changes in Reserves

| | Income and expenditure account £'000 | Revaluation reserve £'000 | Total £'000 |
|---|---|--|------------------------|
| BALANCE AT 1 AUGUST 2016 | 7,562 | 6,617 | 14,179 |
| (Deficit) from the income and expenditure account | (1,223) | - | (1,223) |
| Other comprehensive income | 636 | - | 636 |
| Transfer between revaluation and income and expenditure reserves | 194 | (194) | - |
| | (393) | (194) | (587) |
| BALANCE AT 31 JULY 2017 | 7,169 | 6,423 | 13,592 |
| (Deficit) from the income and expenditure account | (1,892) | - | (1,892) |
| Other comprehensive income | 3,057 | - | 3,057 |
| Transfers between revaluation and income and expenditure reserves | 194 | (194) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 1,359 | (194) | 1,165 |
| BALANCE AT 31 JULY 2018 | 8,528 | 6,229 | 14,757 |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

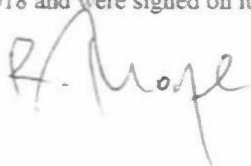
BALANCE SHEET AS AT 31 JULY

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|---------------|---------------|
| NON CURRENT ASSETS | | | |
| Tangible assets | 11 | 23,190 | 23,190 |
| | | 23,190 | 23,190 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 12 | 752 | 487 |
| Cash and cash equivalents | | 2,591 | 4,411 |
| | | 3,343 | 4,898 |
| Less: CREDITORS: amounts falling due within one year | 13 | (1,560) | (1,777) |
| NET CURRENT ASSETS | | 1,783 | 3,121 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| Creditors – amounts falling due after more than one year | 14 | (4,564) | (4,690) |
| PROVISIONS | | | |
| Defined benefit obligations | 15 | (5,652) | (8,029) |
| TOTAL NET ASSETS | | 14,757 | 13,592 |
| UNRESTRICTED RESERVES | | | |
| Income and expenditure account | | 8,528 | 7,169 |
| Revaluation reserve | | 6,229 | 6,423 |
| TOTAL UNRESTRICTED RESERVES | | 14,757 | 13,592 |
| TOTAL RESERVES | | 14,757 | 13,592 |

The financial statements on pages 19 to 42 were approved and authorised for issue by the Corporation on 11 December 2018 and were signed on its behalf on that date by:

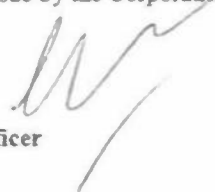
R Thorpe

Chair



W Johnson

Accounting Officer



LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

STATEMENT OF CASH FLOWS

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|---------------|---------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| (Deficit) for the year | | (1,892) | (1,223) |
| ADJUSTMENT FOR NON-CASH ITEMS | | | |
| Depreciation | | 997 | 939 |
| (Increase) in debtors | | (265) | (108) |
| (Decrease)/Increase in creditors due within one year | | (217) | 14 |
| (Decrease) in creditors due after one year | | (126) | (126) |
| Pension costs less contributions payable | | 680 | 623 |
| ADJUSTMENT FOR INVESTING OR FINANCING ACTIVITIES | | | |
| Investment income | | (21) | (29) |
| Interest payable | | - | - |
| | | <hr/> | <hr/> |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | (844) | 90 |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment income | | 21 | 29 |
| Payments made to acquire fixed assets | | (997) | (444) |
| | | <hr/> | <hr/> |
| | | (976) | (415) |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | - | - |
| | | <hr/> | <hr/> |
| | | - | - |
| | | <hr/> | <hr/> |
| DECREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR | | 1,820 | 325 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at beginning of the year | | 4,411 | 4,736 |
| Cash and cash equivalents at end of the year | | 2,591 | 4,411 |

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES

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

General information

Lancaster & Morecambe College is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the College's principal place of business is given on page 11. The nature of the College's operations are set out in the Members' Report.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2017-18 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of accounting

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

The financial statements are presented in sterling which is also the functional currency of the College.

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

Going concern

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

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

Recognition of income

Revenue grant funding

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

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

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

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

Fee income

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

Investment income

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

Agency arrangements

The College acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

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

Lancashire Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefits changes, settlements and curtailments. They are included as part of staff costs as incurred.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

Short Term Employment benefits

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

Non-current Assets - Tangible fixed assets

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

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and Buildings

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

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

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

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

Equipment

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

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

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

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

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

Leased assets

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

There are no finance leases.

Cash and cash equivalents

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

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

Financial liabilities and equity

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

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (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 foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so it can only recover around 3% of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs are tangible fixed assets by nature.

Provisions and contingent liabilities

Provisions are recognised when:

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

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

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

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College, either as a lessor or a lessee, are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Tangible fixed assets are depreciated over their expected useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

1 STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (CONTINUED)

- The present value of the Local Government Pension Scheme defined liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 21, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 FUNDING BODY GRANTS

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Recurrent Grants | | |
| Education and Skills Funding Agency - adult | 1,376 | 1,907 |
| Education and Skills Funding Agency – 16-18 | 5,611 | 6,451 |
| Education and Skills Funding Agency - apprenticeships | 1,368 | 914 |
| Higher Education Funding Council | 75 | 132 |
| Provision for repayment of Adult funding in previous year no longer required to be repaid – Education and Skills Funding Agency | 36 | 58 |
| Specific Grants | | |
| Releases of government capital grants | 126 | 126 |
| Other Funds | 444 | 141 |
| | <hr/> | <hr/> |
| TOTAL | 9,036 | 9,729 |
| | <hr/> | <hr/> |

3 TUITION FEES AND EDUCATION CONTRACTS

| | 2018 £'000 | 2017 £'000 |
|------------------------------------|---------------|---------------|
| Adult education fees | 87 | 91 |
| Fees for FE loan supported courses | 357 | 389 |
| Fees for HE loan supported courses | 326 | 446 |
| | <hr/> | <hr/> |
| Total tuition fees | 770 | 926 |
| Education contracts | 529 | 460 |
| | <hr/> | <hr/> |
| TOTAL | 1,299 | 1,386 |
| | <hr/> | <hr/> |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

4 OTHER GRANTS AND CONTRACTS

| | 2018 £'000 | 2017 £'000 |
|---------------------|-----------------------------|-----------------------------|
| European Commission | 419 | 374 |
| TOTAL | 419 | 374 |

5 OTHER INCOME

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Catering | 236 | 224 |
| Post 16 High Needs Student Funding | 227 | 251 |
| Other income (including Exam Fees, Nursery Fees and Sales from Training Activities) | 916 | 739 |
| TOTAL | 1,379 | 1,214 |

6 INVESTMENT INCOME

| | 2018 £'000 | 2017 £'000 |
|---------------------------|-----------------------------|-----------------------------|
| Other interest receivable | 21 | 29 |
| TOTAL | 21 | 29 |

7 STAFF COSTS

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

| | 2018 Number | 2017 Number |
|--------------------|------------------------------|------------------------------|
| Teaching staff | 93 | 100 |
| Non teaching staff | 194 | 199 |
| TOTAL | 287 | 299 |

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

7 STAFF COSTS (CONTINUED)

Staff costs for the above persons

| | 2018 £'000 | 2017 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 6,946 | 7,108 |
| Social security costs | 518 | 543 |
| Other pension costs | 1,593 | 1,539 |
| | <hr/> | <hr/> |
| | 9,057 | 9,190 |
| Restructuring costs | 140 | 101 |
| | <hr/> | <hr/> |
| TOTAL | 9,197 | 9,291 |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which include the Principal, Vice Principal: Finance & Resources, Director of Curriculum & Innovation, Director of Apprenticeships & Employer Engagement, Director of Personal Development & Welfare and Director of HR Strategy & Support. Staff costs include compensation paid to key management personnel for loss of office.

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

The number of key management personnel including the Accounting Officer was: 6 6

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

| | Key management personnel | | Other staff | |
|---------------------|-----------------------------|----------------|----------------|----------------|
| | 2018 Number | 2017 Number | 2018 Number | 2017 Number |
| £50,001 to £60,000 | 1 | - | - | 1 |
| £60,001 to £70,000 | - | 1 | - | - |
| £70,001 to £80,000 | - | 2 | - | - |
| £80,001 to £90,000 | 1 | - | - | - |
| £90,001 to £100,000 | 1 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 3 | 3 | - | 1 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

7 STAFF COSTS (CONTINUED)

Key management personnel compensation is made up as follows:

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|
| Salaries – gross of salary sacrifice and waived emoluments | 344 | 299 |
| Employer's National Insurance | 42 | 37 |
| | <hr/> | <hr/> |
| Pension contributions | 386 | 336 |
| | 54 | 35 |
| | <hr/> | <hr/> |
| Total key management personnel compensation | 440 | 371 |
| | <hr/> | <hr/> |

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

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

| | 2018 £'000 | 2017 £'000 |
|-----------------------|-----------------------------|-----------------------------|
| Salaries | 100 | 108 |
| Pension contributions | 17 | 15 |
| | <hr/> | <hr/> |
| Total | 117 | 123 |
| | <hr/> | <hr/> |

Compensation for loss of office paid to former key management personnel

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|
| Compensation paid to the former post-holder - contractual | 28 | 22 |

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

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

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

8 OTHER OPERATING EXPENSES

| | 2018 £'000 | 2017 £'000 |
|--------------------|-----------------------------|-----------------------------|
| Teaching costs | 1,482 | 1,503 |
| Non teaching costs | 1,245 | 1,318 |
| Premises costs | 924 | 711 |
| | <hr/> | <hr/> |
| TOTAL | 3,651 | 3,532 |
| | <hr/> | <hr/> |

Other operating expenses include:

| | 2017 £'000 | 2016 £'000 |
|--|-----------------------------|-----------------------------|
| Auditors' remuneration: | | |
| Financial statements audit | 17 | 16 |
| Internal audit | 8 | 9 |
| Other services provided by the financial statements auditors | 5 | 5 |
| Operating leases – other equipment | 18 | 13 |
| Losses/(Gains) on foreign exchange | 2 | (8) |
| | <hr/> | <hr/> |

9 INTEREST AND OTHER FINANCE COSTS

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Net interest on defined pension liability (note 21) | 201 | 193 |
| | <hr/> | <hr/> |
| TOTAL | 201 | 193 |
| | <hr/> | <hr/> |

10 TAXATION

The members do not believe the College is liable for any corporation tax arising out of its activities during the year (2017- £nil).

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

11 TANGIBLE FIXED ASSETS

| | Freehold Land and Buildings £'000 | Equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|---------------------------------------|--|--------------------|---|----------------|
| Cost or valuation | | | | |
| At 1 August 2017 | 30,613 | 7,610 | 15 | 38,238 |
| Additions | 319 | 678 | - | 997 |
| Disposals | - | - | - | - |
| Transfer | 15 | - | (15) | - |
| At 31 July 2018 | 30,947 | 8,288 | - | 39,235 |
| Depreciation | | | | |
| At 1 August 2017 | 7,999 | 7,049 | - | 15,048 |
| Charge for the year | 634 | 363 | - | 997 |
| Disposals | - | - | - | - |
| At 31 July 2018 | 8,633 | 7,412 | - | 16,045 |
| Net book value at 31 July 2018 | 22,314 | 876 | - | 23,190 |
| Net book value at 31 July 2017 | 22,614 | 561 | 15 | 23,190 |

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

12 TRADE AND OTHER RECEIVABLES

| | 2018 £'000 | 2017 £'000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade receivables | 137 | 105 |
| Prepayments and accrued income | 495 | 382 |
| Amounts due from the ESFA | 120 | - |
| TOTAL | 752 | 487 |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Trade payables | 286 | 360 |
| Other taxation and social security | 251 | 257 |
| Amounts due to the ESFA | 25 | 156 |
| Accruals and deferred income | 872 | 878 |
| Deferred income – government capital grants | 126 | 126 |
| TOTAL | 1,560 | 1,777 |

14 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Deferred income – government capital grants | 4,564 | 4,690 |
| TOTAL | 4,564 | 4,690 |

15 PROVISIONS

| | Defined benefit obligations £'000 | Total £'000 |
|---------------------------|--|------------------------------|
| At 1 August 2017 | 8,029 | 8,042 |
| Expenditure in the period | (650) | (611) |
| Additions in the period | (1,727) | 598 |
| TOTAL | 5,652 | 8,029 |

15 PROVISIONS (CONTINUED)

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 21.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

16 CASH AND CASH EQUIVALENTS

| | At 1 August 2017 £'000 | Cash flows £,000 | Other changes £,000 | At 31 July 2018 £,000 |
|---------------------------|---------------------------------|------------------------|---------------------------|--------------------------------|
| Cash and cash equivalents | 4,411 | (1,820) | - | 2,591 |
| TOTAL | 4,411 | (1,820) | - | 2,591 |

17 CAPITAL AND OTHER COMMITMENTS

| | 2018 £'000 | 2017 £'000 |
|---------------------------------------|---------------|---------------|
| Commitments contracted for at 31 July | - | 275 |

18 LEASE OBLIGATIONS

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

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Other Equipment | | |
| Not later than one year | 18 | - |
| Later than one year and not later than five years | 62 | - |
| Total | 80 | - |

19 EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

20 FINANCIAL INSTRUMENTS

The College has the following financial instruments:

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|
| Financial Assets | | |
| Debt instruments measured at amortised cost | 257 | 105 |
| | <u>257</u> | <u>105</u> |
| Financial Liabilities | | |
| Financial liabilities measured at amortised cost | 311 | 516 |
| | <u>311</u> | <u>516</u> |

21 DEFINED BENEFIT OBLIGATIONS

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

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Total pension cost for the year | | |
| Teachers Pension Scheme: contributions paid | 464 | 498 |
| Local Government Pension Scheme: | | |
| Contributions paid | 650 | 611 |
| FRS 102 (28) charge | <u>479</u> | <u>430</u> |
| Charge to the Statement of Comprehensive Income | 1,129 | 1,041 |
| Total Pension Cost for Year | <u>1,593</u> | <u>1,539</u> |

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

21 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Valuation of the Teachers' Pension Scheme

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

- new employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 million, and notional assets of £176.6 million, giving a notional past service deficit of £14.9 million;
- an employer cost cap of 10.9% of pensionable pay;
- The assumed real rate of return is 3.0% in excess of prices and 2.0% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

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

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

21 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £464,000 (2017: £498,000)

FRS 102 (28)

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

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

LOCAL GOVERNMENT PENSION SCHEME

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Lancashire County Council. The total contributions made for the year ended 31 July 2018 were £859,000, of which employer's contributions totalled £650,000 and employees' contributions totalled £209,000. The agreed contribution rates for future years are 15.3% for employers and between 5.5% and 11.4% for employees, depending on salary. The College has been paying a further deficit recovery payment of £10,108 per month from August 2017 to March 2018 and £10,483 per month from April to July 2018.

The current valuation does not reflect the expected increase in benefits and therefore liability as a result of Guaranteed Minimum Pension ("GMP") equalisation between men and women which is required as a result of the removal of the Additional State Pension. Methodologies for a long-term solution are still being investigated by the Government as set out in the published (January 2018) outcome of the Government Consultation 'Indexation and Equalisation of GMP in Public Sector Pensions Schemes' and therefore the expected impact cannot be reliably estimated and consequently no provision/liability has been recognised.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

21 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

| Principal Actuarial Assumptions | At 31 July 2018 | At 31 July 2017 |
|--|----------------------------|----------------------------|
| Rate of CPI inflation | 2.1% | 2.2% |
| Rate of increase in salaries | 3.6% | 3.7% |
| Rate of increase for pensions in payment | 2.2% | 2.2% |
| Discount rate for scheme liabilities | 2.9% | 2.6% |
| Commutations of pensions to lump sums | 50% | 50% |

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

| | At 31 July 2018 | At 31 July 2017 |
|-----------------------------|----------------------------|----------------------------|
| <i>Retiring today</i> | | |
| Males | 22.7 | 22.6 |
| Females | 25.4 | 25.2 |
| <i>Retiring in 20 years</i> | | |
| Males | 25.0 | 24.9 |
| Females | 28.0 | 27.9 |

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

| | Fair Value at 31 July 2018 £'000 | Fair Value at 31 July 2017 £'000 |
|--|---|---|
| Equities | 10,147 | 9,284 |
| Government Bonds | 786 | 402 |
| Other Bonds | 139 | 486 |
| Property | 2,127 | 2,199 |
| Cash | 208 | 973 |
| Other | 9,708 | 7,803 |
| Total fair value of plan assets | 23,115 | 21,147 |
| | | |
| Actual return on plan assets | 1,728 | 2,288 |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

21 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

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

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Fair value of plan assets | 23,115 | 21,147 |
| Present value of plan liabilities | (28,767) | (29,176) |
| | <hr/> | <hr/> |
| Net Pensions (liability) (Note 15) | (5,652) | (8,029) |
| | <hr/> | <hr/> |

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

Amounts included in staff costs

| | 2018 £'000 | 2017 £'000 |
|----------------------|-----------------------------|-----------------------------|
| Current service cost | 1,129 | 1,041 |
| | <hr/> | <hr/> |
| Total | 1,129 | 1,041 |
| | <hr/> | <hr/> |

Amounts included in interest and other finance costs

| | 2018 £'000 | 2017 £'000 |
|-----------------------|-----------------------------|-----------------------------|
| Pension finance costs | 201 | 193 |
| | <hr/> | <hr/> |
| | 201 | 193 |
| | <hr/> | <hr/> |

Amount recognised in Other Comprehensive Income

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|
| Return on pension plan assets | 1,175 | 1,121 |
| Experience gains and losses arising on defined benefit obligations | 1,882 | (485) |
| | <hr/> | <hr/> |
| Amount recognised in Other Comprehensive Income | 3,057 | 636 |
| | <hr/> | <hr/> |

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

21 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

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

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|
| Net defined (liability) in scheme at 1 August | (8,029) | (8,042) |
| Current Service cost | (1,129) | (1,041) |
| Net interest on the defined (liability) | (201) | (193) |
| Employer contributions | 650 | 611 |
| Actuarial gain | 3,057 | 636 |
| | <hr/> | <hr/> |
| Net defined (liability) at 31 July | (5,652) | (8,029) |
| | <hr/> | <hr/> |

Changes in the present value of defined benefit obligations

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|-----------------------------|
| Defined benefit obligations at start of period | 29,176 | 27,462 |
| Current Service cost | 1,104 | 1,024 |
| Interest cost | 754 | 680 |
| Contributions by scheme participants | 209 | 218 |
| Changes in financial assumptions | (1,882) | 485 |
| Curtailments | 8 | - |
| Estimated benefits paid | (602) | (693) |
| | <hr/> | <hr/> |
| Net defined benefit (liability) at 31 July | 28,767 | 29,176 |
| | <hr/> | <hr/> |

Changes in fair value of plan assets

| | | |
|---|---------------|---------------|
| Fair value of plan assets at start of period | 21,147 | 19,420 |
| Interest on plan assets | 553 | 487 |
| Return on plan assets | 1,175 | 1,121 |
| Administration expenses | (17) | (17) |
| Employer contributions | 650 | 611 |
| Contributions by scheme participants | 209 | 218 |
| Estimated benefits paid | (602) | (693) |
| | <hr/> | <hr/> |
| Fair value of plan assets at end of period | 23,115 | 21,147 |
| | <hr/> | <hr/> |

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Notes to the Accounts (continued)

22 RELATED PARTY TRANSACTIONS

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

The total expenses paid to or on behalf of the Governors during the year was £903; 3 governors (2016/17: £1,631; 3 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor, other than Staff Governors, has received any remuneration or waived payments from the College or its subsidiaries during the year (2016/17: None).

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

During the year ended 31 July 2018 the College received income of nil k (2016/17: £nil k) and paid £5k (2016/17: £7k) to the Lancashire Colleges Limited. As at 31 July 2018 £nil k (2016/17: nil k) was outstanding from The Lancashire Colleges Limited.

23 AMOUNTS DISBURSED AS AGENT

Learner Support Funds

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Funding body grants | 628 | 571 |
| | <hr/> | <hr/> |
| | 628 | 571 |
| | <hr/> | <hr/> |
| Disbursed to students | 587 | 379 |
| Administration costs | 16 | 18 |
| | <hr/> | <hr/> |
| | 603 | 397 |
| | <hr/> | <hr/> |
| Balance unspent as at 31 July, included in creditors | 25 | 174 |
| | <hr/> | <hr/> |

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

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Independent Reporting Accountant's Report on Regularity to the Corporation of Lancaster & Morecambe College and the Secretary of State for Education acting through the Department for Education

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 19 October 2017 and further to the requirements of the financial memorandum with Skills Funding Agency, to obtain limited assurance about whether the expenditure disbursed and income received by Lancaster & Morecambe College during the period from 1 August 2017 to 31 July 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

The framework that has been applied is set out in the Post-16 Audit Code of Practice 2016 to 2017 issued by the Department for Education. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Education and Skills Funding Agency has other assurance arrangements in place.

We are independent of Lancaster & Morecambe College in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion

Responsibilities of the Corporation of Lancaster & Morecambe College for regularity

The Corporation of Lancaster & Morecambe College is responsible, under the SFA financial memorandum and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The corporation of Lancaster & Morecambe College is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 Audit Code of Practice 2016 to 2017.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

Independent Reporting Accountant's Report on Regularity to the Corporation of Lancaster & Morecambe College and the Secretary of State for Education acting through the Department for Education (Continued)

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the financial memorandum with Skills Funding Agency and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

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

RSM UK Audit LLP

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Date: *17 December 2018*

