

**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2018**



# KEY MANAGEMENT PERSONNEL, BOARD OF GOVERNORS AND PROFESSIONAL ADVISERS

## KEY MANAGEMENT PERSONNEL

In 2017/18, these (all members of the Senior Management Team) were:

- Matt Hamnett, Group Chief Executive and Principal of North Hertfordshire College (until 31 August 2017) then Group Chief Executive (from 1 September until 30 November 2017); Accounting Officer (until 30 November 2017).
- Kit Davies, Deputy Principal of North Hertfordshire College (until 31 August 2017), Principal of North Hertfordshire College (from 1 September 2017) then Acting Group Chief Executive and Principal (from 20 November 2017), then Group Chief Executive and Principal (from 1 April 2018); Accounting Officer (from 1 December 2017).
- Lucy Hann, Group Chief Operating Officer.
- Paul Harte, Group Finance Director.
- James Sowray, Managing Director, Hart Learning & Development Ltd (until 21 November 2017).

## BOARD OF GOVERNORS

A full list of the names of those who served as members of the Group Board during this period is given on pages 17 and 18.

## PROFESSIONAL ADVISERS

### *Bankers*

**Lloyds Bank plc**  
249 Silbury Boulevard  
Secklow Gate  
West Milton Keynes MK9 1NA

### *Financial statements auditors and reporting accountants*

**KPMG LLP**  
58 Clarendon Road  
Watford WD17 1DE

### *Internal auditors*

RSM UK Audit LLP  
6th Floor  
25 Farringdon Street  
London EC4A 4AB

### *Solicitors*

**Eversheds LLP**  
Kett House  
1 Station Road  
Cambridge CB1 2JY

**Howes Percival LLP**  
Flint Buildings  
1 Bedding Lane  
Norwich NR3 1RG

# MEMBERS' REPORT: CREATING ECONOMIC & SOCIAL VALUE THROUGH LEARNING

## *Nature, objectives and strategies*

The members of North Hertfordshire College Further Education Corporation present their report and audited financial statements for the year ended 31 July 2017. Members of the Group Board, who are also Trustees of the charity, are listed on pages 17 and 18.

## *Legal status*

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of operating North Hertfordshire College (NHC). The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

## *Mission*

Our mission is to create economic and social value for individuals, businesses and the communities we serve through learning.

## *Public Benefit*

North Hertfordshire College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. It is regulated by the Secretary of State for Education as Principal Regulator for all FE Corporations in England.

In setting and reviewing strategic objectives, the Trustees have paid due regard to the Charity Commission's guidance on public benefit and particularly to its supplementary guidance on the advancement of education. This requires that all organisations wishing to be recognised as charities must show, explicitly, that their aims are for public benefit.

The Trustees believe that our mission is consistent with the guidance on providing public benefit. Students are drawn from the local community and provision is made to support those who are disadvantaged (through bursaries and grants to enable individuals to access resources and equipment).

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

- A diverse local, occupationally relevant training offer, including but not limited to apprenticeships, for businesses of all sizes locally, regionally and –nationally.
- Teaching, learning and assessment for young people and adults, through full-time, part-time and work-based courses in a wide range of sector and occupational areas.
- Strong working relationships with local businesses, who actively support and engage with the courses we deliver for our students – including by providing high quality work experience placements.
- Support and independent advice and guidance to help students consider and secure progression opportunities.
- Wider pastoral care for students, underpinned by strong working relationships with relevant partner organisations across the public sector.

The way in which we deliver such benefits is described throughout this report.

## OPERATING STRUCTURE

We operate through a simple, customer-oriented, group structure under the banner of the Hart Learning Group. The Group includes:

- **North Hertfordshire College (NHC):** an occupationally-focussed further education college with campuses in Stevenage and Hitchin. We deliver full and part-time programmes in sectors and occupations which are important to employers in our area. We also deliver programmes for students who need extra support to complete their studies.
- **Hart Learning & Development Ltd (Hart L&D):** a progressive learning and development business which supports organisation of all sizes to engage with and invest in emerging talent. We start with our clients' ambitions, plans and challenges in mind and seek to help them improve and grow. We help our clients to attract and retain the talent they need – whether by working to engage young people about the world of work, by recruiting and training the right talent, or by providing opportunities for onward career progression.
- **The Hart Schools Trust Ltd:** a multi-academy trust which currently sponsors a secondary and a primary academy, increasingly recognised for the quality of its teaching and learning and the strength of its personal development curriculum. Currently focussed on Stevenage, we are planning to increase the number of schools that are part of the Trust over the next five years, where we believe that our values can make a difference for students. The Trust's secondary school – the Thomas Alleyne Academy – was graded Good with Outstanding leadership and management at its most recent Ofsted inspection in 2015. The Group sponsors the Trust, which is a separate legal entity (Companies House Registration Number 07791933), whose financial accounts are distinct from those of NHC and Hart L&D.
- A wholly-owned subsidiary, **Plaza Activity Limited** (Companies House Registration Number 07691859), through which we operated a commercial gym franchise in Stevenage town centre until February 2018. This operation has since been closed.

These business units are supported by a single corporate spine providing traditional corporate service functions as well as strategic management support, and a quality teaching and learning team.

Throughout this document, we refer to 'the Group' as the overarching nomenclature, using NHC to refer more narrowly to the work of the college within the structure described above.

## IMPLEMENTING OUR FIVE-YEAR STRATEGY

In April 2016, the Corporation Board approved a new five-year strategy, which set out our strategic goals through to 2020.

For the Group, our strategic objectives are centred around core themes:

- delivering consistently outstanding teaching and learning across all areas of the curriculum.
- working with employers and community stakeholders to design and deliver relevant, high-quality class based programmes and an employer focused apprenticeship portfolio.
- offering a rich, broadly defined student experience, which prepares students for their next steps and the work of work.

The objectives are reviewed and updated each year in the light of changes to educational policy, national curriculum developments and local priorities and agendas. The Strategic Plan is supported by separate plans for key areas, including estates and financial plans.

Based on the 2016/17 Qualification Achievement Rates tables, overall student achievement is the best in Hertfordshire. In 2017/18, we continued to make progress towards our goal of delivering excellent student progress and outcomes, and this was recognised in the last quarter of 2017 by Ofsted who judged our Overall Effectiveness to be Good, with our traineeship provision and our support for learners with high needs judged to be Outstanding. Our long-term ambition remains to raise our overall self-assessment to Outstanding.

We have continued to make steady progress with growing and developing our apprenticeship and employability delivery through Hart L&D. Although our apprenticeship provision has not grown as quickly as we had originally forecast, this should be seen against a backdrop of the introduction of the Apprenticeship Levy and subsequent national decline in apprenticeship starts being offered by employers. However, in 2017/18, despite the backdrop of national decline in starts we directly delivered 788 apprenticeship starts a 53% year on year increase.

Both Hart Schools Trust schools (the Thomas Alleyne and Roebuck Academies) made good progress in 2017/18, delivering improved student progress and outcomes. The Trust is working towards delivering outstanding outcomes for students, enhancing opportunities and aspiration for our local community, and working closely together and with others across the Group to deliver measurable school improvement. We anticipate that Thomas Alleyne Academy and Roebuck Academy will be inspected by Ofsted in 2018/19.

We have strong relationships with national and local employers and we work with them to ensure that our curriculum meets their needs. We have analysed what the current and future labour market demand is in the areas we serve, and identified six priority sectors where there is the most growth potential. We have also invested in ensuring that our facilities continue to meet industry standards. For example, with the support of the Hertfordshire Local Enterprise Partnership (LEP) we have invested around £250,000 in improving facilities for students studying Sport Science and Media Production.

We remain committed to our goal of being recognised as a key partner for stakeholders in our community – working with our students, customers and stakeholders to support the development of the North Hertfordshire area. In 2017/18, we began working with Stevenage Borough Council to support its substantial regeneration programmes, ensuring that the work it plans on homes, retail and leisure facilities in the town will contribute to delivering training and work experience opportunities as well as vocational qualifications.

Ofsted praised the positive culture in the Group and our clear values which define how we work and enable our success. Our values are:

- **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 colleagues to deliver. We don't make excuses.
- **Integrity:** we have a strong moral compass, and we do the right thing for our customers, for our colleagues, and for the group.
- **Sustainability:** we take decisions that work for the medium- and long-term: socially, economically, and environmentally.

Our goals also require a sustainable financial foundation. The FE sector has been confronted with a particularly challenging financial picture, with reduced income from public sources and increased uncertainty about its future. We have started to address historic weaknesses in our financial position by reducing costs, stopping non-core business and loss-making ventures as well as significantly improving internal reporting and management processes. However, like many other colleges in the sector, in 2017/18 we struggled to meet the budgeted revenue targets set, a situation caused by several factors but most notably the significant nationwide slowdown in apprenticeship starts following the introduction of the Apprenticeship Levy.

We have therefore sought and received exceptional financial support (EFS) from the ESFA to carry the college, support its cash flow for 2018/19 and enable us to complete our turnaround. The funding provided comes with extra support for the Board and scrutiny from the agency, which we welcome as vital to help give assurance that public funds are being properly spent.

## **CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**

### *Financial results*

We are required to complete the annual Finance Record for the ESFA, and because of our poor outturn in 2017/18 and our request for Exceptional Financial Support funding, have been assessed by the ESFA as having an "Inadequate" financial health grading. Our plan would improve this rating in 2018/19 back to "Satisfactory".

Operating surplus/sector EBITDA as % of income	-9.20%
Staff costs as % of income	70.84%
Operating cash flow (£ '000)	£-416
Cash days in hand / liquidity (adjusted current ratio)	NA
Borrowing as % of income	30.59%
Reliance on ESFA income	83.36%
ESFA financial health rating	Inadequate

### Student numbers

In 2017/18, NHC and Hart L&D has delivered activity that has earned £19,987k from the funding bodies' main allocations (£22,870k in 2016/17).

The College had 6,420 funded students and 883 other students. Despite significant underperformance against the budget, the direct delivery Apprenticeship provision has continued to grow from 513 in 2016/17 to 788 in 2017/18, a 53% increase.

The college also enrolled 201 Higher Education Students generating income of £1,112m through its partnership with the University of Hertfordshire, a reduction against the £1, 485m in 2016/17.

### Ofsted November 2017

The overall effectiveness of provision in NHC and Hart L&D is improving year-on-year and we continued to make progress in 2017/18. This was borne out in our Ofsted inspection in November 2017 which judged us to be Good for Overall effectiveness, with some Outstanding provision types.

CIF theme	Judgement
Overall effectiveness	Good
Effectiveness of leadership and management	Good
Quality of teaching, learning and assessment	Good
Outcome for learners	Good
Personal development, behaviour and welfare	Good
Provision type	
Provision for Higher Needs funded students	Outstanding
Traineeships	Outstanding
Study programme	Good
Apprenticeships	Good
Provision for Adults	Good

### Key strengths

During the Inspection, Inspectors judged there to be:

- Clear evidence of strong and consistent leadership that has had a positive impact on the cultural transformation of the organisation.

- A clear strategy in place, coupled with sound improvement plans, which are now directly impacting on student outcomes and a better teaching and learning experience for our students.
- Strong and varied employer relationships. These help us to create learning programmes that support and develop students' work readiness skills and personal attributes. All students benefit from meaningful and relevant work experience opportunities.
- Improving overall achievement rates across all provision types; attendance and punctuality have also quite significantly improved.
- Outstanding provision for traineeships and support for learners with higher needs
- Good teaching and learning – students work at the appropriate level and in some cases better than expected.
- Strong arrangements for students ensuring that they receive timely and effective additional learning support.
- A positive learning atmosphere with polite and well-behaved our students and managers and staff with high expectations of students and for the organisation as whole.

#### *Areas for Improvement*

We are also aware that we need to further improve the following aspect of our delivery:

- Further improve our delivery of Maths and English, achievement of 16-18 year olds and for apprenticeship delivered through our subcontractor partners.
- Continue to enhance our approach to dealing with the national Prevent agenda and issues relating to radicalisation.

#### *Student achievement*

The group is committed to achieving the best outcome for all its students and helping them achieve the qualifications they are studying. Notable achievements in 2017/18 include:

- Achievement for 16-18 year old students continues to rise and is now at a four year high of 81.2%.
- Overall achievement for 19+ students has also remained consistently high at 90.3 %, a statistic that puts us a one of the leading providers in the country for this age group.
- Maths and English performance has also continued to rise year on year, with overall achievement for maths now 83% (2016/17, 79.8%) and English 80.3% (2016/17, 75%). This reflects the challenge inherent in engaging students who have not succeeded with either Maths or English or both at GCSE level in their previous schools.
- The overall achievement for our directly delivered apprenticeship provision has risen by 3% from 63% to 66% and timely achievement has improved from 39.9% to 48.5%. These outcomes are below our aspirations, but we are nonetheless pleased with the year on year progress made and the platform this provides for further improvements in 2018/19.



- 79% of our traineeship students' progress into work, an apprenticeship or further learning, an improvement on 6% on the previous year.

### *Curriculum Development*

- We have continued to invest in the alignment of our curriculum offer with labour market needs – including through substantial capital investment. With the support of the Hertfordshire Local Enterprise Partnership (LEP) we invested c£250,000 in industry standard facilities for students studying on our Sport Science, Media and Graphics and IT departments.
- Hart L&D has developed a well-defined proposition for Apprenticeship delivery and programme design, allowing for focussed planning of provision to meet employer needs. In 2017/18 we developed and embedded delivery of 14 Apprenticeships standards having transferred our offer from the corresponding Apprenticeship frameworks in May 2017. In addition, we launched three new Apprenticeship standards in Retail Management and Management to large national clients.
- Hart L&D has continued to develop a vibrant traineeship/employability programme which enables trainees to complete both the requirements of the traineeship, and tackle additional qualifications including Maths and English.
- The Bridge tutorial programme draws on our extensive business relationships to help study programme students define and work toward their career goals, while also addressing British values and the Prevent agenda, through a combination of tutorial and employability activities. Data from our 2017/18 student surveys indicate that this programme has substantially improved awareness and understanding of these issues.
- We continue to review our full-time courses for 16-18 year olds and have now moved the majority of the Level 2 and 3 provision over to new RQF qualifications, as a result of the phasing out of previous QCF equivalents.
- We have embraced the national changes to GCSE specifications and for the first time delivered the new 9-1 graded curriculum for both GCSE for Maths and English.
- There has been much active preparation in terms of material design, course design, electronic tracking tools and employer engagement activities to prepare ourselves for a successful T-level industrial placement pilot being delivered to 87 full -time students in 2018/19.

### *Future prospects*

In 2018/19, building on progress made in 2017/18, we will:

- Keep improving the quality of our provision of all kinds – working towards our goal of being judged Ofsted Outstanding.
- Continue to build on the excellent working relationships with our new, national, client contracts with Hart L&D Development.
- Continue to improve student progress and outcomes within the schools that make up the Hart Schools Trust, and continue working with other schools interested in joining the Trust where there is mutual appetite and benefit.
- Continue to develop and deliver a responsive curriculum across the NHC and Hart L&D portfolio.

- Dispose of surplus assets and prepare detailed plans for investment in our retained estate.
- Work closely with the LEP (local Enterprise Partnership) and other stakeholders to increase employer engagement and curriculum development.
- Deliver the agreed budgeted outcome for 2018/19 and continue to improve our underlying financial health by creating a prudent level of working capital over the next five years.

## FINANCIAL PERFORMANCE AND POSITION

### FINANCIAL RESULTS

The Group generated a deficit in the year of £5.03m (2016/17: surplus £713,000) including £713,000 from loss on the sale of property.

The Group has accumulated reserves of £18,848,000 (2016/17: £19,853,000).

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18, the FE funding bodies provided 83% (2016/17: 75%) of the Group's total income.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

- The College has £6.3m of loans outstanding with bankers on terms negotiated in March 2013. These facilities are currently secured on the College's assets. In addition, NHC has a £1.3m overdraft facility with Lloyds Bank. At July 31<sup>st</sup>, 2018, the overdraft was £1m.
- The College is dependent on Government funding for the sector to support its operations and fund its bank loan obligations. The bank loans have covenant conditions and the College must ensure it operates within these covenants in order for this financial support to continue in its current form.
- The College has received EFS support since September 2018. To date, the College has had two cash injections; £1m (September 2018) and £0.5m (November 2018). Approval for a further £1m has been granted and is due in December 2018.
- The College's bankers have reaffirmed their support for the College since September 2018 and are also in close contact (independently) with the ESFA. In addition to the loans, the College's overdraft remains at £1.3m. The banking covenants will be reviewed following completion of the BDO LLP report stated below.
- In September 2018, the College submitted an application to the agency's Transaction Unit ('TU') to access the Restructuring Fund. This was an extensive piece of work covering Quality, Curriculum, Estates as well as a review of NHC's historical performance and reviewing our 2018/19 budget and forecasts out to 2021/22. This application is being independently reviewed by BDO LLP. BDO LLP is reviewing both the past (from 2015/16) and future financial planning to 2021/22. The report will be submitted to the TU funding committee to assess the College's application for funds.

- The Further Education Commissioner's team visited the College in September 2018. The Further Education Commissioner informed the College that he supports the College TU application and has given both the TU and the ESFA his endorsement.
- The College has plans in place to secure a significant cash injection through the disposal of surplus land which will strengthen the College's cash position and any potential future investment. The College has exchanged contracts with a residential developer to sell this land. The contract is dependent upon obtaining satisfactory planning permission for a residential development and the re-development of College facilities. Net profits on this disposal will allow the College to repay the financial support that it has received at this stage.
- The College's financial statements show its cost base has decreased year on year by £1.2m. From February through to June 2018, restructures were carried out across all College sites and the savings achieved by these difficult decisions are bearing fruit in 2018/19. In addition, the College has significantly reduced high levels of subcontracted delivery, bringing more delivery in house reducing subcontractor costs.

The College has a clear plan in place to restore its operating and cash surpluses. Though not without risk, the College 2018/19 budget deficit of £325k is based on prudent revenue assumptions, and cost savings, the large majority of which have been secured. The College has clear sight of the savings it intends to make in the year to secure a surplus position in 2019/20, including further staff restructures planned in administrative and support functions.

The College has two trading subsidiaries, Hart Learning & Development Ltd and Plaza Activity Limited (trading as Fit4Less). The principal activity of Hart Learning and Development Ltd is the provision of training, whilst Plaza Activity Limited is a learning company, acting in support of our charitable objects, in which students support the operation of a franchised gym.

In the current year, Hart L&D Limited generated a loss of £21,202 (2016/17: £11,989) and Plaza Activity Limited made a loss of £210,721 (2016/17: £148,132).

The Group has a 32% interest in Hertvec, a consortium with Hertford Regional College and the Samama Holdings Group, a major Saudi Arabian company specialising in construction and facilities management, which is delivering vocational education in the Kingdom of Saudi Arabia. The value of this investment was written off in 2014/15. The operation in Saudi Arabia is now making an operating profit and the Group's liabilities have been minimised.

### Treasury policies and objectives

Treasury management is the management of our cash flows, 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.

All borrowing undertaken has been authorised by the Group Board.

### Cash flows and liquidity

Net cash flow from operating activities was £ -416,000, (2016/17: £2,105,000).

### Reserves policy

The Group Board recognises the importance of managing its financial resources to ensure the ongoing sustainability of its activity in support of education and training, and its

obligations to its workforce. The Group Board currently manages its resources with this priority in mind and is not planning to develop material levels of unspent reserves. This policy is kept under review to reflect the changing needs of its business.

### *Payment performance*

The Late Payment of Commercial Debts (Interest) Act 1998, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received.

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.

With effect from 1 September 2016, the target set by HM Treasury for payment to suppliers within 30 days is 95%. The College's policy has been payment by the end of the month following the supply of goods and services.

During the accounting period 1 August 2017 to 31 July 2018, based on the number of invoices processed, the College paid 30% (2016/17: 55%) within these terms.

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

## **RESOURCES**

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

### *Financial*

The Group has £18.8m of net assets (including £5.08m pension liability) and £6.3m of external debt.

### *People*

At 31 July 2018, NHC and Hart L&D employed 420 people (366.06 FTE).

### *Reputation*

The Group maintains a good reputation locally and nationally. It seeks to:

- maintain and enhance the reputation of NHC as a provider of outstanding outcomes for its students;
- establish Hart L&D as a positive brand in the local and national market;
- enhance the reputation of the Hart Schools Trust as an effective provider of education, with the aim of delivering from Early Years to Sixth Form as key priorities.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

In the context of our five-year strategy, with active participation and oversight from the main Board and Audit Committee, SMT has continued to keep under review the key corporate risks to which we are exposed. We have identified systems and procedures in place, including specific preventive actions that should mitigate the potential impact of our identified risks. In addition to ongoing review, the Board and SMT also consider any risks that may arise as a result of a new area of work being undertaken.

The principal risks we currently face are:

- That we are not able to maintain our target level of cash reserves in light of the new (sector wide) insolvency regime.
- That we fail to dispose of surplus assets on the timescales we expect, with consequent implications for our cash position.
- That English & Maths achievement rates undermine overall performance across the Group.
- That we do not hit our projected business plan recruitment targets.
- That we do not continue to improve the quality of teaching and learning and outcomes across all provision types.

These risks are contained within a detailed risk register; which is reviewed weekly by SMT and by the Audit Committee at each of its meetings, and more frequently where necessary. This identifies the key risks, the likelihood of those risks occurring, their potential impact on the Group and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

## **STAKEHOLDER RELATIONSHIPS**

We have an extensive 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 L&D – nationally.
- Our current and potential new staff both locally and – to support Hart L&D's growth – nationally.
- Community partners in North Hertfordshire.
- The Hertfordshire LEP and LEPs in adjacent areas.
- Local Authorities, particularly Stevenage Borough Council, North Hertfordshire District Council and Hertfordshire County Council.
- Other FE Colleges in Hertfordshire and adjacent areas e.g. Bedfordshire, London.
- Education (ESFA, the FE Commissioner), employment (DWP, Jobcentre Plus) and other relevant funding bodies.

All of these and other relationships are key to the successful delivery of our new five-year strategy and so we ensure that we are in regular contact with students and prospective students, their parents/carers and local employers. We have well-developed relationships with education policy-makers, both locally and nationally, and are working to enhance links with local authorities and other partners.

### *Transparency arrangements*

The Board conducts its business through a number of committees. Each has terms of reference approved by the full Board. Minutes of meetings are available on our website or from the Company Secretary at:

Hitchin Centre  
Cambridge Road  
Hitchin  
Hertfordshire  
SG4 0JD

The Company Secretary maintains a register of financial and personal interests of the governors, which is published on our website.

### *Charitable and taxation status*

NHC is an exempt charity for the purposes of the Charities Act 2011 and is not liable to corporation tax. The Group's subsidiary companies (Hart Learning & Development Ltd and Plaza Activity Limited trading as Fit4Less) are registered under the Companies Act 2006.

### *Disability statement*

The College seeks to achieve the objectives set down in the Equality Act 2010:

- NHC has an Additional Learning Support (ALS) Manager who gives information, advice and arranges specialist support where necessary for mainstream students, apprentices and trainees with disabilities to enable equal access to learning.
- NHC has a SEND Partnership Manager who works with local authorities to manage all statutory processes for students with Education Health and Care Plans (EHCPs).
- NHC has a Disabled Students Allowance (DSA) Assessment Centre and undertakes assessments for students progressing to Higher Education. A comprehensive range of assistive technology is demonstrated for Higher Education (HE) students during the course of their assessment for their DSA. This determines the most appropriate equipment needed to address individual learning needs.
- NHC makes specialist resources available for use by students. All reasonable adjustments are always put in place for students whenever necessary.
- The Admissions Policy for all students is described in the NHC prospectus and website. Appeals against a decision not to offer a place are dealt with under the Compliments, Feedback and Complaints Policy.
- We have invested in the appointment of specialist staff to support students with learning difficulties and/or disabilities. We employ 9 permanent and 13 Agency Inclusion Assistants to help mainstream students with specific learning difficulties, sensory impairments, general learning difficulties, physical disabilities and personal care. Support can be given within the classroom and in the workplace setting.
- Springboard is specialist provision dedicated to students with Autism which is based at two self-contained offsite centres in Letchworth and Watford. Within our discrete SEND provision (Supported Studies and Springboard) a team with a breadth of skills and

experience enables us to fully meet the needs of all the individuals we work with, and ensure an outstanding student experience, as assessed by Ofsted.

- There is a continuing programme of staff development to- ensure a high level of appropriate support for students who have learning difficulties and/or disabilities can be given.
- The college has a detailed SEND Policy which covers all students with SEND, with or without an EHCP. The college is fully compliant with statutory processes regarding EHCP consultations and annual reviews.
- Where students have complex learning support needs, a detailed assessment is undertaken and an application made for Higher Needs Funding (HNF) from the relevant local authority.
- Specialist programmes are described in prospectuses and on the website; achievements and destinations are recorded and published in the standard NHC format.
- Information about Counselling, welfare services, complaints and disciplinary procedures is made available to all students during induction. Additional details can be found on our website, in the prospectus and leaflets.

#### *Disclosure of information to auditor*

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 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 auditors are aware of that information.

Approved by order of the members of Group Board on 10 December 2018 and signed on its behalf by:

David Chalk,

Chair

## STATEMENT ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the Annual Report and Financial Statements to obtain a better understanding of the Group's governance and legal structure. It covers the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the Annual Report and Financial Statements.

The Board recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times and so 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 guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code").

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2018.

The Group Board recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 22 June 2015.

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 on public benefit and that the required statements appear elsewhere in these financial statements.

### THE GROUP BOARD

The Board is responsible for setting policy and providing strategic direction to the business, and for monitoring and seeking assurance about progress and achievement.

As a body mainly composed of independent non-executive members, it is well-placed to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. To help it do so, the Board receives regular and timely information about performance including regular reports on: quality assurance and improvement; student attendance, retention and attainment; safeguarding; student and business feedback; financial performance; people-related matters; and, health, safety and environmental issues.

In 2017/18, Members were actively engaged in the definition of the Group's quality assurance and improvement regime; the preparation of a clear plan to improve Maths and English provision and performance; and, in the delivery of those quality assurance processes through their own engagement in learning walks, lesson observations and quality assurance panels.

This process has been enhanced through support and challenge from independent advisers and from Ofsted. Student attendance, engagement, behaviour, retention and outcomes mostly improved during the year and the Board was able to monitor this through periodic student conversations.



An inspection by Ofsted took place in November 2017. The outcome was that provision was Good overall, with some elements – notably our support for students with additional learning needs, and our traineeship programme – being Outstanding, an exceptional outcome for a general further education college. Student performance data published early in 2018 confirmed NHC's position as the best-performing college in Hertfordshire, in terms of student outcomes and the 'value added'.

The financial position was monitored closely by the Board during the year. Action was taken to address the consequences of a lower level of apprenticeship recruitment than forecast and a longer term cash-flow challenge. A new approach has been taken in 2018/19 to managing our cash position ahead of the implementation of the new insolvency regime for colleges.

Minutes of all Board meetings, except those deemed confidential by the Board, are published on our website. Copies are also available from Robert Dale, Company Secretary at:

North Hertfordshire College  
Cambridge Road  
Hitchin  
SG4 0JD

The Company Secretary maintains a register of financial and personal interests of the governors which is available for inspection at the above address.

All governors can take independent professional advice about their duties at the Group's expense and have access to the Company Secretary, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Company Secretary are matters for the Board as a whole.

Agendas, papers and reports are issued in good time before Board meetings. Briefings are also given on an ad-hoc basis. The Board has a strong and independent non-executive majority and no individual or group dominates decision-making. The Board 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. Finally, there is a clear division of responsibility between the roles of the Chair of the Board and the Accounting Officer.

The Board met six times in 2017/18 and held a strategic away day. Attendance for the year was 76% (2016/17: 74%).

The Board is supported by four Committees (Audit, Quality & Innovation, Remuneration and Search). Each has Terms of Reference and meets as required.

The members who served on the Board during the year and up to the date of signature of this report are listed in the table on the following pages 17 and 18.

Name	Role	Appointed	Term of office	Resigned	Board Meetings attended	Other committees supported
Liz Calver	Staff Governor	04/09/18	4 years		0/0	Quality & Innovation
Lynne Ceeney	Board Vice-Chair <sup>1</sup>	20/04/15	4 years		6/6 (100%)	Quality & Innovation Search
David Chalk	Board Chair	04/12/17	4 years		4/4 (100%)	Search
Jo Charles	Staff Governor	07/10/16	4 years	31/07/18	3/5 (60%)	Quality & Innovation
Matt Hamnett	Principal	13/03/15	n/a	20/11/17	2/2 (100%)	Quality & Innovation
Paul Holgate	Safeguarding Governor	10/12/14	4 years	31/08/18	4/6 (67%)	Audit
Mitchell Holloway	Student Governor	01/09/17	1 year	22/06/18	3/6 (50%)	Quality & Innovation
Robert Irving		07/09/15	4 years	31/08/18	3/6 (50%)	Quality & Innovation Remuneration
Peter Johnston	Remuneration Chair	01/03/16	4 years		5/6 (83%)	Search
Daniel King	Student Governor	01/10/18	1 year		0/0	Quality & Innovation
Daniel Malyon		12/09/18	4 years		0/0	Audit
Vernon McClure <sup>2</sup>	Quality & Innovation Chair	04/12/14	4 years		5/6 (83%)	Audit Search
Elizabeth Mitchell		12/09/18	4 years		0/0	Quality & Innovation
Jeremy Newman	Audit Chair	01/03/16	4 years		5/6 (83%)	Remuneration
Ruth Orpwood	E&D Governor Chair, Hart L&D	07/09/15	4 years	31/01/18	1/3 (33%)	Audit
Richard Palmer		01/09/17	4 years	31/08/18	3/6 (50%)	Quality & Innovation

<sup>1</sup> Acting Chair from 1 July until 4 December 2017.

<sup>2</sup> Acting Vice-chair from 1 July until 4 December 2017.

Andrew Simmons	Chair, Hart Schools Trust	01/04/17	4 years		6/6 (100%)	Search
David Stern		26/11/18	4 years		0/0	Audit
Jack Tomlinson	Safeguarding Governor (September 2018)	06/09/17	4 years		5/5 (100%)	Quality & Innovation

Robert Dale GradICSA acted as Company Secretary from 1 August 2017 until 31 July 2018.

## APPOINTMENTS TO THE BOARD

Any new appointments to the Board are a matter for consideration by the Board as a whole. The Board has a Search Committee comprising up to five members responsible for selecting candidates for the Board's consideration. The Board is responsible for ensuring that appropriate training is provided for Governors.

At the beginning of December 2017, the Board appointed a Chair to succeed Richard Alberg, who stepped down on 30 June 2017.

- David Chalk (Group Financial Risk Director, Lloyds Banking Group), who brings extensive risk management expertise as well as team-building skills to the Board.

Three appointments were made to the Board with effect from 1 September 2017 following interview by the Search Committee and or election to the Presidency of the North Hertfordshire College Students Union. These were:

- Richard Palmer (Headteacher and Chief Executive, St Christopher School, Letchworth Garden City) who brings extensive education practitioner experience to the Board.
- Jack Tomlinson (former student President, now working at St George's University of London) who brings experience of alumni relations and improves the age diversity of the Board.
- Mitchell Holloway, elected sabbatical President of the Students Union.

With the exception of the Student Member, who has a one-year term, Members of the Board are appointed for a term of office not exceeding four years, but are eligible for re-appointment.

As well as the student governor, four other Governors stepped down during the 2017/18 academic year or at the end of it for various personal and work-related reasons (Jo Charles, Paul Holgate, Rob Irving and Ruth Orpwood). Elections for a new staff and student governor were arranged and the Search Committee commissioned work to identify prospective candidates to join the Board which was undertaken in September 2018.

Two governors were appointed and a new staff and student governor elected in September 2018 and a third governor was appointed in November 2018. Recruitment for further candidates continued in December 2018.

Governors appointed from 1 September to 30 November 2018 were:

- Liz Calver (Head of Sport and Public Services, NHC) – elected staff governor.

- Daniel King (second year student) – elected student governor.
- Daniel Malyon (Head of Facilities Management, Sainsbury).
- Elizabeth Mitchell (Vice President, R&D Pipeline Delivery, GSK).
- David Stern (a forensic accountant and Partner, StoneTurn).

## **BOARD PERFORMANCE**

Consistent with UK Corporate Governance Code best practice, the Board engaged with an externally-facilitated review of board effectiveness in May 2016. The review concluded that the Board was strong, independent and had a good variety of relevant skills and experiences to enable it to fulfil its role.

Since then, a skills audit has been undertaken, as has a review of overall performance.

The Board carried out a self-assessment of its own performance for the year ended 31 July 2018, including reviewing the extent to which members possessed the right balance of skills and experience.

Judged against the Ofsted criteria, concluded that it had a broad base of relevant skills and experience. It was working well but was ambitious for a stronger outcome in future. In particular, members felt that it needed to enhance its cohesiveness by developing a stronger team dynamic, and would continue to work on this with the Chair in 2018/19.

## **AUDIT COMMITTEE**

The Audit Committee is made up of four non-executive members of the Board (neither the Chair nor Accounting Officer are members).

The Committee operates in accordance with written terms of reference approved by the Committee and the Board. Its purpose is to advise the Board on the adequacy and effectiveness of the system of internal control and its arrangements for risk management, control and governance processes.

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

The Committee considers reports about cases of whistleblowing and any reports of fraud.

The 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; internal audit undertake periodic follow-up reviews to ensure recommendations have been implemented.

The Audit Committee also advises the Board 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 Board.

The Committee met three times in 2017/18. Attendance for the year was 91% (2016/17: 83%).

## **FINANCE COMMITTEE**

A Finance Committee was established after the end of the financial year and met for the first time on 29 November 2018. The Committee is chaired by a non-executive Board member and includes two more non-executive members, the CEO/Principal and Group Finance Director. Its role is to scrutinise financial plans and assumptions, to monitor cash flow and working capital and provide the Board with additional assurance about the financial sustainability of the organisation.

## **QUALITY AND INNOVATION COMMITTEE**

The Quality and Innovation Committee is made up of five non-executive members of the Board, together with the Principal and two Executive Directors.

The Committee operates in accordance with written terms of reference approved by the Committee and the Board and is responsible for reviewing the shape and structure of the curriculum, NHC and Hart L&D's quality assurance practices and the impact of its work to raise teaching and learning standards.

The Committee met five times in 2017/18. Attendance for the year was 80% (2016/17: 70%).

## **REMUNERATION COMMITTEE**

The Remuneration Committee is made up of four non-executive members of the Board, and is responsible for approving reward arrangements for the Accounting Officer, for determining whether or not conditions for the receipt of performance-related pay by the Accounting Officer have been met, and for considering the affordability and balance of annual reward proposals for the organisation as a whole.

The Committee reviewed the remuneration package for the incoming Chief Executive against sector benchmarks and developed a package that took account of value for money and public sector expectations.

Details of remuneration for the year ended 31 July 2018 are set out in notes 7 and 8 to the financial statements.

The Committee met three times in 2017/18. Attendance for the year was 78% (2016/17: 86%).

## **SEARCH COMMITTEE**

The Search Committee is made up of four non-executive members of the Board, and is responsible for making recommendations to the Board in respect of governor appointments, and approving processes for reviewing individual and collective effectiveness.

In 2017/18, the Committee's main focus was on recruiting a new CEO and replacing Board members that stepped down. It took independent advice in respect of the CEO appointment and made a recommendation to the Board which was accepted.

The Committee met three times in 2017/18. Attendance for the year was 73% (2016/17: 100%).

## INTERNAL CONTROL

### *Scope of responsibility*

The Board is ultimately responsible for the 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 Board has delegated to the CEO, as Accounting Officer, day-to-day responsibility for maintaining a sound system of internal control that supports the achievement of the Group's policies, aims and objectives whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with responsibilities assigned to him in the Financial Memorandum between NHC, Hart L&D and funding bodies. He is also responsible for reporting any material weaknesses or breakdowns in internal control to the Board.

### *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 Group 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 for the whole of the year ended 31 July 2018 and up to the date of approval of the annual report and financial statements.

### *Capacity to handle risk*

The Board has reviewed the key risks to which the Group is exposed together with the operating, financial and compliance controls implemented to mitigate those risks. The Board is of the view that there is a formal ongoing process for identifying, evaluating and managing the Group's significant risks that has been in place for the period ending 31 July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board.

### *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 Board.
- Regular finance reports at Board meetings, detailing year-to-date performance, and forecast outturn for the year plus any upside opportunities and downside risks.
- A 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.

We have an internal audit service (delivered by RSM UK Audit LLP) which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the Group 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 Board on the recommendation of the Audit Committee.

As a minimum, the Internal Audit service provides the Board with an annual report on internal audit activity in NHC and Hart L&D. This includes an independent opinion on the adequacy and effectiveness of the system of risk management, controls and governance processes.

#### *Review of effectiveness*

As Accounting Officer, the Principal/CEO is responsible 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 (RSM UK Audit LLP).
- The work of managers within the Group who have responsibility for the development and maintenance of the internal control framework including self-assessment against the Post 16 Audit Code of Practice (ACoP).
- Comments made by the College's financial statements auditors, reporting accountant for the regularity assurance, and the appointed 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 Board's business 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.

Based on the advice of the Audit Committee and the CEO, the Board is of the opinion that the Group 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".

Approved by order of the members of the Board on 10 December 2018 and signed on its behalf by:

David Chalk

Chair

Kit Davies

Accounting Officer

## STATEMENT OF REGULARITY, PROPRIETY AND COMPLIANCE

The Group Board has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the college's funding agreement. As part of our consideration we have had due regard to the requirements of the funding agreement with ESFA.

We confirm on behalf of the Group Board, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's funding agreement with ESFA.

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

10 December 2018

David Chalk

Chair

Kit Davies

Accounting Officer



## STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE GROUP BOARD

The members of the Group Board are required to present audited financial statements for each financial year.

Within the terms and conditions of the College's Funding Agreement with the ESFA, the Group Board, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction 2017 to 2018* issued by the ESFA, and with give a true and fair view of the state of affairs of the Group and parent College and the result for that year.

In preparing the Group and parent College financial statements, the Group Board 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;
- assess the Group and parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent College or to cease operations, or have no realistic alternative but to do so.

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

The Group Board is responsible for keeping adequate accounting records which disclose with reasonable accuracy, at any time, the financial position of the parent College, and which 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 such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the Group Board 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 Group Board are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the ESFA are used only in accordance with the Funding Agreement with the ESFA and any other conditions that may be prescribed from time to time. Members of the Group Board

must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Group Board are responsible for securing economical, efficient and effective management of the group and parent College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Group Board on 10 December 2018 and signed on its behalf by:

David Chalk

Chair

# INDEPENDENT AUDITOR'S REPORT TO THE GROUP BOARD OF NORTH HERTFORDSHIRE COLLEGE

## Opinion

We have audited the financial statements of North Hertfordshire College ("the College") for the year ended 31 July 2018 which comprise the Consolidated Statements of Comprehensive Income and Expenditure, Consolidated and College Statement of Changes in Reserves, Balance Sheets, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2018, and of the Group's and the College's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Material uncertainty relating to going concern

We draw attention to the going concern disclosures in note 1 to the financial statements which indicate that the College is dependent on the support of its bankers for the continued provision of loan and overdraft facilities and the Education Skills and Funding Agency (ESFA) for short term cash flow support. These events and conditions, along with other matters explained in note 1 indicate that a material uncertainty exists that may cast significant doubt on the College's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other information

The Group Board is responsible for the other information, which comprises the Members' Report and the Statement of Corporate Governance and Internal Control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

## **Matters on which we are required to report by exception**

Under the Post-16 Audit Code of Practice 2017 to 2018 (March 2018) issued by the Education and Skills Funding Agency we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent College; or
- the parent College's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## **Group Board responsibilities**

As explained more fully in their statement set out on pages 24 and 25, the Group Board is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent College or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Group Board, 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 Group Board 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 College and the Group Board for our audit work, for this report, or for the opinions we have formed.

## **Kelly Dunn**

### **For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
58 Clarendon Road  
Watford  
Hertfordshire WD17 1DE

Date:

# REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE GROUP BOARD OF NORTH HERTFORDSHIRE COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE EDUCATION AND SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter dated 28 November 2017 and further to the requirements of the funding agreement with Education and Skills Funding Agency 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 2017 to 31 July 2018 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 Post 16 Audit Code of Practice issued by the Education and Skills Funding Agency. 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 the Education and Skills Funding Agency has other assurance arrangements in place.

This report is made solely to the Group Board of North Hertfordshire College and the Education and Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Group Board of North Hertfordshire College and the Education and Skills Funding Agency 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 Group Board of North Hertfordshire College and the Education and Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

## **Respective responsibilities of North Hertfordshire College and the reporting accountant**

The Group Board 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 Post 16 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 1 August 2017 to 31 July 2018 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 Code issued by the Education and Skills Funding Agency. 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 to 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 limited assurance conclusion on regularity consistent with the requirements of the Post 16 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 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

**Kelly Dunn**

**For and on behalf of KPMG LLP, Reporting Accountant**

58 Clarendon Road

Watford

Hertfordshire

WD17 1DE

Date:

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

INCOME	Note	Year ended 31-Jul-18		Year ended 31-Jul-17	
		Group £'000	College £'000	Group £'000	College £'000
Funding body grants	2	19,987	19,987	22,870	22,870
Tuition fees and education	3	1,986	1,986	3,389	3,389
Other grants and contracts	4	93	93	35	35
Other income	5	1,837	1,664	4,129	3,846
Investment income	6	0	0	3	3
<b>Total Income</b>		<u>23,903</u>	<u>23,730</u>	<u>30,426</u>	<u>30,143</u>
<b>EXPENDITURE</b>					
Staff costs	7	16,932	16,965	16,122	16,138
Other operating expenses	8	9,166	8,777	11,197	10,779
Depreciation	10	1,702	1,683	1,659	1,639
Interest and other finance costs	9	423	409	483	463
<b>Total Expenditure</b>		<u>28,223</u>	<u>27,834</u>	<u>29,461</u>	<u>29,019</u>
<b>(Deficit)/surplus before other gains and losses</b>		(4,320)	(4,104)	965	1,124
Loss on disposal of assets		(713)	(713)	(252)	(252)
<b>(Deficit)/surplus for the year</b>		(5,033)	(4,817)	713	872
Taxation		-	-	-	-
<b>(Deficit)/surplus for the year</b>		(5,033)	(4,817)	713	872
Unrealised surplus on revaluation of assets		-	-	-	-
Actuarial gain/(loss) in respect of pensions schemes	20	4,029	4,029	4,379	4,379
<b>Total Comprehensive Loss/Income for the year</b>		<u>(1,004)</u>	<u>(788)</u>	<u>5,092</u>	<u>5,251</u>
<b>Represented by:</b>					
Unrestricted comprehensive income for the Group and College		<u>(1,004)</u>	<u>(788)</u>	<u>5,092</u>	<u>5,251</u>

## CONSOLIDATED AND COLLEGE STATEMENT OF CHANGES IN RESERVES

Group	Income and expenditure account	Revaluation reserve	Pension reserve	Total
	£'000	£'000	£'000	£'000
<b>Restated balance at 1 August 2016</b>	<b>23,983</b>	<b>2,686</b>	<b>(11,908)</b>	<b>14,761</b>
Surplus from the income and expenditure account	1,412	-	(699)	713
Actuarial losses in respect of pension scheme	-	-	4,379	4,379
<b>Comprehensive income for the year</b>	<b>1,412</b>	<b>-</b>	<b>3,680</b>	<b>5,092</b>
Transfers between revaluation and income and expenditure reserves	0	-	-	-
<b>Total comprehensive income for the year</b>	<b>1,412</b>	<b>-</b>	<b>3,680</b>	<b>5,092</b>
<b>Balance at 31 July 2017</b>	<b>25,395</b>	<b>2,686</b>	<b>(8,228)</b>	<b>19,853</b>
Deficit from the income and expenditure account	(4,152)	-	(881)	(5,033)
Actuarial gains in respect of pension scheme	-	-	4,029	4,029
<b>Comprehensive income for the year</b>	<b>(4,152)</b>	<b>-</b>	<b>3,148</b>	<b>(1,004)</b>
Transfers between revaluation and income and expenditure reserves	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>(4,152)</b>	<b>-</b>	<b>3,148</b>	<b>(1,004)</b>
<b>Balance at 31 July 2018</b>	<b>21,243</b>	<b>2,686</b>	<b>(5,080)</b>	<b>18,849</b>



## CONSOLIDATED AND COLLEGE STATEMENT OF CHANGES IN RESERVES (CONTINUED)

College	Income and expenditure account £'000	Revaluation reserve £'000	Pension reserve £'000	Total £'000
<b>Restated balance at 1 August 2016</b>	<b>24,311</b>	<b>2,686</b>	<b>(11,908)</b>	<b>15,089</b>
Deficit from the income and expenditure account	1,571	-	(699)	872
Actuarial losses in respect of pension scheme	-	-	4,379	4,379
<b>Comprehensive income for the year</b>	<b>1,571</b>	<b>-</b>	<b>3,680</b>	<b>5,251</b>
Transfers between revaluation and income and expenditure reserves	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>1,571</b>	<b>-</b>	<b>3,680</b>	<b>5,251</b>
<b>Balance at 31 July 2017</b>	<b>25,882</b>	<b>2,686</b>	<b>(8,228)</b>	<b>20,340</b>
Deficit from the income and expenditure account	(3,936)	-	(881)	(4,817)
Actuarial gains in respect of pension scheme	-	-	4,029	4,029
<b>Comprehensive income for the year</b>	<b>(3,936)</b>	<b>-</b>	<b>3,148</b>	<b>(788)</b>
<b>Total comprehensive income for the year</b>	<b>(3,936)</b>	<b>-</b>	<b>3,148</b>	<b>(788)</b>
<b>Balance at 31 July 2018</b>	<b>21,946</b>	<b>2,686</b>	<b>(5,080)</b>	<b>19,552</b>

## BALANCE SHEETS AS AT 31 JULY

	Notes	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
<b>Non current assets</b>					
Tangible fixed assets	10	37,715	37,680	40,207	40,154
Investments	11	-	91	-	91
		<u>37,715</u>	<u>37,771</u>	<u>40,207</u>	<u>40,245</u>
<b>Current assets</b>					
Trade and other receivables	12	1,539	1,933	1,485	1,875
Cash and cash equivalents		34	8	971	918
		<u>1,573</u>	<u>1,941</u>	<u>2,456</u>	<u>2,793</u>
<b>Less: Creditors – amounts falling due within one year</b>	13	(6,558)	(6,279)	(4,720)	(4,608)
<b>Net current liabilities</b>		<u>(4,985)</u>	<u>(4,338)</u>	<u>(2,264)</u>	<u>(1,815)</u>
<b>Total assets less current liabilities</b>		32,730	33,433	37,943	38,430
Creditors – amounts falling due after more than one year	14	(8,801)	(8,801)	(9,862)	(9,862)
Defined benefit obligations	19	(5,080)	(5,080)	(8,228)	(8,228)
<b>Total net assets</b>		<u>18,849</u>	<u>19,552</u>	<u>19,853</u>	<u>20,340</u>
<b>Unrestricted Reserves</b>					
Income and expenditure account		21,243	21,946	25,395	25,882
Revaluation reserve		2,686	2,686	2,686	2,686
Pension reserve		(5,080)	(5,080)	(8,228)	(8,228)
<b>Total unrestricted reserves</b>		<u>18,849</u>	<u>19,552</u>	<u>19,853</u>	<u>20,340</u>

The financial statements on pages 30 to 58 were approved and authorised for issue by the Corporation on 10 December 2018 and were signed on its behalf on that date by:

David Chalk

Chair

Kit Davies

Accounting Officer

## CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flow from operating activities</b>		
Deficit/surplus for the year	(5,033)	713
<b>Adjustment for non-cash items</b>		
Amortisation of intangible assets		
Depreciation	1,702	2,246
(Increase)/decrease in debtors	(53)	261
Increase/(decrease) in creditors due within one year	1,838	(1,526)
Pensions costs less contributions payable	650	409
Deferred capital grants released to profit and loss	(656)	(478)
<b>Adjustment for investing or financing activities</b>		
Investment income	-	(3)
Interest payable	423	483
Profit on sale of fixed assets	713	-
<b>Net cash flow from operating activities</b>	<u>(416)</u>	<u>2,105</u>
<b>Cash flows from investing activities</b>		
Payments made to acquire fixed assets	(1,250)	(3,011)
Capital grants received/(repaid)	95	424
Proceeds from fixed asset sales	1,326	-
	<u>171</u>	<u>(2,587)</u>
<b>Cash flows from financing activities</b>		
Interest paid	(192)	(193)
Interest received	-	3
Repayments of amounts borrowed	(500)	(920)
Capital element of finance lease rental payments	-	(31)
	<u>(692)</u>	<u>(1,141)</u>
<b>Increase in cash and cash equivalents in the year</b>	<u>(937)</u>	<u>(1,623)</u>
Cash and cash equivalents at beginning of the year	<u>971</u>	<u>2,594</u>
Cash and cash equivalents at end of the year	<u>34</u>	<u>971</u>

# NOTES TO THE ACCOUNTS

## STATEMENT OF ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES

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

### *Basis of preparation*

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2016/17* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

### *Basis of accounting*

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

### *Basis of consolidation*

The consolidated financial statements include the College and its subsidiaries, Hart Learning and Development Ltd (formerly Protech Training Services Limited) and Plaza Activity Limited, both of which are controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities.

All financial statements are made up to 31 July 2017.

### *Going concern*

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of the College, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has £6.9m of loans outstanding with bankers on terms negotiated in March 2013. This facility is currently secured on the College's assets.

The College is dependent on Government funding for the sector to support its operations and fund its bank loan obligations. The bank loans have covenant conditions and the College must ensure it operates within these covenants in order for this financial support to continue in its current form.

The College's forecasts and financial projections, including the sale of surplus property, 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.

### *Recognition of income*

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

Grants (including research grants) from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Income from tuition fees and education contracts is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

Donated facilities are recognised as income when the College has control over the item, any conditions associated with the donated item have been met, the receipt of economic benefit from the use by the College of the item is probable and that economic benefit can be measured reliably.

Other income is recognised when the College has entitlement to the funds, any performance conditions attached to the item(s) of income have been met, it is probable that the income will be received and the amount can be measured reliably.

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

### *Accounting for post-employment benefits*

Post-employment benefits to employees of the College are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

The TPS is an unfunded scheme. Contributions to the TPS are calculated 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 valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income.

#### *Short term employment benefits*

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

#### *Non-current Assets - Tangible fixed assets*

Tangible fixed assets are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. Depreciation charges to the Statement of Comprehensive Income commence in the year following acquisition.

#### *Land and buildings*

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- 50 years
- Refurbishments – Over the remaining life of the asset (of up to 50 years).

Freehold land is not depreciated as it is considered to have an infinite useful life.

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 income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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 may not be recoverable.

#### *Assets under construction*

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

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

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

#### *Equipment*

Equipment costing less than £2,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life ranging between 3 to 10 years.

#### *Goodwill*

Goodwill arose from the acquisition of Hart Learning and Development Ltd (formerly 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.

#### *Borrowing costs*

Borrowing costs are recognised as expenditure in the period in which they are incurred.

#### *Leased assets*

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives relating to leases signed after 1 August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease

obligation. Assets held under finance leases are included in tangible fixed assets, depreciated, and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

## **INVESTMENTS**

### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

### *Cash and cash equivalents*

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

### *Financial liabilities and equity*

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost. However the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

### *Foreign currency translation*

The Group financial statements are presented in pounds sterling. The Company's functional and presentational currency is pounds sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary measured at fair-value are measured using the exchange rate when fair-value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end of monetary assets and liabilities denominated in foreign currencies are recognised in the income.

## **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 sections 478-488 of the 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.

The College and subsidiaries are partially exempt in respect of Value Added Tax, so that it can only recover approximately 1.3% of the 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.

The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

## **PROVISIONS AND CONTINGENT LIABILITIES**

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.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

## **AGENCY ARRANGEMENTS**

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

## **JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing these financial statements, management have made the following judgements:

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

- Determine whether there are indicators of impairment of the group's investments and any potential liability to meet future operating expenses.

## OTHER KEY SOURCES OF ESTIMATION UNCERTAINTY

### *Tangible fixed assets*

- Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

### *Local Government Pension Scheme*

- The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability.
- Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

## 2 Funding body grants

	Year ended 31-Jul-18		Year ended 31-Jul-17	
	2018	2018	2017	2017
	Group £'000	College £'000	Group £'000	College £'000
<b>Recurrent grants</b>				
Education Funding Agency – main funding	15,741	15,741	16,277	16,277
<b>Specific grants</b>				
Employer responsive	1,851	1,851	4,634	4,634
Releases of government capital grants	486	486	109	109
LL Difficulties and Disabilities	1,737	1,737	1,593	1,593
Workplace learning CE	(28)	(28)	-	-
Other grants	200	200	257	257
<b>Total</b>	<u>19,987</u>	<u>19,987</u>	<u>22,870</u>	<u>22,870</u>

### 3 Tuition fees and education contracts

	Year ended 31-Jul-18		Year ended 31-Jul-17	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Total tuition fees (UK Further Education students)	837	837	1,808	1,808
Higher Education (HE) income	1,112	1,112	1,485	1,485
Local Education Authority	37	37	96	96
<b>Total</b>	<u>1,986</u>	<u>1,986</u>	<u>3,389</u>	<u>3,389</u>

### 4 Other grants and contracts

	Year ended 31-Jul-18		Year ended 31-Jul-17	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other grants and contracts	93	93	35	35
<b>Total</b>	<u>93</u>	<u>93</u>	<u>35</u>	<u>35</u>

### 5 Other income

	Year ended 31-Jul-18		Year ended 31-Jul-17	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	280	269	269	269
Other income generating activities	1,557	1,395	3,860	3,577
<b>Total</b>	<u>1,837</u>	<u>1,664</u>	<u>4,129</u>	<u>3,846</u>

### 6 Investment income

	Year ended 31-Jul-18		Year ended 31-Jul-17	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Bank interest receivable	-	-	3	3
<b>Total</b>	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>

## 7 Staff costs - Group

The average number of persons (including key management personnel) employed by the College during the year, described as full-time equivalents, was:

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
Teaching staff	196	166
Non-teaching staff	201	178
	<u>397</u>	<u>344</u>

### **Staff costs for the above persons**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	8,661	9,722
Social security costs	762	870
Other pension costs	1,234	1,464
<b>Payroll sub total</b>	<u>10,657</u>	<u>12,056</u>
Contracted out staffing services	6,275	4,066
<b>Total staff costs</b>	<u>16,932</u>	<u>16,122</u>

### *Key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprises the Principal & CEO, Chief Operating Officer, Managing Director of Hart Learning & Development, Director of Transformation and Group Finance Director. Staff costs include compensation paid to key management personnel for loss of office.

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
The number of key management personnel including the Accounting Officer during the year was:	<u>5</u>	<u>7</u>

*Emoluments of Key management personnel, Accounting Officer and other higher paid staff*

The number of key management personnel and other staff who received annual emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	<b>Key management</b>		<b>Other staff</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
£40,001 to £50,000 p.a.	-	1	-	-
£60,001 to £70,000 p.a.	-	1	-	-
£70,001 to £80,000 p.a.	1	2	-	-
£90,001 to £100,000 p.a.	1	1	-	-
£100,001 to £110,000 p.a.	1	-	-	-
£121,001 to £130,000 p.a.	-	1	-	-
£140,001 to £150,000 p.a.	2	-	-	-
£290,001 to £300,000 p.a.	-	1	-	-
<b>Total</b>	<b>5</b>	<b>7</b>	<b>0</b>	<b>0</b>

Key management personnel emoluments comprise the following:

**Note 7 Pt 3 - Key management personnel emoluments comprise the following:**

	2018	2017
	£'000	£'000
Salaries - gross of salary sacrifice and waived emoluments	586	768
Employers National Insurance	64	88
Benefits in kind	5	6
	<u>655</u>	<u>862</u>
Pension contributions	66	95
Total emoluments	<u><u>721</u></u>	<u><u>957</u></u>

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place. The above emoluments include the amounts payable to the Accounting Officer (who was also the highest paid senior post-holder):

	2018	2018	2017
	Accounting officer 1**	Accounting Officer 2	Accounting officer 1
	£'000	£'000	£'000
Salaries	75	73	294
Benefits in kind	1	1	1
Payment made in lieu of notice *	74	-	-
	<u>150</u>	<u>74</u>	<u>295</u>
Pension contributions	13	11	47
	<u><u>163</u></u>	<u><u>85</u></u>	<u><u>342</u></u>

\* Approved by Remuneration Committee

\*\* Employed for part of the year till 30th November 2017

The salaries line include any performance related bonus payable in the year.

Pension contributions in respect of the Accounting Officer and senior post-holders 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.

## 8 Other operating expenses

	2018 Group	2018 College	2017 Group	2017 College
	£'000	£'000	£'000	£'000
Teaching costs	4,576	4,576	6,163	6,163
Non-teaching costs	2,340	2,007	2,533	2,192
Premises costs	2,250	2,194	2,501	2,424
<b>Total</b>	<u>9,166</u>	<u>8,777</u>	<u>11,197</u>	<u>10,779</u>

<b>Other operating expenses include:</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Auditors' remuneration:		
– Financial statements audit	80	47
– Internal audit	86	42
Hire of assets under operating leases	<u>533</u>	<u>797</u>

Learner Support Fund expenditure is excluded from the above and is shown separately in note 21.

The College had other operating expenses of £8,777,000 (2016/17: £10,779,000) included in the Group other operating expenses shown above of £9,166,000 (2015/16: £11,197,000).

## 9 Interest and other finance costs – Group and College

	2018 Group	2018 College	2018 Group	2017 College
	£'000	£'000	£'000	£'000
			<b>restated</b>	
On bank loans, overdrafts and other loans:	192	178	193	173
Pension finance costs (note 19)	231	231	290	290
<b>Total</b>	<u>423</u>	<u>409</u>	<u>483</u>	<u>463</u>

## 10 Tangible fixed assets (Group)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2017	42,352	7,016	7,833	3	57,204
Additions	114	217	920		1,251
Disposals	-	(3,068)	-	-	(3,068)
<b>At 31 July 2018</b>	<b>42,466</b>	<b>4,165</b>	<b>8,753</b>	<b>3</b>	<b>55,387</b>
<b>Depreciation</b>					
At 1 August 2017	8,540	2,991	5,466	-	16,997
Charge for the year	829	242	631	-	1,702
Elimination in respect of disposals	-	(1,027)	-	-	(1,027)
<b>At 31 July 2018</b>	<b>9,369</b>	<b>2,206</b>	<b>6,097</b>	<b>-</b>	<b>17,672</b>
<b>Net book value at 31 July 2018</b>	<b>33,097</b>	<b>1,959</b>	<b>2,656</b>	<b>3</b>	<b>37,715</b>
Net book value at 31 July 2017	33,812	4,025	2,367	3	40,207

## 10 Tangible fixed assets (College)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2017	42,352	7,016	7,550	3	56,921
Additions	114	217	919	-	1,250
Disposals	-	(3,068)	-	-	(3,068)
<b>At 31 July 2018</b>	<b>42,466</b>	<b>4,165</b>	<b>8,469</b>	<b>3</b>	<b>55,103</b>
<b>Depreciation</b>					
At 1 August 2017	8,540	2,991	5,236	-	16,767
Charge for the year	829	242	612	-	1,683
Elimination in respect of disposals	-	(1,027)	-	-	(1,027)
<b>At 31 July 2018</b>	<b>9,369</b>	<b>2,206</b>	<b>5,848</b>	<b>-</b>	<b>17,423</b>
<b>Net book value at 31 July 2018</b>	<b>33,097</b>	<b>1,959</b>	<b>2,621</b>	<b>3</b>	<b>37,680</b>
Net book value at 31 July 2017	33,812	4,025	2,314	3	40,154



The transitional rules set out in FRS 102 'The Financial Reporting Standard are applicable in the UK and the Republic of Ireland'. Accordingly the base values at the date of transition have been retained, including the revaluation as at that date where applicable.

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 £2,603,644 (2016/17: £2,696,000) 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. 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.

Long leasehold land and buildings includes:

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

## 11 Non-current investments

	<b>College 2018 £'000</b>	<b>College 2017 £'000</b>
Investments in subsidiary companies	<u>91</u>	<u>91</u>
	<u>91</u>	<u>91</u>

The College's subsidiary undertakings are as follows:

<b>Subsidiary Company</b>	<b>Country of Incorporation</b>	<b>Principal Activity</b>	<b>Holding</b>
Hart Learning and Development Ltd (formerly Protech Training Services Limited)	England and Wales	Provision of training	100%
Plaza Activity Limited	England and Wales	Commercial Gym	100%

The College has a 32% shareholding in Hertvec LLC over which the College has no control. The value of the investment was fully impaired in 2014/15.

## 12 Trade and other receivables

	<b>2018 Group £'000</b>	<b>2018 College £'000</b>	<b>2017 Group £'000</b>	<b>2017 College £'000</b>
<b>Amounts falling due within one year:</b>				
Trade receivables	382	382	582	570
<b>Amounts owed by group undertakings:</b>				
Subsidiary undertakings	-	841	-	459
Prepayments and accrued income	1,157	710	878	821
Other debtors	-	0	25	25
<b>Total</b>	<u>1,539</u>	<u>1,933</u>	<u>1,485</u>	<u>1,875</u>

### 13 Creditors: amounts falling due within one year

	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts (note 17)	1849	1849	920	920
Obligations under finance leases (note 17)	50	-	86	-
Trade payables	370	368	325	397
Amounts owed to subsidiary companies	-	-	-	52
Other taxation and social security	435	310	476	387
Accruals	3,462	3,360	2,208	2,150
Recurrent grants repayable (net)	153	153	438	438
Deferred income - government capital grants	220	220	143	143
Other creditors	19	19	124	121
<b>Total</b>	<u>6,558</u>	<u>6,279</u>	<u>4,720</u>	<u>4,608</u>

Obligations under finance leases due in September 2017 £113,000 were refinanced over a 3 year period from that date

### 14 Creditors: amounts falling due after one year

	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank loans (note 17)	5,496	5,496	5,996	5,996
Deferred income - government capital grants	3,305	3,305	3,866	3,866
<b>Total</b>	<u>8,801</u>	<u>8,801</u>	<u>9,862</u>	<u>9,862</u>

Deferred income comprises the amount of capital grants received from Government and is due to future periods. The deferred grants comprise:

	<b>SFA</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 August 2017	3,308	702	4,010
Net grants repaid	-	95	95
Released to profit and loss	(486)	(93)	(579)
<b>At 31 July 2018</b>	<u>2,822</u>	<u>704</u>	<u>3,526</u>

## 15 Maturity of debt

### Bank loans

Bank loans are repayable as follows:

	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
In one year or less	815	815	920	920
Between one and two years	920	920	920	920
Between two and five years	2,760	2,760	2,760	2,760
In five years or more	1,816	1,816	2,317	2,317
<b>Total</b>	<b>6,311</b>	<b>6,311</b>	<b>6,917</b>	<b>6,917</b>

The bank loans are repayable over a ten year period by quarterly ins:

Obligations under finance leases due in July 2017 (£86,000) were refinanced over a 3 year period from that date.

## 16 Provisions

	<b>2018</b>
	<b>£'000</b>
At 1 August 2017	(8,228)
Service cost	(1,359)
Employer contributions	709
Net interest	(231)
Changes in actuarial assumptions	4,029
<b>At 31 July 2018</b>	<b>(5,080)</b>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in note 19.

## 17 Capital and other commitments

	<b>Group and College</b>	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Commitments contracted for at 31 July	54	195
	<u>54</u>	<u>195</u>

## 18 Lease obligations

At 31 July 2018, the College had minimum lease payments under non-cancellable operating leases as follows:

	<b>Group and College</b>	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Future minimum lease payments due</b>		
<b>Land and buildings</b>		
Not later than one year	582	406
Later than one year and not later than five years	2,126	1,750
Later than five years	<u>1,292</u>	<u>2,598</u>
	<u>4,000</u>	<u>4,754</u>
<b>Other</b>		
Not later than one year	21	11
Later than one year and not later than five years	<u>83</u>	<u>11</u>
	<u>104</u>	<u>11</u>

## 19 Pt1 Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Hertfordshire County Council. Both are multi-employer defined-benefit plans.

	<b>Group and College</b>	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total pension cost for the year</b>		
Teachers' Pension Scheme: contributions	583	653
Local Government Pension Scheme:		
- Contributions paid	709	800
- Additional service cost (FRS102 (28))	650	409
- Interest charge in respect of defined benefit obligations net of interest income on plan assets	231	290
Charge to the Statement of Comprehensive Income	<u>2,173</u>	<u>2,152</u>
<b>Total Pension Cost for Year within staff costs</b>	<u>1,942</u>	<u>1,862</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 August 2017 and of the LGPS was 31 March 2013.

Contributions amounting to £154,000 (2015/16: £171,000) were payable to the schemes at 31 July and are included within creditors.

### *Teachers' Pension Scheme*

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. 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 members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, 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*

The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS was implemented in September 2015. Members pay an average contribution rate of 9.6%.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

### *Scheme Changes*

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a

Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.

The pension costs paid to TPS in the year amounted to £583,000 (2016/2017: £653,000).

#### *Local Government Pension Scheme*

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hertfordshire County Council. The total contributions made for the year ended 31 July 2016 were £943,000, of which employer's contributions totalled £709,000 and employees' contributions totalled £234,000. The agreed contribution rates for future years are 20.5% for employers and range from 5.5% to 12.5% for employees, depending on pensionable pay.

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2018 by a qualified independent actuary.

	<b>31-Jul-18</b>	<b>31-Jul-17</b>
Rate of increase in salaries	2.5%	2.6%
Future pensions increases	2.4%	2.5%
Discount rate for scheme liabilities	2.8%	2.7%
Inflation assumption (CPI)	2.4%	2.5%
Commutation of pensions to lump sums:		
- pre April 2008 service	50%	50%
- post April 2008	75%	75%

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

	<b>31-Jul-18</b>	<b>31-Jul-16</b>
	Years	Years
<i>Retiring today</i>		
Males	22.5	22.5
Females	24.9	24.9
<i>Future pensioners</i>		
Males	24.1	24.1
Females	26.7	26.7

The College's share of the assets in the plan at the balance sheet date, of which the College's share is estimated at 0.65% (2016/17: 0.74%) and the estimated allocation in the Scheme

	<b>Fair value at 31-Jul-18</b>	<b>Fair value at 31-Jul-17</b>
Equities	52%	65%
Bonds	36%	24%
Property	8%	7%
Cash	4%	4%
	<b>£'000</b>	<b>£'000</b>
<b>Share of total fair value of plan assets</b>	<u>34,218</u>	<u>30,925</u>
<b>Actual return on plan assets</b>	<u>2,202</u>	<u>2,680</u>

Actual returns of the Scheme for the year to 31 July 2017 were 20.5%.



The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of plan assets	34,218	30,925
Present value of plan liabilities	<u>(39,298)</u>	<u>(39,153)</u>
<b>Net pensions liability (note 18)</b>	<b><u>(5,080)</u></b>	<b><u>(8,228)</u></b>

#### Asset and Liability Reconciliation

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>

#### Changes in the present value of defined benefit obligations

<b>Defined benefit obligations at start of period</b>	39,153	39,104
Current service cost	1,359	1,207
Interest cost	1,069	947
Contributions by Scheme participants	234	264
Experience gains and losses on defined benefit obligations	-	(2,604)
Changes in financial assumptions	(1,827)	905
Estimated benefits paid	(690)	(672)
Past service cost	-	2
<b>Defined benefit obligations at end of period</b>	<b><u>39,298</u></b>	<b><u>39,153</u></b>

<b>Movement in net defined benefit liability during the year</b>	30,925	27,195
Interest on plan assets	838	657
Return on plan assets	2,202	2,680
Employee contributions	234	264
Employer contributions	709	800
Estimated benefits paid	<u>(690)</u>	<u>(672)</u>
<b>Net defined benefit liability at 31 July</b>	<b><u>34,218</u></b>	<b><u>30,924</u></b>

## 20 Related party transactions

Related party	Purchases	Sales	Amounts owing (to)/from
	£'000	£'000	£'000
Hart Learning & Development Ltd	5,496	-	254
Plaza Activity Limited	-	-	586
Airbus Defence & Space Limited	-	-	5
BT	61	-	-
Weldability	2	-	-
Hart School Trust Limited	108	577	(37)
<b>At 31 July 2018</b>	<b>5,667</b>	<b>577</b>	<b>808</b>

## 21 Amounts disbursed as agent

	2018 £'000	2017 £'000
<b>Balance unspent carried over from 31/7/2017</b>	115	0
Funding body grants - bursary support received	639	838
<b>Funding body grants - residential bursaries</b>	<b>754</b>	<b>838</b>
<i>Disbursed to students</i>		
Hardship and bursary	428	407
Childcare	221	286
Administration costs	30	30
Balance unspent as at 31 July, included in creditors	75	115

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.