

Lakes College
Report and Financial Statements
for the year ended 31 July 2015
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FINANCIAL HIGHLIGHTS

Income and Expenditure Account

2013/14	
£000's	%
10,709	82
650	5
1,140	9
470	4
28	-
12,997	100
7,794	61
4,253	33
782	6
34	-
12,863	100
134	
(106)	
28	

Income
Funding Body Grants
Education Contracts
Tuition Fees and Charges
Other Operating Income
Investment Income
Expenditure
Staff Costs
Other Operating Expenses
Depreciation
Interest Payable
Surplus Before Exceptional Items
Exceptional items
Surplus After Exceptional Items

2014/15	
£000's	%
10,759	80
793	6
1407	11
429	3
28	-
13,416	100
7844	60
4262	33
859	7
21	-
12,986	100
430	
-	
430	

Balance Sheet

2013/14	
£000's	
17,850	
3	
4,136	
(1,159)	
2,977	
20,830	
132	
2,047	
377	
62	
800	
4,802	
342	
12,268	
20,830	

Tangible Assets
Investment in Joint Venture
Current Assets
Current Liabilities
Net Current Assets
Loans Due After 1 Year
Net Pension Liability
Revaluation Reserve
Restricted Reserves
Designated Reserve
Income & Expenditure Reserve
Provisions and Deferred Payments
Deferred Capital Grants

2014/15	
£000's	
17,980	
-	
4,080	
(1,071)	
3,009	
20,989	
28	
2,514	
377	
62	
800	
4,806	
342	
12,060	
20,989	

OPERATING AND FINANCIAL REVIEW

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2015.

Legal Status

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

The Corporation was incorporated as West Cumbria College. On 8 August 2001 the Secretary of State granted consent to the Corporation to change the College's name to Lakes College - West Cumbria.

Mission

The College's mission statement is:

'Working in partnership to develop the skills and prosperity of our communities'

Our vision is:

'To be an excellent first-choice provider of education and training'

In delivering its mission, the College provides identifiable public benefits through the advancement of education by providing high quality teaching, student achievement and employment outcomes to meet the skills requirements of employers, primarily in West Cumbria.

Implementation of the Strategic Plan

The College adopted a new strategic plan for the period 1 August 2014 to 31 July 2017 with the following high level strategic objectives:

- **Strategic alliances and partnerships: to work in alignment to meet community needs**
- **Teaching, Learning and Assessment are consistently Good or Outstanding**
- **Outcomes for students, parents, guardians and employers are excellent**
- **Efficiency and effectiveness: the College has financial strength and sustainability**

Objective: Strategic alliances and partnerships

The College strives to serve its local and national community by working in collaboration with key stakeholders, supporting the strategic priorities of the Local Enterprise Partnership (LEP), and working with employers to meet the skills needs of West Cumbria. This is exemplified in involvement with the Centre for Nuclear Excellence (CoNE), development of the National College for Nuclear (NCfN) proposals and work with circa 500 employers annually. The NCfN business plan has been developed for the Department of Business, Innovation and Skills (BIS) in conjunction with Sellafield, University of Cumbria, EDF Energy, Bridgwater College and University of Bristol. If the NCfN business plan is accepted this will place the College at the centre of national nuclear skills development.

The College works collaboratively with other education and skills providers including the Cumbrian Further Education colleges and University of Cumbria in skills coverage across the county with a formal partnership in place via the successful Edge ESF contract. As a member of the (now defunct) Britain's Energy Coast Campus the College has supported the development of student accommodation facilities for West Cumbria and is a founding member and delivery partner of the Energy Coast University Technical College (UTC). This was fully subscribed in both its first and second years of operations. These developments involve close collaboration with other educational institutions operating in West Cumbria. In 2014/15 the College worked in partnership with the acute and community health trusts to develop a Nurse Cadet scheme, aimed at supporting progression opportunities to address skills shortfall in the health sector. Outside of the skills and educational sectors, the College supports various community groups including local Big Lottery groups and the Rosehill Theatre development. Provision for the unemployed was particularly strong with 30% into work on worklessness programmes. The development of sector skills academies with employers including HM Inspector of Taxes and Zoom has supported 49 people into employment. The provision of Back to Work functional skills programmes with Sellafield have proved successful. Overall we have 38% job outcomes for employability programmes. In short, the College is fully integrated into the skills, third sector and wider landscape in its locality helping to support economic growth.

OPERATING AND FINANCIAL REVIEW (continued)

Objective: Teaching, Learning and Assessment are consistently Good or Outstanding

The College strives to meet student and employers needs by consistently delivering a high quality experience. National Framework for Excellence satisfaction rating for students were 80% and 89% for employers. Feedback from students and employers in the October 2015 Ofsted inspection survey demonstrated 84% and 95% satisfaction respectively with the College teaching and learning.

In 2014 Lakes College was confirmed as a UK Quality Assured establishment following a Quality Assurance Agency for Higher Education (QAA) review. Following the National Student Survey, which is completed by higher education students in colleges and universities across the country, the College has shown continued improvements in its provision for undergraduates, placing it in the top 100 higher education providers in the country.

Against this positive feedback, an October 2015 Ofsted inspection of further education and apprenticeship provision found teaching and learning overall Requires Improvement. Within this judgement, teaching and learning on apprenticeship provision and in practical sessions was found to be Good.

Expertise in vocational provision has been demonstrated via success in engineering students in World Skills competitions with four students being placed in the November 2014 national finals and seven students competing in the November 2015 competition, the highest showing of any provider in the north-west of England receiving 1 gold, 1 silver, 1 bronze and 1 highly commended. Another student was selected for the UK 2017 squad to Abu Dhabi. This high quality of teaching, learning and assessment will be shared consistently across all areas of provision.

Objective: Outcomes for students, parents, guardians and employers are excellent

Success rates have shown a dip in outcomes, attributable primarily to the maths and English elements of students study programmes. Vocational classroom programme outcomes have continued to rise and apprenticeship success rates remain well above national average.

2014/15 saw the introduction of the condition of funding requirement to place 16-18 students on a study programme to include GCSE maths and English if they had achieved a grade D on leaving compulsory education. This impacted on the study requirements of over 400 (40%) of our 16-18 students. This requirement has coincided with the change to measure outcomes (success rates) to Qualification Success Rates (QSR) which cover all elements of a student's study programme. Apprenticeships, a key government priority, increased in year to over 1,400 apprentices in learning with success rates above the national average.

	2012/13	2013/14	2014/15	National Benchmark
16 -18	79.3%	77.5%	67.2%	76.8%
19+	85.1%	85.3%	87.3%	86.2%
Apprenticeships	75.5%	73.0%	74.4%	68.9%

In October 2015, Ofsted judged the College as Requires Improvement for 'in scope' learner outcomes. Work was already underway to improve student outcomes following declining QSR outcomes for class-room based learning, and this work will continue as we seek to improve student progress and outcomes in 2015/16.

Objective: Efficiency and effectiveness: the College has financial strength and sustainability

The College aims to ensure financial strength and resilience in its operations in order to secure a stable and well-resourced college to meet student and employer needs. A conservative approach to financial management has placed the College consistently in the category of Outstanding financial health as measured by the sector funder and regulator. In the current era of ongoing public sector funding cuts, this places the College in the enviable position of being one of just 37 (15%) General Further Education colleges to maintain Outstanding financial health for over 4 years, indeed nine years in our case.

OPERATING AND FINANCIAL REVIEW (continued)

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

The 2014/15 financial results are pleasing in the current funding climate, our 3% growth and 3% surplus at odds with a reduction in overall sector income and an overall forecast sector deficit of 1%. In July 2015, this sector-wide financial distress has instigated a sector-wide area review aimed at creating fewer, larger, more resilient and efficient colleges with greater specialisation. These Area Reviews are phased from September 2015 to March 2017. The timing and shape of the review encompassing Cumbria is yet to be announced.

The College is aware that this historic strength merely provides it with a stable and secure baseline as we face further funding austerity over the coming parliament. The College is actively exploring strategic options to address risks crystallising from the government's austerity and subsequent area review programme.

Curriculum Performance

Overall student numbers reduced to 5,913, reflecting the reduction in adult class-room funding. Against this, apprentices in-learning increasing by 26% to 1,634.

Success rates for classroom provision, 43% of all provision, have fallen by 3% and to sit 2% below the latest national average of 82%. The reduction is due to a decline in maths and English achievements for 16-18 year-olds following the increase in GSCE provision in response to the condition of funding rules. These results were critical to the Ofsted grading of Requires Improvement in October 2015.

Apprenticeship volumes, a key government priority, increased 25% to 1,634 in-learning in the year. Success rates at 72% are 3% above that latest national average. Timely success rates stand at 63% against a national average of 55%. In October 2015, Ofsted found apprenticeship provision to be Good.

Partnerships with schools resulted in increased 14-16 provision and increasing collaboration with local schools.

Financial Performance and Resources

As stated above, the College has secured growth and an increased surplus against sector trends. Turnover increased by 3% to £13,416,000. This has been achieved in year by maintaining recurrent grant levels and growing fee and contract income, thereby marginally reducing dependence on recurrent EFA and SFA grant income to 74% (2013/14: 77%).

At the same time, increased efficiency in delivery and support functions has secured an operating surplus of £430,000 in 2014/15, compared to £134,000 in 2013/14 (before exceptional costs). This 3.2% surplus contrasts with a forecast sector deficit position of 1.2%. The strong operating position reflects value for money in use of resources; with high staff utilisation and average class-sizes increased to 16 from 13.

These results indicate the financial resilience of the College but it is expected this will be tested in the coming years as core funding continues to reduce. Main funding contract cuts of £800,000 are faced in 2015/16 with associated efficiency savings and alternative growth planned for. Further cuts of this magnitude are forecast for 2016/17.

Operating cash flow was £243,000 net inflow compared to cash outflow of £124,000 in 2013/14. During the accounting period 1 August 2014 to 31 July 2015, the College paid 97% of its invoices within 30 days, against the Treasury target of 95%.

Available cash reserves (net of restricted reserves) stand at £3,263,000 at the balance sheet date (2013/14: £3,122,000). These cash balances are after £888,000 investment in fixed assets (net of £104,000 capital grants received). Investment was made in upgrading Science Technology Engineering and Mathematics (STEM), Learning Resource Centre (LRC) and poor condition accommodation in addition to upgrading ICT resources in class-rooms. Work commenced on the 3G pitch which is expected to be operational in 2015/16.

The 5 year £500,000 fixed term loan to support the development of the BEC Construction Skills Centre will be cleared in October 2016, leaving the College with no other long-term liabilities.

OPERATING AND FINANCIAL REVIEW (continued)

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE (continued)

Investments, cash reserves and borrowing are managed in accordance with the Treasury Management Policy, designed to minimise financial risk in treasury management.

All activities are now consolidated on the main College campus at Lillyhall, as part of the efficiency plan in response to funding reductions.

The staffing establishment was marginally reduced by 1% in year, with further reductions expected in support functions in future years. Of the 226 FTEs, 53% are delivery staff and in total 73% are directly student facing.

Post Balance Sheet Events

An Ofsted inspection took place in October 2015 under the new Ofsted framework. Ofsted graded the College as Requires Improvement which will result in regular Ofsted monitoring visits in advance of a full inspection within 12-18 months.

Future Key Developments

The College has been working alongside five partners to develop the National College for Nuclear in response to the government's call for an employer-led national college to meet significant sector skills shortages. The business plan and capital development plans are in place and are being considered by BIS in conjunction with the Treasury. Decisions and announcements on the national college are expected after the November 2015 Comprehensive Spending Review. This development provides an opportunity for the College to build on its STEM provision and contribute to skills developments in the region and at a national level.

PRINCIPAL RISKS AND UNCERTAINTIES

The College continues to work to strengthen the internal control environment, (including financial, operational and risk management) which is designed to protect the College's assets and reputation.

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

1. Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and HEFCE. In 2014/15, 80% (2013/14:82%) of the College's revenue was ultimately public funded and a high level of government funding requirement is expected to continue. The continuing austerity programme is impacting on all Further Education colleges, the sector as a whole forecasting a deficit for 2014/15. The November 2015 Comprehensive Spending Review brings further funding cuts with increased shifts to loan agreements, though cuts are not expected to be as severe as commentators had forecast.

The risk is mitigated in a number of ways:

- The College is seeking to increase full cost provision which is not dependent on government funding.
- By delivering quality education and training needed by employers and for students to progress into employment.
- Development of the STEM (Science, Technology, Engineering and Mathematics) provision to support growth in this area, both class-room based and apprenticeship. Ensuring that progression routes exist to higher technical skills and LEP priorities.
- Minimising cuts by continued growth in apprenticeship provision.
- Involvement in National College for Nuclear development to meet sector skills requirements.
- Focus and investment in developing and maintaining relationships with key stakeholder bodies in West Cumbria, particularly in the nuclear sector.
- Partnership and collaboration as evidenced by NCfN, Energy Coast UTC, the ESF Edge contract, Cumbria FE College collaboration.
- A focus on financial stability and resilience in planning.

OPERATING AND FINANCIAL REVIEW (continued)
PRINCIPAL RISKS AND UNCERTAINTIES (continued)

2. Area Reviews

In July 2015, the government announced a programme of Area Reviews for further education colleges, publishing a guidance document 'Reviewing post-16 education and training institutions'. The Area Review process aims to move towards fewer, larger, more resilient and efficient colleges offering greater specialisation, with concentrated expertise to support progression through professional and technical routes. The document highlights that the outcomes are likely to touch on all colleges, in some cases involving curriculum rationalisation and restructuring in others, with phased reviews completed by March 2017.

The College will be part of an area review over the next eighteen months and is reviewing strategic options in response to this review process, in collaboration with other providers likely to be involved in the review process for our locality.

3. Ofsted Inspection

A poor Ofsted grade threatens the reputation, growth and development activity for the College. In October 2015 an Ofsted inspection placed the College the category of Requires Improvement. This places the College at risk of an unsatisfactory grading if the follow-up inspection in the next 12-18 months results in a second Requires Improvement. This risk is being mitigated by:

- A review of self-assessment and quality processes to deliver improvements.
- Increased focus and evidence of progress in maths and English.
- External validation of teaching, learning and assessment practice.
- A review of tutorial practice.
- Improved inspection readiness planning.
- Improved student progress and progression into employment.
- More clearly linking individual performance management target to college targets

4. Increasing competition

The development of alternative provision based locally e.g. University of Cumbria, private providers, Energy Coast UTC and Academy schools, represent a risk to the growth strategy of the College, particularly with the continuing declining demographic trend for younger people. This risk is being mitigated by:

- A focus on growing curriculum areas for which there is increasing demand.
- Increasing apprenticeship provision in line with government priorities.
- Development of the NCfN.
- Efforts to quickly moving back to an Ofsted Good grading.
- Active collaboration where opportunities allow.

5. Impact on student attainment levels of national policy on mathematics and English

The funding condition requirement to deliver maths and English to all 16-18 students who do not hold an A*-C GCSE is a risk in terms of student engagement, achievement and College success rates and thereby Ofsted grading. This risk crystallised in 2015. This risk is being mitigated by:

- Early engagement with students and parents.
- Increased emphasis on all elements of the study programme including maths and English.
- Recruitment of qualified maths and English tutors.
- Centralised co-ordination of maths and English provision.
- Additional support services for students to achieve.
- Increased focus on evidencing progress in learning.
- A focus on maths and English at six week review, reviewing attendance and engagement.

OPERATING AND FINANCIAL REVIEW (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- Review of the qualifications delivered.
- Continuing Professional Development (CPD) for staff to improve practice.

6. Staff recruitment

The recruitment of teaching staff to some vocational areas, in particular STEM, represents a risk to the quality of provision and growth strategy of the College. The shortage of skilled Engineering staff is a national problem and one likely to increase as national infrastructure projects develop. This risk is being mitigated by:

- Review of staff recruitment, pay policy and structures to provide greater flexibility and opportunities for candidates with appropriate skills.
- Promoting the financial stability of the College in the current funding climate.
- Highlighting the significant investment in West Cumbria in the coming decade.
- Exploring alternative delivery methods and options.
- Increased highly focused staff development.

7. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 17. In line with most public sector pension schemes a pension deficit exists for the College. The risk is monitored by regular actuarial review and to some extent mitigated by increased pension contributions from employees and employer in line with the maximum recommended from actuarial assumptions.

8. Safeguarding and Prevent Duty

The board has a statutory duty to ensure the safeguarding of students and a new Prevent duty to prevent students from being drawn into terrorism. Risks associated with these duties are being mitigated by:

- Regular briefings to Governors and staff
- Establishing College Policy and Procedures
- Training for Governors and staff
- Training for student representatives
- Inclusion in the tutorial programme for students

Equal opportunities and employment of disabled persons

Lakes College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, faith, gender, sexual orientation, gender reassignment, pregnancy and maternity, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we actively combat bigotry.

The College's Single Equality Policy is published on the College's internet site.

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

DISABILITY STATEMENT

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

OPERATING AND FINANCIAL REVIEW (continued)

DISABILITY STATEMENT (continued)

- a. As part of its accommodation strategy the College annually monitors and responds, as appropriate, to access requirements.
- b. The College provides information, advice, and arranges support where necessary for students and staff with disabilities.
- c. There is specialist equipment which the College makes available for use by students and a range of assistive technology is available in the learning centre. This has been well received and is well utilised.
- d. The admissions policy for all students ensures no students are discriminated against. 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 disability. There are a number of student support assistants including specialists who can provide a variety of learning. There is a continuing programme of staff development to ensure the provision of an appropriate specialist support for students who have learning difficulties and/or disabilities.
- f. The College actively works in partnership with organisations and groups in West Cumbria and beyond to help develop access to learning.
- g. Specialist programmes are described in College prospectuses, and achievement and destinations are recorded and published in the standard College format.
- h. Counselling and welfare services are available for all students.
- i. Equality, disability and impact measures targets are set and monitored across the curriculum with review at corporation level.

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 10 December 2015 and signed on its behalf by:



Mark Stanger
Chair

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

- I. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness; integrity; objectivity; accountability; openness; honesty and leadership);
- II. in full accordance with the guidance to Colleges from the Association of Colleges in the English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- III. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the Board has adopted and complied with the Foundation Code of Governance. The Board has not adopted the Audit and Accountability annex to the Foundation Code, but has applied the principles set out in the UK Corporate Governance Code, including those aspects we consider to be relevant to the further education sector and best practice.

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 English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted on 2 February 2012. In the opinion of the governors, the College complies with all the provisions of the Foundation Code insofar as they apply to the Further Education Sector, and it has complied throughout the year ended 31 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 purpose 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 composition of the Corporation during 2014/15 and up to the date of signature of this report is set out on page 47. It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters, personnel-related matters, health and safety and environmental issues.

The Corporation meets 8 times a year and is supported by the Audit, Search and Governance and Remuneration committees. Each committee has terms of reference, which have been approved by the Corporation. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website or from the Clerk to the Corporation at:

Lakes College West Cumbria, Hallwood Road, Lillyhall Business Park, Workington, CA14 4JN

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

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

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

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

There is a clear division of responsibility in that the roles of the Chairman and Principal (the Accounting Officer) 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 Committee, consisting of six members of the Corporation, 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.

Remuneration Committee

Throughout the year ending 31 July 2015, the College's Remuneration Committee comprised of four members of the Corporation. The Committee's responsibilities are to determine the remuneration and benefits (with the exception of any early termination agreements, where the Committee must make recommendations to the Board) of the Principal, other senior post-holders and the Clerk and to report to the Board. Details of remuneration for the year ended 31 July 2015 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises of four members of the Corporation (excluding the Principal and the Chair of Corporation) and a co-opted member. The Committee operates in accordance with written terms of reference approved by the Corporation.

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

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

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

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

Search and Governance Committee

The Search and Governance Committee comprises of six members of the Corporation. The Committee operates in accordance with written terms of reference approved by the Corporation.

The Committee meets three times a year and provides a forum for reporting Governance developments, to discuss governor vacancies and appointments and to carry out an extensive annual review of Governance arrangements.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Lakes College - West Cumbria for the year ended 31 July 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2015 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

Lakes College West Cumbria has an internal audit service, which operates in accordance with the requirements of the EFA and SFA's *Joint Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum annually, the Head of Internal Audit (HIA) provides the Corporation Board with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Internal Control (continued)

Review of effectiveness

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

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

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

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

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

Going Concern

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

Approved by order of the members of the Corporation on 10 December 2015 and signed on its behalf by:



Mark Stanger
Chair



Chris Nattress
Principal

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 our knowledge, we are able to identify any material non-compliance with the Skills Funding Agency terms and conditions of funding under the College's Financial Memorandum.

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



Mark Stanger
Chair



Chris Nattress
Principal/Accounting Officer

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements the Corporation is required to:

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

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

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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits 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 10 December 2015 and signed on its behalf by:



Mark Stanger
Chair

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF LAKES COLLEGE - WEST CUMBRIA

We have audited the financial statements ("the financial statements") of Lakes College West Cumbria for the year ended 31 July 2015 set out on pages 18 to 45. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

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

Respective Responsibilities of the Corporation of Lakes College West Cumbria and Auditor

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the College's affairs as at 31 July 2015 and of the College's surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions

**INDEPENDENT AUDITOR'S REPORT TO THE
CORPORATION OF LAKES COLLEGE - WEST CUMBRIA (continued)**

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

In our opinion:

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



Jean Carroll (Senior Statutory Auditor)
For and on behalf of
Armstrong Watson Audit Limited
Chartered Accountants & Statutory Auditors

15 December 2015

STATEMENT OF PRINCIPAL 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 were prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the EFA in the 2014/15 Accounts Direction Handbook.

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 had available cash reserves of £3.3m as at 31 July 2015, and £130k loan outstanding with bankers, negotiated in 2011/12 on a fixed rate basis over 5 years. The College forecasts 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.

The FE College sector is subject to a programme of Area Reviews in the period to March 2017. At the time of preparing these financial statements no area review has been announced and it is considered the financial and operating strength of the College places it in a strong position going into these reviews. This assessment has considered known information on the area reviews at the time of preparing these financial statements, the financial health grading of the College as 'Outstanding' solvency, shift of activity to apprenticeship provision, quality indicators and involvement in development of the National College for Nuclear.

Basis of Accounting

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

Recognition of Income

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition or construction 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 receivable and includes all fees payable by students or their sponsors.

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