



Report and Financial Statements

for the year ending 31 July 2013

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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 2013.

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

'To become nationally recognised as the foremost entrepreneurial college in the UK.'

To achieve our ambition we aim to be:

'A world class entrepreneurial College, where we work together to create wealth, generate employment and transform futures.'

Values

- Respect – Recognise and value the contribution of others
- Accountable – You take personal responsibility for the success of the College
- Inclusive – You take account of the different needs and aspirations of others
- Entrepreneurial – You are proactive and you engage with innovation
- Challenge – You are confident to give your opinion and open to receiving the views of others
- Empowering – You take the initiative and support others to take initiative within agreed boundaries
- Aspirational – You are relentless in pursuit of excellence
- Safe – You are alert to risks and proactive in the security of others

Implementation of Strategic Plan

In 2012/13 we commissioned a new Strategic Plan 2013-16. The College has a property master plan which was commissioned during 2012/13.

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 change futures through learning.
- To be strategically aligned with partners that can add real value.
- To create an entrepreneurial college that is student led.
- To deliver a financial strategy that facilitates investment in new markets.
- To deliver the infrastructure that will enable the business to achieve its entrepreneurial college ambitions.
- 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.
- To develop working relationships with the Hertfordshire LEP and Chamber of Commerce to engage employers more closely with the student experience.

Our Aims for 2013/14

- Financial Health – College to generate an operational surplus of £517,000.
- Growth – Grow College Academy income by £1million.
- Teaching & Learning – Ofsted inspection or equivalent confirm that at least 84% of teaching, learning and assessment is good or outstanding.
- Curriculum – 90% of all full time courses to have moved from the traditional delivery model, embedding the key elements of the NHC delivery model and programmes of study.
- Leadership – Investment in leadership to have delivered the skills needs linked with achieving the targets outlined within this target card.

Operating & Financial Review (cont'd)

- Student Empowerment – 15% increase in volume of student engagement in activity designed to secure employment, self-employment and well-being.
- Staff Empowerment – Staff “You said, We did” tracker to evidence high volumes of issues that have been effectively responded to. Top 100 Times score improved and the successful re-accreditation of IIP Gold.
- Employers – Drive Gazelle Local, the Local Enterprise Partnership and other stakeholders to work productively with the College and its employers.
- Property – Continue the successful development of the property development strategy for the College in line with building enterprising futures to budget and agreed timescale.
- Gazelle – NHC as a founder college of Gazelle will exploit the network for the full benefit of students and staff.

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 2013/14, 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 and employer responsive funding increased by 0.8% in 2012/13 and is forecast to reduce by 10.9% in 2013/14.

The College’s specific objectives for 2012/13 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 £27,457,000 (2011/12 £27,234,000).
- 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 £126,000 before pension adjustments which gave an additional deficit of £122,000, giving the College a total surplus of £4,000. Once this was consolidated with the subsidiary companies this gave a group surplus of £17,000.

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	2011/12 Actual	2012/13 Target	2012/13 Actual	2013/14 Target
16-18 F/T	4,124	3,737	3,911	3,242
19+ F/T	6,993	n/a	6,626	

Operating & Financial Review (cont'd)

Learner success rates

	2011/12 Actual	2012/13 Target	2012/13 Current
All	86%	87%	89%
16-18 All	85%	87%	89%
19+ All	86%	88%	88%
16 - 18 Long	85%	86%	88%
16 - 18 Short	77%	84%	85%
19+ Long	80%	84%	87%
19+ Short	82%	85%	81%

Teacher qualifications

Post type	2010/11 Actual		2011/12 Actual		2012/13 Actual	
	Full time	Part time	Full time	Part time	Full time	Part time
Qualified %	79%	80%	80%	77%	81%	82%
Enrolled on qualification %	29%	19%	29%	23%	18%	10%

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'.

RESOURCES:

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

Financial

The College has £30.2 million of net assets (including £5.6 million pension liability) and £3.0 million of long term debt.

People

During 2012/13 the College employed 462 people (expressed as full time equivalents), of whom 176 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.

Operating & Financial Review (cont'd)

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 Executive Group (SEG) 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 SEG 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
- 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:

Letchworth Town Hall
Broadway
Letchworth Garden City
Herts
SG6 3PF

Operating & Financial Review (cont'd)

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 £4,000 (2011/12: surplus of £167,000).

The net assets of the College at the year-end were £30.2 million (2011/12: £29.5 million) including cash balances of £4.8 million (2011/12: £8.9 million).

The College has significant reliance on the SFA for its principal funding source, largely from recurrent grants. In 2012/13 the SFA/EFA provided 84.5 % of the College's total income.

The College has five subsidiary companies: Protech Training Services Limited, Plaza Activity Limited, Clarity FE 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 11% shareholding in Enterprise Through Innovation 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 £642,000 (2011/12: inflow of £1,996,000).

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.

The number of days' purchases outstanding for payment by the College at year-end was 26 days (2011/12: 28 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 2012/13 the College has delivered activity that has produced £27,457,000 in funding body main allocation funding (2011/12: £27,234,000). The College had approximately 11,117 SFA-funded and 3,176 non-SFA-funded students.

The College is funded according to the level of activity it generates each year. In 2012/13 the College has achieved 6,274 Standard Learner Number (SLN's).

The College exceeded the recruitment target for both 16-18 and Adult. The recruitment of 16-18 SLNs: 3,704 recruited against a target of 3,576. The recruitment of Adult SLNs was 2,570.

95% of learners completed their programmes in 2012/13 and this represented a 1% drop on 2011/12. The national benchmark is 92%

Operating & Financial Review (cont'd)

Student Achievements

The College is forecasting that 93% of learners will achieve their intended learning aim (91% in 2011/12). The national benchmark is 91%.

Curriculum Developments

During 2012/13 the Lifestyle, Enterprise & Life Skills Academy developed several key elements of curriculum delivery including the expansion of Animal Care provision, wider partnership working with Sport National Governing Bodies and close working between Travel & Tourism and Swissport. Sport grew its level 3 provision and continued to grow the College's first learning company, Fit4Less, taking membership to 2,400 with a positive income contribution. This development has enabled students to experience learning within a commercial company and widen their skills to understand sector required skills. The academy also started to grow its HND higher education provision.

The Care, Health and Life Support Academy has continued to expand considerably with the new HND in Health & Social Care, along with a number of employer sponsored NVQs. In Supported Studies there was an increase in students accessing bespoke learning programmes with external partners in order to meet their individual learning needs. In addition the Supported Studies students opened a retail outlet in Stevenage Centre.

Within the Creative & Service Industries Academy there have been several areas of growth in new provision to provide progression onto existing programmes. They have also developed the new Visual Merchandising provision at level 3. The new Hair and Beauty Studio opened increasing the commerciality of these areas and offering paid employment to a number of students. The Hospitality area continued to increase its commercial activities through the Indulge Restaurant and the Creative students worked closely with Marketing to create the new Marketing Learning Company which offers students from across the provision the opportunity to work in a real world commercial environment.

The Built Environment, A Levels and Technology Academy has recently invested in equipment to perform smart repairs on car body work at the Skills Centre. The centre also acquired the Wheels local charity that helps young people aged 13 - 25 years who have become, or are at risk of becoming, disengaged from learning. The partnership with Group Horizon has also developed, enabling the Engineering area to move into green and renewable energy. The A level area continued to strengthen with new criminology and Journalism provision being introduced and the Access to HE programme continues to grow. IT saw growth in its level 3 provision along with a new HND.

The Workforce and Community Responsive Academy has again increased its apprenticeships with both subcontractors and NHC delivery. 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.

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.

Operating & Financial Review (cont'd)

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.

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 9 December 2013 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:

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

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

North Hertfordshire 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 2013

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 J Simmonds Chairman	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) (Principal/CEO from Jul 2013)	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 Apr 2012	4 years		Ordinary Member	
Mr P Bathmaker (Vice-Chairman from Apr 2009)	1 Apr 2005 Re-appointed 1 Apr 2009 1 Apr 2013	4 years		Ordinary Member	Finance & General Purposes (Chairman) Remuneration Panel
Mr F Donohue Principal until 31 Aug 2012 when he became Chief Executive Officer until Jul 2013	1 Aug 2006			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 1 Apr 2013	4 years		Ordinary Member	Search & Governance Remuneration Panel Quality Standards Group Safeguarding Governor
Mrs C Bowes-Lyon	1 Apr 2009	4 years		Ordinary Member External Member from Apr 2013	Audit
Mr N Chesher	1 Apr 2012			Ordinary Member	Finance & General Purposes
Mrs S Clark	19 Sep 2011	4 years		Ordinary Member	Finance & General Purposes
Mrs M Harris	19 Sep 2011	4 years		Parent Member	Audit
Mr C Jackson	1 Apr 2010	4 years		Staff member	Audit Property
Mr S Juneja	18 Oct 2010 Re-appointed 1 Apr 2011	4 years		Staff Member	Search & Governance Quality Standards Group
Mr M Kellard	1 Apr 2007 Re-appointed 1 Apr 2011	4 years		Ordinary Member	Finance & General Purposes Property Group (Chairman) Remuneration Panel
Mr D Lloyd	17 Oct 2011	4 years		Ordinary Member	Search and Governance
Ms L Saunders	1 Apr 2011	4 years		Ordinary Member	Audit (Chairman)
Mrs S Taylor	Jun 2011	4 years		Ordinary Member	Finance & General Purposes

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

Mr P Wheatley	1 Sep 2012		Term expired 31 Jul 2013	Student Member	Property Group
Mr K Yusuf	1 Aug 2013			Student Member	
External Members of Committees or Academy Focus Groups					
Ms K Belinis	1 Jul 2009 Reappointed 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External Member	Search & Governance
Mr P Brooker	1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External Member	Finance & General Purposes Property Group
Mrs C Bowes-Lyon	1 Apr 2013	Appointed annually		External Member	Quality Standards Group
Ms L Ceeney	14 Jul 2008 Reappointed 1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External member	Property Group
Mr M Hick	Mar 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed Annually		External Member	Quality Standards Group (External Chairman)
Mr P Joester	1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External Member	Search & Governance (External Chairman)
Ms A Lokman	15 Jul 2013	Appointed annually			
Mr T Khan	20 Jul 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External member	Audit Committee
Mr A Stewart	20 Jul 2009 Reappointed 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013	Appointed annually		External member	Quality Standards Group

Average attendance of full Governors at Corporation Board meetings during the year was 66%.

Chaplin Frobisher Welling, Chartered Secretaries were Clerks to the Corporation (David Chaplin FCIS; Ana Lewis) until 14 January 2013 but continued to provide ad hoc advice and guidance to the new Clerk after that date.

Ian Bretman was Clerk to the Corporation & Company Secretary from 14 January 2013 until 17 July 2013.

Bernadette Wallis ACIS was Clerk to the Corporation and Company Secretary from 15 July 2013.

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 (apart from August) 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.

Agendas and full minutes of all meetings, except those deemed to be confidential by the Corporation, are published on the North Hertfordshire College website.

Copies are available from Bernadette Wallis, Clerk to the Corporation and Company Secretary at:

Town Hall
Broadway
Letchworth Garden City
SG6 3PF

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 two roles of the Chairman of the Corporation and the Principal/Chief Executive Officer of the College are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search & Governance Committee comprising of 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.

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 2013, the College's Remuneration Committee comprised six members. The Committee's responsibilities are to determine the appointment, conditions of service and remuneration of the Principal/CEO and other senior postholders.

Details of remuneration for the year ended 31 July 2013 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 and Principal/CEO). 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/CEO, 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 2013 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/CEO has responsibility for reviewing the effectiveness of the system of internal control. The Principal/CEO'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/CEO 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 Leadership 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 Leadership 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.

On the basis of the reports received from the auditors appointed by the College and other sources of audit information, and on the assurances of the College's management regarding action taken in response to audit recommendations, the Audit Committee is of the opinion that for 2012-13:

- i. the College's governance processes and systems of internal financial control are adequate and effective.
- ii. the College's arrangements for control and risk management at a strategic level are adequate and effective; management having undertaken action to address any control and risk management weaknesses.
- iii. the College's arrangements for securing economy, efficiency and effectiveness (value for money) are adequate and effective.

During 2012/13 the College decided to undertake a review of its risk management processes with a view to updating its strategy and strategic risks and ensuring the incorporation of the wider College and School Trust structure. This review was underway in July 2013. The risk management process will continue to ensure that management undertake a regular review of key strategic risks, that areas monitor their own risks and that regular reports are submitted to the Audit Committee and annually to the College's Corporation.

Capacity to handle risk

The Corporation received an Annual Report on Risk at its November 2013 meeting which set out the process for the monitoring of risks within the College and incorporated the Strategic Risk Register. 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 2013 but notes that strategic risks are currently under review to ensure that they are in line with the current Strategic Plan.

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 9 December 2013 and signed on its behalf by:

J Simmonds
Chairman

S Sutherland
Principal/CEO

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/CEO, 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 9 December 2013 and signed on its behalf by:

J Simmonds
Chairman

Independent Auditors' Report to the Corporation of North Hertfordshire College

We have audited the Group and College financial statements ("the financial statements") of North Hertfordshire College for the year ended 31 July 2013 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 the College's affairs as at 31 July 2013 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.

Benjamin 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 Agency and the Secretary of State acting through the
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 2013 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 2013 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 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Benjamin 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 2013

INCOME	Pre FRS17 2013 £000	FRS17 2013 £000	Post FRS17 2013 £000	2012 £000
Funding Bodies Income	29,807	-	29,807	29,248
Tuition fees and education contracts	3,677	-	3,677	5,426
Other grant income	194	-	194	214
Other income	1,591	-	1,591	1,522
Investment income	17	-	17	40
Total Income	<u>35,286</u>	-	<u>35,286</u>	<u>36,450</u>
EXPENDITURE				
Staff costs	17,909	(36)	17,873	17,120
Other operating expenses	15,298	-	15,298	17,263
Depreciation & Amortisation	1,939	-	1,939	1,817
Interest and other finance costs	14	158	172	71
Total Expenditure	<u>35,160</u>	<u>122</u>	<u>35,282</u>	<u>36,271</u>
Surplus on continuing operations after depreciation of assets at valuation but before tax	126	(122)	4	179
(Loss) on disposal of fixed assets	-	-	-	(12)
Surplus on continuing operations after depreciation of assets at valuation but before tax	<u>126</u>	<u>(122)</u>	<u>4</u>	<u>167</u>
Taxation	-	-	-	-
Surplus on continuing operations after depreciation of assets at valuation and tax	<u>126</u>	<u>(122)</u>	<u>4</u>	<u>167</u>

The notes on pages 25 to 44 form part of the financial statements.

Consolidated Income and Expenditure Account for the year ended 31 July 2013

INCOME	Note	2013 £000	2012 £000
Funding Bodies Income	2	29,807	29,248
Tuition fees and education contracts	3	3,677	5,426
Other grant income	4	194	214
Other income	5	1,869	1,854
Investment income	6	17	40
Total Income		35,564	36,782
 EXPENDITURE			
Staff costs	7	17,878	17,106
Other operating expenses	9	15,554	17,795
Depreciation & Amortisation	13 & 14	1,943	1,819
Interest and other finance costs	10	172	71
Total Expenditure		35,547	36,791
Surplus /(deficit) on continuing operations after depreciation of assets at valuation and before disposals and tax		17	(9)
 (Loss) on disposal of fixed assets		-	(12)
Surplus /(deficit) on continuing operations after depreciation of assets at valuation, disposals and before tax		17	(21)
 Taxation	11	-	-
Share of Associates profit		-	1
Surplus/(deficit) on continuing operations after depreciation of assets at valuation, disposals and tax		17	(20)
 Minority Interest	19	-	93
Surplus attributable to group	12	17	73

The notes on pages 25 to 44 form part of the financial statements.

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Surplus on continuing operations after depreciation of assets at valuation, disposals, tax and minority interest		17	73
Actuarial (loss) in respect of pension scheme	23	<u>(132)</u>	<u>(1,449)</u>
Total recognised (loss) relating to the year		<u>(115)</u>	<u>(1,376)</u>
Total recognised (loss) since the last period		<u><u>(115)</u></u>	<u><u>(1,376)</u></u>

Reconciliation

Opening reserves		26,544	27,920
Total recognised gains for the year		<u>(115)</u>	<u>(1,376)</u>
Closing reserves		<u><u>26,429</u></u>	<u><u>26,544</u></u>

Consolidated Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Surplus on continuing operations after depreciation of assets at valuation, disposals and before tax		17	(21)
Minority interest		-	93
Share of profit on associate		-	1
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	21	27	27
Historical cost surplus for the year before taxation		<u><u>44</u></u>	<u><u>100</u></u>

The notes on pages 25 to 44 form part of the financial statements.

Consolidated Balance Sheet as at 31 July 2013

	Note	2013 £000	2012 £000
FIXED ASSETS			
Goodwill	13	3	4
Negative goodwill	13	(172)	-
Net goodwill		<u>(169)</u>	<u>4</u>
Other intangible assets	13	600	600
Tangible fixed assets	14	33,293	29,285
Investments	15	206	126
		<u>33,930</u>	<u>30,015</u>
CURRENT ASSETS			
Stock – raw materials and consumables		26	26
Debtors	16	2,781	1,915
Cash at bank and in hand		4,931	9,064
		<u>7,738</u>	<u>11,005</u>
Creditors: amounts falling due within 1 year	17	<u>(2,790)</u>	<u>(5,979)</u>
Net current assets		<u>4,948</u>	<u>5,026</u>
Total assets less current liabilities		38,878	35,041
Creditors: amounts falling due after more than 1 year	18	(3,000)	(80)
Net assets excluding pension liability		35,878	34,961
Net pension liability	23	<u>(5,639)</u>	<u>(5,385)</u>
Net assets including pension liability		<u>30,239</u>	<u>29,576</u>
Deferred capital grants	20	3,810	2,825
Reserves			
Income and expenditure account excluding pension reserve	22	29,267	29,101
Pension reserve	23	<u>(5,639)</u>	<u>(5,385)</u>
Income and expenditure account including pension reserve		23,628	23,716
Revaluation reserve	21	<u>2,801</u>	<u>2,828</u>
Total Reserves		<u>26,429</u>	<u>26,544</u>
Minority interest		-	207
Total		<u>30,239</u>	<u>29,576</u>

The notes on pages 25 to 44 form part of the financial statements.

College Balance Sheet as at 31 July 2013

	Note	2013 £000	2012 £000
FIXED ASSETS			
Tangible fixed assets	14	33,278	29,274
Investments	15	<u>633</u>	<u>518</u>
		33,911	29,792
CURRENT ASSETS			
Stock – raw materials and consumables		26	26
Debtors	16	2,911	1,958
Cash at bank and in hand		<u>4,754</u>	<u>8,943</u>
		7,691	10,927
Creditors: amounts falling due within 1 year	17	<u>(2,645)</u>	<u>(5,793)</u>
Net current assets		<u>5,046</u>	<u>5,134</u>
Total assets less current liabilities		38,957	34,926
Creditors: amounts falling due after more than 1 year	18	(3,000)	(80)
Net assets excluding pension liability		35,957	34,846
Net pension liability	23	<u>(5,639)</u>	<u>(5,385)</u>
Net assets including pension liability		<u>30,318</u>	<u>29,461</u>
Deferred capital grants	20	3,810	2,825
Reserves			
Income and expenditure account excluding pension reserve	22	29,346	29,193
Pension reserve	23	<u>(5,639)</u>	<u>(5,385)</u>
Income and expenditure account including pension reserve		23,707	23,808
Revaluation reserve	21	<u>2,801</u>	<u>2,828</u>
Total Reserves		<u>26,508</u>	<u>26,636</u>
Total		<u>30,318</u>	<u>29,461</u>

The financial statements on pages 19 to 44 were approved by the Corporation on 9 December 2013 and were signed on its behalf by:

J Simmonds
Chairman

S Sutherland
Principal & CEO

Consolidated Cash Flow Statement for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Net cash inflow from operating activities	24	642	1,996
Returns on investments and servicing of finance	26	17	40
Capital expenditure and financial investment	26	(4,792)	(2,215)
		<hr/>	<hr/>
Decrease in cash	25	<u>(4,133)</u>	<u>(179)</u>

Reconciliation of Net Cash Flow to Movement in Net Funds for the year ended 31 July 2013

	Note	2013 £000	2012 £000
(Decrease) in cash in the year	25	<u>(4,133)</u>	<u>(179)</u>
Net funds at beginning of the year	25	<u>9,064</u>	<u>9,243</u>
Net funds at end of the year	25	<u><u>4,931</u></u>	<u><u>9,064</u></u>

The notes on pages 25 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 2012/13.

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 2013.

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 2013 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.

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.

Negative Goodwill

Goodwill arose from the acquisition of the remaining 50% shareholding of Clarity FE Limited. This was purchased at below book value giving rise to a negative goodwill. This will be amortised at the same rate as the intellectual property of Clarity FE Limited.

Intellectual property

Intellectual property rights have been recognised following the acquisition of a share in Clarity FE Limited.

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.

Notes (cont'd)

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.

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

	2013	2012
	£000	£000
Recurrent grant - Main funding bodies	21,581	19,639
Employer Responsive	5,876	7,595
Release Deferred Capital Grants, Equipment (note 20)	93	51
Assessor Development	-	129
LL Difficulties and Disabilities	1,614	1,116
Local Intervention and Development Fund	-	115
Workplace Learning CE	498	-
Support for the Unemployed	116	587
Other	29	16
	<u>29,807</u>	<u>29,248</u>

3 TUITION FEES AND EDUCATION CONTRACTS

	2013	2012
	£000	£000
UK Further Education Students	<u>806</u>	<u>842</u>
Education contracts		
Local Education Authority (LEA)	532	755
Higher Education (HE) income	1,407	1,474
Other income	<u>932</u>	<u>2,355</u>
	<u>3,677</u>	<u>5,426</u>

4 OTHER GRANT INCOME

	2013	2012
	£000	£000
Release of deferred capital grants (non main funding bodies)	<u>194</u>	<u>214</u>

5 OTHER INCOME

	2013	2012
	£000	£000
Catering and residence operations	89	103
Other income	<u>1,780</u>	<u>1,751</u>
	<u>1,869</u>	<u>1,854</u>

Notes (cont'd)

6 INVESTMENT INCOME

	2013 £000	2012 £000
Bank interest receivable	<u>17</u>	<u>40</u>

7 STAFF NUMBERS AND COSTS

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

	2013 Number	2012 Number
Teaching departments – teaching staff	176	184
Teaching departments – other staff	123	135
Teaching support services	54	50
Other support services	7	7
Administration and central services	87	80
Premises	<u>15</u>	<u>15</u>
	<u>462</u>	<u>471</u>

	2013 £000	2012 £000
Wages and salaries	13,095	12,398
Social security costs	1,049	1,074
Other pension costs (including FRS 17 adjustments)	<u>1,469</u>	<u>1,893</u>
	15,613	15,365
Contracted-out lecturing services	1,862	1,741
Restructuring costs	<u>403</u>	<u>-</u>
	<u>17,878</u>	<u>17,106</u>

	2013 £000	2012 £000
Teaching departments – teaching staff	6,613	6,866
Teaching departments – other staff	3,842	3,502
Teaching support services	1,047	1,039
Other support services	72	90
Administration and central services	3,621	3,297
Premises	454	410
FRS 17 retirement benefits gain / (cost)	<u>(36)</u>	<u>161</u>
	15,613	15,365
Staff restructuring	403	-
Contracted-out lecturing services	<u>1,862</u>	<u>1,741</u>
	<u>17,878</u>	<u>17,106</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:

	Year Ended 31 July 2013		Year Ended 31 July 2012	
	Number of Senior Postholders	Number of Other Staff	Number of Senior Postholders	Number of Other Staff
£80,001 to £90,000	-	-	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	1	-	2	-
£110,001 to £120,000	1	-	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	-	-	-	-
£140,001 to £160,000	-	-	1	-
£160,001 to £170,000	1	-	-	-
£180,001 to £190,000	-	-	1	-
£210,001 to £220,000	1	-	-	-

A 0.5% or minimum £200 pay award was approved by the Corporation in the year from 1 August 2012.

8 EMOLUMENTS OF SENIOR POSTHOLDERS AND MEMBERS

	2013 Number	2012 Number
The number of senior postholders, expressed as full time equivalents, including the Principal was:	<u>4</u>	<u>4</u>
	2013 £000	2012 £000
Salaries	538	461
Benefits in kind	5	5
Pension contributions	<u>62</u>	<u>55</u>
	<u>605</u>	<u>521</u>

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

	2013 £000	2012 £000
Salaries	191	165
Benefits in kind	1	1
Pension contributions	<u>24</u>	<u>23</u>
	<u>216</u>	<u>189</u>

Notes (cont'd)

10 INTEREST & OTHER FINANCE COSTS

	2013	2012
	£000	£000
Bank interest payable	14	-
Pension finance payable	158	71
	<u>172</u>	<u>71</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:

	2013	2012
	£000	£000
Surplus for the year	<u>17</u>	<u>73</u>

13 INTANGIBLE ASSETS

	Goodwill	Negative Goodwill	Intellectual Property	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 August 2012	5	-	600	605
Additions	-	(172)	-	(172)
At 31 July 2013	<u>5</u>	<u>(172)</u>	<u>600</u>	<u>433</u>
Accumulated Amortisation				
At 1 August 2012	1	-	-	1
Charge for period	1	-	-	1
At 31 July 2013	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Net book value				
At 31 July 2013	<u>3</u>	<u>(172)</u>	<u>600</u>	<u>431</u>
At 31 July 2012	<u>4</u>	<u>-</u>	<u>600</u>	<u>604</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 from 1 August 2013.

The negative goodwill arose from the acquisition of the remaining 50% shareholding of Clarity FE Limited. This was purchased at below book value. This will be released over a 5 year period in line with the intellectual property.

Notes (cont'd)

14 TANGIBLE FIXED ASSETS

Group	Land & Buildings Freehold	Long leasehold	Equipment	Motor Vehicles	Assets in Course of Construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 August 2012	27,678	5,569	9,356	14	293	42,910
Additions	1,127	1,075	1,345	-	-	3,547
Work in Progress	-	-	-	-	2,402	2,402
Disposals	-	-	-	-	-	-
At 31 July 2013	28,805	6,644	10,701	14	2,695	48,859
Accumulated depreciation						
At 1 August 2012	6,406	1,439	5,765	14	-	13,624
Charge for period	560	347	1,035	-	-	1,942
Disposals	-	-	-	-	-	-
At 31 July 2013	6,966	1,786	6,800	14	-	15,566
Net book value						
At 31 July 2013	21,839	4,858	3,901	-	2,695	33,293
At 31 July 2012	21,272	4,130	3,591	-	293	29,286
Inherited	2,801	-	-	-	-	2,801
Finance by capital grant	543	1,080	187	-	2,000	3,810
Other	18,495	3,778	3,714	-	695	26,682
	21,839	4,858	3,901	-	2,695	33,293

College	Land & Buildings Freehold	Long leasehold	Equipment	Motor Vehicles	Assets in Course of Construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 August 2012	27,678	5,569	9,332	14	293	42,886
Additions	1,127	1,075	1,339	-	-	3,541
Work in Progress	-	-	-	-	2,402	2,402
Disposals	-	-	-	-	-	-
At 31 July 2013	28,805	6,644	10,671	14	2,695	48,829
Accumulated depreciation						
At 1 August 2012	6,406	1,439	5,753	14	-	13,612
Charge for period	560	347	1,032	-	-	1,939
Disposals	-	-	-	-	-	-
At 31 July 2013	6,966	1,786	6,785	14	-	15,551
Net book value						
At 31 July 2013	21,839	4,858	3,886	-	2,695	33,278
At 31 July 2012	21,272	4,130	3,579	-	293	29,274
Inherited	2,801	-	-	-	-	2,801
Finance by capital grant	543	1,080	187	-	2,000	3,810
Other	18,495	3,778	3,699	-	695	26,667
	21,839	4,858	3,886	-	2,695	33,278

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 £2,801,000 (2011/12: £2,828,000) 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	Associate Undertakings £000	Other Investments £000	Total £000
At 1 August 2012	392	126	-	518
Additions	35	-	206	241
Disposals	-	(126)	-	(126)
At 31 July 2013	427	-	206	633

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

As a result of a restructuring during the year the Investment in Gazelle Global of £126k was transferred to Enterprise Through Innovation and additional investment of £80k was made resulting in an 11% ownership in the new company.

A further £35k was invested in Clarity FE Limited to secure the remaining 50% ownership.

Subsidiary Company	Country of Incorporation	Principal Activity	Holding
The Consortium for Business Limited	England and Wales	Dormant	100%
The Big Student Takeover Limited	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	100%
Other Investment			
Enterprise Through Innovation Limited	England and Wales	Education Design	11%

The College became a founding member of Gazelle Foundation Limited (a company limited by guarantee) during the year.

Notes (cont'd)

16 DEBTORS

	2013		2012	
	Group £000	College £000	Group £000	College £000
Amounts falling due within one year				
Trade debtors	636	628	512	444
Prepayments and accrued income	1,447	1,341	1,069	1,068
Amounts due from group undertakings	-	325	-	250
Other Debtors	698	617	334	196
	<u>2,781</u>	<u>2,911</u>	<u>1,915</u>	<u>1,958</u>

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013		2012	
	Group £000	College £000	Group £000	College £000
Trade creditors	1,082	1,044	1,659	1,396
Other taxation, social security and pensions	610	583	767	741
Accruals	970	891	2,496	2,458
Deferred income	63	63	941	941
Other creditors	65	64	116	66
Amounts due to group undertakings	-	-	-	191
	<u>2,790</u>	<u>2,645</u>	<u>5,979</u>	<u>5,793</u>

Included within the total Other taxation and social security charges is an amount of £136,000 in relation to deferred VAT under Lennartz.

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013		2012	
	Group £000	College £000	Group £000	College £000
Other taxation and social security	-	-	80	80
Bank Loan	3,000	3,000	-	-
	<u>3,000</u>	<u>3,000</u>	<u>80</u>	<u>80</u>

The college has a £10,000,000 loan facility which £3,000,000 has been drawn down at 31st July 2013. The drawn down amount is repayable in quarterly instalments over a 10 year period. Within the first two years £450,000 is repayable, two to five years £900,000 and the remaining £1,650,000 is repayable over five years. This loan is not secured on any of the college assets

Notes (cont'd)

19 MINORITY INTEREST

The minority interest relates to the Group's holding in Clarity FE Limited held in 2012. The group now has 100% holdings of Clarity FE limited. The other interest in the company was purchased for £35,000 giving rise to a negative goodwill of £172,000 on acquisition.

	2013	2012
	£000	£000
Balance as at 1 August	207	-
Investment in minority interest	-	300
Minority interest share of loss for the year	-	(93)
Purchase of Minority Interest	(35)	-
Negative goodwill recognised on purchase	(172)	-
	-	207

20 DEFERRED CAPITAL GRANTS

	SFA	Other	Total
	£000	£000	£000
At 1 August 2012	1,833	992	2,825
Cash received:			
Equipment	1,272	-	1,272
Release to income and expenditure account:			
Equipment	(93)	(194)	(287)
At 31 July 2013	3,012	798	3,810

21 REVALUATION RESERVE

	£000	£000
	Group	College
At 1 August 2012	2,828	2,828
Transfer from revaluation reserve to Income and Expenditure account		
- depreciation on revalued assets	(27)	(27)
At 31 July 2013	2,801	2,801

Notes (cont'd)

22 MOVEMENT ON GENERAL RESERVES

	2013 Group £000	2013 College £000	2012 Group £000	2012 College £000
At 1 August	23,716	23,808	25,065	25,063
Surplus for the year after				
depreciation of assets at valuation and tax	17	4	73	167
Transfer from revaluation reserve				
to income and expenditure account	27	27	27	27
Actuarial profit/(loss) in respect of pension scheme	(132)	(132)	(1,449)	(1,449)
At 31 July	23,628	23,707	23,716	23,808
Balance represented by:				
Income and expenditure account excluding pension reserve	29,267	29,346	29,101	29,193
Pension reserve	(5,639)	(5,639)	(5,385)	(5,385)
At 31 July	23,628	23,707	23,716	23,808

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 £1,469,000 (2011/12: £1,893,000).

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 2012 to 31 July 2013 the employer contribution was 14.1%. The employee contribution was 6.4% to 8.8% from 1 August 2012 to 5 April 2013 and 6.4% to 11.2% from 6 April 2013 to 31 July 2013.

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 2013 was £1,268,000 of which employer's contributions totalled £988,000 and employee's contributions totalled £280,000. The current agreed contribution rates from 1 August 2012 to March 2013 was 19.3% and March 2013 to July 2013 was 20.5% for employers.

The following information is based upon a full actuarial valuation of the fund as at 31 March 2007 updated to 31 July 2013 by a qualified independent actuary.

	31-Jul-13	31-Jul-12
Inflation - CPI	2.80%	2.20%
Rate of increase in salaries	5.10%	4.30%
Rate of increase in pensions	2.80%	2.20%
Discount rate for liabilities	4.60%	4.40%

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:

	31-Jul-13	31-Jul-12
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 0.62%) and the expected rates of return were:

	Long term rate of return	Value at 31-Jul-13	Long term rate of return	Value at 31-Jul-12
	expected at 31-Jul-13	£000	expected at 31-Jul-12	£000
Equities	6.40%	2,270,250	5.60%	907,561
Bonds	3.80%	514,590	3.40%	551,019
Property	4.60%	151,350	3.70%	599,639
Cash	3.40%	90,810	2.80%	453,781
Total market value of assets		<u>3,027,000</u>		<u>2,512,000</u>
		2013 £000		2012 £000
College's estimated asset share		18,892		15,186
Present value of scheme liabilities		<u>(24,531)</u>		<u>(20,571)</u>
Deficit in the scheme		<u>(5,639)</u>		<u>(5,385)</u>

Notes (cont'd)

23 PENSIONS AND SIMILAR OBLIGATIONS (cont'd)

Analysis of the amount charged to the income and expenditure account

	2013	2012
	£000	£000
Employer service cost (net of employee contributions)	942	986
Settlements and curtailments	10	6
Total operating charge	<u>952</u>	<u>992</u>

Analysis of pension finance

	2,013	2,012
	£000	£000
Expected return on pension scheme assets	764	892
Interest on pension scheme liabilities	(922)	(963)
Pension finance expense	<u>(158)</u>	<u>(71)</u>

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

	2013	2012
	£000	£000
Actuarial (loss) recognised in STRGL	<u>(132)</u>	<u>(1,449)</u>

Movement in deficit during year

	2013	2012
	£000	£000
Deficit in scheme at beginning of year	(5,385)	(3,704)
Movement in year:		
Current service charge	(942)	(986)
Employer contributions	988	831
Impact of settlements and curtailments	(10)	(6)
Net interest on assets	(158)	(71)
Actuarial gain / (loss)	(132)	(1,449)
Deficit in scheme at end of year	<u>(5,639)</u>	<u>(5,385)</u>

The estimated value of employer contributions for the year ended 31 July 2013 is £988,000.

Notes (cont'd)

23 PENSIONS AND SIMILAR OBLIGATIONS (cont'd)

History of gains or losses

	2013 £000	2012 £000	2011 £000	2010 £000
Difference between the expected and actual return on assets:				
Amount	2,140	(408)	(750)	962
% of scheme assets	11.33%	(2.69%)	(5.32%)	7.17%
Experience gains and losses on scheme liabilities:				
Amount	-	-	-	-
% of scheme liabilities	-	-	-	-
Total amounts recognised in statement of total recognised gains and losses:				
Amount	(132)	(1,449)	1,297	(465)
% of scheme liabilities	(0.54%)	(7.04%)	7.29%	(2.55%)

Asset and liability reconciliation

	2013 £000	2012 £000
Reconciliation of liabilities		
Liabilities at start of period	20,571	17,790
Current service charge	942	986
Interest cost	922	963
Employee contributions	307	322
Actuarial losses	2,272	1,041
Benefits paid	(493)	(537)
Past service gain	-	-
Curtailments and settlements	10	6
Liabilities at end of period	<u>24,531</u>	<u>20,571</u>
Reconciliation of assets		
Assets at start of period	15,186	14,086
Expected return on assets	764	892
Actuarial gains/(losses)	2,140	(408)
Employer contributions	988	831
Employee contributions	307	322
Benefits paid	(493)	(537)
Assets at end of period	<u>18,892</u>	<u>15,186</u>

Notes (cont'd)

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

	2013	2012
	£000	£000
Surplus\ (Deficit) on continuing operations after depreciation of assets at valuation and before tax	17	(9)
Depreciation (note 14)	1,942	1,818
Amortisation of Intangible Assets (note 13)	1	1
Deferred capital grants released to income (notes 2 and 4)	(287)	(265)
Interest receivable (note 6)	(17)	(40)
Pension cost less contributions payable (note 23)	122	232
(Increase) in debtors	(866)	(16)
Decrease from Associate in debtors	-	1
Increase in creditors	(270)	273
Net cash inflow from operating activities	<u>642</u>	<u>1,996</u>

25 ANALYSIS OF CHANGES IN NET FUNDS

	At	Cash flows	At
	01-Aug-12		31-Jul-13
	£000	£000	£000
Cash at bank and in hand	9,064	(4,133)	4,931

26 ANALYSIS OF CASH FLOWS

	2013	2012
	£000	£000
Returns on investments and servicing of finance		
Interest received	17	40
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(5,949)	(2,861)
Purchase of intangible fixed assets	172	(600)
Purchase of share capital	-	(126)
Deferred capital grants received	1,272	1,072
Minority interest	(207)	300
Investment	(80)	-
Net cash outflow for capital expenditure and financial investment	<u>(4,792)</u>	<u>(2,215)</u>

Notes (cont'd)

27 FINANCIAL COMMITMENTS

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

	2013 £000	2012 £000
Land and buildings		
Expiring within one year	50	121
Expiring between two and five years	292	75
Over five years	53	-
	395	196
Other		
Expiring within one year	39	-
Expiring between two and five years	-	39
	39	39

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 was to be successful and all VAT was to be repayable, the impact on the financial statements at 31 July 2013 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 traded with its various subsidiaries and related party companies.

	Sales £000	Purchases £000	Outstanding £000
<u>College to Subsidiary</u>			
Protech Training Services Limited	77	1,892	22
Plaza Activity Limited	-	52	67
Clarity FE Limited	-	-	211
<u>Protech to Other Group Companies</u>			
Plaza Activity Limited	118	-	126
Clarity FE Limited	-	-	(36)
<u>College to Other Related Parties</u>			
Gazelle Global Limited	317	103	309
North Hertfordshire Studio School Trust	12	195	411

Notes (cont'd)

29 RELATED PARTY TRANSACTIONS (cont'd)

Protech Training Services Limited provided staffing to North Hertfordshire College and Plaza Activity Limited.

North Hertfordshire College provided office space, equipment and an apprentice to Protech Training Services Limited.

North Hertfordshire College purchased from Plaza Activity Limited enrichment activities and subsidised membership of the gym.

North Hertfordshire College purchased from Gazelle Global Limited various educational matters and provided to Gazelle Global Limited seconded staff and financial accounting services.

North Hertfordshire College purchased from North Hertfordshire Studio School Trust various educational matters and provided to North Hertfordshire Studio School Trust various support services and the provision of additional teaching staff.

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

30 POST BALANCE SHEET EVENTS

As a result of forged correspondence, the bank account details of a supplier were changed and a high value invoice was paid to the fraudulent bank account on 9 October 2013.

A large portion was recovered from the account on identifying the fraud. Recovery of the remaining funds is being pursued via tracing of funds and through insurance policies. College lawyers are working to ensure that the College's multiple insurance policies cover the loss; a final outcome is awaited. The College will be able to manage its finances to absorb any residual exposure if required.

The senior management team has conducted a review of the events which led to the post year end fraud. In addition, a review of the relevant stages of the procurement cycle was commissioned from the College's internal auditors and governance and procedural changes have been made.

31 LEARNER SUPPORT FUNDS

	2013	2012
	£000	£000
Hardship and Bursary	579	199
Childcare	<u>161</u>	<u>109</u>
	<u>740</u>	<u>308</u>
Disbursed to students:		
Hardship & Bursary	390	102
Childcare	218	103
Administration costs	<u>37</u>	<u>15</u>
	<u>645</u>	<u>220</u>
Balance underspent at 31 July	<u>95</u>	<u>88</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.