University College
FALMOUTH

Consolidated financial statements

Year ended 31 July 2007

University College Falmouth

Board of Governors	
Chair	Mr P Hodgson
Principal	Professor A Livingston
Audit Committee Chair	Mr J Williams
Finance Committee Chair	Mr J St Aubyn
Governors	Mr T Clayden
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	Mr H Jacobs
	Mr J Lilley
	Ms H McCabe
	Mr M Sagin
	Mr T Van Oss (22 June 2007)
	Mr P Wills
	Mr A Wroath
Academic Board Representative	Mr M Venning
Teaching Staff Representative	Mr B Clark
ATM Staff Representative	Mr P Monnington
Students' Union President	Mr C Tagg
Other Officers	
Vice Principal	Professor E Spiller
Director of Finance	Mrs N M Lamond
Registrar & Secretary to the Board	Mr A S Schorah

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BRISTOL
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Financial and operational review

Mission and strategic objectives
The College's Vision is:

> **To enhance our international reputation as a leading University College of Arts, Design and Media**

The College's Mission is:

> **To release the creative and intellectual potential of our students and staff**

Within the strategic plan, there are four overarching strategic priorities:

Self-determination, to be independent as an institution
Excellence, to be excellent in all that we do;
Expansion, to grow to c3,000 FTEs by 2010/11 and
Sustainability, to remain financially strong, with the resources to meet the expectations of current and future students and staff.

The Strategic Plan will be reviewed in 2008 following the planned merger with Dartington College of Arts in January 2008.

Within 2006/07, key objectives were to:
- Increase student numbers (full time equivalents) by 6% to 2,354FTEs
- Achieve a positive outcome from the first QAA institutional academic audit since its award of degree awarding powers; the audit took place in March 2007.
- Introduce the new bursary scheme to support students paying variable tuition fees from 2006/07.
- Launch six new degree courses.
- Review the management structure for combined services at Tremough.
- Progress the Phase 2 academic buildings programme at Tremough for completion in summer 2007.
- Progress the Phase 2 residential programme at Tremough, ie Glasney Parc Phase 2, for completion in summer 2007.
- Prepare the three research clusters for the 2008 Research Assessment Exercise.
- Develop business relations activities in the disciplines where Business Fellows/industry specialists have been recruited.
- Introduce the single pay framework by September 2006.
- Work with CUC partners to commence planning for CUC Phase 3.
- Work with the South West RDA to progress the development of the Tremough Innovation Centre.

Key target financial indicators for the year were:
- growth in income of 15% to £19.3M
- achievement of a financial surplus figure of £384K before FRS17 adjustments and the revaluation reserve release
- achieving a liquidity ratio of 1.5
- maintaining general reserves in excess of 25% of consolidated income (gross of the deficit on the pension provision).

The above objectives and key performance indicators, and how the College performed against them, are covered in the body of this review.

Scope of the financial statements

The financial statements presented comprise the consolidated results of the College, its subsidiary, Falmouth Enterprises Limited (FEL), and the College's share of its related Tremough Campus Services Group (incorporating Tremough Campus Services (TCS) and its wholly owned subsidiary Tremough Development Vehicle Limited (TDV)).

All income generating activities (excluding commercial services at Tremough), which are not directly pursuant to the College's charitable objectives, are conducted through FEL. This allows all taxable profits to be gifted to the College. In addition, the company provided the accommodation and facilities for the Media Centre at Tremough. The other users of the Media Centre are private and public sector organisations which pay for specialist Media Services.

TCS was established as a joint venture company by the College and University of Exeter (UoE) on 16 April 2004 as a company limited by guarantee. The company has exempt charity status by virtue of its charitable activities in support of higher education and took over responsibility for delivering all estates functions and commercial activities on the Tremough campus from 1 August 2004. TDV is a wholly owned subsidiary of TCS and acts as the agent of the two Higher Education Institutions in the procurement of academic building projects and also acts as the trading arm of TCS.

Results for the year

Summary consolidated results for 2006/07 are shown below:

	2006/07	**2005/06**
	£ (000)	**£ (000)**
Income (excluding FRS17)	19,334	16,736
Staff expenditure (excluding FRS17)	(10,909)	(9,495)
Non-staff expenditure	(7,603)	(6,806)
***Operational Surplus for the year**	**822**	**435**
Share of operating losses in joint venture	(406)	(306)
Management accounts surplus	**416**	**129**
FRS17 adjustments (net of interest)	(139)	(118)
Financial accounts surplus	**277**	**11**

***Before FRS 17 Adjustments**

Overview

The above figures reflect the ongoing growth of the College. This is in line with the College's strategic objective to grow to c3,000 FTEs by 2010/11 and part of the expansion of Higher Education in Cornwall through the Combined Universities in Cornwall (CUC) initiative.

Increased turnover of 16% is attributable to a 3% growth in student numbers, inflation of 2.5%, and a 45% increase in fees arising from growth and the introduction of variable tuition fees for new entrants to undergraduate courses from 2006.

The operational surplus generated for the year, (ie: before FRS17 pension adjustments, share of TCS losses and releases from the pension and revaluation reserves) is £822K compared with £434K for 2005/06. This is largely due to the extra income from variable fees.

TCS's operating performance of commercial operations was slightly improved from 2005/06. However the early commissioning of the second phase of Glasney Parc residences in June 2007 resulted in one month of interest and depreciation charges, not matched by income, which deflated the final result for the year to a deficit of £406K.

The accounting treatment for the Glasney Parc residential loans results in very high interest charges in the early years when capital balances are highest. The cash position of TCS is not affected by the accounting treatment nor is the whole life profitability of the residential development but there is a significant adverse accounting impact on the income and expenditure account and general reserves until the loan capital balance is reduced.

The actuaries of the Cornwall County Council Local Government Pension Scheme reported that the College's share of the deficit in the scheme had reduced from £1,442K to £383K. However the reduction of the deficit has arisen from actuarial improvements (which go through the 'statement of total recognised gains and losses') while the new in-year servicing costs, net of returns on assets, of £139K (including TCS) are treated as a charge against income.

With the exception of the FRS17 adjustments, which are not known until after the year end, the College was in line with its budgeted surplus for 2006/07.

A valuation of the College's and TCS's estate was undertaken during the year in line with the College's accounting policy. This has resulted in a significant upwards revaluation of £13M relating to the Colleges estate and £3M in respect of its share in of the Glasney Parc residences. The overall reserve was £20.5M at the balance sheet date.

At the year-end the general reserves (gross of pension reserve) were 29% of turnover. All banking covenant requirements, relating to the TCS residences loan (see Note 28), were met.

The increases in the general and revaluation reserves, the completion of phase 2 academic buildings along with the reduction in the pension reserve deficit, result in a total net asset figure of £65.8M, representing a rise of 63% compared with the 2005/06 position.

Income

The increase in income was largely attributable to growth in teaching activities. During the year the overall numbers of full time equivalent students (FTEs as at 1 December 2006) rose by 2% to 2,249.

This increase was despite stiff competition in the HE sector reflecting the introduction of variable fees and the over recruitment that had taken place in 2005/06 at the College and more widely across the sector.

The recurrent grants from the Higher Education Funding Council for England (HEFCE) and Learning and Skills Council (LSC) and tuition fees fund mainstream teaching.

Funding Council grants (see Note 2)

HEFCE recurrent grant rose by 11%, reflecting the growth in UK/EU degree and postgraduate students and inflation along with over-recruitment of students in 2005/06 which only began to qualify for funding from 2006/07.

Included within the recurrent HEFCE grant of £8.1M is a sum of £186K for research. This funding is to support research growth in Art and Design, as one of a number of emerging research subjects. During the year the College continued the implementation of its strategy to cluster research activity around three areas; 3D Digital Production; Art, Nature and Environment; and Interactive Art & Design. The HEFCE research funding has been more than matched by European funding from the Objective 1 programme (covered under ‘Other Income’). During the year preparations have been made for the next research assessment exercise in 2008.

Note 2 to the accounts gives detail on the additional funds being made available by HEFCE for specific initiatives. Most significantly, this includes income for business relations activity funded through HEFCE’s Higher Education Innovation Fund. This involves Business Fellows, in a number of creative industries disciplines, who work with staff and students to improve employability and facilitate a range of interactions with business. See also section on 'Other Operating Income’.

Restructuring and Collaboration Fund income is part of the CUC Phase 2 revenue support funding packages which also includes funding from the South West Regional Development Agency and the European Objective 1 programme for Cornwall and the Isles of Scilly. See ‘Other Operating Income’ for more details. During 2006/07 HEFCE also approved £1.28M towards the pre-merger costs of the UCF/DCA merger. Approximately two thirds of that will cover UCF costs some of which were incurred during the year. The remainder covers DCA costs.

The Learning and Skills Council (LSC) grant funds Foundation students (Further Education).

Tuition fees and grants (see Note 3 of the financial statements)
Tuition fees and charges for full time students have risen with the overall growth in numbers and inflation. However the biggest increase related to the introduction of higher fees (£3,000 compared with £1,175 in the previous year) for new entrants for 2006/07.

Consistent with previous years, the level of bad debts on over £4.5M of fees billed was negligible. The College works closely and sensitively with students to ensure financial advice and assistance is given at the right time in the academic cycle.

Other operating income
Other operating income is analysed in Note 5 to the financial statements.

Income under ‘Other Income Generating Activities’ covers all non residences and catering commercial income, ie: includes shop, day nursery and reprographics.

‘Residential and catering’ income increased on account of higher footfall at Tremough and growth in the events activity on the campus. With regards student catering at Tremough, TCS acts as the agent of the College and therefore the College’s share of catering income and expenditure is shown within the College’s accounts.

‘Other Income (including European grants)’ is made up primarily from Objective 1 and SWRDA income covering a number of projects, the largest of which are:

1. The revenue support for CUC Phase 2 funds College expenditure incurred during the transitional step growth period. It covers course development, staffing infrastructure, upfront marketing and deficits incurred in the early uneconomic years of course start ups.
2. The Creative Enterprises for Cornwall project (CEC) supports postgraduate students and research development within the institution (matching the HEFCE research funding).
3. The Business Support Programme. Combined with HEIF funding it provides the funding to develop the spin out to the economy from growth in teaching and research activity.

The College provides certain combined services to University of Exeter (UoE) staff and students at Tremough. Under the agreed charging mechanism UoE pays its share of those costs to the College.

The combined services provided by the College are library, IT, Audio Visual services and the full range of student services, eg: counselling, careers, disability support. This income from UoE and income from TCS, in respect of the finance and personnel services provided by the College, is shown under 'Recharges for the Provision of Combined Services'.

Deferred Capital Grants releases reflect the CUC Phase 1 development at Tremough, which was funded mainly by Objective 1 European funding (60%) and RDA capital grants (25%). The balance came from HEFCE.

Expenditure

Due to the growth in activity, the implementation of the single pay framework and national pay award (see staff matters below) and pension costs staffing expenditure increased by 15% during the year (see Note 7). The implementation of FRS17 means that all in year service costs are written off against the income and expenditure account rather than just the costs of employer contributions. This change added £192K to staff costs for the year (2005/06 £136K).

Other operating (non pay) expenditure rose by 15% overall (see Note 8).

Additional professional costs reported under administration costs were incurred in relation to the proposed merger of Dartington College of Arts with UCF in 2008 (see section on the merger covered in CUC below). These costs were met by the pre-merger funds provided by HEFCE. The TCS company costs rose in line with the growth of operations and were recharged to UoE and UCF on a 50:50 basis.

In line with the College's access agreement, a new bursary scheme was introduced for new entrants paying variable fees. The College opted to have this service provided by the Student Loan Company which proved to be very efficient and remitted £172K to students during the year.

The Marketing team's activities have been stepped up in 2006/07 in the face of increasing competition and challenging growth targets for 2007/08.

The Auditors non audit fee in 2006/07 related to financial due diligence work done in respect of the merger with Dartington College of Arts.

Cashflow and investment performance

The cashflow statement and the balance sheet show that the College was holding cash and cash investments (taking account of short term loans and bank overdrafts) of £1.24M at the year end. On page 25, the consolidated cashflow statement shows an overall reduction in liquid cash resources of £281K reflecting the above.

The College has drawn down a loan from LloydsTSB Bank plc of £936K from a facility of £1.25M. Interest will be calculated on the loan at 0.2% per annum above the Bank's Base Rate. The loan is repayable on a quarterly basis over 15 years.

The current ratio, a measure of liquidity taking into account debtors and creditors and calculated by dividing the current assets by the current liabilities, is 2.11 (previous year's figure 1.51). This level of liquidity is very satisfactory in relation to sector norms and the institution's Treasury Management plans.

Institutional Audit undertaken by the Quality Assurance Agency

Following the College's successful application for taught degree awarding powers, the outcome of the audit was very positive with the highest level of confidence expressed on two assessments of academic quality. This was a very positive reflection of the academic maturity of the institution and a credit to all staff.

Staff matters

Staffing continues to grow in significance as future success will be determined by the quality of the staff and their ability to adapt to the competitive Higher Education sector. A number of significant developments were progressed during 2006/07 which will have a bearing over the future effectiveness of the College's staff. These are:

1 **Single Pay Framework**

The single pay framework was introduced in September 2006. This sector wide move to a single pay spine for all staff and the evaluation of staff salary grades using a well tested analytical model will modernise pay structures. Issues including equal pay, reward for contribution, market supplements and career progression will be addressed. A Joint Implementation Group (JIG), with representation from the recognised Unions, UCU and GMB, and the College management worked hard to ensure the effective implementation of HERA (the selected job evaluation method). The overall cost of implementing the single pay framework will be c7% of payroll over four years.

2 **National Pay Award**

A three year national pay award was implemented with effect from September 2007. This national settlement will result in pay increases of 13.1% over three years for all staff. A further review of the sector's capacity to increase pay, following the introduction of higher tuition fees, will be undertaken before the 3rd year of the pay deal in 2008/09.

Equal Opportunities

University College Falmouth wholeheartedly supports the principle of Equal Opportunities for its staff, students and all others associated with the College. We are committed to actively promoting equal opportunities and our aim is to create and sustain a diverse and integrated community with a culture of mutual trust, respect and tolerance. We develop and implement policies to promote fair treatment and equality of access and opportunity. We actively encourage diversity and innovative and unbiased thinking.

We seek to identify and to eradicate any practices which unfairly discriminate against individuals or groups on the basis of religion, ethnicity, nationality or race, gender, sexual orientation, age, learning difficulty, physical disability (whether pre-existing or acquired since recruitment), health status, family circumstances, marital status, socio-economic background or other irrelevant distinctions. We recognise that they may arise from unwitting prejudice, ignorance, thoughtlessness and stereotyping. We support and will comply with the relevant current and future legislation. Staff and students are expected to support this policy actively, to accept the principle that there is equal opportunity for everyone in all aspects of College life, and not be party to situations which could lead to unfair discrimination.

The Board of Governors (the Board) takes overall responsibility for approving equal opportunity policies, monitoring their implementation and reviewing their effectiveness in consultation with the Strategic Group and the Equality and Diversity Group. Following a recent review of equal opportunities processes and practice at the College, an action plan has been agreed. The new post of Equality and Diversity Officer was established to take forward these actions include training for staff and Governors, curriculum development and the monitoring of equal opportunities issues.

Relations with business

Business Relations is now becoming a more recognised and increasingly important strand of activity at the College. As students become more financially aware and career orientated their interaction with business and their preparedness for employment becomes a critical activity within and ancillary to teaching. The Cox Review which was published by the Treasury during 2005 highlighted the key role that HE institutions should be playing in the embedding of creativity and good design across the full breadth of British industry. The principles of the Cox Review have inspired the College in planning its CUC Phase 3 Design Innovation Lab (DIL) project. See more detail about the DIL project under CUC below.

As mentioned above, this is largely facilitated by a number of Business Fellows and a Gatsby Foundation funded mentor, who work with academic members of staff to promote projects between the College and business. Examples of activities include; the Design Centre Bureau which provides a design service to business and pre-incubation facilities in the Design and Media Centres for graduates and others starting up their own ventures.

Over the last year the College, UoE and the South West RDA have been actively planning a new Innovation Centre at Tremough. More detail on this is covered under Tremough Campus Services Group.

The Combined Universities in Cornwall (CUC)

The CUC Partnership has continued to make positive progress towards regenerating the economy of Cornwall through the delivery of higher education and its spin off benefits. It has had impressive accolades from European Commissioners and Government Ministers and is recognised nationally and internationally as a model of HE partnership.

Phase 2 of CUC comprises £55M of funding of which £32M relates to the Tremough HUB (the College and UoE). Most of the HUB funding went towards increasing new facilities, described below under Tremough Campus Services Group. Six new UCF courses were developed and launched in September 2007 as part of Phase 2. These were BA(Hons) courses in Fashion, Performance Sportswear, Public Relations, Digital Animation, Photography (Nature, Marine and Environment) and Press Photography.

Phase 2 was funded from the Objective 1 Programme, along with matched funding from the UK Government and SWRDA. This demonstrates the importance placed on CUC in the economic regeneration of Cornwall.

Looking ahead to 2008 and beyond, there will be a further programme of structural funding for Cornwall up to 2013. The major theme for the ‘Convergence’ programme, consistent with priorities agreed at the Lisbon European summit, is the ‘Knowledge Economy’. CUC partners are pro-actively contributing to the planning of the new funding programme for Cornwall and the Isles of Scilly and will play a central role in its delivery through CUC Phase 3.

The College’s vision over the next five years will be the creation of a new specialist arts university in Cornwall by 2012. This can be achieved if it is successful in securing funding under CUC Phase 3 for two transformational projects. These are the merger with DCA and the Design Innovation Lab. The former is described below.

The DIL project will involve the development of three substantial applied research programmes in environment (sustainable packaging, environmental design, media (digital content creation) and user (eg: branding, age and health, life style). These programmes will be closely linked to a live projects unit where the output of the research work input from academic and business partners, will be translated into applications creating value for Cornwall's economy and the region. The projects will bring international partners together with dynamic Cornish businesses who want to find innovative solutions to their business needs and generate more value in their products and services. A new work based suite of postgraduate courses will provide a pool of ideas and creativity for the live projects work and give the students exposure to exciting real life work experience and business networks.

The CUC central team of seven staff continue to support the partnership. The College employs the staff and acts as the contracting body for the CUC partnership. All items are identified separately.

Proposed Merger with Dartington College of Arts
In July 2006 the College was approached by Dartington College of Arts (DCA) to consider the possibility of merger. This reflected the unsustainable nature of DCA on the Dartington Estate in Totnes, South Devon where all its accommodation was leased from the Dartington Trust. Following an externally commissioned options' appraisal, it was concluded that merger with UCF would be the most attractive means of maintaining its distinctiveness.

In July 2007 the Boards of both Institutions agreed to merge subject to the full funding package of £24M being available to cover new building for performance practice at Falmouth and the revenue costs of the merger. The merger would represent the first of two stages leading to the creation of a new specialist arts university for Cornwall by 2012.

As mentioned above under 'Funding Council Grants', HEFCE approved pre-merger funding during the year from its Strategic Development Fund. Following overall assessment of the business plan for the merger, HEFCE approved £5M towards the total costs of £24M, conditional upon the full funding package being in place. The balance of funding is currently being sought from Convergence and South West Regional Development Agency.

Post Balance Sheet Event
Following the decision to merge, the College has undertaken substantial financial and legal due diligence in respect of DCA. A transfer agreement is due to be exchanged in December 2007 which would make the merger binding subject to a number of conditions being satisfied, chiefly relating to funding and due diligence issues. The effective merger date will be in March 2008.

The College's management structure will be reviewed in light of the merger and the prospect of the new University. It is intended that all changes to the structure will be introduced by September 2008.

Estates and facilities
During the year there were two major estates projects at Tremough which are covered in more detail below under TCS Group. At Woodlane the main project related to the refurbishment of space vacated by photography which was relocated to Tremough. The space was adapted for the two new fashion degrees, comprising workshops, studios, general teaching space and offices.

Equipment/communications
With the ever growing expectations of students and the further intensification of practice based activity at the College, the costs of equipment renewals and technical upgrades steadily rises. During the year new and replacement equipment included media, photographic and specialist IT hardware and software with an overall cost of £533K. This was funded by HEFCE project capital and College reserves.

The College's four year IT replacement plan continued in the year covering software upgrades as well as hardware. Replacement programmes for media and photography equipment are also in place as well as annual investment in the network and supporting software is made to improve resilience and security between Tremough and Woodlane.

With the help of the Learning and Teaching technologist and growing enthusiasm among staff the College's chosen virtual learning environment 'Moodle' has become more widely used among courses. This is expected to become a feature across all courses over the next few years and will allow more flexible delivery modes to be become a reality within a few years.

A substantial investment was made during the year as part of a two stage storage area network. This will provide document management functions far more efficiently, increase the potential for the paperless office and make the institutional network more scaleable.

During the year a new personnel/payroll system, called Trent, was implemented and went live in December 2006. The web-based functionality of the new system is gradually being rolled out to staff and when fully implemented will see staff inputting their own holiday requests, expenses etc. There will be numerous other benefits including management information and better security.

Students and other customers were able to avail of the College's new e-commerce site. This allows on line payments for short courses, study tours and print credits. Its use for fees and rent payments is being trialled for implementation in spring 2008.

Tremough Campus Services Group
The trading performance of TCS has improved during the year with higher student footfall. However, the losses for the group were higher than expected due to the early commissioning of student residences in July 2007 and associated interest and depreciation. This however was offset by a £6M revaluation of the student residences resulting in positive net assets as at 31 July 2007.

Phase 2 Building Project
Phase 2 comprises a substantial new 6,191 square metre building on the lower Tremough site to incorporate new lecture and seminar rooms and a new photography centre. Some teaching and office space was re-located into this building while an existing building was refurbished to provide for expanded library and IT facilities. The project provides accommodation for the growth of students from 2,000 to 3,500 between 2007/08 and 2010/11.

Leadbitter, the design and build contractor handed over the new completed buildings in July and refurbished spaces in September 2007. Throughout the design and build contract TDV retained the services of the Project Managers, Mott MacDonald, the cost consultants, Turner and Townsend, and a small number of design consultants as client side advisors.

The project was completed within the original budget of £24M allocated at the beginning of the contract.

Phase 2 Residences
The Phase 2 residential building project was completed by Midas Projects, the design and build contractor. The project, an extension to the existing Glasney Parc development, has added 302 new en-suite student rooms to the 500 units completed in 2004.

This has been a highly successful project completing on time and within the allocated budget of £12.5M.This is being funded by a loan of £10M from Lloyds TSB along with £2.5M borrowed from the two institutions on a 50:50 basis.

Delivery of combined services at the Tremough campus

Under the agreed arrangements, the College provides academic services (Library, IT, AV), Student Services and Financial services to UoE staff and students and TCS provides estates and commercial services (including residential) to the two institutions and external parties. The College also provides the Finance and Personnel functions for TCS. The Board of TCS oversees the provision of all combined services.

Combined services charges are allocated to each institution based upon an agreed charging mechanism which takes into account student numbers and fixed costs. Income from UoE and TCS in respect of combined services is shown under 'Recharges for the provision of Combined Services' in Note 5.

Following the appointment of a Campus Services Director in 2006, a new management structure was approved during the year. In recognition of the rapid growth in the company's activities, the executive reporting to the Campus Services Director has been strengthened with clearer lines of authority to the TCS Board.

Future TCS Developments

Over the next five years further growth is envisaged for the Tremough campus as part of Cornwall's development of the knowledge economy under the Convergence European structural funding programme. In addition 400 additional residential units are required for September 2009 to satisfy outstanding demand arising from Phase 2.

In order to be able to take forward these developments the Board acquired an option to acquire 26 acres of adjacent land. Of this, 20 acres is adjoining land on the southern boundary and six acres is on the Mabe side of the Penryn bypass, immediately opposite the western boundary. In September 2007, a master plan was commissioned to draw up how the campus will expand over the next few years. This work is being carried out in close consultation with the local planners and highways authorities.

During the year significant planning took place in respect of the planned Tremough Innovation Centre. This development of 36,000 sq feet will be located on the boundary of the campus with the Treliever roundabout. The South West Regional Development Agency is currently the lead sponsor of the project but the intention is for a lease to be granted to TDV to complete construction and operate the facility from spring 2009 (albeit through a tendered management operation contract). It is likely to house approximately 60 knowledge based businesses which will have access to many services and facilities on the campus as well as the wealth of student and staff talent and knowledge.

During the year a small amount of refundable pre-development costs were incurred and capitalised.

Conclusion

The last year has been another year of success for the College. Despite the difficulties in the student market following the introduction of variable fees, the College continued growing steadily and, through proactive financial management, delivered the budgeted financial outturn. Following the recent valuation of land and buildings and completion of Phase 2 buildings, the College's net assets have risen to £66M from £40M last year

The successful completion of the two new major building projects, incorporating first class facilities, was a remarkable achievement and positions the College well for the future in relation to national and international competition. There are further exciting prospects for the College if it secures funding for its two Phase 3 projects which could see the new university vision become a reality by 2012.

With the College's reputation stronger than ever and many new academic developments ahead in Phase 3, it is an exciting time at Falmouth. Getting to this point has been a remarkable achievement and only possible thanks to the dedication and talents of the College's staff.

Professor Alan Livingston
Principal

Summary of the structure of corporate governance

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in Turnbull's Combined Code on Corporate Governance (2006). Its purpose is to help the reader of the accounts understand how the principles have been applied.

The College's Board of Governors (the Board) comprises independent, co-opted, staff and student members and the Principal, all appointed under the Instrument and Articles of Government. The majority of Governors are independent non-executive members and the role of the Chair is separate from the role of the Principal.

The matters specifically reserved for decisions by the Board are set out in the Articles of Government, the College's Financial Regulations and the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Board has responsibility, inter alia, for the College's: strategic direction, its educational character and mission, the effective and efficient use of resources, and for safeguarding its assets. The Board approves all major developments and receives regular reports from Executive Officers on operational matters and the business of its subsidiary and related companies. The Board has adopted the Committee of University Chairmen's (CUC) guide as the main source of guidance on governance and related arrangements.

The Board undertook a review of its effectiveness in 2005/06 taking CUC guidance as its main point of reference. The majority of the recommendations from the review have been implemented with the remainder will be completed by the end of 2007. There were no major issues of concern identified through the 2005/06 review. Overall, the Board is satisfied that it is operating effectively and in accordance with the CUC's guidance on corporate governance. The Secretary to the Board works closely with the Chairman to ensure that recommendations are completed and provides regular updates to the Board of Governors on progress. The new Chairman of Governors, who took up his appointment from 1 September 2007, has initiated a review of effectiveness as a means of discussing the operation of the Board with members and listening to their suggestions, particularly within the context of the College's ambition for university status.

The Board and its sub-committees (Finance, Personnel, Audit, Nominations, and Remuneration) normally meet at least three times a year (with the exception of Remuneration, which has one formally scheduled meeting to undertake an annual review of senior staff pay and conditions). The membership of the Board's sub-committees is drawn from the Board's Independent members and the Principal. Sub-committees have the authority to draw on external advisers as and when appropriate.

Vacancies in the Board's membership are advertised and nominations considered by the Nominations Committee, prior to appointment by the full Board. Nominations for new members of the Board are considered by the Nominations Committee against a matrix of experience and expertise. This ensures that the Board maintains the balance of experience and expertise necessary to meet its current and future responsibilities and obligations. Appointments to the Board are limited to two four-year terms for Independent members and two two-year terms for other categories of membership (with the exception of the Principal).

All members of the Board and Executive officers are required to disclose any related party transactions and disclose any interests on the College's Register of Interests, which is updated annually and held by the Secretary to the Board. A Gift and Hospitality Register is also held by the Secretary.

The Finance Committee recommends to the Board the College's revenue and capital budgets and monitors performance in relation to the approved budgets. It also monitors development projects and related strategies on behalf of the Board. The Committee reviews the financial statements and approves financial policies and recommends their approval to the Board.

The Audit Committee considers the audit findings of the External Auditors and Internal Audit Reports and recommendations for the improvement of the College's system of internal control and operations with respect to value for money. The External and Internal Auditors attend meetings at which their reports are discussed. The Committee also plays a key role in monitoring and reporting to the full Board on the Risk Management Strategy (see below) and reviews new and revised financial regulations. Whilst Executive Officers attend meetings of the Audit Committee as necessary, they are not members of the Committee and once a year the Committee meets the External and Internal Auditors on their own for independent discussions. Annually the Audit Committee reports to the full Board on their work and their assessment of internal control within the College.

The Board nominates the College's three Directors, from the senior management team, to the Boards of Tremough Campus Services and Tremough Development Vehicle Limited. Relevant sub-committees and the main Board receive regular reports on the performance and internal control arrangements of these joint venture companies.

The College is involved in talks with Dartington College of Arts (DCA) on a proposed merger of the two institutions. Under the terms agreed between the two institutions DCA, a company limited by guarantee, will be wound up at the point of merger. The implementation of the proposed merger is being overseen and directed by a joint DCA/UCF Governance Group with membership as follows: the Chairman of the UCF Board (who is appointed as Chairman of the Governance Group) and three independent members from the Boards of each institution and the Principals. The clerk to the UCF Board is appointed as secretary to the group. The Governance Group meets on a regular basis to monitor progress against agreed action plans.

The success of the merger is dependent upon the timely provision of funding, primarily from the Higher Education Funding Council (HEFCE) and EU convergence funding through the South West Regional Development Agency. The target date for merger is March 2008. At merger three members of the current DCA Board will join the UCF Board of Governors, two independent and one co-opted member seats will be available. The UCF Board of Governors will, from the date of merger, take over responsibility for all DCA's affairs.

The College's Strategy Group (consisting of senior managers) meets monthly and receives reports including: performance and risk indicators, internal audit reports and financial updates. The Strategy Group provides strategic direction and continues to develop policy and strategy for consideration by the Board of Governors and to play a central role in overseeing and implementing the risk management strategy (see below). The Audit Committee, following consideration by the Board of Governors of CUC guidance, approved a process for determining and reviewing key performance indicators (KPIs). KPIs covering institutional sustainability, academic profile and market position, financial health and estates and infrastructure have been introduced for 2007/08.

Statement of internal control

As the governing body of the College, the Board of Governors, has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which they are responsible, in accordance with the responsibilities assigned to the governing body in the Instrument and Articles of Government and the Financial Memorandum with the HEFCE.

The Board's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The system of internal control is designed to manage rather than eliminate the 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 systematically identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The institution has an internal audit service, which operates to standards defined in the HEFCE Audit Code of Practice. The internal auditors, whose work is determined by the College's risk priorities, submit regular reports to the Audit Committee which include their independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

Over the course of the last year the following specific actions have been undertaken to consolidate the risk management work within the College:

- The Audit Committee reviewed progress on risk management at each of its meetings during the year.

  Following receipt of the internal auditor's opinion, it reported at the year end to the Board on the effectiveness of the policy. The Audit Committee also received the annual internal audit report for Tremough Campus Services, the joint venture company with the University of Exeter.

  The Internal Auditors' programme of work concentrated on high level strategic risks, identified by the College in relation to its Strategic Objectives. This assisted the Audit Committee in focusing their attention and discussions on the critical issues and received assurances on them as appropriate.

- The Strategy Group met on a quarterly basis to review institutional risk in relation to the College's strategic plan, agreed the proposed revision to the risk management policy and structure and considered the risk issues arising from line managers' risk assessments. There was particular attention paid to a comprehensive risk assessment for the DCA merger.

- Line managers produced risk management action plans at departmental /team level. The Strategy Group considered them and identified a number of common strategic themes arising across departments within the institution. The risk management webpage (see below) was used to provide feedback to staff on the key risks and actions identified by the Strategy Group. The Group also spent time considering how key performance indicators would be used to monitor risk.

- All new significant proposals and projects are subject to a risk assessment, eg: the Design Innovation Lab (part of the College's CUC Phase 3 submission).

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks, that it has been in place for the year ended 31 July 2007 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Audit Committee on behalf of the Board and that it accords with the control guidance for Directors on the Combined Code as deemed appropriate for higher education.

The Board recognises that risk management must however involve continuous improvement. Furthermore there needs to be an ongoing process of inducting new managers and Governors to ensure risk management practice is embedded into the culture and workings of the College in a sustainable way.

Identifying and managing the risks associated with the proposed merger with Dartington College of Arts has been identified as a priority for 2007/08. The College will work with an external consultant (JM Consulting) who will assist in mapping out the risks.

Over the coming year the following additional activities are planned to build upon existing practice:

1. The Risk policy will be reviewed as part of the review of the College's management structure post-merger.

2. The Strategy Group will consider line managers' risk work and provide support and feedback to them under a new system for annual reporting, to commence in 2007/08, and will include all courses and support departments. Individual teams will be asked to review risk for their areas. These risk analyses will then be used in the Strategy Group's annual planning process in November of each year. This planning process will set the following year's operational and budgetary priorities and be followed by feedback to teams on risk matters.

3. The effectiveness of the web page and the communication of risk management across the institution will be monitored. This will incorporate feed back from line managers and teams about how consistently the policy is being implemented across the institution and the perception of it among staff.

4. Further workshops will be held on risk management particularly for new senior managers and line managers.

5. The Board and the Strategy Group plan will implement new arrangements for the use of Key Performance Indicators.

Membership of the Board of Governors serving during 2006/07

	Date of appointment	Term of office	Date of resignation	Status of appointment	Committees served
Mr P Hodgson	01.06.97	2nd term	31.08.07	Independent Member	Chair, Board of Governors, Remuneration & Nominations Committees: member of Finance Committees
Mr T Clayden	01.09.04	1st term	31.08.08	Independent Member	Board of Governors: Personnel Committee
Mr B Coode	01.09.04	1st term	31.08.08	Independent Member	Board of Governors: Finance Committee
Ms A Fullerton	01.09.04	1st term	31.08.08	Independent Member	Board of Governors: Audit Committee
Lady M Holborow	01.09.00	2nd term	31.08.08	Independent Member	Board of Governors: Personnel & Nominations Committees
Mr H Jacobs	01.09.05	1st term	31.08.09	Independent Member	Board of Governors: Personnel Committee
Mr John Lilley	01.09.06	1st term	31.08.10	Independent Member	Board of Governors: Personnel Committee
Ms H McCabe	01.09.99	2nd term	31.08.07	Independent Member	Board of Governors: Audit and Nominations Committee
Mr M Sagin	01.09.02	2nd term	31.08.10	Independent Member	Board of Governors, Audit and Remuneration Committees
Mr J St Aubyn	01.09.99	2nd term	31.08.07	Independent Member	Board of Governors: Chair of Finance Committee. Member of Nominations & Remuneration Committee
Mr T Van Oss	22.07.07	1st term	31.08.11	Independent Member	Board of Governors: Finance Committee
Mr J Williams	01.09.04	1st term	31.08.08	Independent Member	Board of Governors: Chair of Audit Committee
Mr Paul Wills	01.09.05	1st term	31.08.09	Independent Member	Board of Governors: Audit Committee
Mr A Wroath	01.09.04	2nd term	31.08.08	Co-opted Member	Board of Governors
Prof. A Livingston				Principal	Board of Governors, Remuneration, Nominations, Personnel & Finance Committee
Mr M Venning	31.08.06	2 years	31.08.08	Academic Board Rep	Board of Governors
Mr P Monnington	31.08.06	2 years	31.08.08	Staff Governor	Board of Governors
Mr B Clark	31.08.06	2 years	31.08.08	Staff Governor	Board of Governors
Mr C Tagg	31.08.06	1 year	31.08.07	SU Presidents	Board of Governors

In attendance

Mr T Schorah	Registrar & Secretary.	Secretary to: the Board of Governors, Personnel, Nominations, Finance and Audit Committees
Prof. E Spiller	Vice Principal	Board of Governors, Personnel Committee, Finance Committee & Audit Committee: Member of Nominations Committee
Ms N Lamond	Director of Finance	Board of Governors, Finance Committee & Audit Committee
Sara Corcoran	Director of Personnel	Personnel Committee

Statement of responsibilities of the Board of Governors

In accordance with the Education Reform Act 1988, the Board of Governors of University College Falmouth is responsible for the administration and management of the affairs of the College including ensuring an effective system of internal control and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Board of Governors of University College Falmouth, the Board of Governors, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Governors has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board of Governors is satisfied that the College has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Governors has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and are in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and to prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College’s system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments.
- a comprehensive medium and short-term planning process, supported by detailed annual income, expenditure, capital and cashflow budgets.
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Governors.

- comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit and Finance Committees.
- robust systems for the monitoring of actual income and expenditure against budgets.
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Governors and whose head provides the Board of Governors with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

A S Schorah
Registrar & Secretary to the Board of Governors

Independent auditors' report to the governing body of University College Falmouth
We have audited the financial statements ('the financial statements') of University College Falmouth for the year ended 31 July 2007 which comprise the Consolidated Income and Expenditure Account, the Group and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

Respective responsibilities of the governing body and auditors
The governing body's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Governing Body's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the governing body of the institution in accordance with the institution's Articles of Government and section 124B of the Education Reform Act 1988. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education. We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the institution, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the institution's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England (HEFCE). We also report to you if, in our opinion, the institution has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements within it. The other information comprises only financial and operational review and the corporate governance statement.
We also review the statement of internal control included as part of the Corporate Governance Statement and comment if the statement is inconsistent with our knowledge of the institution and group. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the University College Falmouth website is the responsibility of the Governing Body: 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.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

i. the financial statements give a true and fair view of the state of affairs of the institution and the group at 31 July 2007, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;

ii. in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received;

iii. in all material respects, income has been applied in accordance with the institution's statutes and where appropriate in accordance with the financial memorandum (2006/24) with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants
Bristol

Date: 18/12/07

Consolidated income and expenditure account for the year ended 31 July 2007

	Note	Year to 31/7/07 £ (000)	Year to 31/7/06 £ (000)
Income			
Funding council grants	***2***	10,592	9,058
Tuition fees and grants	***3***	4,597	3,694
Research grants and contracts	***4***	-	-
Other income (including share of joint venture)	***5***	7,052	6,604
Investment income	***6***	178	127
Total income		22,419	19,483
Less: share of income from joint venture	***12***	(3,038)	(2,729)
Net income		19,381	16,754
Expenditure			
Staff costs	***7***	11,101	9,631
Other operating expenses	***8***	5,962	5,180
Depreciation		1,628	1,622
Interest payable	***9***	13	4
		18,704	16,437
Group operating surplus on continuing operations		677	317
Share of operating losses in joint venture	***12***	(406)	(306)
Surplus on continuing operations after depreciation of assets at valuation and before disposal of assets and tax		271	11
Profit on disposal of assets		6	-
Surplus on continuing operations after depreciation of assets at valuation and before and after tax		277	11
Retained reserves brought forward		3,639	3,540
Surplus for the year	***21***	277	11
Transferred from revaluation reserve	***20***	44	44
Transferred from pension reserve	***21***	1,256	44
Retained reserves carried forward		5,216	3,639

All income relates to continuing operations.

The notes on pages 26 to 43 form an integral part of the financial statements.

Note of historical cost surpluses and deficits for the year ended 31 July 2007

	Year to 31/7/07 £ (000)	Year to 31/7/06 £ (000)
Surplus on continuing operations before taxation	277	11
Difference between historical cost depreciation and the actual charge for the year calculated at the revalued amount	44	44
Historical cost surplus for the year before and after tax	321	55

Statement of consolidated total recognised gains and losses for the year ended 31 July 2007

	Year to 31/7/07 £ (000)	Year to 31/7/06 £ (000)
Surplus after depreciation of assets at valuation and tax	277	11
Revaluation surplus	12,939	-
Share of unrealised surplus on revaluation of properties held by joint venture	3,036	-
HEFCE reimbursement of consolidated loan principal	1	37
Movement on endowment assets (see note 13)	(4)	(4)
Movement on deferred capital grants	8,011	2,685
Actuarial gain in respect of pension scheme	1,198	44
Share of joint venture actuarial gain	58	2
Other recognised gains and losses	(11)	8
Total recognised gains relating to the year	25,505	2,783
Prior year adjustment	-	(1,406)
Total recognised gains since last report	25,505	1,377

None of the above activities were acquired or discontinued during the current or preceding year.

Balance sheets as at 31 July 2007

	Note	Group 2007 £ (000)	Group 2006 £ (000)	College 2007 £ (000)	College 2006 £ (000)
Fixed Assets					
Tangible assets	***11***	61,943	40,381	56,274	35,118
Investment assets	***12***	-	-	3,000	3,000
Share in JV gross assets		20,790	12,467	-	-
Share in JV gross liabilities		(18,392)	(12,745)	-	-
Investment assets - joint ventures		2,398	(278)	-	-
Endowment Assets	***13***	59	63	59	63
		64,400	40,166	59,333	38,181
Current Assets					
Stock		23	24	23	24
Debtors	***14***	5,220	5,112	5,299	5,148
Cash at bank and in hand	***15***	1,402	1,911	1,234	1,784
		6,645	7,047	6,556	6,956
Creditors - amounts falling due in one year	***16***	(3,153)	(4,658)	(3,799)	(5,228)
Net current assets		3,492	2,389	2,757	1,728
Total assets less current liabilities		67,892	42,555	62,090	39,909
Creditors - amounts falling due after more than one year	***17***	(882)	(2)	(882)	(2)
Provisions for liabilities and charges	***18***	(807)	(796)	(807)	(796)
Net assets excluding pension liability		66,203	41,757	60,401	39,111
Net pension liability		(383)	(1,442)	(383)	(1,442)
Net assets including pension liability		65,820	40,315	60,018	37,669
Deferred capital grants	***19***	40,004	31,993	37,176	29,101
Endowments	***13***	59	63	59	63
Reserves					
Revaluation reserve	***20***	20,541	4,620	16,785	4,418
Income and expenditure account excluding pension reserve		5,599	5,081	6,381	5,529
Pension reserve		(383)	(1,442)	(383)	(1,442)
Income and expenditure account including pension reserve	***21***	5,216	3,639	5,998	4,087
Total		65,820	40,315	60,018	37,669

The notes on pages 26 to 43 form an integral part of the financial statements.

The financial statements on pages 22 to 43 were approved by the Board of Governors on 12 December 2007.

James Williams
Chair of Governors

Professor A G Livingston
Principal

Consolidated cashflow statement for the year ended 31 July 2007

		Year to 31/7/07 £ (000)		Year to 31/7/06 £ (000)
Operating activities				
Cash received from HEFCE		9,799		8,081
Cash received from LSC		456		462
Cash received from tuition fees		4,664		3,673
Consultancy and other activities		5,687		1,675
Cash received from residences and catering activities		182		149
Cash paid to and on behalf of employees		(11,004)		(9,709)
Other cash payments		(9,812)		(5,249)
Net cash outflow from operating activities (see Note 22)		(28)		(918)
Returns on investments and servicing of finance				
Interest received	125		116	
Other interest paid	(3)		(20)	
HEFCE interest reimbursement	1		37	
Net cash inflow from returns on investments		123		133
Capital expenditure and financial investment				
Payments to acquire tangible assets	(9,535)		(3,086)	
Receipts from sale of tangible assets	6		-	
Deferred capital grants received	8,997		4,005	
Net cash inflow from capital expenditure		(532)		919
Cash (outflow)/inflow before use of liquid resources		(437)		134
Management of liquid resources				
Movement in short-term deposits		-		(738)
Financing				
Bank loan received	936		-	
Loan to joint venture	(780)		-	
LEA loan principal repayment	-		(792)	
HEFCE grant reimbursement	-		792	
Net cash inflow from financing		156		-
Decrease in cash (see note 23)		(281)		(604)

Reconciliation of net cashflow to movement in net funds		
Decrease in cash	(437)	(604)
Cash inflow from new bank loan	936	-
Cash out flow from loan to joint venture	(780)	-
Cash inflow from loan repayment	-	792
Movement in net funds in the period	(281)	188
Net funds at 1 August	1,518	1,330
Net funds at 31 July	1,237	1,518

Notes to the consolidated financial statements for the year ended 31 July 2007

1 Principal accounting policies

Basis of preparation
These financial statements have been prepared in accordance with the statement of recommended practice (SORP): Accounting in Further and Higher Education Institutions and in accordance with applicable Accounting Standards. They conform to guidance published by the Funding Council.

The Board of Governors, through the Finance Committee, has reviewed the College's accounting policies and estimation techniques, as required in FRS18 Accounting Policies, and they consider that they are the most appropriate for the Group.

Basis of accounting
The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation
The consolidated financial statements include the College and its subsidiary company, Falmouth Enterprises Limited. However, the Income and expenditure account of the College alone is not materially different to the consolidated position because the subsidiary is significantly smaller than the College itself and, in accordance with FRS 2, is therefore not attached to the Group Accounts.

The 50% holding in the Tremough Campus Services Group represents an interest on a long-term basis which is jointly controlled with another party. As such the arrangement is treated as a joint venture and is accounted for using the gross equity method.

The College's policy is to consolidate the Students' Union only if its operations are material and if the College, at such time, is exercising significant influence on Union policy. Should the operation expand and become material it is likely that it would be more autonomous and independent of the College. As the Union's activities are immaterial (see Note 26) and as the College does not exercise a significant influence over its operations its results have been excluded.

Intra-group sales and profits are eliminated fully on consolidation.

Recognition of income
Income from grants and other services rendered is included to the extent of the completion of the service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Funding Councils are recognised in the period in which they are receivable.

Non-recurrent grants from Funding Councils or other bodies received in respect of acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Financial instruments
Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments.

Cash, Bank and Loan balances are recorded at current values. Interest earned on bank accounts and interest charged on loans are recorded as interest receivable and interest payable respectively in the period to which they relate. Bank charges are recorded as operating expenditure in the period to which they relate.

Pension schemes

Retirement benefits for the employees of the College are provided by the Teachers' Pension Scheme (TPS) for academic staff and by the Cornwall County Council (CCC) Superannuation Scheme for non-academic staff. These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme.

TPS is a multi-employer scheme and it is not possible to identify the College's share of the underlying assets and liabilities of the scheme. Therefore, as required by FRS 17 the contributions are charged directly to the income and expenditure account as if the scheme were a defined contribution scheme.

The assets of the CCC scheme are measured using closing market values. CCC scheme 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 ongoing 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 ongoing 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. The provision is calculated based on the total capital cost with an allowance for future investment returns in excess of inflation.

The provision set up is shown in note 18 and will be released each year in line with payments made and changes in the assumptions.

Maintenance of premises

The cost of long term and routine corrective maintenance is charged to the Income and expenditure account as incurred.

Tangible fixed assets

Land and buildings

Freehold land is not depreciated. Buildings are stated at cost or valuation and endowment assets are valued at market valuation on donation. Buildings and associated capital works are depreciated over their expected useful lives of 50 years (freehold) or the period of the lease (leasehold).

In accordance with FRS 15, valuations will be undertaken on land and buildings every five years and will be stated at their current depreciated replacement cost at that time. An impairment review of a fixed asset is carried out if events or changes in circumstance indicate that the carrying amount of the fixed asset may not be recoverable.
Finance costs on associated loans from third parties that are directly attributable to the purchase of land or the construction of buildings are capitalised during the construction period but, thereafter, are not capitalised as part of the costs of those assets but are shown as interest payable.

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

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

Equipment

Equipment costing over £5,000 is capitalised with all other equipment being written off to the Income and expenditure account in the year of acquisition.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computers and equipment	- 4 years
Motor vehicles	- 4 years

Where the equipment is acquired with the aid of specific grants it is capitalised and depreciated as above with the related grant being credited to a Deferred capital grant account and released to the Income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements that transfer substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Stock

Stocks of materials for sale are valued at the lower of cost and net realisable value where cost is taken as that incurred in bringing each product to its present location and condition.

Taxation status

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value added tax (VAT). The College's subsidiary company is subject to Corporation tax and VAT in the same way as any commercial organisation.

Liquid resources

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

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of Access to Learning Funds. Related payments received from HEFCE and subsequent disbursements to students are excluded from the Income and expenditure account and are shown separately in Note 30, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant. The College employs a fractional member of staff dedicated to the administration of Access to learning fund applications and payments.

2 Funding Council grants

	31/7/07 £ (000)	31/7/06 £ (000)
HEFCE recurrent grant	8,124	7,275
HEFCE specific grants		
- Reimbursement of debt charges	-	3
- Restructuring & collaboration fund	644	158
- Restructuring & collaboration fund (CUC pooled funds)	244	43
- Business relations (HEIF)	381	534
- CUC pooled fund Business Relations (HEIF)	13	61
- Other	135	50
HEFCE deferred capital grants released in year		
- Buildings	169	170
- Equipment	409	306
LSC recurrent grant	473	458
	10,592	9,058

3 Tuition fees and grants

	31/7/07 £ (000)	31/7/06 £ (000)
Full-time students	3,597	2,483
Full-time students charged overseas fees	733	896
Part-time students	120	116
FE fees and other charges	147	199
	4,597	3,694

4 Research grants and contracts

	31/7/07 £ (000)	31/7/06 £ (000)
Other contracts	-	-

5 Other operating income (including share of Joint venture)

	31/7/07 £ (000)	31/7/06 £ (000)
Other income generating activities	542	427
Residences and catering operations	1,790	1,729
Other income (including European grants)	2,861	2,606
Recharges for the provision of combined services	900	710
Deferred capital grants	741	843
Other income (CUC pooled funds)	218	289
	7,052	6,604

6 Investment income

	31/7/07 £ (000)	31/7/06 £ (000)
Pension finance income	53	18
Bank deposit interest	125	109
	178	127

7 Staff

	31/7/07 £ (000)	31/7/06 £ (000)
Wages and salaries	9,228	8,050
Social security costs	700	610
Other pension costs (including FRS17 adjustments)	1,173	971
	11,101	9,631
Emoluments of the Principal (inclusive of all benefits)	146,484	139,932
Pension contributions	19,775	18,697
Average staff numbers (FTEs) by major category:		
Academic departments	141	129
Research	7	6
Academic support services	50	49
Administration (inc. Business Relations)	78	73
Premises	15	14
Other income generation	2	2
Residences and catering	4	4
CUC Central	7	7
	304	284
Remuneration of higher paid staff:		
£70,000 - £79,999 p.a.	1	1
£80,000 - £89,999 p.a.	-	-
£90,000 - £99,999 p.a.	1	1
£130,000 - £139,999 p.a.	-	1
£140,000 - £149,999 p.a.	1	-

8 Other operating expenses

	31/7/07 £ (000)	31/7/06 £ (000)
Teaching materials and expenses	829	726
Library and learning resource costs	250	233
IT support costs	279	197
Recruitment and restructuring costs	151	222
Research costs	93	111
Auditors remuneration - audit fees	26	23
Auditors remuneration - non-audit fees	20	-
Administrative expenses	1,191	913
CUC central costs	92	80
Advertising and promotional expenses	692	584
Examination fees	11	12
Bursaries payable	172	-
Business Relations costs	146	146
Heat, light, rates and water	539	606
Repairs and maintenance to premises	1,145	948
Inter-campus transport	63	62
Rents and property leases	18	64
Other income generation costs	245	253
	5,962	5,180

9 Interest payable

	31/7/07 £ (000)	31/7/06 £ (000)
Loans not wholly repayable within five years	13	4
Pension finance costs	-	-
	13	4

10 Analysis of 2006/07 expenditure by activity

	Staff costs £ (000)	Other operating expenses £ (000)	Dep'n £ (000)	Interest payable £ (000)	Total £ (000)
Academic departments	5,207	725	181	-	6,113
Academic support services	1,765	719	527	-	3,011
Research grants & contracts	280	93	-	-	373
Residences and catering	174	169	-	-	343
Premises	322	1,762	775	13	2,872
Administration & central services	2,641	2,263	71	-	4,975
Other services	349	139	74	-	562
Other expenses (including CUC)	363	92	-	-	455
Total	11,101	5,962	1,628	13	18,704

The depreciation charge has been funded by:

Deferred capital grants	1,320
Revaluation reserve release	44
General income	264
	1,628

11 Fixed asset schedule

Group	**Assets under construction £ (000)**	**Land and buildings £ (000)**	**Equipment and furniture £ (000)**	**Motor vehicles £ (000)**	**Total £ (000)**
Cost or valuation					
B/f as at 1st August 2006	2,731	40,079	5,714	48	48,572
Additions	9,542	167	533	9	10,251
Revaluation	-	12,939	-	-	12,939
Transfers	(68)	-	68	-	-
Disposals	-	-	(151)	-	(151)
C/f as at 31st July 2007	12,205	53,185	6,164	57	71,611
Depreciation					
B/f as at 1st August 2006	-	4,019	4,143	29	8,191
Charge for the year	-	721	894	13	1,628
Depreciation on disposals	-	-	(151)	-	(151)
C/f as at 31st July 2007	-	4,740	4,886	42	9,668
Net book value					
As at 31st July 2006	2,731	36,060	1,571	19	40,381
As at 31st July 2007	12,205	48,445	1,278	15	61,943
College					
Cost or valuation					
B/f as at 1st August 2006	2,731	34,484	4,659	49	41,923
Additions	9,542	161	533	9	10,245
Revaluation	-	12,410	-	-	12,410
Transfers	(68)	-	68	-	-
Disposals	-	-	(166)	-	(166)
C/f as at 31st July 2007	12,205	47,055	5,094	58	64,412
Depreciation					
B/f as at 1st August 2006	-	3,559	3,217	29	6,805
Charge for the year	-	610	876	13	1,499
Depreciation on disposals	-	-	(166)	-	(166)
C/f as at 31st July 2007	-	4,169	3,927	42	8,138
Net Book Value					
As at 31st July 2006	2,731	30,925	1,442	20	35,118
As at 31st July 2007	12,205	42,886	1,167	16	56,274

Assets under construction represent the College's share (54.52%) of the second phase of development in the HUB buildings for the Combined Universities in Cornwall.

All major works have been built with the aid of grant funding shown in Note 19 below. The grant from South West of England Regional Development Agency ('Agency') has been awarded with the condition that a charge on the property has been given to the Agency and a restrictive covenant on future use agreed. This covenant will be discharged on 28 November 2008.

In accordance with the College's policy to revalue assets on a regular basis, land and buildings were professionally valued on the basis of depreciated replacement cost by Alder King, Chartered Surveyors, Newham Road, Truro on 31 July 2007. The historical cost of land and buildings would show a net book value of £27M at the year end.

12 Investment assets

	Group 2007 £ (000)	Group 2006 £ (000)	College 2007 £ (000)	College 2006 £ (000)
Investment in subsidiary companies	-	-	3,000	3,000
Investment in joint venture company	-	-	-	-
	-	-	3,000	3,000

The College owns 100% of the issued share capital of 3,000,000 £1 Ordinary shares of Falmouth Enterprises Limited. The principal activity of Falmouth Enterprises Limited is the facilities hire of the Media Centre at the Tremough campus to the College and external parties. The company also provides services to businesses which include use of the Design Centre facilities and staff expertise.

The College also owns 50% of Tremough Campus Services (TCS); a company limited by guarantee which in turn owns 100% of the issued share capital (100 £1 Ordinary Shares) in the Tremough Development Vehicle Ltd (TDV). These joint venture companies with the University of Exeter have been established to provide the operational aspects (through TCS) and construction (through TDV) of the main HUB for the Combined Universities in Cornwall project based at the Tremough campus in Penryn.

In accordance with FRS9 Accounting for Associates and Joint Ventures, the Group is required to disclose its share of assets and liabilities in TCS. As at the year end these were as follows:

	2007 £ (000)	2006 £ (000)
Share of fixed assets	18,989	10,930
Share of current assets	1,801	1,537
Share of current liabilities	(2,259)	(1,587)
Share of long-term liabilities	(16,126)	(11,111)
Share of pension liability	(7)	(47)
	2,398	(278)
Share of income	3,038	2,729
Share of loss	(406)	(306)

All companies are registered in England and Wales and operate in the UK.

13 Endowment assets

	Group and College 2007 £ (000)	Group and College 2006 £ (000)
Balance brought forward	63	67
Interest earned during the year	1	1
Bursaries awarded	(5)	(5)
Balance carried forward	59	63

Endowment assets relate to two Denis Mitchell sculptures and a Michael Finn painting donated to and held in the College at valuation and a bequest from the Ferdynand Zweig Memorial Scholarship Fund held as cash in the College's bank account.

14 Debtors

	Group		College	
	2007	2006	2007	2006
	£ (000)	£ (000)	£ (000)	£ (000)
HEFCE - debt reimbursement		-		-
HEFCE - other	244	622	244	622
Fees and charges	17	27	17	27
Trade debtors	160	576	154	567
Prepayments and accrued income	117	137	119	137
ERDF grants due	3,561	3,108	3,561	3,108
SWRDA grants due	171	340	171	340
Amounts owed by group undertakings	-	-	79	45
Amounts owed by joint venture	232	50	232	50
HM Customs & Excise	83	117	83	117
Sundry debtors	5	30	5	30
Bad debt reserve	(13)	(23)	(9)	(23)
CUC debtors and accrued income	163	128	163	128
	4,740	5,112	4,819	5,148
Due after one year				
Amounts owed by joint venture	480	-	480	-
	5,220	5,112	5,299	5,148

The major debtors reflect timing differences on grants due against construction works from major funders. All capital grants from both European Regional Development Funds and the Regional Development Agency are claimed after the related expenditure has been paid.

Debtors falling due after more than one year include the balance due in respect of a loan to the joint venture company Tremough Campus Services

15 Cash at bank and in hand

Included within cash at bank are amounts held on behalf of TCS, the joint venture company, for investment purposes. These amounts totalled £132,000 (2006: £177,000) at the year end.

16 Creditors – amounts falling due in one year

	Group		College	
	2007	2006	2007	2006
	£ (000)	£ (000)	£ (000)	£ (000)
Bank loan	55	-	55	-
HEFCE other grants in advance	696	148	696	148
Bank overdraft	68	456	68	456
Trade creditors	236	275	236	275
Student deposits	247	220	247	220
Accruals and deferred income	835	1,537	814	1,517
Social security and other taxation	258	324	236	324
Amounts owed to group undertakings	-	-	689	590
Amounts owed to joint ventures	620	1,198	620	1,107
Other creditors	32	83	32	174
CUC creditors and accrued income	106	417	106	417
	3,153	4,658	3,799	5,228

17 Creditors – amounts falling due after more than one year

	Group and College	
	2007	2006
	£ (000)	£ (000)
Bank loan	881	-
Student deposits	1	2
	882	2

17 Creditors – amounts falling due after more than one year (continued)

The College has drawn down a loan from LloydsTSB Bank plc of £936K from a facility of £1.25M, repayable on a quarterly basis over 15 years. Interest will be calculated at 0.2% per annum above the Bank's Base Rate. The loan has been taken out in order to provide finance to the joint venture company Tremough Campus Services (see note 14) for part of the cost of the construction of new residences.

	Group and College	
	2007	**2006**
Amounts repayable on bank loan:	**£ (000)**	**£ (000)**
In one year or less	55	-
In more than one year but not more than two years	58	-
In more than two years but not more than five years	195	-
In more than five years	628	-
	936	-

18 Provisions for liabilities and charges

	Group & College
Enhanced Pension Provision	**£**
Balance at 1st August 2006	796
Transferred from Income and expenditure	45
Utilised in the year	(34)
Balance at 31st July 2007	807

19 Deferred capital grants

Group	**HEFCE building grants**	**HEFCE equipment grants**	**SWRDA and other grants**	**European Regional Dev't Fund**	**Total**
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**
Balance at 1st August 2006	8,636	599	7,268	15,490	31,993
Received during the year	3,550	567	482	4,732	9,331
Released to Income and Expenditure	(169)	(409)	(231)	(511)	(1,320)
Balance at 31st July 2007	12,017	757	7,519	19,711	40,004
College					
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**
Balance at 1st August 2006	8,636	599	5,780	14,086	29,101
Received during the year	3,550	567	482	4,732	9,331
Released to Income and Expenditure	(169)	(409)	(198)	(480)	(1,256)
Balance at 31st July 2007	12,017	757	6,064	18,338	37,176

Grants received relate to funding for construction costs of the HUB buildings as part of the Combined Universities in Cornwall initiative. Funds have been awarded through the HEFCE and the Department for Education & Skills, European Regional Development Objective 1 Funds and the South West of England Regional Development Agency and the Department for Trade & Industry.

20 Revaluation reserve

	Group 2007 £ (000)	Group 2006 £ (000)	College 2007 £ (000)	College 2006 £ (000)
Balance brought forward	4,620	4,637	4,418	4,425
Revaluation in year	12,939	-	12,410	-
Transferred to Income and expenditure account - depreciation	(44)	(44)	(44)	(44)
Share of unrealised surplus on revaluation of properties held by joint venture	3,036	-	-	-
Share of movement in joint venture's revaluation reserve	(11)	(10)	-	-
HEFCE reimbursement of consolidated loan principal	1	37	1	37
	20,541	4,620	16,785	4,418

21 Income and expenditure account

	Group 2007 £ (000)	Group 2006 £ (000)	College 2007 £ (000)	College 2006 £ (000)
Retained surplus	3,639	3,540	4,087	3,724
Surplus after depreciation of assets at valuation and tax	277	11	669	275
Transfer from revaluation reserve	44	44	44	44
Actuarial gain on pension liability	1,256	44	1,198	44
Retained surplus carried forward	5,216	3,639	5,998	4,087
Represented by:				
Income and expenditure account reserve excluding pension reserve	5,599	5,081	6,381	5,529
Pension reserve	(383)	(1,442)	(383)	(1,442)
Total	5,216	3,639	5,998	4,087

The surplus for the year within the accounts of the College was £669,215 (2006: £275,060).

22 Reconciliation of consolidated operating surplus to net cash from operating activities

	Note	31/7/07 £ (000)	31/7/06 £ (000)
Surplus before tax		277	11
Depreciation	***11***	1,628	1,622
Profit on disposal		(6)	
Pension costs less contributions payable		199	118
Deferred capital grants released	***19***	(1,320)	(1,319)
Reimbursement of debt charges		-	(3)
Net movement in endowments	***13***	(4)	(4)
Investment income	***6***	(178)	(127)
Interest payable	***9***	13	4
Decrease in stocks		1	5
Decrease in debtors		485	636
Decrease in creditors		(1,134)	(1,935)
Increase in provisions		11	74
Net cash outflow from operating activities		(28)	(918)

23 Analysis of changes in net funds

	At 1 Aug 2006	Cashflows	At 31 July 2007
	£ (000)	£ (000)	£ (000)
Cash in hand, and at bank	1,911	(509)	1,402
Loan to joint venture	-	780	780
Endowment asset investments (Note 13)	63	(4)	59
Overdrafts	(456)	388	(68)
Debt due within 1 year	-	(55)	(55)
Debt due after 1 year	-	(881)	(881)
Total	1,518	(281)	1,237

24 Pension schemes

The College's employees belong to two principal pension schemes, the Teachers' Pensions Scheme (TPS) and the Cornwall County Council Superannuation Scheme (CCC). The total pension cost for the period was as follows:

	31/7/07	31/7/06
	£ (000)	£ (000)
CCC Pension Scheme: Charge to the Income and expenditure account (note 7)	675	526
Teachers Pension Scheme: contributions paid (note 7)	498	445
Enhanced pension charge to Income and expenditure account (note 18)	45	108
Total pension cost for the year	1,218	1,079

Teachers' Pension Scheme (TPS)

Under the definitions set out in Financial Reporting Standard 17 (Retirement Benefits), the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has taken advantage of the exemption in FRS17 and accounted for its contributions as if it were a defined contribution scheme.

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities (LAs), 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 or lecturers and from 1 January 2007 automatic too for teachers or lecturers in part-time employment following appointment or a change of contract. Teachers are able to opt out of the TPS.

Although teachers are employed by LAs and various other 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 Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account will be credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

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

24 **Pension schemes (continued)**

Contributions are assessed in two parts. Firstly, a standard contribution is determined. This is the contribution, expressed as a percentage of the salary of a teacher / lecturer entering service, which would defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by normal contributions to be paid in future and by the fund built up from past contributions.

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

From 1 January 2007, and as part of the cost sharing agreement between employer and union representatives, the standard contribution rate is 19.75% plus a supplementary contribution rate of 0.75%; a total contribution rate of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost sharing agreement will also introduce, for the first time from the 2008 valuation, a 14% cap on employer contributions payable.

The 2006 interim actuarial review, published in June 2007, did not recommend any changes to the contribution rate and concluded, as at 31 March 2006, and using the above assumptions, that the Scheme's total liabilities amounted to £176,600 millions.

25 **FRS 17 retirement benefits disclosure**

The College is a member of the Cornwall County Council Pension Scheme, a funded defined benefit scheme in the UK. The total contribution made for the year ended 31 July 2007 was £467K, (2006: £396K) of which employer's contributions totalled **£327K** (2006: £277K) and employees' contributions totalled **£140K** (2006: £119K). The agreed contribution rates for future years are 14.7 per cent for employers and 6 per cent for employees.

The actuarial valuation of the scheme at 31 March 2004 showed a deficit of £35 million. Employers' contribution rates during the year were 14.0% to March 2007 and 14.7% from April 2007 (2006: 14.0%) and employees' rates were 6.0% (2006: 6.0%)

The following information is based upon a full actuarial valuation of the fund at 31 March 2004 rolled forward to 31 July 2007 by a qualified independent actuary. For this purpose the rate used to discount the liabilities is based on the rate of return of an AA rated corporate bond and the investments have been valued at market value.

The major assumptions used by the actuary were:

	2007 %	**2006** %	**2005** %	**2004** %	**2003** %
Rate of increase in salaries	5.3	5.1	4.8	4.9	4.6
Rate of increase in pension payment	3.3	3.1	2.8	2.9	2.6
Discount rate	5.8	5.1	5.0	5.8	5.5
Inflation	3.3	3.1	2.8	2.9	2.6
% of members who will opt for a higher tax-free lump sum in exchange for commuting part of their annual pension sum (applicable from 06/04/06)	25	50	N/a	N/a	N/a

25 FRS 17 retirement benefits disclosure (continued)

	Long-term rate expected 31/07/07 %	Value at 31/07/07 £(000)	Long-term rate expected 31/07/06 %	Value at 31/07/06 £(000)	Long-term rate expected 31/07/05 %	Value at 31/07/05 £(000)
Equities	8.0	5,795	7.7	4,839	7.3	3,789
Bonds	5.2	1,175	4.7	842	4.7	722
Property	6.0	804	5.7	657	5.4	473
Cash	5.1	162	4.8	159	4.5	240
Estimated employers' share of scheme assets	7.3	7,936	7.0	6,497	6.6	5,224
Present value of scheme liabilities		8,319		7,939		6,592
Net pension liability		(383)		(1,442)		(1,368)

Analysis of the amount charged to operating surplus

	2007 £(000)	2006 £(000)
Current service cost	659	522
Past service cost	-	10
Total operating charge	659	532

Analysis of the amount credited to other finance income

	2007 £(000)	2006 £(000)
Expected return on pension scheme assets	478	364
Interest on pension scheme liabilities	(425)	(346)
Net return	53	18

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2007 £(000)	2006 £(000)
Actual return less expected return on pension scheme assets	349	397
Experience gains and losses arising on the scheme liabilities	1	(1)
Changes in the assumptions underlying the present value of the scheme liabilities	848	(352)
Actuarial gain recognised in STRGL	1,198	44

Movement in deficit during the year

	2007 £(000)	2006 £(000)
Deficit in scheme at beginning of the year	(1,442)	(1,368)
Movement in year:		
Current service cost	(659)	(522)
Contributions	467	396
Past service costs	-	(10)
Net return on assets	53	18
Actuarial gains	1,198	44
Deficit in the scheme at the end of the year	(383)	(1,442)

25 FRS 17 retirement benefits disclosure (continued)

History of experience gains and losses

	Year to 31 July 2007 £(000)	Year to 31 July 2006 £(000)	Year to 31 July 2005 £(000)	Year to 31 July 2004 £(000)	Year to 31 July 2003 £(000)
Difference between the expected and actual return on assets	349	397	607	96	3
Value of assets	7,936	6,497	5,224	3,618	2,908
Percentage of assets	**4.4%**	**6.1%**	**11.6%**	**2.6%**	**0.1%**
Experience gains/(losses) on liabilities	1	(1)	319	-	(88)
Present value of liabilities	8,319	7.939	6,592	4,913	4,192
Percentage of the present value of liabilities	**0.0%**	**0.0%**	**4.8%**	**-**	**(2.1%)**
Actuarial gains/(losses) recognised in the STRGL	1,198	44	(14)	90	(700)
Present value of liabilities	8,319	7,939	6,592	4,913	4,192
Percentage of the present value of liabilities	**14.4%**	**0.6%**	**(0.2%)**	**1.8%**	**(16.7%)**

26 Students' Union

The Students' Union has not been consolidated in the College's accounts for reasons of materiality and because the College does not exercise a significant influence over its operations.

27 Capital commitments

	Group and College	
	2007	**2006**
	£ (000)	**£ (000)**
Authorised but not committed	267	3,193
Commitments contracted at 31st July	13,127	10,160

Amounts authorised are in respect of the College's share of the second phase of building works on the HUB for the Combined Universities in Cornwall at Tremough, Penryn less commitments to date. Commitments then relate to the design, construction and fit-out for this work that had been awarded to contractors at the year end date.

28 Financial commitments

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

	Group		College	
	2007	**2006**	**2007**	**2006**
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**
Land and buildings expiring in more than five years	24	24	444	444

The College guarantees 50% (£9.3M) of a £18.6M bank loan by LloydsTSB Bank plc to Tremough Campus Services (TCS), the joint venture company with the University of Exeter.

In addition a further guarantee was given to LloydsTSB on a SWAP agreement related to the above loan. This guarantee covers 50% of the notional exposure of TCS in relation to the SWAP agreement amounting to £2.1M.

During the year a further loan of £10million was taken out by TCS to fund the construction of 300 new student residences. This loan is for a term of 30 years and 50% is guaranteed by the College.

28 Financial commitments (continued)

The College has undertaken to pass on sufficient funds (including specific grants) to the TCS group to enable it to meet its contractual commitments to deliver the campus buildings and student accommodation at Tremough and to enable the group to continue to trade.

29 Related-party transactions

The College has taken advantage of the exemption under FRS 8 not to disclose transactions with subsidiaries that are over 90% owned.

For the joint venture, the College entered into the following transactions which are all shown on an arms length basis.

Tremough Campus Services Group	Purchases from related parties £ (000)	Sales to related parties £ (000)	Payments to third parties through joint venture £ (000)	Amounts owed to related party £ (000)	Amounts owed by related party £ (000)
2007	2,219	446	8,646	621	712
2006	1,291	267	3,063	1,107	50

Balances due to and from the joint venture are shown in Note 14 Debtors and Note 16 Creditors – amounts due within one year.

30 Access to learning funds

	Year to 31/7/07 £ (000)	Year to 31/7/06 £ (000)
Brought forward	2	3
Funding Council grant	150	199
Institutional grant	-	(2)
Other funding body grants	4	4
Net interest earned	1	-
	157	204
Disbursed to students	(154)	(202)
Balance unspent	3	2

Funding Council grants are available solely for students: the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and expenditure account.

31 CUC central costs

	Year to 31/7/07 £ (000)	Year to 31/7/06 £ (000)
Income		
HEFCE Restructuring & Collaboration funds	257	43
ERDF Objective 1 grant	189	171
Contributions from partner institutions	14	93
South West Regional Development Agency	15	86
	475	393
Expenditure		
Staffing	261	161
Business Relations staffing	102	118
Office & administration	11	50
Marketing & PR	74	40
Business Relations	27	24
	475	393

CUC central costs relate to pooled costs for the Combined Universities in Cornwall project office which are managed on behalf of the partners by the College. These amounts are included within the Income and expenditure Notes 2. to 8. above.

32 Post balance sheet event

The Board of Governors have agreed in principle to merge with Dartington College of Arts, a company limited by guarantee. It is expected that the merger will be effective in the financial year ending 31 July 2008. A request for funding for pre-merger costs has been submitted to the Funding Council. The terms of the merger do not involve consideration for any assets which may be acquired.

On 12 December 2007 the consolidated financial statements were authorised for issue by the Governing Body and do not reflect events after this date.