



MidKent College

Annual report and financial statements

for the year ended 31 July 2017

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which in 2016/17 comprises:

Stephen Grix - Chief Executive (resigned 31 August 2016)
Simon Cook – Principal (Principal & Chief Executive from 1 September 2016)
Susan Byrne – Executive Director of Finance and Funding (resigned 9 July 2017)
Andrea Ashman – Executive Director of Corporate Services (resigned 30 June 2017)
Chris Hare – Executive Director of Enterprise and Employer Engagement
Andrew Brader - Managing Director of MCK Training Services Limited.

Board of Governors

A full list of Governors is given on page 14 to 16 of these financial statements. Ms C Burkin acted as Clerk to the Board of Governors throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:

Mazars LLP
Sixth Floor
Times House
Throwley Way
Sutton
Surrey SM1 4JQ

Internal auditors:

Scrutton Bland
820 The Crescent
Colchester Business Park
Colchester
Essex CO4 9YQ

Bankers:

Lloyds Banking Plc
25 Gresham Street
London EC2V 7HN

Barclays Bank
Level 27,
1 Churchill Place,
London E14 5HP

Solicitors:

Eversheds
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London EC4V 4JL

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St Mary's Road
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Strategic Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements of the Group, incorporating the results of MidKent College and its wholly owned subsidiary MKC Training Services Limited (MKCTS), for the year ended 31 July 2017.

Legal status

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

Mission

The Group's Mission Statement is:

“Our mission is to challenge and support all students to achieve their best.”

The Group's vision is:

“Everyone is proud to recommend MidKent College to family, friends and employees. It is a great place to learn, work and with which to do business, where all students and staff contribute to the wider communities of Kent and Medway.”

The Group's values are:

Aspiring to excellence
Setting high expectations
Passion for learning
Integrity and honesty
Respecting the individual
Effective team working

Public Benefit

MidKent College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2015, is regulated by the Secretary of State for Education as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 14 to 16.

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:

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

Implementation of Strategic Plan

In July 2015, we undertook a review of our current strategic priorities against a fast changing economic climate, alongside significant changes to MidKent College, student demand and challenging policy direction from Government.

With this fast pace of change in our sector we now recognise that longer term strategic purpose and vision are more important than ever before and we are reviewing the strategic priorities once more, ready for publication in 2018.

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All staff will be involved in this process before we consult wider with stakeholders and other key members of our community. This began with a strategic away day in June 2017 where a number of employers, students and other national stakeholders were invited to talk to all staff about the future and what we must prepare for as a college.

In the meantime, our current priorities still fit our ambitions. Our number one priority remains improving teaching, learning and assessment. In February 2017, the college was graded as “requires improvement” by Ofsted. Whilst the overall grade for the college did not move upwards from the previous inspection in 2015, the content of the report highlighted key improvements made in that two-year period and how those improvements have begun to provide evidence of the college’s commitment to providing great teaching, learning and assessment.

Equally, we know that one of our key strengths is the provision of skills and employment for the many young people and adults who study with us. Providing the local and regional economy with the employees it needs is our absolute mission and so we continue to work closely with our key employers to ensure that we provide the students with the necessary skills to be successful in the workplace. The climate in which we work continues to be fast moving and increasingly demanding, reflecting reductions in public spending and the need for the UK economy to become more productive in order to compete on an international stage. We are, however, confident in our ability to challenge and support our students to be the best they can be and to prepare them well for the next steps in their education and careers.

We look forward to working with you for the good of our local businesses, stakeholders and communities. These aims are reflected within our Vision and Values and have helped shape our Strategic Priorities, which are:

Priority 1 - We will provide first-rate teaching, learning and assessment **(Lead – Simon Cook, Principal)**

The Vision

MidKent College students will be inspired by outstanding teachers who are able to meet the individual needs of students, challenging them to achieve their best. Teachers, who are passionate about their subjects, will use their expertise and knowledge to plan a range of assessments that promotes learning. Students will learn skills and develop attitudes and behaviours that support them in progressing to the next stages in their education, training and careers. They will become active learners, able to look beyond the qualification and develop a life-long love of learning. MidKent College will have a reputation in our local community, and amongst its peers, for providing an environment in which students excel.

If we achieve our vision , what will our students say about our teaching, learning and assessment?

‘My teachers inspire me.’

‘I understand that learning is my responsibility and that teachers are here to help me to learn.’

‘My teachers understand my individual needs and help me to develop.’

‘I am so much more confident in my abilities now.’

‘I have not just achieved a qualification; I have learned so much more which will help me for the future.’

How We Will Achieve It

The underpinning philosophy of our strategy will be that the best teaching is that which inspires, empowers and enables learning. This will be developed and reinforced in all of our teacher training and assessment of performance.

Our heads of department will lead the improvement of teaching standards, ensuring all of our teaching is good or better. Lecturers will have access to training, development and coaching which provide a high level of support through a range of advanced practitioners.

Our assessment of performance criteria will set high expectations of our staff, and recognise the impact that lecturers, and other staff have on our students, identifying additional support where it is needed. We will value and celebrate outstanding teaching as well as those lecturers who make a strong improvement in their practice. The best lecturers will be rewarded through a remuneration structure which recognises their highly skilled profession and one which is vital to the economic prosperity of the nation.

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For those few lecturers who are not able to improve the standard of their teaching, we will review their cases individually at senior management level and consider how we can support them in making the necessary changes.

We will have an active programme of finding and replicating the best examples of outstanding teaching in our own college and elsewhere. We shall also develop a culture in which all teams take collective responsibility for the quality of the teaching in their area.

Student feedback on the impact our teaching is having on them, both in knowledge and skills acquisition and in their development as active, independent learners, will be used as a primary source of information on our progress on this priority.

Priority 2 - Our programmes will improve the employment prospects of all our students **(Lead – Simon Cook, Principal)**

The Vision

MidKent College will have a regional reputation for offering the best range of vocational and academic study programmes and courses. We will focus on ensuring that literacy and numeracy development is at the heart of every programme for those students who have not yet achieved a grade C in English and mathematics.

Students leaving MidKent College will be regarded as high quality potential employees. The curriculum will anticipate future trends and employment prospects in the communities and businesses it serves. As a result of the programmes they undertake, and the quality of teaching, learning and assessment, our students will improve their employment prospects now and in the future. All of our staff will play an important part in developing our students to help them improve their job prospects.

If we achieve it, what will our students say about it?

'I can rely on finding a course which will help me progress to further study or a job in my chosen area.'

'I now understand how my literacy and numeracy is going to help me secure great employment'

'When I complete this course, I know I can find another one to progress onto at MidKent, if I wish.'

'When I complete this course, I know how I can get help through the College to find a job.'

'The College teaches me the most up-to-date skills and knowledge in my field of study.'

If we achieve it, what will employers say about our students?

'I know that a MidKent College student will have the employment skills and behaviours I need in my business.'

'I can save a lot of time and money by employing a MidKent College graduate since they require much less effort to get them up and running in the job.'

'MidKent listens to the things I identify that I am looking for in my workforce.'

How We Will Achieve It

We will regularly review the subjects and qualifications we offer, with a core focus on literacy and numeracy as part of every study programme for young people. We will consult our employer network and key industry groups to ensure we focus on the skills and qualifications required.

We will continue to strengthen our links with businesses and to extend our partnerships through a designated employer liaison lead in each teaching area. This person will ensure that employers have a strong voice in the development of the course offer and that the College keeps up-to-date with the qualifications which best meet the needs of employers. We will enhance courses with the subject and skills areas that make our students work-ready. Where possible, we will provide commercial activities to give students real work and project experience.

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We will implement a stepped approach to employability skills. This will take students through a set of staged activities. Initially, all students will receive training in work skills. When ready they will be supported to find high quality work experience linked to their course and their chosen career path.

We will improve the quality of feedback from employers and former students about their performance as employees and the extent to which they credit the College for this.

Priority 3 - We will engage actively with our local and regional economy to benefit all our community (Lead – Chris Hare – Director of Enterprise, Employment and Skills)

The Vision

The College will contribute to the local and regional economies of Kent, Medway and the South East. Through constant engagement with local stakeholders including local authorities, schools and key influencers, we will understand the main economic drivers for prosperity and source funds to help deliver and promote the skills and training needed. We will work with our local businesses and key employer representatives in order to increase the number of apprentices in the region and to deliver the skills and employees that businesses require in order to become prosperous.

MidKent College will be regarded by our community as an essential and valuable part of it. We will find ways of supporting the community which go beyond the core activities of education and training, seeking enduring partnerships of mutual benefit to our communities.

The College will deliver a range of services for individuals and employers which helps our students to practise their skills and develop their confidence. Our students will be good citizens and self-confident individuals, ready to make a difference to the communities in which they will live and work.

If we achieve it, what will our community say about it?

‘The College makes a significant and beneficial impact on the local community.’ - Local Government

‘If I need help in recruiting staff or developing my employees, I will always consider the College.’ - Employer

‘The College has helped us transform ourselves.’ – Local Organisations and Community Groups

‘The College is part of our community and we are proud of it.’ – Local Residents

How We Will Achieve It

Through our campus advisory committees and stakeholder engagement, we will establish a key focus on ensuring we represent our different local communities of Maidstone and Medway. We will make sure that our staff engage with a range of employers, recognising the impact they can have on teaching, learning and assessment for our College-based students. We will help employers to increase the employment of apprentices and we will also seek further opportunities to work actively with companies to provide training for their staff and services.

We will build enduring relationships with our local schools in order to promote the progression and careers advice given to young people. We will also provide opportunities for our students to contribute to their communities through key projects that use their skills. Where possible, we will deliver these schemes in partnership with businesses or other groups.

Through the appointment of a senior leader for enterprise, employment and skills at the College, we will focus closely on developing these key relationships and build core strategies that increase apprenticeship opportunities and enhance the development of higher level skills.

Priority 4 - We will secure the work we do with RSME and develop other activities from it (Lead - Andrew Brader, Managing Director, MKC Training Services Limited)

The Vision

MKCTS will continue to contribute to the training contract at the RSME for the full length of its 30 year contract through outstanding, demand-led and technology driven training. This will be delivered by talented and motivated instructors and supported by high quality equipment and facilities. Spare capacity within the training facilities and continued growth, will be optimised through the development of additional third-party income.

If we achieve it, what will our stakeholders say about it?

'The tools and facilities are superb and the instructors are 'awesome'.' – Royal Engineer Trainees

'MKCTS is great to work with; it is 'on-side' and 'wilco'.' – Royal Engineers

'MKCTS makes an outstanding contribution to this very successful contract.' – Holdfast

'MKCTS is a significant partner in one of the top performing MoD contracts.' - MoD

How We Will Achieve It

We will work hard to ensure that we retain the RSME contract and as part of that commitment we will continue to develop and improve the high quality training we provide to Defence.

To diversify income we will trade through our new Cirrus e-learning business, provide resettlement training for those leaving the armed forces, deliver project management to industry and later expand into 'blue chip' apprenticeship programmes in areas allied to construction and engineering.

Priority 5 - We will develop strategies to ensure our long term success and prosperity (Lead – Simon Cook, CEO)

The Vision

The MidKent College Group will be a collection of organisations and activities focused on our core activity of education and training. We will continue to invest in strategies and initiatives that ensure the College continuously improves the quality of its provision and its strong financial health, making it a successful, stable and secure environment for the benefit of our students and staff. Investment in initiatives will be considered within the context of the potential impact they will have upon our other strategic priorities. In particular, we shall encourage and support initiatives that contribute to first-rate teaching, learning and assessment and the employability of our students.

If we achieve it, what will our stakeholders say about it?

'MidKent College supports and challenges me to keep on improving the service I provide.' – Staff

'MidKent College is a dynamic organisation with creative strategies to continue improving' – Funding and Inspection Agencies/Internal Auditors

'The College has sound strategies to ensure its long-term financial health' - Auditors

How We Will Achieve It?

We will develop a costed investment strategy to achieve our strategic priorities and to raise achievement against our key performance indicators. The current climate is one of declining student funding and doing 'more for less'. Our aim is to ensure that we remain financially strong within this challenging environment.

We will review all of our current expenditure and benchmark it against the sector averages to ensure that we are achieving best value. We will use this to refocus resources against our strategic priorities.

We will remain alert to new opportunities for growth and/or for diversification of income. Any such opportunities will be robustly assessed in terms of their potential benefit and we would only pursue initiatives that are consistent with our strategic priorities.

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Performance indicators

The College uses a number of indicators to monitor performance which include:

- Student numbers and achievement of funding targets
- Student success rates and destinations
- Student attendance
- Student retention

The College is committed to observing the importance of sector measures and indicators and use the FE Choices 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. The Finance Record produces a financial health grading. The current rating is outstanding.

FINANCIAL POSITION

Financial results

2016/17 saw the eighth full year of trading of the subsidiary company (MKC Training Services Ltd – MKCTS). MKCTS provides training to the MOD at the RSME Barracks in Chatham as part of the Holdfast Consortium.

The Group recorded a deficit before other gains and losses in the year of £1,446,000 (2015/16: £2,500,000 surplus), with total comprehensive income of £5,107,000 (2015/16: £4,991,000 deficit).

The Group has accumulated reserves of £60,744,000 (2015/16: £55,639,000) and cash and short term investment balances of £12,326,000 (2015/16: £12,976,000). The Group wishes to continue to accumulate reserves and cash balances in order to continue its investment in delivering high standard education.

Tangible fixed asset additions during the year amounted to £4,603,000 (2015/6: £3,889,000). This was split between land and buildings acquired of £3,440,000 (2015/6: £2,520,000) and equipment purchased of £1,163,000 (2015/16: £1,369,000). These additions include £1.6million, relating to the car park element of the Maidstone redevelopment project and £757,000 for purchase of two houses as part of our staff recruitment strategy.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2016/17 the FE funding bodies provided 48% of the Group's total income (2015/16: 51%).

Treasury policies and objectives

Treasury management is the management of the Group'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 Group has a separate treasury management policy in place. Surplus cash is invested in line with this policy through Federated and short-term investments in banks.

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

Cash flows and liquidity

The group continues to enjoy significant cash inflows from operating activities, £3,932,000 (2015/16 - £5,802,000). This strong cash position enables the continued investment in the facilities.

Reserves Policy

The College has no formal Reserves Policy, but recognises the importance of reserves in the financial stability of an organisation, whilst ensuring that adequate resources are provided for the College's core business. The College currently holds no restricted reserves. As at the balance sheet date, the Income and Expenditure account reserve stands at £59,353,000 (2016: £54,194,000). It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses.

Student numbers

In 2016/17 the Group has delivered activity that has produced £24,518,000 in funding body main allocation funding (2015/16 - £25,982,000). The College had approximately 6,548 (2015/16 – 6,805) funded and 1,373 (2015/16 – 1,596) non funded students.

Student achievements

Students continue to achieve well at the College and prosper. The 2016/17 academic year saw an increase to 81% for all qualifications with the introduction of English and maths having an adverse effect on the results. Whilst retention remained high, ensuring students passed qualifications with a number of new assessment methodologies remained the challenge.

Curriculum developments

Curriculum reform under the current government continues to be relentless. A significant number of policy changes that have been issued over the last five years have had a significant impact on the college. By far the greatest of these was the introduction of study programmes for full time students in 2013. The introduction of the apprenticeship levy in 2017, further growth of the Post 16 skills plan being reviewed by Lord Sainsbury on behalf of government, and constant changes in ministerial and subsequent education focus will continue to ensure the college is constantly assessing risk and policy. Furthermore the continued reform to vocational programmes, creating a much more exam based and rigorous assessment continue to contribute to the constant curriculum reform at MidKent College. Despite all of these changes, our financial security allows us to invest and develop key areas of work.

The introduction of study programmes, and as a result the growth of English and maths provision, has seen the College make significant investment in this area. We have invested just over £1.5m in areas where resources need to further inspire and engage students to raise their aspirations and ambitions.

Our key focus moving forward is on growing apprenticeships, alongside our relationships with business and local schools. The South East Local Enterprise Partnership is increasing its influence on skills and curriculum. Led by businesses it has a clear focus on improving productivity, as well as economic prosperity in the region.

The College is represented on the Local Enterprise Partnership (LEP) Skills Advisory Group, as well as the Kent & Medway Skills Commission as well as a range of other key local and regional stakeholder groups. These along with increasing use of LMI and destinations data during business planning, help to ensure that the college continues to provide a curriculum and series of programmes that meet the needs of both students and local business.

Our increased focus on the local and regional economies means that we continue to provide a curriculum that enables students to increase their prospects of securing employment, or continue to further study. This year we continue to see over 90% of students' progress to a positive destination, either a higher level of study, or employment.

We continue to ensure that study programmes not only allow students to achieve technical qualifications to improve their employment prospects, but also develop the skills and attributes that employers continue to ask for, over and above these qualifications. Qualities of reliability, hard work, enterprise, determination and enthusiasm are all areas of focus around our main curriculum to help students get the best chances of success in their future careers. In order to further strengthen this focus we restructured curriculum management this year to align the college provision to the key skills priority for the South East.

The Group remains flexible to local need and in addressing those not in work or education through close working with the Local Authorities, Connexions, Job Centre Plus and local employers. Our core offer still remains full time 16-18 year olds on study programmes, however we are developing other pathways to provide the right opportunities for our students, and local employers alongside increasing the apprenticeship offer at the college.

Our partnerships with schools is also increasingly important. We see that many young people, and their parents, do not have access to good quality, independent careers advice. We therefore continue to invest in ensuring we provide this service to our local community and students. We have also started to engage more productively with our local schools in Medway, Maidstone and Swale to help promote progression opportunities to college.

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Our existing partnerships with several local special schools has helped to support the transition of young people into further education and offering increased assistance to students with learning difficulties in particular those with autistic spectrum disorders (ASD).

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 2016 to 31 July 2017, the Group paid 75.8% (2015/16: 73.44%) of its invoices within 30 days. The Group incurred no interest charges in respect of late payment for this period.

Future prospects

The College is under plan led funding and hence Learner Responsive (16-18) income for 2017/18 has been confirmed at £19,337,000 (2016/17: £21,546,000).

Going Concern

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

The College repaid the long-term loan in June 2014 and does not have any other borrowings however, it does have access to a revolving credit facility of £13m. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

RESOURCES

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

Tangible resources include the main group sites, having a net book value of £100 million.

Financial

The Group has £61million (2015/16: £56m) of net assets, including £17million pension liability (2015/16: £21m) and no debt (2015/16 - £nil).

People

The Group employs on average 741 (2015/16: 731) people (expressed as full time equivalents), of whom 527 (2015/16: 534) are teaching staff.

Reputation

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

PRINCIPAL RISKS AND UNCERTAINTIES:

The Group is satisfied that it has successfully embedded the system of internal control, including financial, operational and risk management which is designed to protect the Group's assets and reputation. This has been evidenced in part by the continued assessment of 'outstanding' financial health by the ESFA. .

Risk management is now embedded within the Group's management structure. There is a formal process whereby management identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the Group. The internal controls are then implemented and subsequent appraisals will review their effectiveness and progress against risk mitigation actions. Management will also consider any risks which may arise as a result of a new area of work being undertaken by the Group.

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A risk register is maintained at Group level, using the Strategic Priorities as a framework, which is reviewed by the Risk and Audit Committee each term. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the Group and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

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

1. Government Funding for Education and Skills

There is a sustained and significant risk of funding reduction in the College's main funding streams.

The Group has considerable reliance on continued government funding through the further and higher education sector funding bodies. In 2016/17, 49% (2015/16: 52%) of the Group's revenue was ultimately funded from the Government's education and skills budgets. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms particularly in light of the two cuts (24% followed by a further 3.9%) to the Adults Skills budget for 2015/16.

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

- The continued Government drive for study programmes to include GCSE English & Maths, which is still very new and could have a potential impact on staffing hours and specialisms.
- Local devolution deals and any possible impacts on skills budgets as already seen in Sheffield.
- Declining demographics for our key target market with increased competition.
- Lagged funding and decline of student numbers may impact future years.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements, though such funding cannot be guaranteed.
- There is opportunity to offset some of the funding reduction through increases in tuition fees for some adult learners.
- By ensuring the Group has a good reputation within its local and regional communities and with key stakeholders and influencers.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies and the College has a good reputation in respect of the timeliness and accuracy of its funding returns.
- Ensuring the Group is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue undertaken with the funding bodies and close attention paid to national developments through national stakeholder groups.
- Continued dialogue with schools and local competitors.

2. Changes to the RSME Contract

MKC Training Services Limited began the delivery of a 30-year contract in January 2009. As reported last year, there is now a changed pricing mechanism, reflecting a transformed training delivery model to enable more roll-on, roll-off training and reduce the number of soldiers' not undergoing training. There is a risk that this will either reduce the income earned from the contract, or alter the cost profile such that profitability is reduced.

This risk is mitigated as follows:

- Contract negotiations were handled at Director level and supported by legal expertise, therefore the impact of the changes has been mitigated and the risks are well understood
- There are strong relationships within the consortium and with the customer

3. Failure to provide high quality teaching, learning and assessment

The College has a track record of increased success rates over successive years. However, since the introduction of study programmes and in particular inclusion of English and Maths, success rates have fallen against sector averages that have increased. Whilst the College was judged as Good by Ofsted in 2009 a judgement of Requires Improvement was received in 2015 and again in 2017.

This risk is being mitigated by:

- The College has significantly invested in recruiting teaching staff for English and maths alongside resources required, including an English and maths board.
- The College has produced a rigorous and thorough plan for improvement, endorsed by an Ofsted HMI, in order to improve the quality of teaching, learning and assessment
- A review of College priorities has taken place with an absolute focus on the impact any investment has on the quality of students' experiences.

4. Maintaining Adequate Funding of Pension Liabilities

The financial statements report the share of the pension scheme deficit on the Group's balance sheet in line with the requirements of FRS 102 (Section 28). Recent experience indicates that liabilities continue to exceed asset values, which represents a risk as if it were to continue the Group could breach its financial covenants if this resulted in negative reserves.

This risk is mitigated by:

- Annual monitoring of the pension position
- Giving due consideration to either making a one-off payment or increasing employer contributions

STAKEHOLDER RELATIONSHIPS:

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

- Students;
- Education sector funding bodies;
- Staff;
- Local Employers (with specific links);
- MoD and Holdfast Consortium Members;
- Local Authorities;
- Local Enterprise Partnerships (LEPs);
- Government Offices;
- the Local Community;
- Other FE Institutions;
- Local schools;
- Trade Unions;
- Professional Bodies.

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

Diversity & Inclusion

It is MidKent College's vision to provide a learning and working environment which celebrates diversity and where discrimination in all its forms is deemed to be unacceptable. The Diversity & Inclusion Strategy, which is published in the Group's website, represents a commitment from the Group to take firm action to redress inequality, and to promote diversity and inclusion in all of our activities. The strategy sets out our core objectives for meeting our public sector equality duties, and provides a detailed plan of the steps we intend to take to advance equality of opportunity.

Part of our recent duties in the Further Education sector includes optimising the life chances and success of all users of the Group. In particular we will ensure that young people are developing in circumstances consistent with the principles of equality and the provision of safe and effective care. The strategy aims to meet the general duties imposed on the Group by legislation and sector guidance including the Equality Act 2010. It also goes further to include best practice in all areas of diversity whether they are covered by legislation or

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not. We respect and value differences in race, gender, sexual orientation, disability, religion or belief, age, gender reassignment, pregnancy or maternity, and marriage or civil partnership. We strive vigorously to remove conditions which place people at a disadvantage and we actively combat bigotry.

MidKent College's Vision, Values and Priorities play a vital role in the mainstreaming of equality and diversity so that it is an inherent part of every aspect of college life. Furthermore, they embody the goals and objectives of the organisation and form the foundation of the Equality Strategy. The Group undertakes equality impact assessments on all policies and procedures and publishes the results.

MidKent College's Vision, Values and Priorities play a vital role in the mainstreaming of equality and diversity so that it is an inherent part of every aspect of college life. Furthermore, they embody the goals and objectives of the organisation and form the foundation of the Equality Strategy. The Group undertakes equality impact assessments on all policies and procedures and publishes the results.

The Group is an 'Investor in Diversity' and is a 'Positive about Disabled' employer and has committed to the principles and objectives of these two standards. In particular the Group considers all employment applications from disabled persons, being cognisant of the aptitudes of the individuals concerned. A disabled applicant who meets the essential criteria for the post is guaranteed an interview. Where an existing employee becomes disabled, every effort is made to ensure that employment with the Group continues. The Group's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide opportunities equal to those of non-disabled employees.

The Group has implemented an updated Equality & Diversity training programme which all staff have attended. All staff complete an online training programme every three years with further refresher training and training for new starters carried out on an ongoing basis.

Disability statement

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

- a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2008/09, and the results of this formed the basis of funding capital projects aimed at improving access.
- b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to auditors

The members who held office through the year and up to 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 Group'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 Group's auditors are aware of that information.

Approved by order of the members of the Corporation on 13 December 2017 and signed on its behalf by:

A Furedi
Chair of Governors

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and financial statements of the Group to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2016 to 31 July 2017 and up to the date of approval of the annual report and financial statements.

The Group endeavors to conduct its business:

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

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

In the opinion of the Governors, the Group complies with all the provisions of the Foundation Code, and it has complied throughout the year ended 31 July 2017. 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 new English Colleges’ Foundation Code of Governance issued by the Association of Colleges in March 2015, which it formally adopted in July 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 members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below.

Name	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees served	Corporation meeting attendance
Mr R Aggarwal	Reappointed 17 July 2016	4 Years		Independent Member	MKCTS	5/6
Mrs P Baxter	11 December 2016	4 Years		Independent Member	Search & Governance, Responsible for Safeguarding	6/6
Mr M Blanning	Reappointed 1 January 2017	4 years		Independent Member	Finance & General Purposes, Quality, Teaching and Learning (Chairman)	6/6
Ms C Burkin	1 January 2011	N/A		Internal	Clerk to Corporation & all Committees	6/6

MidKent College

Name	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees served	Corporation meeting attendance
Mr S Cook	1 May 2015			Principal	Finance & General Purposes, Quality, Teaching and Learning, Risk & Audit, Governing Body and Search & Governance	6/6
Mr I Daniel	Reappointed 21 October 2016	4 Years		Independent Member	Finance & General Purposes (Chairman), Remuneration, MKCTS	5/6
Mr N Davies	Reappointed 22 May 2016	4 Years		Independent Member	Finance & General Purposes, Search & Governance	3/6
Mr M Dowden	15 October 2014	2 Years	31 January 2017	Independent Member	Quality Teaching and Learning,	2/2
Mrs T Fazaeli	22 October 2015	2 Years		Independent Member	Quality Teaching and Learning	6/6
Mrs A Furedi	Re appointed 12 July 2015	4 Years		Independent Member, Chairman	Finance & General Purposes, Disciplinary Appeals Panel, Remuneration Committee	6/6
Miss C Geddes	1 September 2016	N/A	November 2016	SU President / Student Governor	Quality, Teaching and Learning	1/1
Mr D Innes	Reappointed 5 July 2016	4 Years		Independent Member	MKCTS (Chairman)	4/6
Mr H Nydam	Reappointed 4 May 2013	4 Years	3 May 2017	Independent Member	Search & Governance (Chairman), Maidstone Campus Advisory (Chairman), Responsible for H&S	3/4
Mrs A Palmer	14 November 2015	4 Years		Staff	Finance & General Purposes	5/6
Mrs S Potipher	Reappointed 1 February 2012	4 Years	31 January 2017	Independent Member. Chairman	Governing Body Chairman, ex officio: Remuneration,	2/2

MidKent College

Name	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees served	Corporation meeting attendance
	Extended by 1 year from 31 January 2016				Search & Governance, Finance & General Purposes	
Mr C Reeves	29 March 2017	4 years		Independent Member	Risk & Audit	4/4
Mr C Reynolds	15 May 2015	4 Years		Independent Member	Risk & Audit (Chairman), Responsible for H&S	5/6
Mr B Russell	Reappointed 17 June 2016	4 Years		Independent Member	Business Advisory (Chairman), Search & Governance (Chairman)	5/6
Mr A Start	Reappointed 13 December 2013	4 years		Independent Member Vice Chairman	Governor with Responsibility for Quality, Quality Teaching and Learning, Remuneration	4/6
Mrs A Start	Reappointed 13 December 2015	4 Years		Independent Member	MKCTS, Risk & Audit	4/6
Ms C Valentine	Reappointed 1 January 2015	4 Years		Independent Member	Responsible for Equality & Diversity, Quality Teaching and Learning	5/6
Miss M Wood	Appointed 19 October 2016	4 Years		Staff Governor	Risk & Audit	6/6

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

The Corporation is provided with regular and timely information on the overall financial performance of the Group together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets at least five times per year.

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The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance and General Purposes, Remuneration, Search and Governance, Quality, Teaching and Learning, and Risk and Audit. Full minutes of all meetings, except those deemed confidential by the Corporation, are available on the College's website at www.midkent.ac.uk or from the Clerk to the Corporation at:

MidKent College,
Medway Campus,
Medway Road,
Gillingham,
Kent. ME7 1FN.

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

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

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

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search & Governance Committee comprising of governors which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

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

Corporation performance

The Governing Body (GB) currently comprises 17 members and carries some vacancies, focused on ensuring the College is making progress towards achieving its strategic objectives. Membership includes two staff members, together with the Student Governor elected by the student body. Membership has been extended in 2016/17 to increase the level of specialist Further Education experience. The board is passionate about education and good governance.

The Governing Body formally sits five times a year. In addition to this Governors are highly involved in a wide range of activities within the college including: subcommittees which meet a minimum of 3 times a year and the quality, teaching and learning Committee holds regular monitoring teleconference calls; a Strategic Governor/SLT Away Day which has a particular focus on long term strategic planning; regular scheduled governor training events; link visits, and a wide variety of events involving students. In addition to this, governors attend structured training prior to each GB meeting.

Governors have reviewed their role and responsibilities and changed the format of the GB meetings in order to provide the Principal and senior staff with high levels of challenge and support to ensure the College improves whilst maintaining a positive impact on the communities it serves. They make informed and transparent decisions with all minutes and papers (unless they are deemed confidential) available to the public on the College website and by request. Confidential minutes are annually reviewed by the Search & Governance Committee to determine whether they can be released as public documents.

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The Search & Governance Committee continues to focus on skills and qualities of Governors to ensure that the Governing Body has a good balance of skills needed to provide the appropriate strategic direction, support and challenge for the College.

The GB complied with the Foundation Code of Governance (adopted 23 March 2012) and adopted the Audit & Accountability Annex to the Code on 11 June 2013. It also adopted the Code of Good Governance for English Colleges in July 2015 and continues to strive to comply fully with the Ten Principal Responsibilities of Good Governance set out within that document. The GB formally reviews its own performance annually.

Following the 2017 OFSTED inspection, the GB recognised that the changes implemented at the start of 2016/17 have not yet had sufficient impact. As a result there is a continued focus on:

- Quality, teaching, learning and outcome for students has been placed at the centre of the GB agendas and that of its subcommittees.
- The GB now has full visibility of the Minimum Levels of Performance (MLPs) at each meeting to review performance.
- Monthly Quality, Teaching & Learning monitoring calls have been put in place to assess progress against the Post Inspection Action Plan. These calls are recorded and available for Ofsted review.
- Curriculum Areas are assigned a proactive link governor.
- An English and maths board, chaired by one of the UK's leading experts continued to provide detailed scrutiny and challenge as well as independent advice, this board reports into the QTL committee.
- The training of governors has increased.
- 3rd party consultants have reviewed the quality inspection frameworks and ensure they remain current with the latest expectations of government.
- The level of external Further Education expertise on the GB has already been increased through the appointment of a nationally recognised expert in FE, and this continues to be a priority for search.
- Governors' visits have been formalised and the feedback reports used to further triangulate the validity of leadership reports and data.
- The Student Representative has put Quality Improvement at the centre of its agenda and has focussed on ensuring quality issues are highlighted.
- The Chair has encouraged a far greater level of scrutiny and challenge within the GB and subcommittees. She has invited relevant senior staff to attend and present to the Board on items of specific detail.

Despite strong leadership, a widening of skills and consistently high level of commitment, the GB recognises that it still Requires Improvement. The GB is not seeing the rate of quality improvement it would like to see and as a result will remain unsatisfied with its own performance until the college is delivering Excellent Outcomes for its students.

Remuneration Committee

Throughout the year ended 31 July 2017, the Corporation's remuneration committee comprised of three governors. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior post-holders.

Details of remuneration for the year ended 31 July 2017 are set out in note 6 to the financial statements.

Risk and Audit Committee

The Risk & Audit Committee comprises four members of the Corporation (who exclude Accounting Officer and Chairman). The committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the Group's systems of internal control and its arrangements for risk management, control and governance processes.

The Risk and Audit Committee meets on a termly basis and provides a forum for reporting by the Group's internal, regulatory and financial statements auditors, who have access to the committee for independent discussion, without the presence of Group management.

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 Risk and Audit Committee.

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

Finance and General Purposes Committee

The Finance and General Purposes Committee comprises five members of the Corporation plus the Accounting Officer. The committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to oversee and monitor the progress of the College's Strategic Plan in relation to Finance, Human Resources, Estates and Facilities, and Information and Communications Technology. The committee also receives and considers reports from the main FE funding bodies, as they affect the Group's business.

The Finance and General Purposes Committee meets five times a year. There is a standing agenda for each meeting together with more targeted items for specific meetings.

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the Group'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 Chief Executive, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the Group's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or 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 achievement of Group 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 MidKent College for the year ended 31 July 2017 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Corporation has reviewed the key risks to which the Group 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 Group's significant risks that has been in place for the year ended 31 July 2017 and up to the date of approval of the annual report and financial statements. 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

MidKent College

- Clearly defined capital investment control guidelines
- The adoption of formal project management disciplines, where appropriate.

The Group has an Internal Audit Service, which operates in accordance with the requirements of the ESFA and ESFA's Joint Audit Code of Practice. The work of the Internal Audit Service is informed by an analysis of the risks to which the Group is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit and Risk Committee. At least annually, the Internal Audit Service provides the governing body with a report on internal audit activity in the Group. The report includes the service's independent opinion on the adequacy and effectiveness of the Group's system of risk management, controls and governance processes.

Review of effectiveness

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

- The work of the internal auditors
- The work of the executive managers within the Group who have responsibility for the development and maintenance of the internal control framework
- Comments made by the Group's financial statements and regularity auditors in their management letter and through discussion as appropriate.

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 and Risk 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 Chief Executive and senior leadership team receive 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 Chief Executive and senior leadership team and the Audit and Risk Committee also receive regular reports from internal audit and other sources of assurance, which includes recommendations for improvement. The Audit and Risk Committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior leadership team and the Audit and Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Based on the advice of the Audit and Risk 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

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

The College has no borrowings however, it does have access to a revolving credit facility of £13m. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

Approved by order of the members of the Corporation on 13 December 2017 and signed on its behalf by:

A Furedi
Chair of Governors

S Cook
Accounting Officer

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

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of its consideration the Corporation has 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 its knowledge, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial memorandum.

We further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the Skills Funding Agency. If any instances are identified after the date of this statement, these will be notified to the Skills Funding Agency.

A Furedi

Chair of Governors

13 December 2017

S Cook

Accounting Officer

13 December 2017

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, the corporation through its Accounting Officer is required to prepare financial statements for each financial year in accordance with the 2015 *Statement of Recommended Practice - Accounting for Further and Higher Education Institutions* and with the *College Accounts Direction 2016 to 2017* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the Group and of the College's results for the year.

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

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

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

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

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

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

Approved by order of the members of the Corporation on 13 December 2017 and signed on its behalf by:

A Furedi

Chair of Governors

Independent Auditors' Report to the Members of the Corporation of MidKent College

Opinion

We have audited the financial statements of MidKent College ("the College") for the year ended 31 July 2017 which comprise the Consolidated and College Statements of Comprehensive Income, the Consolidated and College Statements of Changes in Reserves, the Consolidated and College Balance Sheets, the Consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2017 and of the College's deficit of income over expenditure for the year then ended;
- 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 Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation 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 Corporation are responsible for the other information. The other information comprises the information included in the annual report 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.

MidKent College

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 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- the information given in the Statement of Responsibilities of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and
- we have not received all the information and explanations we require for our audit.

Responsibilities of Corporation

As explained more fully in the Statement of Responsibilities of the Member of the Corporation set out on page 23, the Corporation are responsible for the preparation of the 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 are 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 intend 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard. This report is made solely to the Corporation as a body, in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Mazars LLP

Chartered Accountants and Statutory Auditor

Times House, Throwley Way, Sutton, Surrey, SM1 4JQ.

Date:

Independent Auditors' Report on Regularity to the Corporation of MidKent College ("The Corporation") and the Chief Executive of the Skills Funding Agency

In accordance with the terms of our engagement letter and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by MidKent College during the period 1 August 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of MidKent College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

The work undertaken to draw to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.

MidKent College

- Reviewed the College's completed self-assessment questionnaire on regularity.
- Read the financial memorandum with the SFA.
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
- Reviewed approved policies and procedures operating during the year for each funding stream that has specific terms attached
- Obtained the policy for personal gifts and/or hospitality.
- Obtained the register of personal interests.
- Obtained the financial regulations/financial procedures.
- Obtained the College's whistleblowing policy.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Mazars LLP
Chartered Accountants and Statutory Auditor
Times House, Throwley Way, Sutton, Surrey, SM1 4JQ
Date

Statement of Comprehensive Income

	Notes	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Income					
Funding body grants	2	27,288	27,258	28,364	28,302
Tuition fees and education contracts	3	5,905	5,905	5,286	5,286
Other income	4	18,176	2,983	17,365	3,830
Endowment and investment income	5	60	49	56	56
Total income		51,429	36,195	51,071	37,474
Expenditure					
Staff costs	6	33,474	24,096	30,621	20,812
Other operating expenses	7	13,721	8,524	12,284	7,883
Depreciation	10	5,157	4,857	5,152	4,889
Impairment of assets		0	0	0	0
Interest and other finance costs	8	523	523	514	514
Total expenditure		52,875	38,000	48,571	34,098
(Deficit)/Surplus before other gains and losses		(1,446)	(1,805)	2,500	3,376
Loss on disposal of assets		(25)	(25)	(1,001)	(1,001)
(Deficit)/Surplus before tax		(1,471)	(1,830)	1,499	2,375
Taxation	9	0	0	0	0
(Deficit)/Surplus for the year		(1,471)	(1,830)	1,499	2,375
Actuarial gain/(loss) in respect of pension schemes	22	6,576	6,576	(6,490)	(6,490)
Total Comprehensive Income for the year		5,105	4,746	(4,991)	(4,115)

Statements of changes in reserves

	<u>Income and Expenditure account</u> £'000	<u>Revaluation reserve</u> £'000	<u>Total</u> £'000
Group			
Balance at 1 August 2015	58,769	1,861	60,630
Surplus for the year	1,499	0	1,499
Other comprehensive income	(6,490)	0	(6,490)
Transfers	416	(416)	0
Total comprehensive income for the year	(4,575)	(416)	(4,991)
Balance at 31 July 2016	54,194	1,445	55,639
Deficit for the year	(1,471)	0	(1,471)
Other comprehensive income	6,576	0	6,576
Transfers	54	(54)	0
Total comprehensive income for the year	5,159	(54)	5,105
Balance at 31 July 2017	59,353	1,391	60,744
College			
Balance at 1 August 2015	57,739	1,861	59,600
Surplus for the year	2,375	0	2,375
Other comprehensive income	(6,490)	0	(6,490)
Transfers	416	(416)	0
Total comprehensive income for the year	(3,699)	(416)	(4,115)
Balance at 31 July 2016	54,040	1,445	55,485
Deficit for the year	(1,830)	0	(1,830)
Other comprehensive income	6,576	0	6,576
Transfers	54	(54)	0
Total comprehensive income for the year	4,800	(54)	4,746
Balance at 31 July 2017	58,840	1,391	60,231

MidKent College

Balance sheets

	Notes	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Fixed assets					
Tangible fixed assets	10	104,705	103,953	105,293	104,468
		104,705	103,953	105,293	104,468
Current assets					
Stocks		28	28	27	27
Trade and other receivables	12	3,364	6,013	3,179	5,638
Investments	13	8,218	6,511	9,612	8,805
Cash and cash equivalents		4,108	1,545	3,364	680
		15,718	14,097	16,182	15,150
Creditors - amounts falling due within one year	14	(9,922)	(8,072)	(9,832)	(8,151)
Net current assets		5,796	6,025	6,350	6,999
Total assets less current liabilities		110,501	109,978	111,643	111,467
Creditors - amounts falling due after more than one year	15	(32,899)	(32,889)	(34,394)	(34,372)
Provisions					
Defined benefit obligations	16	(16,669)	(16,669)	(21,402)	(21,402)
Other provisions	16	(189)	(189)	(208)	(208)
Net assets		60,744	60,231	55,639	55,485
Income and expenditure account		59,353	58,840	54,194	54,040
Revaluation reserve		1,391	1,391	1,445	1,445
Net assets		60,744	60,231	55,639	55,485

The financial statements on pages 28 to 29 were approved and authorised for issue by the Corporation on 13 December 2017 and were signed on its behalf on that date by:

A Furedi
Chair of Governors

S Cook
Accounting Officer

Consolidated statement of cashflows

	Notes	<u>2017</u> £'000	<u>2016</u> £'000
Cash inflow from operating activities			
Surplus/(deficit) for the year		(1,471)	1,499
Adjustment for non cash items			
Depreciation		5,157	5,152
(Increase)/decrease in stocks		(1)	0
(Increase) in debtors		(185)	(258)
(Decrease) in creditors due within one year		70	(901)
(Decrease) in creditors due after one year		(1,710)	(1,945)
(Decrease)/Increase in provisions		(19)	11
Pension costs less contributions payable		1,843	1,322
Adjustment for investing or financing activities			
Investment income		(60)	(79)
Interest payable		523	15
Loss on sale of fixed assets		25	986
		<u>4,172</u>	<u>5,802</u>
Net cashflow from operating activities			
Cash flows investing activities			
Proceeds from sale of fixed assets		9	48
Investment income		60	19
Withdrawal of (less new) deposits		1,394	(1,106)
Payments made to acquire fixed assets		(4,886)	(3,791)
		<u>(3,423)</u>	<u>(4,830)</u>
Cash flows financing activities			
Interest paid		(523)	(15)
Government capital grants received		518	23
		<u>(5)</u>	<u>8</u>
Increase / (decrease) in cash and cash equivalents in the year		744	980
Cash and cash equivalents at beginning of the year	17	3,364	2,384
Cash and cash equivalents at end of the year	17	<u>4,108</u>	<u>3,364</u>

Notes to the Financial Statements

1. Accounting policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2016 to 2017 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 modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary, MKC Training Services Limited and MKC Aspire Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are made up to 31 July 2017.

Going concern

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

The College has no borrowings however, it does have access to a revolving credit facility of £13m. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

Recognition of income

Funding body recurrent grants are recognised as informed by the results of the funding audit undertaken. 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 at the end of October 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.

MidKent College

Notes to the Financial Statements (continued)

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets. Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.

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

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the income and expenditure account to accumulated income within endowment funds.

Maintenance of premises

The cost of routine maintenance and improvements within the existing buildings are charged to the income and expenditure account in the year incurred.

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 year with all resulting exchange differences being taken to the income and expenditure account in the year in which they arise.

Post retirement benefits

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

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 22, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

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

Enhanced Pensions

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

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.

MidKent College

Notes to the Financial Statements (continued)

Tangible fixed assets:

Land and buildings

Land and buildings inherited from the Local Education Authority (LEA) are stated in the balance sheet at valuation on the basis of open market value for existing use as at 1 April 1993. Land and buildings acquired subsequently are included in the balance sheet at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Buildings are depreciated over the expected useful economic life to the Group of 50 years with elements of the buildings depreciated at fewer years in order to comply with component accounting requirements as under:

Windows, roofs	25 years
Lifts	15 years
Flooring, partitioning	10 years
Cabling, fire alarms, CCTV, blinds	5 years

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy taking into account the requirements of component accounting in FRS 102.

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 15 "Tangible fixed assets", the Group followed the transitional provision to retain the book value of land and buildings, which were revalued in 1993, but not to adopt a policy of revaluations of these properties in future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 102.

Subsequent expenditure on existing fixed assets

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

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

Equipment

Equipment costing less than £1,000 per individual item is written off to the Statement of Comprehensive Income in the period of acquisition. All other equipment is capitalised at cost.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. All equipment is depreciated on a straight line basis over its estimated useful economic life as follows:

Equipment	10 - 25% pa
-----------	-------------

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

Capitalisation of interest costs

All loan interest incurred on relevant borrowings is capitalised up to the date of practical completion. Following which, interest is charged to Statement of Comprehensive Income.

MidKent College

Notes to the Financial Statements (continued)

Leased assets

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Investments

Current assets investments are included in the balance sheet at fair value.

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature. The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Cash and cash equivalents

Cash and cash equivalent include sums on short term deposits with recognised banks and building societies.

Provisions

Provisions are recognised when the Group 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.

Agency arrangements

The College acts as an agent in the collection and payment of Learner Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Statement of Comprehensive Income and are shown separately in note 24, except for Adult Bursary funds that are now included in the main allocation and the 5% of the grant received which is available to the College to cover administration costs in relation to the grant. The College employs five members of staff to support the administration of Learner Support Fund applications and payments.

2 Funding council grants

	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
ESFA - adults	2,145	2,145	1,740	1,740
ESFA - 16-18	20,946	20,946	22,533	22,533
ESFA - apprenticeships	1,755	1,755	1,709	1,709
Higher Education Funding Council	479	479	414	414
Release of government capital grants	1,963	1,933	1,968	1,906
Total	<u><u>27,288</u></u>	<u><u>27,258</u></u>	<u><u>28,364</u></u>	<u><u>28,302</u></u>

MidKent College
Notes to the Financial Statements (continued)

3 Tuition fees and education contracts

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
FE Fees	1,461	1,461	1,679	1,679
Apprenticeship fees and contracts	0	0	0	0
Fees for FE loan supported courses	641	641	599	599
Fees for HE loan supported courses	2,250	2,250	2,042	2,042
Total tuition fees	<u>4,352</u>	<u>4,352</u>	<u>4,320</u>	<u>4,320</u>
Education contracts	1,553	1,553	966	966
Total	<u><u>5,905</u></u>	<u><u>5,905</u></u>	<u><u>5,286</u></u>	<u><u>5,286</u></u>

4 Other income

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Catering and residences	10	10	41	41
Other income	18,166	2,973	17,324	3,789
Total	<u><u>18,176</u></u>	<u><u>2,983</u></u>	<u><u>17,365</u></u>	<u><u>3,830</u></u>

5 Investment income

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Other interest receivable	<u>60</u>	<u>49</u>	<u>56</u>	<u>56</u>

6 Staff costs

Group

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

	<u>2017</u> Number	<u>2016</u> Number
Teaching staff	527	534
Non teaching staff	214	197
Total payroll	<u><u>741</u></u>	<u><u>731</u></u>

MidKent College
Notes to the Financial Statements (continued)

Staff costs for the above persons

	<u>2017</u> £'000	<u>2016</u> £'000
Wages and salaries	22,565	23,238
Social security costs	2,292	1,941
Other pension costs	5,173	4,599
Total payroll	30,030	29,778
Contracted out staffing services	3,444	843
Total	33,474	30,621

College

The average number of persons (including key management personnel) employed (including sessional staff but not contracted out staff) by the college during the year, described as full-time equivalents, was:

	<u>2017</u> £'000	<u>2016</u> £'000
Teaching staff	382	399
Non teaching staff	161	147
Total payroll	543	546

Staff costs for the above persons

	<u>2017</u> £'000	<u>2016</u> £'000
Wages and salaries	14,826	14,998
Social security costs	1,581	1,305
Other pension costs	4,245	3,666
Total payroll	20,652	19,969
Contracted out staffing services	3,444	843
Total	24,096	20,812

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprises the Chief Executive, Director of Finance and Funding, Director of Corporate Services, Director of Enterprise and Employer Engagement and Managing Director of MCK Training Services Limited.

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

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

MidKent College
Notes to the Financial Statements (continued)

	<u>2017</u> Key Management No.	<u>2016</u> No.	<u>2017</u> Other staff No.	<u>2016</u> No.
£60,000 - £69,999	0	0	5	4
£70,000 - £79,999	1	0	0	2
£80,000 - £89,999	1	3	0	0
£90,000 - £99,999	1	0	0	0
£120,000 - £129,999	1	2	0	0
£150,000 - £159,999	1	0	0	0
£170,000 - £179,999	0	0.5	0	0
Total	<u><u>5</u></u>	<u><u>5.5</u></u>	<u><u>5</u></u>	<u><u>6</u></u>

The emoluments of the key management personnel are made up as follows:

	<u>2017</u> £'000	<u>2016</u> £'000
Salaries	526	554
Employers National Insurance contributions	74	66
Benefits in kind	8	9
Compensation for loss of office	79	0
	<u>687</u>	<u>629</u>
Pension contributions	82	75
Total emoluments	<u><u>769</u></u>	<u><u>704</u></u>

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

	<u>2017</u> £'000	<u>2016</u> £'000
Salaries	148	121
Benefits in kind	2	2
	<u>150</u>	<u>123</u>
Pension contributions	24	20
Total	<u><u>174</u></u>	<u><u>143</u></u>

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

MidKent College
Notes to the Financial Statements (continued)

7 Other operating expenses

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Teaching costs	3,217	2,419	3,068	2,372
Non teaching costs	6,792	2,758	5,500	2,164
Premises costs	3,712	3,347	3,716	3,347
Total	13,721	8,524	12,284	7,883

Other operating expenses include:

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Auditors' remuneration				
Financial statements audit	20	19	20	19
Internal audit	23	23	23	23
Other services provided				
by financial statements auditors	6	3	4	2
Other services provided				
by internal auditors	1	1	0	0
Hire of assets under operating leases	115	84	166	135
Hire of other equipment	47	21	36	9
Other rental payments	26	0	47	21

8 Interest payable

Group and College	<u>2017</u> £'000	<u>2016</u> £'000
On bank loans, overdrafts and other loans	0	15
Pension finance costs (note 22)	523	499
Total	523	514

9 Taxation

There was no taxation payable during the current or prior period.

MidKent College
Notes to the Financial Statements (continued)

10 Tangible fixed assets

Group	<u>Freehold land and buildings</u> £'000	<u>Equipment</u> £'000	<u>Total</u> £'000
Cost or valuation			
At 1 August 2016	124,845	11,756	136,601
Additions	3,440	1,163	4,603
Disposals	0	(152)	(152)
At 31 July 2017	<u>128,285</u>	<u>12,767</u>	<u>141,052</u>
Depreciation			
At 1 August 2016	24,396	6,912	31,308
Charge for the year	3,807	1,350	5,157
On disposals	0	(118)	(118)
At 31 July 2017	<u>28,203</u>	<u>8,144</u>	<u>36,347</u>
Net book value at 31 July 2017	<u>100,082</u>	<u>4,623</u>	<u>104,705</u>
Net book value at 31 July 2016	<u>100,449</u>	<u>4,844</u>	<u>105,293</u>
College			
	<u>Freehold land and buildings</u> £'000	<u>Equipment</u> £'000	<u>Total</u> £'000
Cost or valuation			
At 1 August 2016	124,845	9,255	134,100
Additions	3,440	936	4,376
Disposals	0	(148)	(148)
At 31 July 2017	<u>128,285</u>	<u>10,043</u>	<u>138,328</u>
Depreciation			
At 1 August 2016	24,396	5,236	29,632
Charge for the year	3,807	1,050	4,857
On disposals	0	(114)	(114)
At 31 July 2017	<u>28,203</u>	<u>6,172</u>	<u>34,375</u>
Net book value at 31 July 2017	<u>100,082</u>	<u>3,871</u>	<u>103,953</u>
Net book value at 31 July 2016	<u>100,449</u>	<u>4,019</u>	<u>104,468</u>

Inherited land and buildings were valued as at 1 April 1993 at £3,357,000 at open market value for existing use by a firm of independent chartered surveyors. Any disposal of land and buildings requires the consent of the SFA in accordance with the financial memorandum between the Group and the SFA.

MidKent College

Notes to the Financial Statements (continued)

11 Non current investments

MidKent College owns 100% of the ordinary shares of MKC Training Services Limited and 100% of the ordinary shares of MKC Aspire Limited both of which are incorporated in England and Wales. The principal business activity of MKC Training Services Limited is providing training to the Royal School of Military Engineers. MKC Aspire Limited has not traded in the current or prior year.

12 Trade and other receivables

Amounts falling due within one year:	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Trade receivables	2,187	179	2,143	473
Amounts owed by group undertakings:				
Subsidiary undertakings	0	4,754	0	4,404
Prepayments and accrued income	1,044	947	913	638
Amounts owed by Education and Skills Funding Agency	133	133	123	123
Total	3,364	6,013	3,179	5,638

13 Current investments

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Short term deposits	8,218	6,511	9,612	8,805
Total	8,218	6,511	9,612	8,805

Deposits are held with banks and Federated Cash Management Funds operating in the London market and licensed by the Financial Conduct Authority which are available for draw down on a maximum one day notice period.

14 Creditors: amounts falling due within one year

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Trade payables	847	657	762	610
Other taxation and social security	1,388	465	1,264	641
Accruals	4,147	3,434	4,758	3,995
Deferred income - non government	501	501	516	409
Deferred income - government capital grants	2,009	1,985	1,952	1,916
Amounts owed to the ESFA	1,030	1,030	580	580
Total	9,922	8,072	9,832	8,151

MidKent College
Notes to the Financial Statements (continued)

15 Creditors: amounts falling due after more than one year

Notes	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Deferred income-government capital grants	32,899	32,889	34,394	34,372
Total	<u>32,899</u>	<u>32,889</u>	<u>34,394</u>	<u>34,372</u>

16 Provisions

Group and College	<u>2017</u> Defined Benefit Obligations £'000	<u>2017</u> Enhanced pensions £'000	<u>2017</u> Total £'000
At 1 August 2016	21,402	208	21,610
Expenditure in the year	(989)	(15)	(1,004)
Transferred from income and expenditure account	(3,744)	(4)	(3,748)
Total	<u>16,669</u>	<u>189</u>	<u>16,858</u>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 22.

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

The principal assumptions for this calculation are:

	<u>2017</u>	<u>2016</u>
Price inflation	1.3%	1.3%
Discount rate	2.3%	2.3%

17 Cash and cash equivalents

Group	<u>At 1 August</u> <u>2016</u> £'000	<u>Cash</u> <u>flows</u> £'000	<u>Other</u> <u>changes</u> £'000	<u>At 31 July</u> <u>2017</u> £'000
Cash and cash equivalents	3,364	744	0	4,108
Total	<u>3,364</u>	<u>744</u>	<u>0</u>	<u>4,108</u>

MidKent College
Notes to the Financial Statements (continued)

18 Capital commitments

Notes	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Authorised and contracted for	1,130	1,130	2,526	2,526
Authorised but not contracted for	1,150	900	1,850	1,250
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 Lease obligations

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

	<u>2017</u> Group £'000	<u>2017</u> College £'000	<u>2016</u> Group £'000	<u>2016</u> College £'000
Equipment				
Not later than one year	128	104	36	6
Later than one year and not later than five years	344	344	30	0
Total	<u>472</u>	<u>448</u>	<u>66</u>	<u>6</u>

20 Contingent liabilities

There were no contingent liabilities (2016: nil).

21 Events after the reporting period

There were no material events after the period.

22 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 Kent County Council. Both are defined benefit schemes. Employees of the subsidiary, MKC Training Services Limited are enrolled in either the Prudential Platinum Scheme or a Stakeholder pension.

MidKent College

Notes to the Financial Statements (continued)

Total pension costs for the year	<u>2017</u> £'000	<u>2016</u> £'000
Teachers Pension	1,390	1,402
Local Government Pension Scheme contributions paid:	1,031	954
MKCTS contributions paid	928	933
FRS 102 (28) charge	1,843	1,299
Charge to the Statement of Comprehensive Income	<u>5,192</u>	<u>4,588</u>
Enhanced pension charge to Statement of Comprehensive Income	<u>(19)</u>	<u>11</u>
Total Pension cost for year	<u>5,173</u>	<u>4,599</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2004 and the LGPS 31 March 2016.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return, 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:

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

The new employer contribution rate for the TPS was implemented in September 2015. A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

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

MidKent College

Notes to the Financial Statements (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 £1,387,499 (2015/16: £1,402,036)

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

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out the information available on the plan 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 Kent County Council. The total contribution made for the year ended 31 July 2017 was £1,417,965 (2016: £1,350,060), of which employer's contributions totalled £1,008,773 (2016: £964,510) and employees' contributions totalled £409,192 (2016: £385,550). The agreed contribution rates for future years are 15.6% for employers and range from 5.5% to 12.5% for employees.

Principal Actuarial Assumptions

	<u>At 31 July</u> <u>2017</u>	<u>At 31 July</u> <u>2016</u>
Rate of increase in salaries	4.2%	3.9%
Future pensions increases	2.7%	2.1%
Discount rate for scheme liabilities	2.7%	2.5%
Inflation assumption (CPI)	2.7%	2.1%
Commutation of pensions to lump sums	50.0%	50.0%

MidKent College

Notes to the Financial Statements (continued)

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

	<u>At 31 July</u> <u>2017</u>	<u>At 31 July</u> <u>2016</u>
<i>Retiring today</i>		
Males	23.0	22.9
Females	25.1	25.3
<i>Retiring in 20 years</i>		
Males	25.2	25.2
Females	27.4	27.7

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

	<u>Fair Value</u> <u>at 31 July</u> <u>2017</u> <u>£'000</u>	<u>Fair Value</u> <u>at 31 July</u> <u>2016</u> <u>£'000</u>
Equities	30,526	24,475
Bonds	4,175	3,862
Property	5,322	5,070
Cash	1,375	866
Gilts	302	324
Absolute return fund	1,662	1,573
Total market value of assets	<u><u>43,362</u></u>	<u><u>36,170</u></u>

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

	<u>2017</u> <u>£'000</u>	<u>2016</u> <u>£'000</u>
Fair value of plan assets	43,362	36,170
Present value of plan liabilities	(60,031)	(57,572)
Present value of unfunded liabilities	0	0
Net pensions (liability)/asset (Note 16)	<u><u>(16,669)</u></u>	<u><u>(21,402)</u></u>

MidKent College
Notes to the Financial Statements (continued)

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

	<u>2017</u> £'000	<u>2016</u> £'000
Amounts included in staff costs		
Current service (cost)	(2,286)	(1,754)
Past service (cost)	(1)	0
Admin costs	(22)	0
Employer contributions	989	0
	<u>(1,320)</u>	<u>(1,754)</u>
Amounts included in interest payable		
Net interest payable	(523)	(499)
	<u>(523)</u>	<u>(499)</u>
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	5,225	1,287
Experience losses arising on defined benefit obligations	3,283	0
Changes in assumptions underlying the present value of plan liabilities	(3,715)	(7,777)
Actuarial gain	953	0
Change in demographic assumptions	830	0
	<u>6,576</u>	<u>(6,490)</u>
Amount recognised in Other Comprehensive Income	<u>6,576</u>	<u>(6,490)</u>

MidKent College
Notes to the Financial Statements (continued)

Movement in net defined benefit liability during the year

	<u>2017</u> £'000	<u>2016</u> £'000
Surplus/(deficit) in scheme at 1 August 2016	(21,402)	(13,590)
Movement in year:		
Current service cost	(2,286)	(1,754)
Employer contributions	989	954
Net interest on the defined liability	(523)	(499)
Administration Expenses	(22)	(23)
Actuarial gain or loss	6,576	(6,490)
Past service cost	(1)	0
Net defined benefit liability at 31 July 2017	<u>(16,669)</u>	<u>(21,402)</u>

Asset and Liability Reconciliation

	<u>2017</u> £'000	<u>2016</u> £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	57,572	47,671
Current Service cost	2,286	1,754
Interest cost	1,429	1,785
Contributions by Scheme participants	399	382
Changes in financial assumptions	3,715	7,777
Estimated benefits paid	(1,258)	(1,797)
Changes in demographic assumptions	(830)	0
Experience (gain) on defined benefit obligation	(3,283)	0
Past service costs	1	0
Defined benefit obligations at end of period	<u>60,031</u>	<u>57,572</u>

Reconciliation of Assets

	<u>2017</u> £'000	<u>2016</u> £'000
Fair value of plan assets Assets at 1 August 2016	36,170	34,081
Interest on plan assets	906	1,286
Return on plan assets	5,225	1,287
Employer contributions	989	954
Contributions by Scheme participants	399	382
Estimated benefits paid	(1,258)	(1,797)
Administration Expenses	(22)	(23)
Other actuarial gains	953	0
Assets at 31 July 2017	<u>43,362</u>	<u>36,170</u>

MidKent College

Notes to the Financial Statements (continued)

23 Related party transactions

The College has taken advantage of the exemption available in accordance with FRS102 (33) not to disclose transactions entered into with MKC Training Services Limited as it is a wholly owned subsidiary of the College.

Due to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. The College maintains a register of business interests held by governors and key management personnel which is regularly updated and reviewed annually. The following is a summary of those transactions.

A governor and chairman of MKCTS Ltd is the CEO of Masonic Charitable Foundation (MCF). MKCTS made a donation of £5,000 to MCF for services.

The CEO and Principal of the college is also a trustee of: Rivermead Inclusive Trust, Medway UTC and Royal Engineers Vocational Education & Training Trust (REVETT). The college received income of £165,000 from Rivermead Inclusive Trust and £4,000 from Medway UTC. MKCTS Ltd paid £4,000 to REVETT for services received.

The former Director of Finance and Funding for the College was also a Trustee and Company Secretary for the Lower Lines Park Trust. The college received £35,000 for services provided to that trust.

The wife of a manager at MKCTS Ltd is a senior employee at Holdfast Training Services Ltd. MKCTS Ltd paid £63,000 to that company and received £304,000 for services provided.

24 Amounts disbursed as agent

Learner support funds	<u>2017</u> £'000	<u>2016</u> £'000
Opening funds	283	0
Funding body grants - hardship support	1,137	1,159
Funding body grants - childcare	24	223
	<u>1,444</u>	<u>1,382</u>
Disbursed to students	(834)	(953)
Administration costs	(28)	(51)
Total	<u><u>582</u></u>	<u><u>378</u></u>

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 income and expenditure account. The nature of some grants has changed and for those items, amounts held at 31 July 2016 have been brought into the college accounts during the year under review. The amounts handled as agent and therefore not included in the college accounts are shown above.