REPORT & FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2015

NORTH HERTFORDSHIRE COLLEGE

MEMBERS REPORT AND FINANCIAL STATEMENTS

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OPERATING AND FINANCIAL REVIEW

Nature, objectives and strategies

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

Legal status

North Hertfordshire College (NHC) is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance and that the required statements appear elsewhere in these financial statements.

Public Benefit

North Hertfordshire College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 12.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

Mission

The NHC Corporation agreed a new mission statement, five year strategy and set of organisational values at its meeting in June 2015. The new mission is:

"To create economic and social value for individuals, businesses and communities through learning."

A key aspect of this new five year strategy is the formation of the Hart Learning Group. The Group brings together NHC's interests in further education, commercial learning and the schools sector through a simple structure including:

- North Hertfordshire College: an occupationally-focussed further education college with campuses in Stevenage, Hitchin and Letchworth.
- Hart Learning & Development (L&D): a new business that works with employers of all sizes to help them engage with and invest in emerging talent. Hart L&D is a trading name of NHC and is not, at this point, a separate legal entity.
- The Hart Schools Trust: a burgeoning schools trust which currently sponsors a secondary academy and two studio schools. NHC sponsors the Trust, which is a separate legal entity, the financial accounts of which are completely separate to those of the College.

Throughout this document we refer to 'NHC' or the 'College' as this was the prevailing nomenclature in 2014/15.

Values

The new values for the Hart Learning Group, agreed in June, are as follows:

- Quality: we strive constantly to improve the quality of our teaching and learning. We are intolerant of poor quality and always aim for Outstanding.
- Innovation: we agitate for new and better ways of doing things. We will look within and beyond the education sector for transformational innovations.
- Accountability: we set clear, reasonable expectations and we expect people to deliver. We do not make excuses.
- Integrity: we have a strong moral compass and we do the right thing for our customers, our colleagues and for the group.
- Sustainability: we take decisions that work for the medium and long term. We care about the environment.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

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

Implementation of the five year strategy

By 2020, we want:

- To deliver real value for our customers (young people, adults, employers and the community) through our group and constituent business units.
- NHC and Hart L&D to be self-assessing as Ofsted Outstanding by 2018/19.
- The NHC curriculum offer to be reflective of learner and labour market needs.
- The Hart Schools Trust to be demonstrably supporting schools to progress to Good or better.
- The Schools Trust to include 15-20 primary / secondary schools.
- Hart L&D to be recognised in Hertfordshire for its innovative offer to SME businesses.
- Hart L&D to be working with varied portfolio of large, national clients.
- Hart L&D to be generating £25 million revenue, £5 million surplus.
- The Group to be recognised as committed community partner.

We want NHC to be an Outstanding College by 2018/19. For us that means:

- Delivering Outstanding teaching and learning in all of our curriculum areas.
- Delivering programmes which prepare students for the reality of the world of work.
- Supporting students to substantially improve their English and Maths whilst they're with us.
- Working with employers to design, deliver and offer progression routes from our programmes.
- Offering a rich, broadly defined, student experience; and keeping our students safe.

Our priorities for 2015/16

We have identified three priorities that we believe will help us deliver for our students and improve our performance in 2015/16:

- Consistency: we will consistently apply our model for teaching and learning across all curriculum areas; and we will align and streamline our supporting policies and business processes to support that model.
- Quality: we will focus relentlessly on the quality of our teaching and learning. We will establish robust, transparent performance management arrangements for curriculum teams; we will support colleagues to continuously improve; we will be intolerant of poor quality.
- Employer engagement: we will draw willing employers into the design and delivery of our programmes, including through the development of student projects, careers talks, mentoring and work experience.

The College is on target for achieving these objectives.

We will also pursue a series of projects over the course of 2015/16 that will help us transform the Hart Learning Group and NHC within it. These include:

- Action to strengthen our governance arrangements at exec and non-exec level.
- The transformation of our corporate services to better support teaching and learning.
- Action to improve the use of data and analysis to drive performance improvement.
- A review of our long-term curriculum offer at both further and higher education levels.
- The development of an estates masterplan which supports our long-term curriculum offer.
- The development of a long-term people plan, overseen by a representative People Group.
- A survey of the market to identify the learning technologies we should use in our delivery.

Financial objectives

Our financial objectives are to:

- By 2016/17 deliver a surplus of 2-4% or revenue, and to minimise operating losses in 2015/16 whilst we transform the organisation. We have budgeted to deliver a manageable loss in 2015/16 in recognition of the organisational transformation we need to affect during the year.

- Ensure that our resources are aligned with our strategy and implementation priorities, e.g. through robust budget planning and management in-year to ensure that costs are only incurred where associated revenue-generating activity crystallises.

- Secure value for money in all of our procurement activities, both contracted and non-contracted. We will review our supplier base during 2015/16 to secure best fit, value and volume discounts.

- Maximise our cash flow position by ensuring that we promptly raise sales invoices and collect debts to the College; and, promptly process purchase orders and invoices.

- Identify alternative means and strategies to fund future capital investment, including through the disposal or repurposing of our existing estate.

- Ensure that we have sound systems of internal control, and maintain a robust framework for the management of corporate risks.

We are confident that the above will permit us to maintain the confidence of our regulators, funding partners, suppliers, bankers and auditors.

Financial objectives for 2014/15

- The College received a Skills Funding Agency (SFA)/Education Funding Agency (EFA) recurrent grant allocation. This was used to fund both Learner Responsive and Employer Responsive activity. In the year the College received £22,783,000 (2013/14: £24,951,000).

- The College recorded an operating deficit, inclusive of one off exceptional items, of £6,332,000. The College restructured its operations in order to address fundamental weaknesses in its cost structure. In addition a thorough review of fixed assets and investments was undertaken. Fixed assets which no longer contributed to supporting service delivery and investments that were impaired were written off. The total value of these exceptional write-offs was £4,834,000.

Performance indicators

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the SFA/EFA. The Finance Record produces a financial health grading. The current rating of Satisfactory is considered an acceptable outcome.

Changes in learner numbers and achievement of SFA/EFA targets

Learner Numbers	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target
16-18 F/T	2,436	2,507	2422	2091
19+ F/T	576	536	411	332

Learner success rates (%)

	2013/14 Actual	2014/15 Target	2014/15 Actual
All	86	86	78
16-18 All	80	82	71
19+ All	89	89	84
16 - 18 Long	80	82	73
16 - 18 Short	87	87	55
19+ Long	78	80	78
19+ Short	93	90	88

Teacher qualifications

	2012/13 Actual		2013/14 Actual		2014/15 Actual	
Post type	Full time	Full time	Full time	Part time	Full time	Part time
Qualified %	81%	83%	83%	77%	85%	94%
Enrolled on qualification %	19%	17%	17%	23%	15%	6%

Resources

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

Financial

- The College has £22.0 million of net assets (including £8.3 million pension liability) and £10.8 million of long term debt.

People

- During 2014/15 the College employed 453 people (expressed as full time equivalents), of whom 308 were teaching staff.

Reputation

- The College maintains a good reputation locally and nationally. Events of March 2015 were handled transparently and to the satisfaction of relevant partners.

- Continuing to maintain and enhance our reputation, and establishing Hart Learning & Development as an innovative new brand in the local and national market, are key priorities.

Principal risks and uncertainties

The new Senior Management Team (SMT) found significant failings in control and strategy. The new team has undertaken considerable 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. Internal control plans are monitored to ensure they are implemented and once implemented controls are reviewed. In addition a thorough review was undertaken of published exam results and stronger controls were put in place to ensure that such misrepresentation does not happen again.

In the context of our new five year strategy, the SMT has undertaken a comprehensive review of the risks to which the College is exposed. They identified systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. In addition to an annual review SMT will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

The principal, strategic, risks we face at present include:

- That the forthcoming further education area review process compels us to fundamentally change our organisational strategy and structure.

- That there are further and substantial reductions in Government funding for Further Education colleges and that these reductions are implemented more quickly that we can reasonably respond in terms of e.g. reshaping our cost base.

- That we fail to sustain full time student numbers at broadly current levels, undermining our fixed cost base.

- That we cannot access a pool of suitably skilled and experienced staff to sustain and improve the quality of our provision; this risk is particularly acute in relation to English and maths, engineering and construction, and pre-employment training delivery.

- Hart L&D failing to identify and/or deliver commercial product/services offerings that meet current market demands.

- That we fail to adequately administer new internal controls to monitor and mitigate risk.

Stakeholder relationships

We have a huge range of stakeholder and partner relationships, including:

- Our current and prospective new students and our growing pool of alumni.

- Employers, large and small, in Hertfordshire and – increasingly following the establishment of Hart Learning & Development – nationally.

- Our current and potential new staff both locally and – to support Hart Learning & Development's growth – nationally.

- Community partners in North Hertfordshire.

- The Hertfordshire Local Enterprise Partnership (LEP) and LEPs in adjacent areas.
- Local Authorities, particularly Stevenage, North Hertfordshire and Hertfordshire County.
- Other FE Colleges in Hertfordshire and adjacent areas e.g. Bedfordshire, London.
- Education (EFA, SFA), employment (DWP, Jobcentre Plus) and other relevant funding bodies.
- The FE Commissioner.

All of these and other relationships are key to the successful delivery of our new five year strategy.

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:

Hitchin Centre
Cambridge Road
Hitchin
Herts
SG4 0JD

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.

Financial results

The College generated an deficit, inclusive of exceptional items, of £6,332,000 (2013/14: deficit of £900,000) before pension adjustments. In addition to pension charges of £342,000 (2013/14: £196,000), there were a set of exceptional items valuing £4,834,000.

The net assets of the College at the year-end were £22 million (2013/14: £29.8 million) including cash balances of £2.3 million (2013/14: £1.3 million).

The College has significant reliance on the Skills Funding Agency (SFA) for its principal funding source, largely from recurrent grants. In 2014/15 the SFA/EFA provided 84.1% of the College's total income.

The College has two active subsidiary companies:

- Protech Training Services Limited.
- Plaza Activity Limited.

It also had another three subsidiary companies which have now been dissolved:

- Clarity FE Limited (which was placed into members' voluntary liquidation and dissolved 23 April 2015).
- The Consortium for Business (dissolved 25 August 2015).
- The Big Student Takeover (dissolved 25 August 2015).

We also held an 11% shareholding in Gazelle Transform Limited (formerly Enterprise Through Innovation Limited which was placed into members' voluntary liquidation on 7 August 2015).

In setting strategy, operational and financial plans, we aim to deliver a net surplus of 2-4% of revenue. Due to the level of organisational transformation required we do not expect to deliver this aim in 2015/16, but are confident that action in hand will enable us to do so in 2016/17. We are confident in our overall financial viability and expect to secure a 'Good' rating from the SFA for our financial health in 2015/16.

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 with a renewal due in 2015/16.

All borrowing undertaken has been authorised by the Corporation.

Cash flows and liquidity

The net inflow from operations was £1,642,000 (2013/14: inflow of £460,000) which together with an increase in the loans of £1.1 million funded the purchase of tangible fixed assets of £2.1 million and resulted in an increase in cash of £1 million.

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 40 days.

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 2014/15 the College has delivered activity that has produced £22,783,000 in funding body main allocation funding (2013/14: £24,951,000). The College had approximately 9,706 SFA-funded and 2,050 non-SFA-funded students.

96% of learners completed their programmes in 2014/15 and this represented a 1% drop on 2013/14. The national benchmark is 93%.

Student achievements

The College is forecasting that 88% of learners will achieve their intended learning aim (2013/14: 94%). The national benchmark is 92%.

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

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, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy is published on the College's website.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Single Equality Act 2010. The College undertakes equality impact assessments on all new policies and procedures and publishes the results. Equality impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. 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, as far as possible, provide identical opportunities to those of non-disabled employees.

The College has achieved accreditation to the Committed to Equality (C2E) standard at the gold (highest) level. The College has also implemented an updated Equality & Diversity training programme which all staff have attended. Refresher training and training for new starters is carried out on an ongoing basis.

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:

- The College has an Additional Learning Support Manager and LDD Partnership Manager who provide information, advice and arranges specialist support where necessary for students with disabilities to enable equal access to learning.

- The College is a Disabled Students Allowance (DSA) Assessment Centre and undertakes assessments for students progressing to Higher Education.

- There is specialist equipment within the College which is made available for use by students. A comprehensive range of assistive technology is provided in the DSA Centre where students can undertake detailed assessments in order to determine the most appropriate equipment required to address individual learning needs.

- The admissions policy for all students is described in the College prospectus and website. Appeals against a decision not to offer a place are dealt with under the complaints policy.

- The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. We employ a number of Learning Support Assistants who provide a variety of support for learning. Support is provided for students with specific learning difficulties, sensory impairments, general learning difficulties, physical disabilities and personal care and can take place both within the classroom, in the workplace or in a community based setting. 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.

- Specialist programmes are described in College prospectuses and on the website and achievements and destinations are recorded and published in the standard College format.

- Counselling, welfare services, complaints and disciplinary procedures are made available to all students during induction and additional details can be found on the College website, in the prospectus and leaflets.

Disclosure of information to Auditors

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

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

R Alberg

Chair

Professional advisers

The professional advisors to the Corporation are:

Financial statements and regularity auditors	KPMG LLP 58 Clarendon Road Watford WD17 1DE
Internal auditors	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Bankers	Lloyds Bank 249 Silbury Boulevard Secklow Gate West Milton Keynes MK9 1NA
	NatWest Park Centre 210 Butterfield Grant Marlings Luton LU2 8DL
Solicitors	Eversheds LLP Kett House Station Road Cambridge Road Cambridge CB1 2JY
	Thomas Eggar The Corn Exchange Baiffin's Lane Chichester West Sussex PO19 1GE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

The College endeavours to conduct its business:

- In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- In full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- Having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the Further Education sector.

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

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

The Corporation

The members who served the Corporation during the year and up to the date of signature (December 2015) of this report were as follows:

(Attendance figures relate to Board Meetings for period 1 September 2014 – 31 July 2015).

Name	Date of appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance at the Board
Mr R Alberg Chair from 22 Jun 2015	March 2015	4 years		Ordinary Member	Search and Governance Remuneration (Chairman)	3/3
Mr J Simmonds Chair until Mar 2015	1 Apr 2003 Reappointed 1 Apr 2007 1 Apr 2011	4 years	22 Jun 2015	Ordinary Member	Finance & General Purposes Property Group Quality Standards Group Remuneration (Chairman)	9/10
Mrs S Sutherland (Principal from 1 Sep 2012) (Principal/CEO from Jul 2013 to Mar 2015)	1 Sep 2012	Ex officio	Mar 2015	Principal	Finance & General Purposes Property Group Observer at Search & Governance and Remuneration In attendance at Audit	6/6

Mr M Hamnett (Principal/CEO from Mar 2015)	1 Mar 2015	Ex officio		Principal	Observer at Search & Governance and Remuneration In attendance at Audit and Quality & Innovation	4/4
Mr A Ahmedi	1 Apr 2012	4 years	Mar 2015	Ordinary Member	None	5/7
Mr P Bathmaker (Vice-Chair from Apr 2009, interim Chair Mar 2015 to Jun 2015)	1 Apr 2005 Re-appointed 1 Apr 2009 1 Apr 2013	4 years	Jun 2015	Ordinary Member	Finance & General Purposes (Chair) Remuneration	9/9
Mrs S Baker	19 Jan 2005 Re-appointed 1 Apr 2009 1 Apr 2013	4 years	Member-ship lapsed Mar 2015	Ordinary Member	Search & Governance Remuneration Quality Standards Group Safeguarding Governor	6/7
Mr L Cattell	Nov 2013		Member-ship lapsed Jul 2015	Student Member		7/10
Ms L Ceeney (Vice Chair from 22 Jun 2015)	External member 14 Jul 2008 Reappointed 1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013 1 Apr 2014 Appointed as full Ordinary member 20 Apr 2015	4 years		Ordinary Member	Property Group	8/10
Mr N Chesher	1 Apr 2012	4 years		Ordinary Member	Finance & General Purposes	9/10
Mrs S Clark	19 Sep 2011	4 years	Member-ship lapsed Mar 2015	Ordinary Member	Finance & General Purposes	4/7
Mr D Green	External Member Appointed Apr 2013 Re-appointed Apr 2014 Apr 2015 Appointed as full Ordinary member Sep 15	4 years		Ordinary Member		8/10
Mr A Hawkins	Governor – NHSST Director Dec 2014	4 years		Ordinary Member		5/6
Mr P Holgate	Dec 2014	4 years		Parent Member	Audit	5/6
Mr R Irving	Sep 2015	4 years		Ordinary Member	Quality & Innovation	NA
Mr C Jackson	1 Apr 2010 Re-appointed Apr 2014	4 years	1 Sep 15	Staff member	Audit Property	8/10

Mr K Joy-Kimber	Jan 15		Jul 2015	Student Member		3/6
Mr M Kellard	1 Apr 2007 Re-appointed 1 Apr 2011	4 years	Mar 2015	Ordinary Member	Finance & General Purposes Property Group (Chair) Remuneration	2/7
Mr D Lloyd	17 Oct 2011	4 years	Mar 2015	Ordinary Member	Search and Governance	2/7
Mr V McClure	Dec 2014	4 years		Ordinary Member	Quality & Innovation Committee (Chair)	5/7
Ms R Orpwood	Sep 2015	4 years		Ordinary Member	Audit	NA
Mr K Scott	1 Apr 2014	4 years		Staff Member	Search & Governance Quality & Innovation	8/10
Ms L Saunders	1 Apr 2011	4 years	Mar 2015	Ordinary Member	Audit (Chairman)	7/7
Mrs S Taylor	Jun 2011	4 years	Mar 2015	Ordinary Member	Finance & General Purposes	3/7
Mr P Waters	26 Nov 2013	4 years	Mar 2015	Ordinary Member	Search & Governance Property Group	4/7
Mr D Williams	Sep 2015	4 years		Ordinary Member	Audit (Chair)	NA
Mr P Harrison	Oct 15			Student member		NA
Mr J Andrews	Nov 15	4 years		Ordinary member		NA
External Members of Committees or Academy Focus Groups						**Attendance**
Ms K Belinis	1 Jul 2009 Reappointed 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013 1 Apr 2014	Appointed annually	Member-ship lapsed Mar 2015	External Member	Search & Governance	2/7
Mrs C Bowes-Lyon	1 Apr 2013 1 Apr 2014	Appointed annually	Member-ship lapsed Mar 2015	External Member	Quality Standards Group	6/7
Mr T Khan	Jul 2009 Re-appointed Apr 2010 Apr 2011 Apr 2012 Apr 2013 Apr 2014	Appointed annually	Member-ship lapsed Mar 2015	External Member	Audit Committee	0/7
Mr M Hick	Mar 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013 1 Apr 2014	Appointed Annually	Member-ship lapsed Mar 2015	External Member	Quality Standards Group (External Chair)	4/7
Mr P Joester	1 Apr 2009 1 Apr 2010 1 Apr 2011 1 Apr 2012 1 Apr 2013 1 Apr 2014	Appointed annually	Member-ship lapsed Mar 2015	External Member	Search & Governance (External Chair)	1/7

The class of 'External Governor' was removed June 2015. Average attendance of **full** Governors at Corporation Board meetings during the year was 71%.

Bernadette Wallis ACIS was Clerk to the Corporation and Company Secretary during the year 1 August 2014 to March 2015. Francoise Jarvis was appointed as Interim Clerk to the Corporation April 2015 to July 2015.

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. The Corporation meets at least termly.

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.

The Corporation and committee structure was thoroughly reviewed during the latter half of 2014/15 and it was agreed that the Corporation would meet at least 6 times a year with the following Committees retained going into 2015/16: Audit, Search, Remuneration and Quality & Innovation. Each Committee has an approved set of Terms of Reference.

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 Lynne Bray, Executive Assistant to the CEO at:

North Hertfordshire College
Cambridge Road
Hitchin, SG4 0JD

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 roles of the Chair of the Corporation and Accounting Officer of the College are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search Committee comprising of up to seven members, with the Principal attending as an observer, 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 for new Governors as required.

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

During the year external members were appointed. From June 2015 a policy decision not to engage external members was taken.

Remuneration Committee

Throughout the year ending 31 July 2015, the College's Remuneration Committee comprised five members. The Committee's responsibilities are to determine the appointment, conditions of service and remuneration of the Accounting Officer.

Details of remuneration for the year ended 31 July 2015 are set out in notes 7 and 8 to the financial statements.

Audit Committee

The Audit Committee comprises four members of the Corporation (and excludes the Chair and Accounting Officer). In July 2014, the Audit Committee agreed to a revised remit which increased the membership to include up to two Directors from the NHSST joining the Committee and during 2014/15 joint Audit meetings with the NHSST were held. The two committees have separated for 2015/16. The Committee operates in accordance with written terms of reference approved by the Committee and 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 review 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 as well as reporting annually to the Corporation.

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 he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum/Financial Agreement between the College and the funding bodies. He 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 2015 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

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

The risk and control framework

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

- A robust approach to setting revenue and cost budgets for the forthcoming year, with final budgets agreed by Corporation.
- A finance report at each Corporation meeting, detailing year to date performance, and forecast outturn for the year plus any upside opportunities and downside risks.
- A clear link between finance and individual performance management, with clear finance objectives embedded in individual budget holders' personal objectives for the year.
- The increased deployment of formal project management approaches.
- Clearly defined capital investment guidance and controls.

The College has an internal audit service, which operates in accordance with the requirements of the EFA and SFA Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee.

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 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 Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Significant internal control problems

In March 2015 the newly-appointed Principal/CEO brought it to the attention of the Corporation that the College had been manipulating learner records to improve success rates. On the new Principal/CEO's advice, the Corporation acted swiftly to address the situation, informing the relevant funding and regulatory bodies (i.e. EFA, SFA and Ofsted) and receiving their support for the action taken in response. This included a forensic audit undertaken by independent auditors (BDO LLP) and a series of measures to rebase the institution. A number of governors resigned, or decided not to stand for re-election to the governing body in March, permitting a refresh of the membership of the board – which followed a thoroughgoing review of the institution's governance and leadership.

The Principal, who presided over this period of malfeasance was found guilty of gross misconduct by a special committee of the governing body. The senior management team of the organisation has also been refreshed following these events; none of the senior managers who were party to these issues are now working in the College.

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

Going concern

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, it continues to adopt the going concern basis in preparing the financial statements.

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

R Alberg	M Hamnett
Chair	Accounting Officer

GOVERNING BODY'S STATEMENT ON THE COLLEGE'S REGULARITY, PROPRIETY AND COMPLIANCE WITH FUNDING BODY TERMS AND CONDITIONS OF FUNDING

The Corporation has considered its responsibility to notify the SFA/EFA of material irregularity, impropriety and non-compliance with SFA/EFA terms and conditions of funding, under the financial memorandum/funding agreement in place between the College and the SFA/EFA. As part of its consideration the Corporation has had due regard to the requirements of the financial memorandum/funding agreement.

We confirm, on behalf of the Corporation, that after due enquiry, and ***to the best of its knowledge***, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the SFA/EFA terms and conditions of funding under the College's financial memorandum/funding agreement.

We confirm that the following instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the SFA/EFA. If any instances are identified after the date of this statement, these will be notified to the SFA/EFA as appropriate:

- Student record manipulation, March 2015

STATEMENT OF RESPONSIBILITY 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 SFA/EFA and the Corporation of the College, the Corporation Funding Agreement, through its Accounting Officer, 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* and with the *Accounts Direction for 2014/2015 financial statements* issued jointly by the SFA/EFA, 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.
- 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 the 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 SFA/EFA are used only in accordance with the Financial Memorandum with the SFA/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 SFA/EFA are not put at risk.

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

Mr R Alberg

Chair

INDEPENDENT AUDITOR'S 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 2015 set out on pages 26-54. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the corporation of North Hertfordshire College and Auditor

As explained more fully in the Statement of the Corporation's responsibilities set out on page 20, 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 Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the state of the Groups' and of the College's affairs as at 31 July 2015 and of the Group's deficit for the year then ended;
- Have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education

Opinion on other matters prescribed by the revised Joint Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency

In our opinion:

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

Kelly Dunn Date:
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP, 58 Clarendon Road, Watford, WD17 1DE

REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF NORTH HERTFORDSHIRE COLLEGE AND THE SECRETARY OF STATE FOR BUSINESS, INNOVATION AND SKILLS ACTING THROUGH SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter dated 8 May 2012 and further to the requirements of the financial memorandum with Skills Funding Agency (SFA)/Education Funding Agency (EFA) we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by North Hertfordshire College during the period 1 August 2014 to 31 July 2015 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of North Hertfordshire College and the reporting accountant

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

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

The work undertaken to draw our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a negative conclusion on regularity consistent with the requirements of the Joint Audit Code of Practice.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Kelly Dunn Date:
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP, 58 Clarendon Road, Watford, WD17 1DE

Consolidated income and expenditure account for the year ending 31 July 2015

INCOME	Note	2015 £000	2014 £000
Funding body grants	2	27,095	27,759
Tuition fees and education contracts	3	2,538	2,954
Other grant income	4	163	171
Other income	5	2,830	2,868
Investment income	6	5	6
Total Income		32,631	33,758
EXPENDITURE			
Staff costs	7	16,608	17,009
Staff restructuring costs - exceptional	7	634	241
Other operating expenses (including exceptionals)	9	19,028	14,546
Depreciation	14 & 15	2,142	2,137
Interest and other finance costs	10	450	236
Total Expenditure		38,862	34,169
Deficit on continuing operations after depreciation of assets at valuation and before exceptional items and tax		(6,231)	(411)
Exceptional items	11	-	(580)
Deficit on continuing operations after depreciation of assets at valuation, disposals and before tax		(6,231)	(991)
Taxation	12	(2)	-
Deficit on continuing operations after depreciation of assets at valuation, disposals and tax		(6,233)	(991)
Deficit attributable to group	13	(6,233)	(991)

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

The notes on pages 32-54 form part of the financial statements.

College income and expenditure accounts for the year ending 31 July 2015

INCOME	**Note**	**2015**	**2014**
		£000	**£000**
Funding body grants	2	27,095	27,759
Tuition fees and education contracts	3	2,538	2,954
Other grant income	4	163	171
Other income	5	2,426	2,284
Investment income	6	5	6
Total Income		32,227	33,174
EXPENDITURE			
Staff costs	7	16,462	16,889
Staff restructuring costs - exceptional	7	634	241
Other operating expenses (including exceptionals)	9	18,899	14,083
Depreciation	14	2,114	2,045
Interest and other finance costs	10	450	236
Total Expenditure		38,559	33,494
Deficit on continuing operations after depreciation of assets at valuation and before exceptional items and tax		(6,332)	(320)
Exceptional items	11	-	(580)
Deficit on continuing operations after depreciation of assets at valuation but before tax		(6,332)	(900)
Taxation	12	-	-
Deficit on continuing operations after depreciation of assets at valuation and tax		(6,332)	(900)

The notes on pages 32-54 form part of the financial statements.

Consolidated statement of total recognised gains and losses for the year ending 31 July 2015

	Note	2015 £000	2014 £000
Deficit on continuing operations after depreciation of assets at valuation, disposals of assets and tax		(6,233)	(991)
Actuarial loss in respect of pension scheme	23	(1,253)	(895)
Total recognised loss relating to the year		(7,486)	(1,886)
Total recognised loss since the last period		(7,486)	(1,886)

Reconciliation

		2015 £000	2014 £000
Opening reserves		24,543	26,429
Total recognised losses for the year		(7,486)	(1,886)
Closing reserves		17,057	24,543

Consolidated statement of historical cost surpluses and deficits for the year ending 31 July 2015

	Note	2015 £000	2014 £000
Deficit on continuing operations after depreciation of assets at valuation, disposals and before tax		(6,233)	(991)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	28	28
Historical cost deficit for the year before taxation		(6,205)	(963)

The notes on pages 32-54 form part of the financial statements.

Consolidated balance sheet as of 31 July 2015

	Note	2015 £000	2014 £000
FIXED ASSETS			
Goodwill	14	1	2
Negative goodwill	14	-	(138)
Net goodwill		1	(136)
Other intangible assets	14	-	480
Tangible fixed assets	15	42,581	43,923
Investments	16	-	182
		42,582	44,449
CURRENT ASSETS			
Stock – raw materials and consumables		-	7
Debtors	17	1,698	3,229
Cash at bank and in hand		2,307	1,277
		4,005	4,513
Creditors: amounts falling due within 1 year	18	(5,466)	(2,873)
Net current (liabilities) / assets		(1,461)	1,640
Total assets less current liabilities		41,121	46,089
Creditors: amounts falling due after more than 1 year	19	(10,836)	(9,724)
Net assets excluding pension liability		30,285	36,365
Net pension liability	23	(8,325)	(6,730)
Net assets including pension liability		21,960	29,635
Deferred capital grants	20	4,903	5,092
Reserves			
Income and expenditure account excluding pension reserve	22	22,637	28,500
Pension reserve	23	(8,325)	(6,730)
Income and expenditure account including pension reserve		14,312	21,770
Revaluation reserve	21	2,745	2,773
Total Reserves		17,057	24,543
Total		21,960	29,635

The notes on pages 32-54 form part of the financial statements.

The financial statements on pages 26-54 were approved by the Corporation on 2015 and were signed on its behalf by:

R Alberg

Chair

M Hamnett

Accounting Officer

College balance sheet as of 31 July 2015

	Note	2015	2014
		£000	£000
FIXED ASSETS			
Intangible assets	14	-	480
Tangible fixed assets	15	42,466	43,814
Investments	16	90	612
		42,556	44,906
CURRENT ASSETS			
Stock – raw materials and consumables		-	7
Debtors	17	1,970	3,265
Cash at bank and in hand		1,984	1,181
		3,954	4,453
Creditors: amounts falling due within 1 year	18	(5,317)	(3,099)
Net current (liabilities) / assets		(1,363)	1,354
Total assets less current liabilities		41,193	46,260
Creditors: amounts falling due after more than 1 year	19	(10,836)	(9,724)
Net assets excluding pension liability		30,357	36,536
Net pension liability	23	(8,325)	(6,730)
Net assets including pension liability		22,032	29,806
Deferred capital grants	20	4,903	5,093
Reserves			
Income and expenditure account excluding pension reserve	22	22,709	28,670
Pension reserve	23	(8,325)	(6,730)
Income and expenditure account including pension reserve		14,384	21,940
Revaluation reserve	21	2,745	2,773
Total Reserves		17,129	24,713
Total		22,032	29,806

The notes on pages 32-54 form part of the financial statements.

The financial statements on pages 26-54 were approved by the Corporation on 2015 and were signed on its behalf by:

R Alberg

Chair

M Hamnett

Principal & CEO

Consolidated cash flow statement for the year ending 31 July 2015

	Note	2015 £000	2014 £000
Net cash inflow from operating activities	24	1,642	460
Returns on investments and servicing of finance	26	(309)	6
Capital expenditure and financial investment	26	(2,060)	(11,120)
Financing		1,756	7,000
Increase / (decrease) in cash	25	1,030	(3,654)

Financing – this represents the increase in bank loans from £10 million at 31 July 2014 to £11.8 million at 31 July 2015.

Reconciliation of net cash flow to movement in net funds for the year ending 31 July 2015

	Note	2015 £000	2014 £000
Increase / (decrease) in cash in the year	25	1,030	(3,654)
Net funds at beginning of the year	25	1,277	4,931
Net funds at end of the year	25	2,307	1,277

The notes on pages 32-54 form part of the financial statements.

NOTES

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 jointly by the SFA and the EFA in the 2014/15 Accounts Direction.

Basis of accounting

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

Going concern

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

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £1,461,000, which the Corporation believe to be appropriate for the following reasons.

The College had a £13 million bank loan facility at 31 July 2015 which had been fully drawn at that date. £1.24 million of the loan had been repaid in the year. A further £3 million bank loan facility was taken and drawn down in 2014 after the year end. These loans are not secured on any of the College assets. The terms of the existing agreements of £10 million are for up to another 15 years and the £3 million is repayable in September 2016. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

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 2015.

Recognition of income

The recurrent grant from the SFA and EFA is that receivable as informed 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 and 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 and 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.

Agency arrangements

The College acts as an agent in the collection and payment of learner support funds. Related income received from the SFA and EFA and subsequent disbursements to students are excluded from the income and expenditure account (and are shown separately in note 30), except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS). Contributions to the TPS are 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. On review, the negative goodwill has been written off in the year in line with the write off intellectual property.

- **Intellectual property:** Intellectual property rights were recognised following the acquisition of Clarity FE Limited. These have now been transferred to the College. On review the intellectual property has been written off in the year.

Tangible fixed assets

- **Land and building:** 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. 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.

- **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.

- **Assets under construction:** 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 £2,000 is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority is included in the balance sheet at estimated cost less estimated depreciation to date. Equipment and Motor Vehicles are depreciated on a straight line basis at varying rates from 10%-33% dependent upon useful economic life. Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

- **Leased assets:** Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The relevant assets are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets. Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

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

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

- **Maintenance of premises:** The cost of routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

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

- **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 Activity 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.

2. FUNDING BODIES INCOME

	2015	2014
	£000	£000
Recurrent grant - Main funding body	19,202	19,812
Employer Responsive	3,581	5,139
Release Deferred Capital Grants, Equipment (note 20)	72	83
LL Difficulties and Disabilities	1,764	1,587
Workplace Learning CE	1,914	830
Support for the Unemployed	427	308
Other	135	-
	27,095	27,759

3. TUITION FEES AND EDUCATION CONTRACTS

	2015	2014
	£000	£000
UK Further Education Students	1,189	1,124
Education contracts		
Local Education Authority (LEA)	122	335
Higher Education (HE) income	1,227	1,072
Other income	-	423
	2,538	2,954

4. OTHER GRANT INCOME

	2015	2014
	£000	£000
Release of deferred capital grants (non main funding bodies)	163	171

5. OTHER INCOME

	2015 £000	2014 £000
Catering and residence operations	416	212
Other income	2,414	2,656
	2,830	2,868

The College had other income of £2,122,000 included within the group other income shown above of £2,414,000 (2013/14: £2,072,000).

6. INVESTMENT INCOME

	2015 £000	2014 £000
Bank interest receivable	5	6

7. STAFF NUMBERS AND COSTS

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

	2015 Number	2014 Number
Teaching departments – teaching staff	205	180
Teaching departments – other staff	103	123
Teaching support services	35	50
Other support services	4	8
Administration and central services	91	93
Premises	15	14
	453	468

	2015 £000	2014 £000
Wages and salaries	11,741	12,068
Social security costs	873	923
Other pension costs (including FRS 17 adjustments)	2,020	1,913
	14,634	14,904
Contracted-out lecturing services	1,974	2,105
Restructuring costs - Exceptional	634	241
	17,242	17,250

The College had staff costs of £16,462,000 included within the group staff costs excluding restructuring costs shown above of £16,608,000 (2013/14: £16,689,000).

	2015	2014
	£000	£000
Teaching departments – teaching staff	6,093	6,376
Teaching departments – other staff	3,255	2,968
Teaching support services	1,224	1,154
Other support services	83	74
Administration and central services	3,316	3,672
Premises	458	495
FRS 17 retirement benefits gain	205	165
	14,634	14,904
Staff restructuring - Exceptional	634	241
Contracted-out lecturing services	1,974	2,105
	17,242	17,250

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

The number of staff, including senior post-holders and the Accounting Officer, who received annual emoluments, excluding pension contributions but including benefits in kind in the following ranges was:

	Year Ended 31 July 2015		Year Ended 31 July 2014	
	Number of Senior Postholders	Number of Other Staff	Number of Senior Postholders	Number of Other Staff
£80,001 to £90,000	2	-	2	-
£90,001 to £100,000	2	-	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	-	2	-
£130,001 to £140,000	-	-	-	-
£140,001 to £160,000	1	-	-	-
£160,001 to £170,000	-	-	-	-
£180,001 to £190,000	-	-	1	-
£210,001 to £220,000	-	-	-	-

A 1% pay award was approved by the Corporation in the year from 1 August 2014.

8. EMOLUMENTS OF SENIOR POSTHOLDERS AND MEMBERS

	2015	2014
	Number	Number
The number of senior postholders, expressed as full time equivalents, including the Accounting Officer was:	5	5

	2015	2014
	£000	£000
Salaries	432	556
Benefits in kind	6	8
Pension contributions	85	81
	523	645

The above emoluments include amounts payable to the Accounting Officer (who was also the highest paid senior postholder) of:

	2015	2014
	£000	£000
Salaries	134	162
Benefits in kind	1	1
Pension contributions	17	21
	152	184

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

The members of the Corporation other than the Accounting Officer and the staff member did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

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

9. OTHER OPERATING EXPENSES

	2015	2014
	£000	£000
Teaching departments	9,457	8,878
Teaching support services	233	231
Other support services	32	103
Administration and central services	5,880	2,317
General education	669	742
Premises costs - Running costs	1,497	859
- Maintenance costs	783	866
- Rents and leases	477	550
	19,028	14,546

	2015	2014
	£000	£000
Other operating expenses include:		
Auditors' remuneration		
- financial statements audit	45	33
- internal audit	32	47
Hire of plant and machinery - operating leases	29	144
Hire of other assets - operating leases	432	405

Learner Support Fund expenditure is excluded from the above and is shown separately in note 30.

The college had other operating expenses of £18,899,000 included in the group operating expenses shown above of £19,028,000 (2013/14: £14,083)

Current management has reviewed arrangements put in place by previous management and taken steps to put the organisation on a sounder financial footing in the future. To that end, in 2015 there are, included within the administration and central services costs, exceptional costs relating to write down of investments and fixed assets of £3.6 million, provision for overpayment of Lennartz VAT £0.2 million and historic contractor invoices not recognised in previous years of £0.4 million.

10. INTEREST & OTHER FINANCE COSTS

	2015	2014
	£000	£000
Bank interest payable	313	205
Pension finance payable	137	31
	450	236

11. EXCEPTIONAL ITEMS

	2015	2014
	£000	£000
Subcontractor costs	-	104
Fraud and associated costs	-	476
	-	580

12. TAXATION

The members do not believe that the College was liable for any corporation tax arising out of its activities during either period. There is a tax liability of £1,619 (2013/14: Nil) for Protech Training Services Limited.

13. DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR

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

	2015	2014
	£000	£000
Deficit for the year	(6,233)	(991)

14. INTANGIBLE ASSETS

	Goodwill	Negative Goodwill	Intellectual Property	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 August 2014	5	(172)	600	433
Write down	-	172	(600)	(428)
At 31 July 2015	5	-	-	5
Accumulated Amortisation				
At 1 August 2014	3	(34)	120	89
Charge for period	1	-	-	1
Write down	-	34	(120)	(86)
At 31 July 2015	4	-	-	4
Net book value				
At 31 July 2015	1	-	-	1
At 31 July 2014	2	(138)	480	344

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 was to be amortised over a five year period from 1 August 2013. The College has purchased the intellectual property on 31 July 2014 at the net book value of £480,000. On review, the intellectual property has been written off 31 July 2015.

The negative goodwill arose from the acquisition of the remaining 50% shareholding of Clarity FE Limited. This was purchased at below book value. This was to be released over a 5 year period in line with the intellectual property. On review, the negative goodwill has been written off 31 July 2015.

15. 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 2014	29,027	6,675	12,214	14	13,609	61,539
Additions	16	4	737	-	1,349	2,106
Disposals	(250)	-	(4,145)	(14)	-	(4,409)
At 31 July 2015	28,793	6,679	8,806	-	14,958	59,236
Accumulated depreciation						
At 1 August 2014	7,479	2,181	7,942	14	-	17,616
Charge for period	547	398	1,196	-	-	2,141
Disposals	-	-	(3,088)	(14)	-	(3,102)
At 31 July 2015	8,026	2,579	6,050	-	-	16,655
Net book value						
At 31 July 2015	20,767	4,100	2,756	-	14,958	42,581
At 31 July 2014	21,548	4,494	4,272	-	13,609	43,923
Inherited	2,745	-	-	-	-	2,745
Finance by capital grant	411	762	239	-	3,492	4,904
Other	17,611	3,338	2,518	-	11,466	34,933
	20,767	4,100	2,756	-	14,958	42,581

College	Land & Buildings Freehold	Long lease-hold	Equipment	Motor Vehicles	Assets in Course of Construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 August 2014	29,027	6,675	12,085	14	13,609	61,410
Additions	16	4	704	-	1,349	2,073
Disposals	(250)	-	(4,145)	(14)	-	(4,409)
At 31 July 2015	28,793	6,679	8,644	-	14,958	59,074
Accumulated depreciation						
At 1 August 2014	7,479	2,181	7,922	14	-	17,596
Charge for period	547	398	1,169	-	-	2,114
Disposals	-	-	(3,088)	(14)	-	(3,102)
At 31 July 2015	8,026	2,579	6,003	-	-	16,608
Net book value						
At 31 July 2015	20,767	4,100	2,641	-	14,958	42,466
At 31 July 2014	21,548	4,494	4,163	-	13,609	43,814
Inherited	2,745	-	-	-	-	2,745
Finance by capital grant	411	762	239	-	3,492	4,904
Other	17,611	3,338	2,402	-	11,466	34,818
	20,767	4,100	2,641	-	14,958	42,466

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 £2,745,000 (2013/14: £2,773,000) 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 and EFA or use them in accordance with the financial memorandum with the funding agencies.

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.

16. INVESTMENTS

College	Subsidiary Undertakings £000	Other Investments £000	Total £000
At 1 August 2014	430	182	612
Write down	(340)	(182)	(522)
At 31 July 2015	90	-	90

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

Subsidiary Company	Country of Incorporation	Principal Activity	Holding
The Consortium for Business Limited	England and Wales	Dissolved	100%
The Big Student Takeover Limited	England and Wales	Dissolved	100%
Protech Training Services Limited	England and Wales	Provision of training	100%
Plaza Activity Limited	England and Wales	Commercial Gym	100%
Gazelle Transform Limited	England and Wales	Liquidated	11%

The Group had nil investments at the year-end (2013/14: £182,000).

17. DEBTORS

	2015		2014	
	Group £000	College £000	Group £000	College £000
Amounts falling due within one year				
Trade debtors	656	649	848	744
Prepayments and accrued income	650	552	1,522	1,250
Amounts due from group undertakings	-	373	-	444
Other debtors	392	396	859	827
	1,698	1,970	3,229	3,265

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015		2014	
	Group £000	College £000	Group £000	College £000
Trade creditors	(203)	(217)	275	231
Other taxation, social security and pensions	482	458	557	504
Accruals	3,631	3,551	1,373	1,225
Deferred income	378	378	92	92
Other creditors	258	227	575	548
Amounts due to group undertakings	-	-	-	499
Bank loan payable in less than one year	920	920	-	-
	5,466	5,317	2,873	3,099

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015		2014	
	Group	College	Group	College
	£000	£000	£000	£000
Bank Loan	10,836	10,836	9,724	9,724

The College had a £13 million loan facility at 31 July 2015 which had been drawn down by this date. £1.24 million had been repaid in the year with the remainder is repayable in quarterly instalments over a ten year period as follows:

	2015		2014	
	Group	College	Group	College
	£000	£000	£000	£000
In one year or less	920	920	276	276
Between one and two years	3,920	3,920	276	276
Between two and five years	2,760	2,760	6,827	6,827
In five years or more	4,156	4,156	2,621	2,621
Total	11,756	11,756	10,000	10,000

This loan is not secured on any of the College assets.

20. DEFERRED CAPITAL GRANTS

	SFA	Other	Total
	£000	£000	£000
At 1 August 2014	4,465	627	5,092
Cash received:			
Equipment	46	-	46
Release to income and expenditure account:			
Equipment	(72)	(163)	(235)
At 31 July 2015	4,439	464	4,903

21. REVALUATION RESERVE

	£000	£000
	Group	College
At 1 August 2014	2,773	2,773
Transfer from revaluation reserve to Income and Expenditure account		
- depreciation on revalued assets	(28)	(28)
At 31 July 2015	2,745	2,745

22. MOVEMENT ON GENERAL RESERVES

	2015 Group £000	2015 College £000	2014 Group £000	2014 College £000
At 1 August	21,770	21,940	23,628	23,707
Deficit for the year after depreciation of assets at valuation and tax	(6,233)	(6,332)	(991)	(900)
Transfer from revaluation reserve to income and expenditure account	28	28	28	28
Actuarial loss in respect of pension scheme	(1,253)	(1,253)	(895)	(895)
At 31 July	**14,312**	**14,384**	**21,770**	**21,940**
Balance represented by:				
Income and expenditure account excluding pension reserve	22,637	22,709	28,500	28,670
Pension reserve	(8,325)	(8,325)	(6,730)	(6,730)
At 31 July	**14,312**	**14,384**	**21,770**	**21,940**

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 £2,020,000 (2013/14: £1,913,000).

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

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

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75% and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

From 1st April 2012 to 31 March 2014, the employee contribution rate ranged between 6.4% and 8.8%, depending on a member's full time equivalent salary, with Employer contributions set at 14.1%. With effect from 1 April 2014 the employee contributions rates were increased and ranged between 6.4% and 12.4%, depending on a member's full time equivalent salary, with Employer contributions set to increase to 16.4% from September 2015.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the Proposed Final Agreement, and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme and this process will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:

http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf

The pension costs paid to TPS in the year amounted to £635,413 (2013/14: £615,875).

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2015 was £1,618,000 of which employer's contributions totalled £1,221,000 and employee's contributions totalled £397,000. The current agreed contribution rate for the year ending 31 July 2015 was 20.5%.

The following information is based upon a full actuarial valuation of the fund as at 31 March 2014 updated to 31 July 2015 by a qualified independent actuary.

	31-Jul-15	**31-Jul-14**
Inflation - CPI	2.60%	2.70%
Rate of increase in salaries	4.00%	4.00%
Rate of increase in pensions	3.60%	5.80%
Discount rate for liabilities	3.60%	4.00%

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.

	31-Jul-15	**31-Jul-14**
Current pensioners		
Males	22.3	22.3
Females	24.5	24.5
Future pensioners		
Males	24.3	24.3
Females	26.7	26.7

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 expected at 31-Jul-15	Value at 31-Jul-15 £000	Long term rate of return expected at 31-Jul-14	Value at 31-Jul-14 £000
Equities	3.60%	2,112,000	6.60%	2,224,960
Bonds	3.60%	950,400	3.70%	719,840
Property	3.60%	281,600	4.70%	229,040
Cash	3.60%	176,000	3.60%	98,160
Total market value of assets		3,520,000		3,272,000

	2015 £000	2014 £000
College's estimated asset share	24,467	21,669
Present value of scheme liabilities	(32,792)	(28,399)
Deficit in the scheme	(8,325)	(6,730)

Analysis of the amount charged to the income and expenditure account

	2015 £000	2014 £000
Employer service cost (net of employee contributions)	1,384	1,328
Settlements and curtailments	13	50
Total operating charge	1,397	1,378

Analysis of pension finance income / (expense)

	2,015 £000	2,014 £000
Expected return on pension scheme assets	1,020	1,122
Interest on pension scheme liabilities	(1,157)	(1,153)
Pension finance expense	(137)	(31)

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

	2015 £000	2014 £000
Actuarial loss recognised in STRGL	(1,253)	(895)

Movement in deficit during year

	2015 £000	2014 £000
Deficit in scheme at beginning of year	(6,730)	(5,639)
Movement in year:		
Current service charge	(1,384)	(1,328)
Employer contributions	1,192	1,213
Impact of settlements and curtailments	(13)	(50)
Net interest on assets	(137)	(31)
Actuarial loss	(1,253)	(895)
Deficit in scheme at end of year	(8,325)	(6,730)

The estimated value of employer contributions for the year ended 31 July 2016 is £1,192,000.

History of gains or losses

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Difference between the expected and actual return on assets:					
Amount	628	692	2,140	(408)	(750)
% of scheme assets	2.57%	3.19%	11.33%	(5.32%)	7.17%
Experience gains and losses on scheme liabilities:					
Amount	193	(1,041)	-	(245)	77
% of scheme liabilities	(0.59%)	3.67%	-	1.19%	0.43%
Total amounts recognised in statement of total recognised gains and losses:					
Amount	(1,509)	(895)	(132)	(1,449)	1,297
% of scheme liabilities	(4.60%)	(3.15%)	(0.54%)	(7.04%)	(7.29%)

Asset and liability reconciliation

	2015	2014
	£000	£000
Reconciliation of liabilities		
Liabilities at start of period	28,399	24,531
Current service charge	1,384	1,328
Interest cost	1,157	1,153
Employee contributions	386	355
Actuarial losses	2,137	1,587
Benefits paid	(684)	(605)
Curtailments and settlements	13	50
Liabilities at end of period	32,792	28,399
Reconciliation of assets		
Assets at start of period	21,669	18,892
Expected return on assets	1,020	1,122
Actuarial gains	884	692
Employer contributions	1,192	1,213
Employee contributions	386	355
Benefits paid	(684)	(605)
Assets at end of period	24,467	21,669

Pension cost less contribution payable is made up of current service charge less employer contribution and interest cost less expected return on assets.

24. RECONCILIATION OF OPERATING DEFICIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2015	2014
	£000	£000
Deficit on continuing operations after depreciation of assets at valuation and before tax	(6,233)	(991)
Depreciation (note 15)	2,141	2,050
Amortisation of Intangible Assets (note 14)	1	87
Loss on fixed asset and investment write down	1,831	-
Deferred capital grants released to income (note 20)	(235)	(235)
Interest receivable (note 6)	(5)	(6)
Pension cost less contributions payable (note 23)	342	196
Decrease / (increase) in debtors	1,531	(448)
Decrease in stock	7	-
Interest payable on loan	314	-
Increase / (decrease) in creditors	1,949	(193)
Net cash inflow from operating activities	1,642	460

25. ANALYSIS OF CHANGES IN NET FUNDS

	At 01-Aug-14 £000	Cash flows £000	At 31-Jul-15 £000
Cash at bank and in hand	1,277	1,030	2,307
Debts due after 1 year	(9,724)	(1,112)	(10,836)
Debts due within 1 year	(276)	(644)	(920)
	(10,000)	(1,756)	(11,756)

26. ANALYSIS OF CASH FLOWS

	2015 £000	2014 £000
Returns on investments and servicing of finance		
Interest received	5	6
Interest payable on loan	(314)	-
Net cash (outflow)/inflow from returns on investment and servicing of finance	(309)	6
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(2,106)	(12,680)
Deferred capital grants received	46	1,536
Net cash outflow for capital expenditure and financial investment	(2,060)	(11,144)
Financing		
New loans secured	3,000	7,000
Repayment of amount borrowed	(1,244)	-
Net cash inflow from financing	1,756	7,000

27. FINANCIAL COMMITMENTS

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

	2015 £000	2014 £000
Land and buildings		
Expiring within one year	-	57
Expiring between two and five years	379	296
Over five years	53	53
	432	406
Other		
Expiring within one year	23	23
Expiring between two and five years	56	50
	79	73

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 2015 would be to reduce the income and expenditure balance by £266,000 and interest thereon levied by HMRC.

The College had entered into two guarantee bonds in favour of Colleges of Excellence Company in Saudi Arabia for the sums of SAR 15 million (£2.7 million) with an expiry date of 31 August 2019 and SAR 3.7 million (£0.7 million) with and expiry date of 30 September 2016.

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.

No governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2013/14: none).

The College traded with its various subsidiaries and related party companies.

	Sales £000	Purchases £000	Outstanding £000
College to Subsidiary			
Protech Training Services Limited	39	1,765	75
Plaza Activity Limited	26	4	215
Protech to Other Group Companies			
Plaza Activity Limited	38	1	85
College to Other Related Parties			
Gazelle Global Limited	4	-	-
Gazelle Foundation Limited	71	27	-
Gazelle Transform Limited	3	25	-
North Hertfordshire Studio School Trust	455	8	413

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, 20 and 30.

30. LEARNER SUPPORT FUNDS

	2015	2014
	£000	£000
Hardship and Bursary	692	641
Childcare	178	111
	870	752
Disbursed to students:		
Hardship & Bursary	516	690
Childcare	106	192
Administration costs	44	38
	666	920
Balance underspent/(overspent) at 31 July	204	(168)

Funding body 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.