

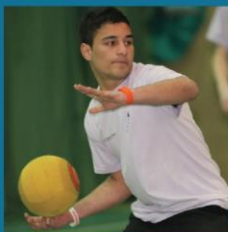


**NHC**  
CREATE | BELIEVE | SUCCEED



# Report & Financial Statements

for the year ending 31 July 2012



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## Operating & Financial Review

### NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2012.

#### Legal status

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

#### Vision

'Be the best we can possibly be in everything we do.'

#### To achieve our ambition we aim to be:

'entrepreneurial in outlook, leaders in learning and world class in service culture'

#### Values

- Respect – Treating every individual with courtesy, value and regard
- Accountable – Taking responsibility for our own behaviour and its impact on others
- Inclusive – Catering for diverse aspirations and needs
- Entrepreneurial – Creating value through enterprise, innovation and business acumen
- Challenge – Positively expressing views in a culture which welcomes them
- Empowering – Taking the initiative and involving others
- Aspirational – Creating a college that is a great place to be
- Safe – Being in an environment which is supportive and secure

#### Implementation of strategic plan

In 2011 the College prepared a Strategic Plan for 2011/12. This College also has a Property Strategy and Financial Plan in place. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated on a regular basis. The College's strategic objectives and targets are set out below:

#### Blueprint for the future

In response to the 'new politics', and recognising our social responsibility to our community, NHC will:

- Position itself for growth in key priority areas, e.g. apprenticeships.
- Encourage students to be active in social enterprise for both personal and community benefit, and add value to society.
- Adjust our stakeholder/customer alliance and partnership relationship strategy accordingly.
- Adapt the nature of our work with schools, the voluntary sector, guidance services and others and make value for money and service diversification as key objectives.
- Realise our potential to take a leadership role at local level by positioning NHC as the strategic partner of choice.
- Develop schemes to maximise the employment, earnings and wellbeing of students, staff and the wider community.
- Establish new alliances with public and private organisations that will add value and take us forward as leaders in learning, as a world-class service organisation, and entrepreneurial in outlook.
- Further development of the Regional Centre for Entrepreneurship at the Hitchin Campus, placing NHC at the hub of a national network of emerging centres and at the heart of innovation in business education and incubation; and involving the negotiation of a joint venture with the new UK Enterprise Foundation.
- Workforce that is motivated to achieve high levels of performance.

#### 3 Year Strategic Aims

The strategic aims take full account of the SFA's and EFA's priorities for the UK economy and the skilled workforce needed to deliver future prosperity at local and regional level.

- To ensure students influence and shape their whole college experience.
- To be strategically aligned with partners that can add real value.
- To deliver a financial strategy that facilitates investment in new markets.
- To develop an enterprise culture that creates employment and opportunity.

- To ensure college success rates are outstanding.
- To be recognised as a UK leader in learning, service and entrepreneurship.
- To deliver teaching that is outstanding or good in all areas of curriculum.
- To enable staff to take ownership of their college through proactive engagement in its growth and development.
- To be a UK leader in technology and its applications in learning.

### **Our Aims for 2012/13**

- To generate an operating surplus of £600,000 whilst investing strongly in the development of new income streams.
- To deliver outstanding success rates that place NHC in the top 10% of providers (overall success rates to be 87%, long success rates to be 85%).
- To deliver outstanding teaching and learning with at least 84% of sessions rated good or outstanding.
- To receive external endorsement from key external agencies (including Ofsted) for the curriculum transformation model.
- To ensure that internally developed e-learning platforms are used to support the flipped classroom model.
- To ensure Gazelle engages all parts of NHC and adds value to support the drive to become an entrepreneurial college.
- To use social enterprise and student empowerment as the key vehicles for community engagement and improved impact on the community's perception of NHC.
- To develop a portfolio of learning companies that enable students from all curriculum areas to fully engage in real businesses.
- To deliver a wide range of property outcomes that will support our recruitment and support us to deliver targets for the next decade.
- To ensure that the Goldsmith Business Division delivers continued growth and becomes an established provider of choice in the region.

### **Improve Financial Efficiency and Profitability**

The College wishes to maintain its Grade 'Good' financial status in order to:

- Protect itself from adverse changes in market conditions.
- Generate sufficient income to enable it to maintain and improve its assets.
- Maintain the confidence of funders, suppliers, partners, employers, bankers and auditors.
- Continue raising the awareness of College staff about the financial environment in which the College operates.
- Deliver the objectives detailed within the Strategic Plan.

The College will maintain financial viability by:

- budgeting to produce a surplus on its continuing operations.
- aiming to increase total reserves over the long term.
- maintaining cash days in hand of 30 or more at all times.
- Specifically, during 2012/13, the College expects to generate a small surplus (after restructuring costs due to investment to allow growth in priority areas of provision).
- Skills Funding Agency (SFA)/Education Funding Agency (EFA) recurrent grant funding increased by 8.6% in 2011/12 and is forecast to reduce by 2.4% in 2012/13.
- A key target for the College is to restrict payroll cost as a percentage of income to 49.1% (prior to restructuring costs).

**The College's specific objectives for 2011/12 and achievement of these objectives is addressed below:**

- The College received an SFA/EFA recurrent grant allocation. This is used to fund both Learner Responsive and Employer Responsive activity. In the year the College received £27,234,000 (2010/11 £25,057,000).
- The objective of generating a small surplus after restructuring costs due to investment to allow growth in priority areas of provision and maintaining cash days in hand of 30 or more was achieved.
- The College recorded a surplus of £399,000 before pension adjustments which gave an additional deficit of £232,000, giving the College a total surplus of £167,000. Once this was consolidated with the subsidiary companies this gave a group surplus of £73,000.

## Operating & Financial Review (cont'd)

### Performance Indicators

Although the Skills Funding Agency continues to measure FE performance in terms of contribution to national targets, individual colleges are now required to submit three-year Strategic Plans which are reviewed each year. These plans focus on four headline targets:

#### Changes in learner numbers and achievement of SFA/EFA targets

Learner Numbers	2010/11 Actual	2011/12 Target	2011/12 Actual	2012/13 Target
16-18 F/T	4,211	3,652	4124	3737
19+ F/T	4,497	n/a	6993	n/a

#### Learner success rates

	2010/11 Actual	2011/12 Target	2011/12 Current
All	80%	82%	80%
16-18 All	80%	82%	86%
19+ All	81%	81%	90%
16 - 18 Long	79%	82%	85%
16 - 18 Short	81%	85%	79%
19+ Long	79%	80%	84%
19+ Short	82%	82%	88%

#### Teacher qualifications

	2009/10 Actual		2010/11 Actual		2011/12 Actual	
	Full time	Part time	Full time	Part time	Full time	Part time
Post type						
Qualified %	78%	80%	79%	80%	80%	77%
Enrolled on qualification %	26%	20%	29%	19%	20%	23%

#### Employer engagement

The College has embedded targets for employer engagement in each of the subject sectors and has taken the role of lead provider in the Employer Responsive consortium to address skills needs of employers.

The "Framework for Excellence" has four key performance indicators:

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

The Financial Indicators (Financial Health and Financial Management and Control) will continue to be graded and will be reported to providers directly by the relevant funding body. As this direct reporting occurs earlier than Framework for Excellence reporting, these Performance Indicators will no longer be included in the Framework for Excellence Application.

The College is committed to observing the importance of the measures and indicators within the Framework and is monitoring these through the completion of the annual Finance Record for the SFA/EFA. The current rating of Good is considered an acceptable outcome.

A Provider Financial Assurance audit took place in June 2010 and the College was found to be 'outstanding'.

## Operating & Financial Review (cont'd)

### RESOURCES:

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

#### **Financial**

The College has £29.6 million of net assets (including £5.4 million pension liability) and £0.1 million of long term debt.

#### People

During 2011/12 the College employed 471 people (expressed as full time equivalents), of whom 184 were teaching staff.

#### Reputation

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

### PRINCIPAL RISKS AND UNCERTAINTIES:

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

Based on the Strategic Plan, the Senior Management Group (SMT) undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal control plans are monitored to ensure they are implemented and once implemented controls are reviewed. In addition to the annual review SMT will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

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

- Machinery of Government changes
- Government funding
- Higher Education funding
- Project/bid funding
- Funding methodology changes
- Learner retention rates
- Property strategy

### STAKEHOLDER RELATIONSHIPS:

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

- Students
- Funding Bodies
- Staff
- Employers
- Local Authorities
- Government Offices
- Partners (with specific links)
- The local community
- Other FE institutions

## Operating & Financial Review (cont'd)

### STAKEHOLDER RELATIONSHIPS: (cont'd)

- Trades union
- Professional bodies

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

### Transparency arrangements

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the full Corporation. Full minutes of all meetings are available from the Clerk to the Corporation at:

Chaplin Frobisher Welling  
St Ibbs  
London Road  
Hitchin  
Hertfordshire, SG4 7NL

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

### Finances

The College generated a surplus in the year of £73,000 (2010/11: surplus of £51,000).

The net assets of the College at the year-end were £29.5 million (2010/11: £29.9 million) including cash balances of £9.1 million (2010/11: £9.2 million).

The College has significant reliance on the SFA for its principal funding source, largely from recurrent grants. In 2011/12 the SFA/EFA provided 79.5% of the College's total income.

The College has four subsidiary companies: Protech Training Services Limited, Plaza Activity Limited, The Consortium for Business and The Big Student Takeover, of which the latter two have not traded during the year. In addition the College holds a 50% shareholding in Clarity FE Limited (but has the controlling interest) and a 20% shareholding in Gazelle Global Limited.

In setting its strategic and financial forecasts the Board continues to aim to achieve a surplus for reinvestment on its continuing operations. It is the intention to maintain overall financial viability and to continue to retain SFA 'Good' financial status.

### Treasury policies and objectives

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

The College has a separate treasury management policy in place.

All borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum of the SFA.

### Cash flows and Liquidity

The net inflow from operations was £1,996,000 (2010/11: inflow of £3,131,000).

### Payment Performance

It is the College's policy to pay all of its suppliers on the last day of the month following the month of invoice, provided that the College is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

## Operating & Financial Review (cont'd)

### Cash flows and Liquidity (cont'd)

The number of days' purchases outstanding for payment by the College at year-end was 8 days (2010/11: 8 days).

#### Payment Performance

The College incurred no interest charges in respect of late payments for this period.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

### Student Numbers and Related Funding

In 2011/12 the College has delivered activity that has produced £19,639,000 in funding body main allocation funding (2010/11: £18,459,000). The College had approximately 11,117 SFA-funded and 3,645 non-SFA-funded students.

The College is funded according to the level of activity it generates each year. In 2011/12 the College has achieved 5,953 Standard Learner Number (SLN's).

The College exceeded the recruitment target for both 16-18 and Adult. The recruitment of 16-18 SLNs: 3,857 recruited against a target of 3,652. The recruitment of Adult SLNs was 2,097.

96% of learners completed their programmes in 2011/12 and this represented a 3% improvement on 2010/11. The national benchmark is 89%.

### Student Achievements

The College is forecasting that 92% of learners will achieve their intended learning aim (92% in 2010/11). The national benchmark is 89%.

### Curriculum Developments

During 2011/12 the Hospitality, Sports, Public Services and HE Academy re-developed several key elements of curriculum delivery. The catering department took the strategic decision to deliver VRQs instead of NVQs to all the students. The sports department has embarked on a variety of learning ventures, although the most pioneering development was the college's first learning company – Fit4Less. This development has enabled students to experience learning within a commercial company and widen their skills to understand sector required skills.

The Care, Health and Life Support Academy has continued to expand considerably with the new Foundation Degree in Youth Work. The Health and Social Care Department has also been actively involved in several social enterprise projects. Recently the area has invested in altering a classroom into a hospital ward to enable students to engage in more experiential learning experiences.

In Supported Studies there was an increase in students accessing bespoke learning programmes with external partners in order to meet their individual learning needs. A new animal care course specialising in farm animals was introduced into Supported Studies which built upon the successful partnership with Church Farm. In addition new enterprise opportunities were also created including the sale of art work to the Lister SurgiCentre, plants to Stevenage Borough Council and a greetings card business.

Within the School of Creative Arts there have been several areas of growth in new provision to provide progression onto existing programmes. They have also developed the 'new' curriculum model through Level 2 Art & Design and Level 2 Creative Media. Both programmes have demonstrated high levels of attendance, retention and success. In 2012/13 the model will be cascaded out to a further six programmes.

The Centre for the Arts is now home to a new Marketing Learning Company which offers students from across the provision the opportunity to work in a 'real world' environment, which will form part of their assessment.



## **Operating & Financial Review (cont'd)**

### **Curriculum Developments (cont'd)**

The Skills Centre has recently invested in equipment to perform smart repairs on car body work. In 2012/13 the centre will acquire 'Wheels' a local charity that helps young people aged 13 - 25 years who have become, or are at risk of becoming, disengaged from learning. The College has also developed a partnership with Group Horizon which is enabling the Engineering area to move in green and renewable energy. The Sixth Form has continued to strengthen. After record AS and A2 results this summer the area launched three new AS subjects. In addition the new Laboratory Technician apprenticeship continues to develop its reputation across the region and the Access to HE programme continues to grow.

The Workforce and Community Development Academy has increased its apprenticeship provision for 16-18 apprenticeships by 164%. The Community and Training for Employment areas had a successful year working with disadvantaged groups and through its strong relationships with Job Centre Plus has continued to support individuals who have been made redundant or are unemployed. Management and Professional has developed a new Continuing Personal Development offer for professionals and gained accreditation to deliver Level 2, 3 and 6 Chartered Institute of Legal Executives.

### **Charitable and taxation status**

The College is an exempt charity for the purposes of the Charities Act 2011 and is not liable to corporation tax. The subsidiary companies are registered under the Companies Act 2006.

### **Equal opportunities and employment of disabled persons**

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy, incorporating Race Equality, is published on the College's internet site.

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

### **Disability statement**

The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005:

- a As part of its accommodation strategy the College carried out a full access audit and the results of this formed the basis of works subsequently carried out to improve access.
- b The College has an Access Centre Manager, who provides information, advice and arranges support where necessary for students with disabilities.
- c There is a list of specialist equipment which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g Counselling, welfare services and the complaints procedures are described in the College Learner Handbook, which is issued to students. A separate leaflet outlines the disciplinary procedures.

## **Operating & Financial Review (cont'd)**

### **Disclosure of Information to Auditors**

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

### **Members**

Approved by order of the members of Corporation on 10 December 2012 and signed on its behalf by:

**J Simmonds**  
**Chairman**

## Operating and Financial Review (cont'd)

### Professional advisers

The professional advisers to the Corporation are:

#### Financial statements and regularity auditors:

KPMG LLP  
London North  
58 Clarendon Road  
Watford  
WD17 1DE

#### Internal auditors:

RSM Tenon  
Cedar House  
Breckland  
Linford Wood  
Milton Keynes  
MK14 6EX

#### Bankers:

NatWest  
Park Centre  
210 Butterfield  
Great Marlings  
Luton  
LU2 8DL

Lloyds TSB  
Business & Commercial Service Centre  
49/51 Dean Street  
Marlow  
Buckinghamshire  
SL7 3BP

#### Solicitors:

Eversheds LLP  
Kett House  
Station Road  
Cambridge  
CB1 2JY

## Statement of Corporate Governance and Internal Control

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

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2012.

### The Corporation

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

Name	Date of first appointment	Term of office	Date of resignation	Status of appointment	Committees served
Mr S Hollingsworth (Chairman until 31 Mar 2012)	24 Sep 2001 Reappointed 1 Apr 2005 1 Apr 2009	4 years	Term ended 31 Mar 2012	Ordinary Member	Finance & General Purposes Property Group Quality Standards Group Remuneration Panel
Mr J Simmonds (Appointed Chairman from 1 Apr 2012)	1 Apr 2003 Reappointed 1 Apr 2007 1 Apr 2011	4 years		Ordinary Member	Finance & General Purposes Property Group Quality Standards Group Remuneration Panel(Chairman)
Mrs S Sutherland (Principal from 1 Sep 2012)	1 Sep 2012			Principal	Finance & General Purposes Property Group Observer at Search and Governance and Remuneration Panel In attendance at Audit
Mr A Ahmedi	1 April 2012	4 years		Ordinary Member	
Mr P Bathmaker (Vice-Chairman from Apr 2009)	1 Apr 2005 Re-appointed 1 Apr 2009	4 years		Ordinary Member	Finance & General Purposes (Chairman) Remuneration Panel
Mr F Donohue (Principal until 31 Aug 2012, when he became Chief Executive Officer)	1 Aug 2005			Chief Executive Officer	Finance & General Purposes Property Group Observer: Search & Governance and Remuneration Panel In attendance at Audit
Mrs S Baker	19 Jan 2005 Re-appointed 1 Apr 2009	4 years		Ordinary Member	Search & Governance Remuneration Panel Safeguarding Governor
Mrs C Bowes-Lyon	1 Apr 2009	4 years		Ordinary Member	Audit
Ms I Brown	19 Sep 2011	Until Jul 2012	Term expired 31 Jul 2012	Student Member	
Mr N Chesher	1 Apr 2012			Ordinary Member	Finance and General Purposes
Mrs S Clark	19 Sep 2011	4 years		Ordinary Member	Finance & General Purposes
Ms J Glasman	Appointed 1 Jul 2008	4 years	Term expired 31 Mar 2012	Ordinary Member	Finance & General Purposes
Mrs M Harris	19 Sep 2011	4 years		Parent Member	Audit
Mrs R Hawkes	1 Apr 2010	4 years	Resigned Jan 2012	Ordinary Member	Audit
Mr C Jackson	1 Apr 2010	4 years		Staff member	Audit
Mr S Juneja	18 Oct 2010 Re-appointed 1 Apr 2011	4 years		Staff Member	Search & Governance Quality Standards Group Property Group
Mr M Kellard	1 Apr 2007 1 Apr 2011	4 years		Ordinary Member	Finance & General Purposes Property Group (Chairman) Remuneration Panel

## Statement of Corporate Governance and Internal Control (cont'd)

Mr D Lloyd	17 Oct 2011	4 years		Ordinary Member	Search and Governance
Mrs K Pattar	1 Jul 2009	4 years	Resigned Sep 2011	Ordinary Member	Audit
Ms L Saunders	1 Apr 2011	4 years		Ordinary Member	Audit (Chairman)
Mr L Smith	1 Sep 2012			Student Member	
Mrs S Taylor	Jun 2011	4 years		Ordinary Member	Finance and General Purposes
Mr J Tomlinson	Sep 2011	31 Jul 2012	Term expired 31 Jul 2012	Student Member	Property Group
Mr P Wheatley	1 Sep 2012			Student Member	Property Group
<b>External Members of Committees or Academy Focus Groups</b>					
Ms K Belinis	1 Jul 2009 Reappointed 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External Member	Search
Mr P Brooker	1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External Member	Finance & General Purposes Property Group
Ms L Ceeney	14 Jul 2008 Reappointed 1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External member	Property Group
Mr M Hick	Mar 2010 1 Apr 2011 1 Apr 2012	Appointed Annually		External Member	Quality Standards Group (External Chairman)
Mr P Joester	1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External Member	Search (External Chairman)
Mr T Khan	20 Jul 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External member	Audit Committee
Mr T Ray	27 Jun 2006 Reappointed 1 Apr 2007 1 Apr 2008 1 Apr 2009 1 Apr 2010 1 Apr 2011	Appointed Annually	Term expired 1 Apr 2012	External Member	
Mr A Scott	18 Jun 2008 Reappointed 1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed Annually		External Member	Finance & General Purposes
Mr A Stewart	20 Jul 2009 Reappointed 1 Apr 2010 1 Apr 2011 1 Apr 2012	Appointed annually		External member	Quality Standards Group

Chaplin Frobisher Welling, Chartered Secretaries, are Clerks to the Corporation. (David Chaplin FCIS; Ana Lewis BSc.)

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

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

## **Statement of Corporate Governance and Internal Control (cont'd)**

From October 2006 the Corporation moved towards a "Policy Governance" model, with the Governing Body meeting monthly and focusing on a range of strategic issues clearly driving the College to a new standard of excellence. Statutory committees for Audit and Search & Governance were retained. However there was also retained a Finance & General Purposes Committee to continue the Corporation tradition of close control of financial matters, and Joint Management/Governor Groups have been established to oversee Quality and Standards and Property Matters .

"Task and Finish" groups are established to review particular issues in depth and there is Governor and Student leadership of the Focus groups established for each of the College's main curriculum based Academies and for Student Support Services.

Agenda and full minutes of all meetings, except those deemed to be confidential by the Corporation, may be read at each of the College Resource centres and are published on the College Web-site. Copies are available from the Clerk to the Corporation at:

Chaplin Frobisher Welling  
St Ibbs  
London Road  
Hitchin  
Hertfordshire

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

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

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

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

There is a clear division of responsibility in that the three roles of the Chairman of the Corporation, Chief Executive Officer and Principal of the College are separate.

### **Appointments to the Corporation**

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search Committee comprising of five members under an independent Chairman, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Ordinary Members of the Corporation are appointed for a term of office not exceeding four years, but are eligible for re-appointment, normally on only one occasion.

External Members are appointed to Committees or Focus Groups and are appointed for one year. They are eligible for re-appointment normally on no more than five occasions

### **Remuneration Committee**

Throughout the year ending 31 July 2012, the College's Remuneration Committee comprised four members. The Committee's responsibilities are to determine the appointment, conditions of service and remuneration of the CEO, Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2012 are set out in notes 7 and 8 to the financial statements.

## **Statement of Corporate Governance and Internal Control (cont'd)**

### **Audit Committee**

The Audit Committee comprises four members of the Corporation, plus an external member with audit experience (and excludes the Chairman, CEO and the Principal). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

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

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

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

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

### **Internal Control**

#### ***Scope of responsibility***

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

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

#### ***The purpose of the system of internal control***

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in North Hertfordshire College for the whole of the year ended 31 July 2012 and up to the date of approval of the annual report and financial statements.

#### ***The risk and control framework***

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

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Corporation.
- Regular reviews by the Corporation of periodic and annual financial reports which indicate financial performance against forecasts.
- Setting targets to measure financial and other performance.
- Clearly defined capital investment control guidelines.
- The adoption of formal project management disciplines, where appropriate.

## **Statement of Corporate Governance and Internal Control (cont'd)**

### ***The risk and control framework (cont'd)***

The College has an internal audit service provided by an independent firm which operates in accordance with the requirements of the Skills Funding Agency. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee.

As a minimum, the Head of Internal Audit (HIA) annually provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

### ***Review of effectiveness***

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

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

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

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2012 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2012 by considering a report from the Senior Management Team, from internal audit, and from the Audit Committee, also taking account of any events since 31 July 2012. The Corporation is also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

### ***Capacity to handle risk***

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2012 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Corporation.

### ***Going concern***

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

Approved by order of the members of the Corporation on 10 December 2012 and signed on its behalf by:

**J Simmonds**  
Chairman

**F Donohue**  
CEO

**S Sutherland**  
Principal



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

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

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

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

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

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

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

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

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

Approved by order of the members of the Corporation on 10 December 2012 and signed on its behalf by:

**J Simmonds**  
**Chairman**

## **Independent Auditors' Report to the Corporation of North Hertfordshire College**

We have audited the College's consolidated financial statements ("the financial statements") of North Hertfordshire College for the year ended 31 July 2012 set out on pages 19-44. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Corporation, as a body, in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Members of the Corporation of North Hertfordshire College and Auditor**

As explained more fully in the Statement of the Corporation's responsibilities set out on page 16, the Corporation is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and of College's affairs as at 31 July 2012 and of the Group's surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

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

In our opinion:

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

B J Stapleton  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

KPMG LLP, London North, 58 Clarendon Road, Watford, WD17 1DE

Date:

**Independent regularity report to the Corporation of North Hertfordshire College  
and the Chief Executive of Skills Funding/Education Funding Agency**

In accordance with the terms of our engagement letter dated 8 May 2012 and further to the requirements of the Chief Executive of Skills Funding/Education Funding Agency, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure disbursed and income received of North Hertfordshire College ('the College') during the year ended 31 July 2012 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Corporation and the Chief Executive of Skills Funding/Education Funding Agency. Our review work has been undertaken so that we might state to the Corporation and the Chief Executive of Skills Funding/Education Funding Agency those matters we are required to state to it in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Chief Executive of Skills Funding/Education Funding Agency, for our review work, for this report, or for the opinion we have formed.

**Respective responsibilities of the Members of the Corporation of North Hertfordshire College and Auditor**

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

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, expenditure disbursed and income received during the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Basis of opinion**

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council in 2004. Our review includes examination, on a test basis, of evidence relevant to the regularity and propriety of the College's income and expenditure.

**Opinion**

In our opinion, in all material respects, the expenditure disbursed and income received during the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

B J Stapleton  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
KPMG LLP, London North, 58 Clarendon Road, Watford, WD17 1DE

Date:

## College Income and Expenditure Account for the year ended 31 July 2012

INCOME	Note	Pre FRS17 2012 £000	FRS17 2012 £000	Post FRS17 2012 £000	2011 £000
Funding Bodies Income	2	29,248	-	29,248	27,811
Tuition fees and education contracts	3	5,426	-	5,426	4,496
Other grant income	4	214	-	214	193
Other income	5	1,522	-	1,522	1,076
Investment income	6	40	-	40	73
<b>Total Income</b>		<u>36,450</u>	-	<u>36,450</u>	<u>33,649</u>
<b>EXPENDITURE</b>					
Staff costs		16,959	161	17,120	17,845
Other operating expenses		17,263	-	17,263	13,951
Depreciation and Amortisation		1,817	-	1,817	1,707
Interest and other finance costs	10	-	71	71	100
<b>Total Expenditure</b>		<u>36,039</u>	<u>232</u>	<u>36,271</u>	<u>33,603</u>
<b>Surplus/(deficit) on continuing operations prior to costs relating to the property strategy</b>		411	(232)	179	46
Profit/(loss) on disposal of fixed assets		(12)	-	(12)	2
<b>Surplus/(deficit) on continuing operations after depreciation of assets at valuation, but before tax</b>		<u>399</u>	<u>(232)</u>	<u>167</u>	<u>48</u>
Taxation	11	-	-	-	-
<b>Surplus/(deficit) on continuing operations after depreciation of assets at valuation, and tax</b>		<u>399</u>	<u>(232)</u>	<u>167</u>	<u>48</u>

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

\* Pension Adjustment represents the past service benefit resulting from the government announcement on future pension increases and the current year net finance costs (see note 23)

The notes on pages 26 to 44 form part of the financial statements.

## Consolidated Income and Expenditure Account for the year ended 31 July 2012

<b>INCOME</b>	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
Funding Bodies Income	2	29,248	27,811
Tuition fees and education contracts	3	5,426	4,496
Other grant income	4	214	193
Other income	5	1,854	1,099
Investment income	6	40	73
<b>Total Income</b>		<u>36,782</u>	<u>33,672</u>
<b>EXPENDITURE</b>			
Staff costs	7	17,106	17,721
Other operating expenses	9	17,795	14,095
Depreciation and Amortisation	13 & 14	1,819	1,707
Interest and other finance costs	10	71	100
<b>Total Expenditure</b>		<u>36,791</u>	<u>33,623</u>
<b>(Deficit)/Surplus on continuing operations prior after depreciation of assets at valuation but before and tax</b>		(9)	49
Profit/(loss) on disposal of fixed assets		(12)	2
<b>(Deficit)/Surplus on continuing operations after depreciation of assets at valuation, but before tax</b>		(21)	51
Taxation	11	-	-
<b>Share of Associates profit</b>		1	-
<b>(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and tax</b>		<u>(20)</u>	<u>51</u>
Minority interest	19	93	-
<b>Surplus attributable to group</b>	12	<u><u>73</u></u>	<u><u>51</u></u>

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

\* Pension Adjustment represents the past service benefit resulting from the government announcement on future pension increases and the current year net finance costs (see note 23)

The notes on pages 26 to 44 form part of the financial statements.

### Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Surplus on continuing operations after depreciation, tax and minority interest		73	51
Actuarial (loss)/gain in respect of pension scheme	23	<u>(1,449)</u>	<u>1,297</u>
<b>Total recognised (loss)/gains relating to the year</b>		<u>(1,376)</u>	<u>1,348</u>
<b>Total recognised (loss)/gains since the last period</b>		<u><u>(1,376)</u></u>	<u><u>1,348</u></u>

### Reconciliation

Opening reserves		27,920	26,573
Total recognised (loss)/gains for the year		<u>(1,376)</u>	<u>1,348</u>
Closing reserves		<u>26,544</u>	<u>27,920</u>

### Consolidated Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2012

	Note	2012 £000	2011 £000
(Deficit) / Surplus on continuing operations after depreciation of assets at valuation and before tax		(21)	51
Minority interest		93	-
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	21	27	28
Historical cost surplus for the year after taxation		<u>99</u>	<u>79</u>

The notes on pages 26 to 44 form part of the financial statements.

## Consolidated Balance Sheet as at 31 July 2012

	Note	2012 £000	2011 £000
<b>FIXED ASSETS</b>			
Intangible assets	13	604	5
Tangible fixed assets	14	29,285	28,254
Investments	15	126	-
		<u>30,015</u>	<u>28,259</u>
<b>CURRENT ASSETS</b>			
Stock – raw materials and consumables		26	26
Debtors	16	1,915	1,899
Cash at bank and in hand		9,064	9,243
		<u>11,005</u>	<u>11,168</u>
<b>Creditors:</b> amounts falling due within 1 year	17	<u>(5,979)</u>	<u>(5,350)</u>
<b>Net current assets</b>		<u>5,026</u>	<u>5,818</u>
<b>Total assets less current liabilities</b>		35,041	34,077
<b>Creditors:</b> amounts falling due after more than 1 year	18	(80)	(435)
<b>Net assets excluding pension liability</b>		34,961	33,642
Net pension liability	23	<u>(5,385)</u>	<u>(3,704)</u>
<b>Net assets including pension liability</b>		<u>29,576</u>	<u>29,938</u>
<b>Deferred capital grants</b>	20	2,825	2,018
Income and expenditure account excluding pension reserve	22	29,101	28,769
Pension reserve	23	<u>(5,385)</u>	<u>(3,704)</u>
Income and expenditure account including pension reserve		23,716	25,065
Revaluation reserve	21	2,828	2,855
<b>Total Reserves</b>		<u>26,544</u>	<u>27,920</u>
Minority Interest	19	207	-
<b>Total</b>		<u>29,576</u>	<u>29,938</u>

The notes on pages 26 to 44 form part of the financial statements.

## College Balance Sheet as at 31 July 2012

	Note	2012 £000	2011 £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	14	29,274	28,254
Investments	15	<u>518</u>	<u>92</u>
		29,792	28,346
<b>CURRENT ASSETS</b>			
Stock – raw materials and consumables		26	26
Debtors	16	1,958	1,992
Cash at bank and in hand		<u>8,943</u>	<u>8,989</u>
		10,927	11,007
<b>Creditors:</b> amounts falling due within 1 year	17	<u>(5,793)</u>	<u>(5,278)</u>
<b>Net current assets</b>		<u>5,134</u>	<u>5,729</u>
<b>Total assets less current liabilities</b>		34,926	34,075
<b>Creditors:</b> amounts falling due after more than 1 year	18	(80)	(435)
<b>Net assets excluding pension liability</b>		34,846	33,640
Net pension liability	23	<u>(5,385)</u>	<u>(3,704)</u>
<b>Net assets including pension liability</b>		<u>29,461</u>	<u>29,936</u>
<b>Deferred capital grants</b>	20	2,825	2,018
<b>Reserves</b>			
Income and expenditure account excluding pension reserve	22	29,193	28,767
Pension reserve	23	<u>(5,385)</u>	<u>(3,704)</u>
Income and expenditure account including pension reserve		23,808	25,063
Revaluation reserve	21	<u>2,828</u>	<u>2,855</u>
<b>Total Reserves</b>		<u>26,636</u>	<u>27,918</u>
<b>Total</b>		<u>29,461</u>	<u>29,936</u>

The financial statements on pages 19 to 44 were approved by the Corporation on 10 December 2012 and were signed on its behalf by:

**J Simmonds**  
Chairman

**F Donohue**  
CEO

**S Sutherland**  
Principal



**Consolidated Cash Flow Statement for the year ended 31 July 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Net cash inflow from operating activities</b>	24	1,996	3,131
<b>Returns on investments and servicing of finance</b>	26	40 <sup>▼</sup>	73
<b>Capital expenditure and financial investment</b>	26	(2,215) <sup>▼</sup>	(1,114)
		<hr/>	<hr/>
<b>(Decrease) / Increase in cash</b>	25	<u>(179)</u>	<u>2,090</u>

**Reconciliation of Net Cash Flow to Movement in Net Funds for the year ended 31 July 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
(Decrease)/Increase in cash in the year		<hr/> (179)	<hr/> 2,090
Net funds at beginning of the year	25	<hr/> 9,243	<hr/> 7,153
<b>Net funds at end of the year</b>	25	<u>9,064</u>	<u>9,243</u>

The notes on pages 26 to 44 form part of the financial statements.

**Notes**  
**(forming part of the Financial Statements)**

**1 Statement of accounting policies**

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

**Basis of preparation**

These financial statements have been prepared in accordance with the 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education institutions and in accordance with applicable Accounting Standards. They conform to guidance published in the Accounts Direction Handbook 2011/12.

**Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

**Basis of consolidation**

The consolidated financial statements of the group include the financial statements of the College and its subsidiary undertakings, together with the group's share of the profit less losses and reserves of associated undertakings. The results of subsidiary and associated undertakings acquired or disposed of during the year are included in the consolidated income and expenditure account from or up to the date on which control of the undertaking passes. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are prepared to 31 July 2012.

**Associate undertakings**

An associate is an undertaking in which the Group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exerts significant influence. The financial statements include the appropriate share of the results and reserves of these undertakings based on audited financial statements to 31 July 2012 or the date they ceased to be an associated undertaking.

**Recognition of income**

The recurrent grant from the SFA & EFA is that receivable as determined by the results of the funding audit undertaken. The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account. Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Adult learner responsive funding element is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. Employer responsive grant income is recognised based on a year end reconciliation to actual delivery. Any under-achievement against this planned activity is adjusted in-year and reflected in the level of recurrent grant recognised in the income and expenditure account.

Other discrete SFA & EFA funds received during the year are taken to income as expenditure is incurred in line with the specific terms and conditions attached to each fund by the LSC and its successor organisations.

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

Income from tuition fees is recognised in the period for which it is receivable and includes all fees payable by students or their sponsors, for example their employers.

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

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

## Notes (cont'd)

### 1 Statement of accounting policies (cont'd)

#### **Agency arrangements**

The College acts as an agent in the collection and payment of learner support funds. Related income received from the SFA & EFA and subsequent disbursements to students are excluded from the income and expenditure account (and are shown separately in note 31), 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 one member of staff dedicated to the administration of Learner Support Fund applications and payments.

#### **Pension schemes**

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

Contributions to the TPS scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method.

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

The management decided to change the assumptions on the discount rates used after consultation with KPMG.

Further details of the pension schemes are given in note 23.

#### **Intangible fixed assets**

##### *Goodwill*

Goodwill arose from the acquisition of Protech Training Services Limited. This is being amortised over a five year period from the date of acquisition. All intangible assets amortisation is considered on a case by case basis.

##### *Intellectual property*

Intellectual property rights have been recognised following the acquisition of a share in Clarity FE Limited. This will be amortised over a five year period following the year of acquisition.

#### **Tangible fixed assets**

##### *Land and buildings*

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost, as the open market value for existing use is not readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Long Leasehold land is amortised over the period of the lease. Freehold and Long Leasehold buildings are depreciated over their expected useful economic life to the College.

On adoption of FRS 15, the College followed the transitional provisions to retain the book value of land and buildings, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

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

## Notes (cont'd)

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

### Tangible fixed assets (cont'd)

#### *Subsequent expenditure on existing fixed assets*

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

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

#### *Buildings owned by third parties*

Where land and buildings are used, but the legal rights are held by a third party, they are only capitalised if the College has rights or access to ongoing future economic benefit or term of lease if shorter. These assets are then depreciated over their expected useful economic life.

#### *Equipment, loose tools and motor vehicles*

Equipment costing less than £1,000 is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority is included in the balance sheet at estimated cost less estimated depreciation to date. Equipment and Motor Vehicles are depreciated on a straight line basis at varying rates from 10%-33% dependent upon useful economic life.

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

#### *Leased assets*

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The relevant assets are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

### Investments

Fixed asset investments are carried at historical cost less any provision for impairment in their value.

### Stocks

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

### Maintenance of premises

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

### Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

## **Notes (cont'd)**

### **Taxation**

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

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

Protech Training Services Limited and Plaza Activities Limited, the wholly owned subsidiaries, are considered chargeable for taxation. They are members of the VAT group of the College.

### **Liquid resources**

Liquid resources include sums on short-term deposits with recognised banks and building societies and government securities.

### **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.

### **Cash**

Cash for the purposes of the cash flow statement comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand.

## Notes (cont'd)

**2 FUNDING BODIES INCOME**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Recurrent grant - Main funding bodies	19,639	18,459
Work Based Learning	7,595	3,755
Release Deferred Capital Grants, Equipment (note 20)	51	24
Train to Gain	-	2,843
Assessor Development	129	40
LL Difficulties and Disabilities	1,116	1,294
Local Workforce Development	115	-
Response to Redundancy	-	643
Learner Support Management Fee	-	12
Routes into Work	-	337
Workplace Learning Champions	-	404
Support for the Unemployed	587	-
Other	16	-
	<u>29,248</u>	<u>27,811</u>

**3 TUITION FEES AND EDUCATION CONTRACTS**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
UK Higher Education Students	-	25
UK Further Education Students	842	1,032
<b>Total fees paid by or on behalf of individual students</b>	<u>842</u>	<u>1,057</u>
Education contracts		
Local Education Authority (LEA)	755	844
Higher Education (HE) income	1,474	1,536
Other income	2,355	1,059
	<u>5,426</u>	<u>4,496</u>

**4 OTHER GRANT INCOME**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Release of deferred capital grants (non main funding bodies)	<u>214</u>	<u>193</u>

**5 OTHER INCOME**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Catering and residence operations	103	120
Other income - Group and associate	1,751	979
	<u>1,854</u>	<u>1,099</u>

Notes (cont'd)

**6 INVESTMENT INCOME**

	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Bank interest receivable	<u>40</u>	<u>73</u>

**7 STAFF NUMBERS AND COSTS**

The average number of persons (including senior postholders) employed by the College during the year ended 31 July 2012, expressed as full-time equivalents, was:

	<b>2012</b> <b>Number</b>	<b>2011</b> <b>Number</b>
Teaching departments – teaching staff	184	220
Teaching departments – other staff	135	114
Teaching support services	50	32
Other support services	7	4
Administration and central services	80	74
Premises	<u>15</u>	<u>14</u>
	<u>471</u>	<u>458</u>

	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Wages and salaries	12,398	13,091
Social security costs	1,074	1,022
Other pension costs (including FRS 17 adjustments)	<u>1,893</u>	<u>1,585</u>
	15,365	15,698
Contracted-out lecturing services	1,741	1,676
Restructuring costs	<u>-</u>	<u>347</u>
	<u>17,106</u>	<u>17,721</u>

	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Teaching departments – teaching staff	6,866	8,210
Teaching departments – other staff	3,502	3,156
Teaching support services	1,039	863
Other support services	90	74
Administration and central services	3,297	2,942
Premises	410	397
FRS 17 retirement benefits (gain) / loss	<u>161</u>	<u>56</u>
	15,365	15,698
Staff restructuring	<u>-</u>	<u>347</u>
Contracted-out lecturing services	1,741	1,676
	<u>17,106</u>	<u>17,721</u>

**Notes (cont'd)**

**7 STAFF NUMBERS AND COSTS (cont'd)**

The restructuring costs were approved by the College's Board of Governors.

The number of staff, including senior postholders and the Principal, who received emoluments in the following ranges was:

	<b>Year Ended 31 July 2012</b>		<b>Year Ended 31 July 2011</b>	
	<b>Number of Senior Postholders</b>	<b>Number of Other Staff</b>	<b>Number of Senior Postholders</b>	<b>Number of Other Staff</b>
£80,001 to £90,000	-	-	2	-
£100,001 to £110,000	2	-	-	-
£130,001 to £140,000	-	-	1	-
£140,001 to £160,000	1	-	-	-
£180,001 to £190,000	1	-	1	-

A 0.5% pay award was approved by the Corporation in the year from 1 August 2011.

**8 EMOLUMENTS OF SENIOR POSTHOLDERS AND MEMBERS**

	<b>2012 Number</b>	<b>2011 Number</b>
The number of senior postholders, expressed as full time equivalents, including the Principal was:	<u>4</u>	<u>4</u>
	<b>2012 £000</b>	<b>2011 £000</b>
Salaries	461	443
Benefits in kind	5	5
Pension contributions	<u>55</u>	<u>41</u>
	<u>521</u>	<u>489</u>

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

	<b>2012 £000</b>	<b>2011 £000</b>
Salaries	165	161
Benefits in kind	1	1
Pension contributions	<u>23</u>	<u>22</u>
	<u>189</u>	<u>184</u>



## Notes (cont'd)

### 8 EMOLUMENTS OF SENIOR POSTHOLDERS AND MEMBERS (cont'd)

Pension contributions in respect of the Principal and senior postholders relate to contributions to the Teachers' Pension Scheme or the Local Government Pension Scheme and are available as for other employees.

The members of the Corporation other than the Principal and Staff Members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

In accordance with best practice and the recommendations of the combined code, the Pay and Conditions of Service of the Principal and Senior Postholders are set following advice by a Remuneration Committee consisting of the Chairman of Corporation, Vice-Chairman of the Corporation and three other Governors (who are neither a student nor staff member). The Remuneration Committee uses outside professional consultants to advise them on performance-related pay levels in the sector and to ensure that performance-related bonuses are based on attainment of appropriate and measurable criteria.

### 9 OTHER OPERATING EXPENSES

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Teaching departments	11,820	9,031
Teaching support services	330	385
Other support services	149	101
Administration and central services	2,407	1,436
General education	918	1,021
Premises costs - Running costs	1,330	1,216
- Maintenance costs	370	465
- Rents and leases	374	325
Other expenses	97	115
	<u>17,795</u>	<u>14,095</u>
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Other operating expenses include:		
Auditors' remuneration		
- financial statements audit	37	30
- internal audit	27	22
Hire of plant and machinery - operating leases	57	15
Hire of other assets - operating leases	<u>474</u>	<u>425</u>

Learner Support Fund expenditure is excluded from the above and is shown separately in note 31.

Notes (cont'd)

**10 INTEREST & OTHER FINANCE COSTS**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Pension finance payable	<u>71</u>	<u>100</u>

**11 TAXATION**

The members do not believe that the College was liable for any corporation tax arising out of its activities during either period. There were no tax liabilities in the subsidiary companies in the year.

**12 SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR**

The surplus on continuing operations for this year is made up as follows:

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
(Deficit)/surplus for the year	<u>73</u>	<u>51</u>

**13 INTANGIBLE ASSETS**

<b>Group</b>	<b>Goodwill</b>	<b>Intellectual</b>	<b>Total</b>
	<b>£000</b>	<b>Property</b>	<b>£000</b>
		<b>£000</b>	
<b>Cost</b>			
At 1 August 2011	5	-	5
Additions	-	600	600
<b>At 31 July 2012</b>	<u>5</u>	<u>600</u>	<u>605</u>
<b>Accumulated Amortisation</b>			
At 1 August 2011	-	-	-
Charge for period	1	-	1
<b>At 31 July 2012</b>	<u>1</u>	<u>-</u>	<u>1</u>
<b>Net book value</b>			
<b>At 31 July 2012</b>	<u>4</u>	<u>600</u>	<u>604</u>
At 31 July 2011	<u>5</u>	<u>-</u>	<u>5</u>

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. For the £5,000 goodwill in Protech Training Services Limited, it was considered a five year amortisation to be appropriate.

The intellectual property of Clarity FE Limited is to be amortised over a five year period.

Notes (cont'd)

14 TANGIBLE FIXED ASSETS

Group	Land & Buildings Freehold £000	Long lease-hold £000	Equipment £000	Motor Vehicles £000	Assets in Course of Construction £000	Loose Tools £000	Total £000
<b>Cost or valuation</b>							
At 1 August 2011	26,813	4,997	11,689	14	-	217	43,730
Additions	865	572	1,131	-	-	-	2,568
Work in Progress	-	-	-	-	293	-	293
Disposals	-	-	(3,476)	-	-	(217)	(3,693)
<b>At 31 July 2012</b>	<b>27,678</b>	<b>5,569</b>	<b>9,344</b>	<b>14</b>	<b>293</b>	<b>-</b>	<b>42,898</b>
<b>Accumulated depreciation</b>							
At 1 August 2011	5,926	1,116	8,203	14	-	217	15,476
Charge for period	480	323	1,015	-	-	-	1,818
Disposals	-	-	(3,464)	-	-	(217)	(3,681)
<b>At 31 July 2012</b>	<b>6,406</b>	<b>1,439</b>	<b>5,754</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>13,613</b>
<b>Net book value</b>							
<b>At 31 July 2012</b>	<b>21,272</b>	<b>4,130</b>	<b>3,590</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>29,285</b>
At 31 July 2011	20,887	3,881	3,486	-	-	-	28,254
Inherited	2,828	-	-	-	-	-	2,828
Finance by capital grant	390	1,176	452	-	-	-	2,018
Other	18,054	2,954	3,138	-	293	-	24,439
	<b>21,272</b>	<b>4,130</b>	<b>3,590</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>29,285</b>

College	Land & Buildings Freehold £000	Long lease-hold £000	Equipment £000	Motor Vehicles £000	Assets in Course of Constructio £000	Loose Tools £000	Total £000
<b>Cost or valuation</b>							
At 1 August 2011	26,813	4,997	11,689	14	-	217	43,730
Additions	865	572	1,119	-	-	-	2,556
Work in Progress	-	-	-	-	293	-	293
Disposals	-	-	(3,476)	-	-	(217)	(3,693)
<b>At 31 July 2012</b>	<b>27,678</b>	<b>5,569</b>	<b>9,332</b>	<b>14</b>	<b>293</b>	<b>-</b>	<b>42,886</b>
<b>Accumulated depreciation</b>							
At 1 August 2011	5,926	1,116	8,203	14	-	217	15,476
Charge for period	480	323	1,014	-	-	-	1,817
Disposals	-	-	(3,464)	-	-	(217)	(3,681)
<b>At 31 July 2012</b>	<b>6,406</b>	<b>1,439</b>	<b>5,753</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>13,612</b>
<b>Net book value</b>							
<b>At 31 July 2012</b>	<b>21,272</b>	<b>4,130</b>	<b>3,579</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>29,274</b>
At 31 July 2011	20,887	3,881	3,486	-	-	-	28,254
Inherited	2,828	-	-	-	-	-	2,828
Finance by capital grant	390	1,176	452	-	-	-	2,018
Other	18,054	2,954	3,127	-	293	-	24,428
	<b>21,272</b>	<b>4,130</b>	<b>3,579</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>29,274</b>

## Notes (cont'd)

### 14 TANGIBLE FIXED ASSETS (cont'd)

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied. Accordingly the base values at implementation have been retained.

Land and buildings, except for those properties where a decision had been taken to sell, were valued at depreciated replacement cost by a firm of independent chartered surveyors in 1994.

Equipment inherited from the Local Education Authority at incorporation has been valued by the Corporation at estimated cost less estimated depreciation to date to reflect the remaining useful life of the equipment.

Land and buildings with a net book value of £2,828,000 (2010/11: £2,855,000) have been funded from Local Education Authority sources. Should these assets be sold, the College would either have to surrender the sale proceeds to the SFA & EFA or use them in accordance with the financial memorandum with the LSC.

Long leasehold land and buildings includes the following properties:

- Lease of land accommodating the Goldsmith Management Centre at Letchworth for 999 years from 2000.

If inherited land and buildings had not been valued they would have been included at nil value and have a current net book value of zero.

### 15 INVESTMENTS

College	Subsidiary Undertakings £000	Associated Undertakings £000	Total £000
<b>Cost</b>			
At 1 August 2011	92	-	92
Additions	300	126	426
Disposals	-	-	-
<b>At 31 July 2012</b>	<b>392</b>	<b>126</b>	<b>518</b>

At 31 July 2012 the College owned 50% of the shares in Clarity FE Limited but had controlling interest due to a Board majority. As a result the College has consolidated the results of the company due to its controlling interest. The additional investment in subsidiary undertakings of £300,000 was wholly in Clarity FE Limited.

The College's subsidiaries and associated undertakings are as follows:

Subsidiary Company	Country of Incorporation	Principal Activity	Holding
The Consortium for Business Limited	England and Wales	Dormant	100%
The Big Student Takeover	England and Wales	Dormant	100%
Protech Training Services Limited	England and Wales	Provision of training	100%
Plaza Activity Limited	England and Wales	Commercial Gym	100%
Clarity FE Limited	England and Wales	Software Provider	50%
<b>Associated Company</b>			
Gazelle Global Limited	England and Wales	Education Design	20%

## Notes (cont'd)

### 15 INVESTMENTS (cont'd)

#### Joint Ventures

##### Hertfordshire Careers Service Limited

During 2001 the College, along with the other Hertfordshire Colleges and the University of Hertfordshire, became members of Hertfordshire Careers Service Limited (a company limited by guarantee). The College has voting rights at general meetings of 9% and liability limited to £1. The company is registered in England and Wales and its principal activity is to provide careers advice to school leavers.

### 16 DEBTORS

	2012		2011	
	Group £000	College £000	Group £000	College £000
<b>Amounts falling due within one year</b>				
Trade debtors	512	444	338	338
Prepayments and accrued income	1,069	1,068	1,561	1,504
Amounts due from group undertakings	-	250	-	150
Other debtors	334	196	-	-
	<u>1,915</u>	<u>1,958</u>	<u>1,899</u>	<u>1,992</u>

### 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012		2011	
	Group £000	College £000	Group £000	College £000
Trade creditors	1,659	1,396	1,322	1,269
Other taxation, social security and pensions	767	741	622	613
Accruals	2,496	2,458	2,420	2,410
Deferred income	941	941	916	916
Other creditors	116	66	70	70
Amounts due to group undertakings	-	191	-	-
	<u>5,979</u>	<u>5,793</u>	<u>5,350</u>	<u>5,278</u>

### 18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012		2011	
	Group £000	College £000	Group £000	College £000
Other taxation and social security 1-2 years	<u>80</u>	<u>80</u>	<u>435</u>	<u>435</u>

Included within the total Other taxation and social security charges is an amount of £317,379 in relation to deferred VAT under Lennartz.

## Notes (cont'd)

### 19 MINORITY INTEREST

The minority interest relates to the Group's holding in Clarity FE Limited.

	<b>Minority Interest £000</b>
At 1 August 2011	-
Investment in minority interest	300
Minority interest share of loss for the year	(93)
<b>At 31 July 2012</b>	<b>207</b>

### 20 DEFERRED CAPITAL GRANTS

	<b>SFA £000</b>	<b>Other £000</b>	<b>Total £000</b>
<b>Group and College</b>			
At 1 August 2011	853	1,165	2,018
Cash received:			
Equipment	1,052	20	1,072
Release to income and expenditure account:			
Equipment	(51)	(214)	(265)
<b>At 31 July 2012</b>	<b>1,854</b>	<b>971</b>	<b>2,825</b>

### 21 REVALUATION RESERVE

	<b>£000 Group</b>	<b>£000 College</b>
At 1 August 2011	2,855	2,855
Transfer from revaluation reserve to Income and Expenditure account - depreciation on revalued assets	(27)	(27)
<b>At 31 July 2012</b>	<b>2,828</b>	<b>2,828</b>

Notes (cont'd)

**22 MOVEMENT ON GENERAL RESERVES**

	<b>2012 Group £000</b>	<b>2012 College £000</b>	<b>2011 Group £000</b>	<b>2011 College £000</b>
<b>At 1 August</b>	25,065	25,063	23,689	23,690
Surplus for the year after depreciation of assets at valuation and tax	73	167	51	48
Transfer from revaluation reserve to income and expenditure account	27	27	28	28
Actuarial profit/(loss) in respect of pension scheme	<u>(1,449)</u>	<u>(1,449)</u>	<u>1,297</u>	<u>1,297</u>
<b>At 31 July</b>	<b><u>23,716</u></b>	<b><u>23,808</u></b>	<b><u>25,065</u></b>	<b><u>25,063</u></b>
<b>Balance represented by:</b>				
Income and expenditure account excluding pension reserve	29,101	29,193	28,769	28,767
Pension reserve	<u>(5,385)</u>	<u>(5,385)</u>	<u>(3,704)</u>	<u>(3,704)</u>
<b>At 31 July</b>	<b><u>23,716</u></b>	<b><u>23,808</u></b>	<b><u>25,065</u></b>	<b><u>25,063</u></b>

**23 PENSIONS AND SIMILAR OBLIGATIONS**

The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). The total pension cost for the period was £1,893,000 (2010/11: £1,585,000).

**Teachers' Pension Scheme**

The Teachers' Pension Scheme is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972.

The pensions cost is assessed no less than every four years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2004
Actuarial method	Prospective Benefits
Investment returns per annum	6.5%
Salary scale increases per annum	5.0%
Market value of assets at date of last valuation	£162,650m
Proportion of members' accrued benefits covered by the actuarial value of the assets	98.88%

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000, the government actuary carried out a further review on the level of employers' contributions. For the period from 1 August 2011 to 31 July 2012 the employer contribution was 14.1%. The employee contribution was 6.4% from 1 August 2011 to 5 April 2012 and 6.4% to 8.8% from 6 April 2012 to 31 July 2012.

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

## Notes (cont'd)

### 23 PENSIONS AND SIMILAR OBLIGATIONS (cont'd)

#### Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2012 was £1,153,000 of which employer's contributions totalled £831,000 and employee's contributions totalled £322,000. The current agreed contribution rates from 1 August 2011 to March 2012 was 18% and March 2012 to July 2012 was 19.3% for employers.

The following information is based upon a full actuarial valuation of the fund as at 31 March 2007 updated to 31 July 2012 by a qualified independent actuary.

	<b>31-Jul-12</b>	<b>31-Jul-11</b>
Inflation - CPI	2.20%	2.70%
Rate of increase in salaries	4.30%	5.00%
Rate of increase in pensions	2.20%	2.70%
Discount rate for liabilities	4.40%	5.30%

On advice from our actuaries it has been assumed that 50% of employees retiring after 6 April 2008 will take advantage of the option to commute part of their future annual pension to a lump sum payment on retirement.

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

	<b>31-Jul-12</b>	<b>31-Jul-11</b>
Current pensioners		
Males	21.0	21.0
Females	23.8	23.8
Future pensioners		
Males	22.9	22.9
Females	25.7	25.7

The assets in the scheme (of which the College's share is estimated at 0.60%) and the expected rates of return were:

	<b>Long term rate of return expected at 31-Jul-12</b>	<b>Value at 31-Jul-12 £000</b>	<b>Long term rate of return expected at 31-Jul-11</b>	<b>Value at 31-Jul-11 £000</b>
Equities	5.60%	907,561	7.00%	1,643,000
Bonds	3.40%	551,019	4.60%	507,000
Property	3.70%	599,639	5.10%	121,000
Cash	2.80%	453,781	4.00%	145,000
Total market value of assets		<b>2,512,000</b>		<b>2,416,000</b>
		<b>2012 £000</b>		<b>2011 £000</b>
College's estimated asset share		15,186		14,086
Present value of scheme liabilities		(20,571)		(17,790)
Deficit in the scheme		(5,385)		(3,704)



Notes (cont'd)

23 PENSIONS AND SIMILAR OBLIGATIONS (cont'd)

Analysis of the amount charged to the income and expenditure account

	2012 £000	2011 £000
Employer service cost (net of employee contributions)	986	773
Past service cost	-	-
Settlements and curtailments	6	13
Total operating charge	<u>992</u>	<u>786</u>

Analysis of pension finance

	2012 £000	2011 £000
Expected return on pension scheme assets	892	901
Interest on pension scheme liabilities	(963)	(1,001)
Pension finance expense	<u>(71)</u>	<u>(100)</u>

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

	2012 £000	2011 £000
Actuarial gain/(loss) recognised in STRGL	<u>(1,449)</u>	<u>1,297</u>

Movement in deficit during year

	2012 £000	2011 £000
Deficit in scheme at beginning of year	(3,704)	(4,845)
Movement in year:		
Current service charge	(986)	(773)
Past service charge	-	-
Employer contributions	831	730
Impact of settlements and curtailments	(6)	(13)
Net interest on deficit	(71)	(100)
Actuarial (loss) / gain	<u>(1,449)</u>	<u>1,297</u>
Deficit in scheme at end of year	<u>(5,385)</u>	<u>(3,704)</u>

The estimated value of employer contributions for the year ended 31 July 2012 is £831,000.

Notes (cont'd)

23 PENSIONS AND SIMILAR OBLIGATIONS (cont'd)

History of gains or losses

	2012 £000	2011 £000	2010 £000	2009 £000
Difference between the expected and actual return on assets:				
Amount	(408)	(750)	962	(2,131)
% of scheme assets	(2.69%)	(5.32%)	7.17%	(19.47%)
Experience gains and losses on scheme liabilities:				
Amount	-	-	-	-
% of scheme liabilities	-	-	-	-
Total amounts recognised in statement of total recognised gains and losses:				
Amount	(1,449)	1,297	(465)	(3,316)
% of scheme liabilities	(7.04%)	7.29%	(2.55%)	(20.34%)

Asset and liability reconciliation

	2012 £000	2011 £000
<b>Reconciliation of liabilities</b>		
<b>Liabilities at start of period</b>	17,790	18,260
Current service charge	986	773
Interest cost	963	1,001
Employee contributions	322	280
Actuarial losses / gains	1,041	(2,047)
Benefits paid	(537)	(490)
Past service gain	-	-
Curtailments and settlements	6	13
<b>Liabilities at end of period</b>	<u>20,571</u>	<u>17,790</u>
<b>Reconciliation of assets</b>		
<b>Assets at start of period</b>	14,086	13,415
Expected return on assets	892	901
Actuarial (losses)	(408)	(750)
Employer contributions	831	730
Employee contributions	322	280
Benefits paid	(537)	(490)
<b>Assets at end of period</b>	<u>15,186</u>	<u>14,086</u>

Notes (cont'd)

**24 RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Surplus on continuing operations after depreciation and minority interest and before tax	(9)	49
Depreciation (note 14)	1,818	1,707
Amortisation of Intangible Assets (note 13)	1	-
Deferred capital grants released to income (notes 2 and 4)	(265)	(217)
Interest receivable (note 6)	(40)	(73)
Pension cost less contributions payable (note 23)	232	156
Decrease in stocks	-	1
(Increase)/decrease in debtors	(16)	1,645
(Increase)/decrease from Associate in debtors	1	-
Increase/(decrease) in creditors	273	(137)
<b>Net cash inflow from operating activities</b>	<u>1,996</u>	<u>3,131</u>

**25 ANALYSIS OF CHANGES IN NET FUNDS**

	<b>At</b>	<b>Cash flows</b>	<b>At</b>
	<b>01-Aug-11</b>		<b>31-Jul-12</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	9,243	(179)	9,064

**26 ANALYSIS OF CASH FLOWS**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	<u>40</u>	<u>73</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,861)	(1,686)
Purchase of intangible fixed assets	(600)	(5)
Sale of tangible fixed assets	-	11
Purchase of share capital	(126)	-
Deferred capital grants received	1,072	566
Minority Interest	<u>300</u>	<u>-</u>
<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(2,215)</u>	<u>(1,114)</u>

## Notes (cont'd)

### 27 FINANCIAL COMMITMENTS

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

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
<b>Land and buildings</b>		
Expiring within one year	121	38
Expiring between two and five years	<u>75</u>	<u>281</u>
	<u>196</u>	<u>319</u>
<b>Other</b>		
Expiring within one year	-	105
Expiring between two and five years	<u>39</u>	<u>11</u>
	<u>39</u>	<u>116</u>

### 28 CONTINGENT LIABILITIES

The College had previously entered into leasing arrangements in respect of some of its equipment purchases from 1998 to 2001. At the date of these financial statements, the basis of the scheme has been challenged by HM Revenue and Customs on a sector basis. Under the scheme, the College has reclaimed £266,000 of VAT. If the challenge were to be successful and all VAT were to be repayable, the impact on the financial statements at 31 July 2012 would be to reduce the income and expenditure balance by £266,000.

### 29 RELATED PARTY TRANSACTIONS

Due to the nature of the College's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal sales or procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8, Related Party Disclosures.

The College makes a grant each year to support the activities of the North Hertfordshire College Students Union, which is a separately constituted body, responsible for its own affairs and which is affiliated to the National Union of Students.

The College has a 20% share holding in Gazelle Global Limited. During this period the College supplied management and associated costs to Gazelle Global Limited of £94,000. The College also purchased from Gazelle Global Limited services relating to the development of the curriculum for £292,000.

The College may be required to make an additional capital investment to a maximum of £474,000 in line with the membership agreement of Gazelle Global Limited.

Plaza Activity Limited supplied the College with £64,000 of services of which nil was outstanding at year end.

During the year Protech Training Services Limited supplied the College with £1,350,000 of services of which £250,000 was outstanding at year end.

The College is the sponsor for North Hertfordshire Studio School Trust. During this period the College incurred and paid costs of £171,000 of start up costs on behalf of the Trust. This amount has been claimed back from the Department for Education as part of the Trust's agreed start up grant.

Transactions with the SFA & EFA are detailed in notes 2, 19 and 31.

Notes (cont'd)

**30 POST BALANCE SHEET EVENTS**

There are no post balance sheet events to report.

**31 LEARNER SUPPORT FUNDS**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
LSC grants		
Access	199	180
Childcare	<u>109</u>	<u>52</u>
	<u>308</u>	<u>232</u>
Disbursed to students:		
Access	102	124
Childcare	103	90
Administration costs	<u>15</u>	<u>12</u>
	<u>220</u>	<u>226</u>
Balance unspent at 31 July	<u><u>88</u></u>	<u><u>6</u></u>

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.