Hereford College of Arts

Operating and Financial Review and Financial Statements

For the year ended 31 July 2015

Operating and Financial Review and Financial Statements

Contents

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2014.

Legal status

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

The Corporation was incorporated as Herefordshire College of Art & Design. On 1 August 2007, the Secretary of State granted consent to the Corporation to change the College's name to Hereford College of Arts.

Mission

Governors reviewed the College's mission during 2013/14 and in October 2014 adopted a revised strategic plan, which retained the College mission of:

"To provide outstanding education and employability in the creative arts."

Public Benefit

Hereford College of Arts is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 9.

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

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

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

The delivery of public benefit is covered throughout the Operating and Financial Review.

Implementation of strategic plan

The Corporation approved a revised strategic plan for the period 2014 to 2019. The Strategic Objectives are listed below. An action plan with targets has been prepared based on the strategic plan.

Strategic Objectives

1. **Student Experience and Outcomes**

    1.1 To provide exciting and challenging learning opportunities which are responsive to and inclusive of the needs of students, the creative arts industry and the wider community

Operating and Financial Review *(continued)*

1.2 Teaching and Learning: To provide a supportive environment in which innovative approaches to teaching, learning and assessment are encouraged, valued and recognised for all staff and students in the College

2. **Recognition and Reputation**

   To be recognised for excellent standards of arts practice and as a specialist centre for the contemporary creative arts education from school, through higher education and postgraduate study to employment

3. **Expansion and Development**

   To develop and expand Higher Education provision, working towards a future application for our own taught degree awarding powers on the way to our longer term goal of becoming a university for the arts

4. **Cultural and Economic contribution**

   4.1 To enhance HCA's role as a leader in the arts for student entrepreneurship and employability as an integral part of the wider student experience
   4.2 To be part of the transformation of Hereford and the region through education, culture and enterprise

The Corporation will monitor the performance of the College against the plan and against other key performance indicators including the College's Financial Plan.

Financial objectives

The College's financial objectives are to maintain Financial Health category of Good or better. The Skills Funding Agency, the College's regulatory body, will assess the financial health category by means of an assessment of the College's financial statements and the submission of an annual Finance Record. It is anticipated that the Finance Record for 2014/15 will confirm an outstanding grade. It is the College intention to maintain a good grade.

Performance indicators

The College is committed to observing the importance of sector measures and indicators such as the further education measures of success rates and learner surveys as published on the FE Choices website. For higher education the College will monitor similar measures including the National Student Survey(NSS).

Financial position

Financial results

The College generated an operating deficit in the year of £161,693 *(2012/13: Operating Deficit £31,652).*

The College has accumulated reserves of £4,302,516 *(2013/14: £4,426,153)* and cash balances of £1,736,203*(2013/14: £1,782,863).*

Tangible fixed asset additions during the year amounted to £212,359 (2013/14 £1,018,655).

The College has significant reliance on the EFA and Skills Funding Agency for its principal funding sources of funding. The College received £2.1million or 39% of total income directly from these agencies in the form of a recurrent grant. *(2013/14: £1.8million, 36% of total income).*

Operating and Financial Review *(continued)*

Cash flows

The College has a cash inflow from operating activities of £127,493 *(2013/14: £310,628)*. The College has a net outflow of £46,660 *(2013/14: £684,953)*. The significant reduction in net outflow compared to 2013/14 is the result of a reduction in capital expenditure. 2013/14 included capital expenditure relating to the refurbishment of the College Road campus, which was one off expenditure.

Liquidity

The College does not have any borrowings or an overdraft facility.

Treasury policies and objectives

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

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Operating and Financial Review *(continued)*

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

New Principal

Richard Heatly, who had been Principal of the College since April 2003, retired in August 2015. Abigail Appleton, was appointed Principal in October 2015. Abigail has joined the College from the BBC, where she was Creative Director of BBC Learning. Abigail is passionate about arts education and working to move forward the College's strategic plan.

Quality

During November 2014 the College had an Higher Education Review undertaken by the Quality Assurance Agency for Higher Education(QAA). The report published in February 2015 had the following judgements:

- The maintenance of the threshold academic standards of awards offered on behalf of degree-awarding bodies and/or other awarding organisations meets UK expectations.
- The quality of student learning opportunities at the provider is commended.
- The quality of the information produced by the provider about its provision meets UK expectations.
- The enhancement of student learning opportunities at the provider meets UK expectations.

The College had an OFSTED inspection during October 2013. The inspection gave the College an overall grade of Good. All areas graded by OFSTED achieved at least a Good and Leadership and Management was graded as Outstanding. For the academic year 2014/15 the College has made an overall self-assessment of Good, with several areas being graded as Outstanding.

Student numbers

In 2014/15 the College has delivered activity that has produced £1,039,047 in funding body main allocation funding (2013/14 – £1,994,106). The College had 394 EFA funded 16-18 year old students, 41 funded via the Skills Funding Agency's Adults Skills Budget and 16 students who paid fees via 24+ Advanced Learning Loans.

For Higher Education the College is funded partly by HEFCE and partly by student tuition fees loans. In 2014/15 the College enrolled 317 full-time and 28 part-time higher education students.

The College also runs a series of full cost recovery courses including evening classes.

Student achievements

Achievement levels for FE courses were consistently high on the College's main programmes, with healthy rates of progression to higher education.

Overall success rates in FE courses in 2014/15 were 90% (2013/14: 89%) for 16-18 year olds and 88% (2013/14: 92%) for 19+ year-olds. Both rates were above national averages. Course with success rates of 95% or more include Foundation Diploma in Art and Design(97%), Extend Diploma in Music(95%) and Extend Diploma in Performing Arts(95%).

In higher education final year BA(Hons) students were awarded 13 Firsts, 32 Upper Seconds, 36 Lower Seconds and 3 Thirds.

Curriculum developments

The College ran its first MA degree in Contemporary Crafts from September 2014. The College also successfully validated a BA (Hons) Degree in Popular Music with the University of Wales: Trinity St. Davids. The first intake of that course took place in September 2015. The College is also looking to expand its HE curriculum in by developing degrees in areas such as Performing Arts, Fashion and Short Film Production to complement existing FE and HE provision.

Post balance sheet events

There are no post balance sheet events to report.

Future developments

The College plans to further develop its College Road site to enhance higher education learning and expand higher education provision.

RESOURCES

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

Tangible resources include the main college site at Folly Lane, Hereford. The College also leases one other site on College Road in Hereford, that is now the home of all of its Higher Education provision.

Financial

The College has £5.06 million of net assets (including £1,145,000 pension liability) and no long term debt.

People
The College employs 120 people (expressed as full time equivalents), of whom 65 are teaching staff.

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

PRINCIPAL RISKS AND UNCERTAINTIES:

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

Based on the strategic plan, the Senior Management Team(SMT) undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the SMT will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

Operating and Financial Review *(continued)*

Awareness of these risks are raised throughout the College.

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

1. Government funding

The College has considerable reliance on continued government funding through the education sector funding bodies and HEFCE. In 2014/15, 92% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College is aware of two issues which may impact on future funding:

- The overall Adult Skills Budget(ASB) is likely to decrease or the qualifications funded by it may become fundable by loans.
- The levels of funding per student currently paid by the EFA may be impacted by future austerity measures.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding
- Regular dialogue with funding bodies
- The increased focus on growth in higher education student numbers

2. Area-Based Reviews

The Government is implementing a national programme of area-based reviews in England. The aim of these reviews is to review 16+ provision in every area. The Departments of Education and Business, Innovation and Skills will facilitate this programme.

The reviews include all FE and Sixth Form colleges. The aim of the reviews are to see if there are ways to provide better outcomes for students and achieve greater efficiency in the post 16 in a period of increasing financial restraint. The presumption is that this will be delivered by moving towards fewer, often larger, more resilient and efficient providers.

The colleges in Herefordshire will start their review process in January 2016.

3. Increase student numbers

The College is small for the sector, so it is crucial to maintain current student numbers but also to endeavour to increase these numbers where possible. If successful, this will help to mitigate the changes in funding but also to develop and invest in the future and increase educational options within Herefordshire. The College is particularly focused on increasing its HE students numbers as part of its strategic plan.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 17.

Operating and Financial Review *(continued)*

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education Sector Funding bodies;
- FE Commissioner;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Government Offices/ Regional Development Agencies/LEPs;
- The local community;
- Other FE institutions;
- Trade unions;
- professional bodies.

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

Equal opportunities
The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equality and Diversity policy is published on the College's Intranet site.

The College publishes an Annual Equality Report to ensure compliance with all relevant equality legislation including the Equality Act 2010.

The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide identical opportunities to those of non-disabled employees.

Operating and Financial Review *(continued)*

Disability statement

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

a. As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2003/04, and the results of this formed the basis of funding capital projects aimed at improving access.
b. The College will provide information, advice and arrange support where necessary for students with disabilities.
c. The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
d. The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
e. Counselling and welfare services are described in the College's student intranet along with the College's complaint procedure.

Disclosure of Information to Auditors

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

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

Daniel Howard
Chair

Professional advisers

Financial statements and regularity auditors:	KPMG LLP, One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH
Internal auditors:	Baker Tilly Risk Advisory Services LLP, St. Philips Point, Temple Row, Birmingham, B2 5AF
Bankers:	HSBC Bank, 35 High Town, Hereford, HR1 2AQ
Solicitors:	Gordon Lutton, Wyevale Business Park, Wyevale Way, Kings Acre, Hereford HR4 7BS

Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

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

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

In the opinion of the Governors, the College complies with all the provisions of the Foundation Code, and it has complied throughout the year ended 31 July 2015. The Governing Body 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 English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in March 2012.
The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.The Corporation

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

Name	Date of appointment	Date of resignation	Period of office expires	Committees served	Attendance*
Independent Member					
Annie Brookes	18.09.07	14.12.14	17.09.15	Audit/S&G	100%
Heather Darwall-Smith	15.12.14	07.09.15	31.08.18	S&G	67%
Lynn Forrester-Walker	20.10.11		31.08.19	F&GP	100%
Dr Paul Hartley	21.03.13	31.08.15	21.03.17	F&GP	60%
Professor Daniel Howard (Chair)	01.09.13		31.08.17	S&G,F&GP	100%
Dr Michael Lafferty	17.05.07	16.05.15	16.05.15	S&G/F&GP	100%
Nancy Lavin-Albert	24.03.11		31.08.19	S&G	40%
Alison McLean (Vice Chair)	21.10.10		31.08.18	S&G/Audit	80%
Anthony Murphy	24.05.12		31.08.19		40%
Kate Murrie	24.05.12		31.08.19	AQ&S	100%
Timothy Newsholme	20.03.14		30.03.18	AQ&S, S&G	100%
John Nicol	01.01.13		31.08.16	AQ&S	80%
Scott Rolfe	24.05.12		31.08.19	F&GP	20%
John M. Rookes	24.03.11		31.08.19	Audit/AQ&S	80%
Staff Member					
Neil Hadfield	21.10.10		20.10.18	AQ&S	80%

Wendy Tolley	22.03.12		21.03.16		60%
Student Member					
Mary Carr	01.09.13	31.08.14	31.08.14		
James Price	17.10.13	31.08.14	31.08.14		
James Reid	20.10.14		31.08.16		60%
Ellis Stewart	20.10.14		31.08.15		60%
Principal and Chief Executive					
Abigail Appleton	22.10.15		Ex-officio	S&G, F&GP, AQ&S	
Richard Heatly	11.04.03	31.08.15	Ex-officio	F&GP/S&G	100%
Jim Walmsley	01.09.15	21.1015	Acting Principal		100%
Co-opted Member Committee Only					
Martin Taylor	01.09.07	31.08.15	31.08.15	Audit	
Graham Briscoe	20.10.11		31.08.19	Audit	
Adrienne Tulley	08.12.11	11.11.14	07.12.14	AQ&S	
Xaviere Hughes	20.10.14		31.08.16	AQ&S	

Key to Committees

Audit: Audit Committee; S&G: Search and Governance; F&GP: Finance and General Purposes Committee; AQ&S: Academic Quality and Standards Committee.

*Attendance percentage relates to Governing Body meetings only.

Linda Watkins acts as the Clerk to the Corporation.

Statement of Corporate Governance and Internal Control *(continued)*

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

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are finance and general purposes (F&GP), search and governance(S&G), academic quality and standards (AQ&S) and audit. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.hca.ac.uk or from the clerk to the Corporation at:
Hereford College of Arts, Folly Lane, Hereford. HR1 1LT.

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

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

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

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Accounting Officer of the College are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance committee comprising of 5 which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding 4 years.

Remuneration Committee

The remit of a remuneration committee has been merged with the College's Finance and General Purposes Committee since June 2003. Throughout the year ending 31 July 2015, the College's Finance and General Purposes Committee comprised a minimum of 5 members. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior postholders.

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

Statement of Corporate Governance and Internal Control *(continued)*

Audit Committee

The Audit Committee comprises of at least three members of the Corporation (who exclude the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

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

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

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

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

Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Hereford College of Arts for the year ended 31 July 2015 and up to the date of approval of the annual report and financial statements.

Statement of Corporate Governance and Internal Control *(continued)*

Capacity to handle risk

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

The risk and control framework

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

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

Hereford College of Arts has an internal audit service, which operates in accordance with the requirements of the EFA and SFA's *Joint Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

- The work of the internal auditors
- The work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- Comments made by the College's financial statements auditors, the regularity auditors, [and the appointed funding auditors] (for colleges subject to funding audit) in their management letters and other reports.

Statement of Corporate Governance and Internal Control *(continued)*

The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee which oversees the work of the internal auditor, and other sources of assurance and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and Audit Committee also receive regular reports from internal audit and other sources of assurance which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2015 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the Senior Management Team and internal audit, and taking account of events since 31 July 2015.

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

Going Concern

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

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

Daniel Howard
Chair

Abigail Appleton
Principal

Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of our consideration we have had due regard to the requirements of the financial memorandum.

We confirm, on behalf of the Corporation, 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 Skills Funding Agency's terms and conditions of funding under the College's financial memorandum.

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

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

Daniel Howard Chair	**Abigail Appleton** **Principal**

Statement of the responsibilities of the members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2007 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *Accounts Direction for 2014/15 financial statements* issued jointly by the Skills Funding Agency and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare an Operating and Financial Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

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

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

Daniel Howard
Chair

Independent auditor's report to the Corporation of Hereford College of Arts

We have audited the College financial statements ("the financial statements") of Hereford College of Arts for the year ended 31 July 2015 set out on pages 21 to 50. The financial reporting framework that has been applied in their preparation is applicable law and UK Generally Accepted Accounting Practice.

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

Respective Responsibilities of the Corporation of Hereford College of Arts and Auditor

As explained more fully in the Statement of the Corporation's responsibilities set out on page 16, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2015 and of the College's deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education.

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

In our opinion:

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

Jonathan Brown

Jonathan Brown
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

16 December 2015

Reporting Accountant's Report on Regularity to the Corporation of Hereford College of Arts and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency

In accordance with the terms of our engagement letter dated 13 October 2015 and further to the requirements of the financial memorandum with 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 Hereford College of Arts during the period 1 August 2014 to 31 July 2015 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education 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 Skills Funding has other assurance arrangements in place.

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

Respective responsibilities of Hereford College of Arts and the reporting accountant

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

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education 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 our conclusion included:

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

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

Conclusion

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

Jonathan Brown

Jonathan Brown
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

16 December 2015

Income and expenditure account
for the year ended 31 July 2015

	Note	2015	2014
Income		**£**	£
Funding body grants	2	**2,326,105**	2,454,301
Tuition fees and education contracts	3	**2,819,065**	2,428,673
Other income	4	**131,165**	155,225
Investment income	5	**8,000**	9,000
Endowment Income and Interest Receivable	5	**4,398**	23,074
Total income		**5,288,733**	5,070,273
Expenditure			
Staff costs	6	**3,391,002**	3,188,388
Exceptional restructuring costs	6	**6,887**	-
Other operating expenses	8	**1,609,104**	1,546,551
Depreciation	11	**443,433**	366,986
Interest and other finance costs	9	-	-
Total expenditure		**5,450,426**	**5,101,925**
(Deficit) on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax		**(161,693)**	(31,652)
Profit/(loss) on disposal of assets	11	-	-
(Deficit) on continuing operations after depreciation of assets at valuation, exceptional items and disposal of assets but before tax		**(161,693)**	(31,652)
Taxation	10	-	-
(Deficit) on continuing operations after depreciation of assets at valuation and tax	17	**(161,693)**	(31,652)
(Deficit) for the year transferred from accumulated income in endowment funds		-	-
(Deficit) for the year retained within general reserves		**(161,693)**	(31,652)

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

Statement of total recognised gains and losses
for the year ended 31 July 2015

	Note	2015 £	2014 £
(Deficit) on continuing operations after depreciation of assets at valuation, disposal of assets and tax		**(161,693)**	(31,652)
Unrealised surplus on revaluation of fixed assets	*11*	-	-
Actuarial (loss) in respect of pension scheme	*18*	**(250,001)**	(219,466)
New endowments	*30*	**(32,446)**	-
Total recognised (losses) since the last period		**(444,140)**	(251,118)

	2015 £	2014 £
Reconciliation		
Opening reserves and endowments	**4,802,285**	5,053,403
Total recognised (losses) for the year	**(444,140)**	(251,118)
Closing reserves and endowments	**4,358,145**	4,802,285

Statement of historical cost surpluses and deficits
for the year ended 31 July 2015

	Note	2015 £	2014 £
(Deficit) on continuing operations before taxation		**(161,693)**	(31,652)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	*16*	**17,661**	17,661
Historical cost (deficit) for the year		**(144,032)**	(13,991)

Balance sheet
as at 31 July 2015

	Note	2015 £	2014 £
Fixed assets			
Tangible assets	*11*	**4,934,583**	5,165,658
Endowment asset Investments	*30*	-	32,892
Current assets			
Stock		**10,870**	8,783
Debtors	*12*	**143,027**	185,403
Cash at bank and in hand		**1,736,203**	1,782,863
		1,890,100	1,977,049
Creditors: Amounts falling due within one year	*13*	**(623,957)**	(747,393)
Net current assets		**1,266,143**	1,229,656
Total assets less current liabilities		**6,200,726**	6,428,206
Creditors: Amounts falling due after more than one year	*14*	-	-
Net assets excluding pension asset liability		**6,200,726**	6,428,206
Net pension liability	*18*	**(1,145,000)**	**(875,000)**
Net assets including pension liability		**5,055,726**	5,553,206
Deferred capital grants	*15*	**697,581**	750,921
Expendable endowments		-	13,733
Permanent endowments		-	19,159
Total endowments		-	32,892
Reserves			
Income and expenditure account excluding pension reserve	*17*	**4,302,566**	4,426,153
Pension reserve	*17*	**(1,145,000)**	(875,000)
Income and expenditure account including pension reserve		**3,157,566**	3,551,153

Revaluation Reserve	16	**1,200,579**	1,218,240
Total reserves		**4,358,145**	4,769,393
TOTAL FUNDS		**5,055,726**	5,553,206

The financial statements on pages 21 to 50 were approved by the Corporation on 14th December 2015 and were signed on its behalf by:

Daniel Howard
Chair

Abigail Appleton
Accounting Officer

Cash flow statement

for the year ended 31 July 2015

	Note	2015 £	2014 £
Cash flow from operating activities	*19*	**127,493**	310,628
Returns on investments and servicing of finance	*21*	**4,398**	23,074
Taxation	*10*	**-**	-
Capital expenditure and financial investment	*21*	**(178,551)**	(1,018,655)
Cash outflow before use of liquid resources and financing		**(46,660)**	(684,953)
Management of liquid resources	*21*	**-**	-
Financing	*21*	**-**	-
(Decrease) in cash	*20*	**(46,660)**	(684,953)

Reconciliation of net cash flow to movement in net funds/debt

	2015 £	2014 £
(Decrease) in cash in the period	**(46,660)**	(684,953)
Cash inflow from new secured loan (note 21)	**-**	-
Cash inflow/(outflow) from liquid resources (note 21)	**-**	-
Cash outflow from decrease in lease financing	**-**	-
Movement in net funds in period	**(46,660)**	(684,953)
Net funds at 1 August	**1,782,863**	2,467,816
Net funds at 31 July	**1,736,203**	1,782,863

Notes
(forming part of the financial statements)

1 Statement of accounting policies

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

In these financial statements the following new standards have been adopted for the first time: FRS 30 'Heritage

Assets; and

Amendment to FRS 25 Financial Instruments: Presentation (Classification of rights issues).

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. The implementation of FRS 25 and FRS 30 have had no material effect on these financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the EFA in the 2014/15 Accounts Direction Handbook.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

Going concern

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

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

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the adult learner responsive funding element 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 at the end of November following the year end. Employer responsive grant income is recognised based on a year end reconciliation of income claimed and actual delivery with the Skills Funding Agency. 16-18 learner-responsive funding is not normally subject to a reconciliation and is therefore not subject to contract adjustments.

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

Other discrete Skills Funding Agency grants received during the year are taken to income as expenditure is incurred in line with t terms and conditions attached to each fund by the funding bodies.

Notes (continued)

1 Statement of accounting policies *(continued)*

Where the College receives and disburses funds in which it has no direct beneficial interest, such funds are excluded from the income and expenditure account on the grounds that the College does not have direct control over the future economic benefits derived from these funds. The College has applied this policy to certain funds received during the year from the Skills Funding Agency (see note 30).

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

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

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the income and expenditure account to accumulated income within endowment funds.

Agency Arrangements

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

Post retirement benefits

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

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

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

Further details of the pension schemes are given in note 18.

Enhanced Pensions

The actual cost of any enhanced ongoing pension to former members of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of

Notes (continued)

1 Statement of accounting policies *(continued)*

***Enhanced Pensions** (continued)*

staff is charged in full to the college's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Tangible fixed assets

Land and buildings

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Building improvements made since incorporation are included in the balance sheet at cost. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the Corporation of between 15 and 40 years. The Corporation has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

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

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

Subsequent expenditure on existing fixed assets

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

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

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party, they are only capitalised if the college has rights or access to ongoing future economic benefit.

These assets are then depreciated over their expected useful economic life.

Notes (continued)

1 Statement of accounting policies *(continued)*

Tangible fixed assets (continued)

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.

Equipment

Equipment costing less than £1,000 is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

All equipment is depreciated over its useful economic life of between 3 and 10 years.
Where equipment is acquired with the aid of specific capital grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

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

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

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

Payments under operating leases are charged against income in the year the payments are made.

Investments and endowment assets

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

Listed investments held as fixed assets or endowment assets are stated at market value.

Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Stocks

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

Notes *(continued)*

1 Statement of accounting policies *(continued)*

Foreign currency translation

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

Taxation

The Corporation 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 Corporation is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3
Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The Corporation is not registered for Value Added Tax, so it cannot recover 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.

Accounting for Charitable Donations

i)Unrestricted donations
Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

ii)Endowment funds
Where charitable donations are to be retained for the benefit of the College as specified by the donors, these are accounted for as endowments. There are three main types:

- Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the College
- Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the College can convert the donated sum into income
- Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

iii) Donations for fixed assets
Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

iv) Gifts in kind, including donated tangible fixed assets
Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Notes (continued)

1 Statement of accounting policies *(continued)*

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future calculated at the rates at which it is expected that tax will arise.

Liquid resources

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

Provisions

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

Cash

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

Notes *(continued)*

2 Funding body grants

	2015	2014
	£	£
Main funding body recurrent grant	**2,066,142**	1,823,148
Recurrent grant - HEFCE	**171,817**	534,530
Releases of deferred capital grants(note 15)	**87,146**	96,623
Special Initiative	**1,000**	-
	2,326,105	2,454,301

3 Tuition fees and education contracts

	2015	2014
	£	£
UK Higher Education students	**106,950**	81,216
Non-EU Higher Education students	**10,000**	37,895
UK Further Education Students	**157,864**	143,635
Higher Needs Income	**19,858**	-
24 Plus Advanced Learning Loans	**73,587**	89,447
Total fees paid by or on behalf of individual students	**368,259**	352,193
Higher Education (HE) income	**2,450,806**	2,076,480
	2,819,065	2,428,673

Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £5,000 *(2013/14 £3,000).*

4 Other Income

	2015	2014
	£	£
Other income generating activities	**25,969**	24,420
Other Capital Grants	**-**	-
Other income	**105,646**	130,805
	131,615	155,225

Notes *(continued)*

5 Endowment Income and Interest Receivable

	2015	2014
	£	£
Interest receivable	4,394	23,057
Income from permanent endowments (note 30)	4	17
	4,398	23,074

Investment income

	2015	2014
	£'000	£'000
Investment income	-	-
Other interest receivable	-	-
Pension finance income	8,000	9,000
	8,000	9,000

6 Staff numbers and costs

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

	2015 Number	2014 Number
Teaching staff	65	63
Non Teaching staff	55	54
	120	117

The numbers above do not include estimates of the staff numbers employed through contracting out arrangements

Notes *(continued)*

6 Staff numbers and costs *(continued)*

Staff costs for the above persons were as follows:

	2015	2014
	£	£
Wages and salaries	**2,874,181**	2,736,819
Social security costs	**161,712**	150,380
Other pension costs (including FRS 17 adjustments of £53,630; 2014 £38,968)	**355,109**	301,190
	3,391,002	3,188,389
Payroll sub total	**3,391,002**	3,188,389
Contracted out services	-	-
Exceptional restructuring costs	**6,887**	-
	3,397,889	3,188,389

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

	2015 Number of senior post-holders	2014 Number of senior post-holders	2015 Number of other staff	2014 Number of other staff
£10,001 to £20,000	1	1	Not applicable	Not applicable
£20,001 to £30,000	1	-	Not applicable	Not applicable
£50,001 to £60,000	1	2	Not applicable	Not applicable
£60,001 to £70,000	1	1	-	-
£70,001 to £80,000	-	-	-	-
£80,001 to £90,000	1	1	-	-

The emoluments of other staff are disclosed only if they exceed £60,000. All senior post-holder's emoluments are disclosed.

The Assistant Principal, a senior post-holder left the College in February 2015. The actual emoluments for that position are reflected in the bandings above and not the amounts if the position was filled for a full year.

Notes *(continued)*

7 Emoluments of senior post holders and members

Senior post-holders are defined as the Principal and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2015 Number	2014 Number
The number of senior post-holders including the Accounting Officer was	4	5

Senior post-holders' emoluments are made up as follows:

	2015 £	2014 £
Salaries	244,731	264,553
Benefits in kind	-	-
Pension contributions	33,742	36,488
	278,473	301,041

The above emoluments for the principal are the aggregate emoluments for that position during the year.

The above emoluments include amounts payable to the Accounting Officer (who is also the highest paid senior post-holder) of:

	2015 £	2014 £
Salaries	84,576	83,792
Benefits in kind	-	-
Pension contributions	11,925	11,815
	96,501	95,607

The above emoluments for the principal are the aggregate emoluments for that position during the year.

The pension contributions in respect of the Accounting Officer and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and are paid at the same rate 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.

Notes *(continued)*

8 Other operating expenses

	2015	2014
	£	£
Teaching departments	**295,345**	279,427
Teaching support services	**232,657**	257,893
Other support services	**24,749**	19,738
Administration and central services	**408,903**	368,169
General education	**52,657**	52,573
Premises costs	**353,751**	349,649
Planned maintenance	**121,671**	80,948
Bursary payments to HE students	**102,793**	121,633
Other expenses	**16,578**	16,521
	1,609,104	1,546,551
Other operating expenses include:		
Auditors remuneration:		
Financial statements audit	**14,039**	14,000
Internal audit	**10,018**	10,000
Other services from external audit	-	-
Other services from internal audit	-	-
Hire of plant and machinery – operating leases	-	-
Hire of other assets – operating leases	**20,186**	17,828

9 Interest payable

	2015	2014
	£	£
On bank loans and overdrafts:		
Repayable within five years, not by instalments	-	-
Repayable within five years, by instalments	-	-
Repayable wholly or partly in more than five years	-	-
On other loans:		
Repayable within five years, not by instalments	-	-
Repayable within five years, by instalments	-	-
Repayable wholly or partly in more than five years	-	-
On finance leases		
Pension finance costs	-	-
	-	-

Notes *(continued)*

10 Taxation

The members do not believe the College was liable for any corporation tax arising out of its activities during either period.

11 Tangible fixed assets

College

	Land and buildings Freehold	New buildings and property improvements	Equipment	Total
	£	£	£	£
Cost or valuation				
At 1 August 2014	1,595,000	5,151,468	1,528,199	8,274,667
Additions	-	133,324	79,035	212,359
Disposals	-	-	-	-
At 31 July 2015	**1,595,000**	**5,284,792**	**1,607,234**	**8,487,026**
Depreciation				
At 1 August 2014	376,761	1,515,218	1,217,031	3,109,010
Charge for year	17,661	293,485	132.287	443,433
Eliminated in respect of disposals	-	-	-	-
At 31 July 2015	**394,422**	**1,808,703**	**1,349,318**	**3,552,443**
Net book value				
At 31 July 2015	**1,200,578**	**3,476,089**	**257,916**	**4,934,583**
At 31 July 2014	1,218,239	3,636,250	311,174	5,165,658

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

Land and buildings were valued for the purpose of the 1994 financial statements at depreciated replacement cost by MT Williams (ARICS), Assistant County Property Officer for Hereford and Worcester County Council, in accordance with the RICS Statement of Asset Valuation Practice and Guidance notes. Other tangible fixed assets inherited from the local education authority at incorporation have been valued by the Corporation on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £1,200,578 *(2013/14: £1,218,239)* for which title deeds and leasehold agreements have been transferred to the Corporation.

Fixed assets include land and buildings with a net book value of 494,894 *(2013/14: £554,515)* which is partially funded by a grant from the Skills Funding Agency.

Notes *(continued)*

12 Debtors

	2015	2014
	£	£
Amounts falling due within one year:		
Trade debtors	**17,076**	37,470
Prepayments and accrued income	**125,951**	147,933
	143,027	185,403

13 Creditors: Amounts falling due within one year

	2015	2014
	£	£
Trade creditors	**129,130**	156,585
Corporation tax	**-**	-
Other taxation and social security	**3,762**	100,680
Accruals	**325,712**	353,475
Grants received in advance	**161,303**	127,520
Other Creditors	**4,050**	9,133
	623,957	747,393

14 Creditors: Amounts falling due after more than one year

	2015	2014
	£	£
Bank loans	**-**	-
Obligations under finance leases	**-**	-
	-	-

Notes *(continued)*

15 Deferred capital grants

	Skills Funding Agency and EFA	Other grants	Total
	£	£	£
At 1 August 2014	604,470	146,451	750,921
Cash received:	-	33,808	33,808
Released to income and expenditure account	(61,956)	(25,192)	(87,148)
At 31 July 2015	**542,514**	**155,067**	**697,581**

16 Revaluation reserve

	2015	2014
	£	£
At 1 August 2014	**1,218,240**	1,235,901
Revaluations in the year (as per note 11)	-	-
Transfer from revaluation reserve to income and expenditure account in respect of:		
Depreciation on revalued assets	**(17,661)**	(17,661)
At 31 July 2015	**1,200,579**	1,218,240

17 Movement on general reserves

	2015	2014
	£	£
At 1 August 2014	**3,551,153**	3,784,177
(Deficit) on continuing operations after depreciation of assets at valuation and tax	**(161,693)**	(31,652)
Transfer from revaluation reserve to income and expenditure account	**17,661**	17,661
Actuarial (loss) in respect of pension scheme	**(250,001)**	(219,466)
Transfer to accumulated income within endowments	**446**	433
At 31 July 2015	**3,157,566**	3,551,153

Balance represented by

	2015	2014
	£	£
Pension reserve	**(1,145,000)**	(875,000)
Income and expenditure account excluding pension reserve	**4,302,566**	4,426,153
At 31 July 2015	**3,157,566**	3,551,153

Notes *(continued)*

18 Pensions and similar obligations

The Corporation's employees belong to two principal pension schemes, 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 Worcestershire County Council. Both are defined-benefit schemes.

Total pension cost for the year		2015 £000		2014 £000
Teachers Pension Scheme: contributions paid		187		176
Local Government Pension Scheme:				
Contributions paid	114		86	
FRS 17 charge	54		39	
Charge to the Income and Expenditure Account (staff costs)		168		125
Enhanced pension charge to Income and Expenditure Account (staff costs)		-		-
Total Pension Cost		355		301

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

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 of Education on 9 June 2014. The key results of the valuation are:

- employer contribution rates were set at 16.4% of pensionable pay;
- 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 £15.0 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS will be implemented in September 2015.

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

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

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 a 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 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 year and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

In his interim report of October 2010, Lord Hutton recommended that short-term savings were also required, and that the only realistic way of achieving these was to increase member contributions. At the Spending Review 2010 the Government announced an average increase of 3.2 percentage points on the contribution rates by 2014-15. The increases have been phased in since April 2012.

The Department has continued to work closely with trade unions and other representative bodies to develop a reformed Teachers' Pension Scheme, and regulations giving effect to the reformed scheme came into force on 1 April 2014. A programme of communications is being rolled out, and the reformed scheme will commence on 1 April 2015.

The pension costs paid to TPS in the year amounted to £187,000 (2014: £176,000).

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

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Worcestershire County Council. The total contribution made for the year ended 31 July 2015 was £168,232 of which employers contributions totalled £114,370 and employees contributions totalled £53,862 The agreed contribution rates for future years are 13.0% for employers and range from 5.5% to 10.5% for employees, depending on salary.

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

Principal Actuarial Assumptions

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

	2015	2014
Inflation assumption (CPI)	**2.2%**	2.3%
Rate of increase in salaries	**3.7%**	3.8%
Rate of increase in pensions	**2.2%**	2.3%
Discount rate for liabilities	**3.8%**	4.3%

On advice from our actuaries we have assumed that 50% of employees retiring after 6 April 2007 will take advantage of the option to commute part of their future annual pension to a lump sum payment on retirement.

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

	At 31 July 2015	At 31 July 2014
Retiring today		
Males	**23.4**	23.3
Females	**25.8**	25.7
Retiring in 20 years		
Males	**25.6**	25.5
Females	**28.1**	28.0

The assets and liabilities in the scheme and the expected rates of return were:

	Long term rate of return Expected at 31 July 2015	Value at 31 July 2015 £'000	Long term rate of return expected at 31 July 2014	Value at 31 July 2014 £'000
Equities	**6.5%**	**2,241**	7.0%	2,013
Bonds-Government	**2.5%**	**3**	3.2%	-
Bonds-Other	**3.6%**	**153**	4.1%	144
Property	**6.1%**	**-**	6.2%	-
Cash	**0.5%**	**25**	0.5%	20
Other	**6.5%**	**88**	7.0%	-
Total market value of assets		**2,510**		2,177
College's estimated asset share		**2,510**		2,177
Present value of scheme liabilities		**(3,655)**		(3,052)
(Deficit) in the scheme		**(1,145)**		(875)

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

Analysis of the amount charged to the income and expenditure account

	2015	2014
	£	£
Employer service cost (net of employee contributions)	114	83
Past service cost	-	-
Total operating charge	114	83

Analysis of pension finance income/(costs)

	2015	2014
	£	£
Expected return on pension scheme assets	142	138
Interest on pension scheme liabilities	(134)	(129)
Pension finance income	8	9

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

	2015	2014
	£	£
Actuarial gains/(losses) on pension scheme assets	53	(128)
Actuarial (losses) on scheme liabilities	(303)	(91)
Actuarial (loss) recognised in STRGL	(250)	(219)

Movement in (deficit) during year

	2015	2014
	£	£
(Deficit) in scheme at beginning of year	(875)	(634)
Movement in year:		
Current service charge	(168)	(125)
Contributions	140	94
Past service costs	-	-
Net interest/return on assets	8	9
Actuarial loss	(250)	(219)
(Deficit) in scheme at end of year	(1,145)	(875)

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

Asset and Liability Reconciliation

	2015 £'000	2014 £'000
Reconciliation of Liabilities		
Liabilities at start of period	**3,052**	2,738
Service cost	**168**	125
Interest cost	**134**	129
Employee contributions	**54**	42
Experience gains and losses on scheme liabilities	-	-
Actuarial loss	**303**	91
Benefits paid	**(56)**	(73)
Past Service cost	-	-
Curtailments and settlements	-	-
Liabilities at end of period	3,655	3,052
Reconciliation of Assets		
Assets at start of period	**2,177**	2,104
Expected return on assets	**142**	138
Actuarial gain/(loss)	53	(128)
Employer contributions	**140**	94
Employee contributions	54	42
Benefits paid	**(56)**	(73)
Assets at end of period	2,510	2,177

The estimated value of employer contributions for the year ended 31st July 2016 is £141,000.

Deficit contributions

The College has entered into an agreement with the LGPS to make monthly contributions of approximately £28,000 per annum in addition to normal funding levels until the next full valuation at which point the situation will be reviewed again. This agreement started on the 1st April 2014. The College has made £25,634 of such contributions in the year ended 31st July 2015.

Notes *(continued)*

18 Pensions and similar obligations *(continued)*

History of experience gains or losses

	2015 **£'000**	2014 **£'000**	2013 **£'000**	2012 **£'000**	2011 **£'000**
Difference between the expected and actual return on assets:					
Amount	**53**	(128)	277	(153)	195
% of scheme assets	**2.1%**	5.9%	13.2%	9.3%	12.0%
Experience gains and losses on scheme liabilities					
Amount	**0**	60	0	0	(78)
% of scheme liabilities	**0%**	2%	0%	0%	3.6%
Total amounts recognised in statement of total recognised gains and losses					
Amount	**(250)**	(219)	223	(230)	67
% of scheme liabilities	**6.8%**	7.2%	8.1%	9.3%	3.1%

19 Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities

	2015 **£**	2014 £
(Deficit) on continuing operations after depreciation of assets at valuation and tax	**(161,693)**	(31,652)
Depreciation (note 11)	**443,433**	366,986
Deferred capital grants released to income (notes 2 and 4)	**(87,146)**	(96,623)
(Profit)/loss on disposal of tangible fixed assets	-	-
Interest receivable (note 5)	**(4,398)**	(23,074)
Investment Income (note 5)	**(8,000)**	(9,000)
Interest payable (note 9)	-	-
Pension cost less contributions payable (note 18)	**28,444**	30,961
(Increase) in stocks	**(2,087)**	(2,721)
Decrease in debtors	**20,394**	18,311
(Decrease)/increase in creditors	**(27,455)**	72,850
Increase/(decrease) in provisions	-	-
Decrease/(Increase) in prepayments and accrued income	**21,982**	(30,495)
(Decrease)/Increase in other taxation and social security	**(96,918)**	39,273
Increase/(Decrease) in accruals, grants received in advance and other creditors	**937**	(24,188)
Net cash inflow from operating activities	**127,493**	310,628

Notes *(continued)*

20 Analysis of changes in net funds

	At 1 August 2014 £	Cash flows £	Other Changes £	At 31 July 2015 £
Cash at bank and in hand	1,782,863	(46,660)	-	**1,736,203**
Bank overdrafts	-	-	-	-
Debts due after 1 year	-	-	-	-
Debts due within 1 year	-	-	-	-
Finance leases	-	-	-	-
Total	1,782,863	(46,660)	-	**1,736,203**

21 Analysis of cash flows for headings netted in the cash flow statement

	2015 £	2014 £
Returns on investments and servicing of finance		
Income from endowments	**4**	17
Interest paid	-	-
Interest element of finance lease rental payment	-	-
Interest received	**4,394**	23,057
Net cash inflow from returns on investments and servicing of finance	**4,398**	23,074
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(212,359)**	(1,077,371)
Sales of tangible fixed assets	-	-
Deferred capital grants received	**33,808**	58,716
Net cash (outflow) for capital expenditure and financial investment	**(178,551)**	(1,018,655)
Management of liquid resources		
Sales of investments	-	-
Withdrawals from deposits	-	-
Purchase of investments	-	-
Placing of deposits	-	-
Net cash inflow/(outflow) from management of liquid resources	-	-
Financing		
Debt due beyond a year:		
New unsecured loans repayable	-	-
Repayment of amounts borrowed	-	-
Capital element of finance lease rental payments	-	-
Net cash inflow/(outflow) from financing	-	-

Notes *(continued)*

22 Capital commitments

	2015	2014
	£	£
Commitments contracted for at 31 July 2015	**50,066**	115,975
Commitments authorised but not contracted for at 31 July 2015	**-**	-

23 Financial commitments

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

	2015		2014	
	Land and Buildings	**Other**	Land and Buildings	Other
	£'000	**£'000**	£ '000	£'000
Expiring within one year	**-**	**6**	-	7
Expiring between two and five years inclusive	**-**	**8**	-	21
Expiring in over five years	**175**	**33**	175	-
	175	**47**	175	28

24 Contingent liability

The College had no contingent liabilities as at 31 July 2015 *(2013/14: £nil)*.

25 Related Party Transactions

Due to the nature of the College's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £1,143 (2014: £1,760; 4 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2014: None).

No other transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

Transactions with the Skills Funding Agency/EFA and HEFCE are detailed in notes 2, 12, 13 and 15.

Notes *(continued)*

26 Post balance sheet events

There were no post balance sheet events.

27 Cash flow relating to exceptional items

The operating cash outflows include an outflow of £Nil. *(2013/14: £Nil)* for exceptional restructuring costs

28 Major non-cash transactions

During the year the College made a provision of £Nil *(2013/14: £Nil)* for future pension cost

29 Amounts Disbursed as Agent

Learner support funds

	2015	2014
	£	£
Access Funds-HEFCE		
HEFCE grants	-	13,271
Interest earned	-	-
Disbursed to students	-	(12,221)
Administration costs	-	(398)
Balance unspent at 31 July	-	652

Access Funds – Education Funding Agency/Skills Funding Agency		
Funding body grants	**79,652**	76,869
Interest earned	-	-
Disbursed to students	**(75,530)**	(56,149)
Audit fees	-	-
Staffing	-	-
Administration costs	**(3,483)**	(3,364)
Balance unspent at 31 July, included in creditors	**639**	17,356

Other Learner support funds

	2015	2014
Residential Bursaries – Education Funding Agency/Skills Funding Agency	£	£
Funding body grants		
Childcare	-	7,216
Residential bursaries	**65,249**	60,182
Interest earned	-	-
Disbursed to students	**(20,634)**	(49,631)
Administration costs	**(3,262)**	(3,009)
Balance unspent at 31 July, included in creditors	**41,353**	14,758

Notes *(continued)*

29 Amounts Disbursed as Agent (continued)

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 have therefore been excluded from the income and expenditure account, other than when the College has directly incurred expenditure itself.

The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.

30 Endowments

	Year ended 31st July 2015			
	Restricted Expendable	Restricted Permanent	Restricted Total	Total
	£	£	£	£
At 1 August 2014	13,733	19,159	32,892	**32,892**
Income for year	2	2	4	4
Expenditure for year	(250)	(200)	(450)	**(450)**
Transferred to The Herefordshire Community Foundation	(13,239)	(18,761)	(32,000)	**(32,000)**
Transferred to main account to close endowment	(246)	(200)	(446)	**(446)**
At 31 July 2015	-	-	-	-

	Year ended 31st July 2014			
	Restricted Expendable	Restricted Permanent	Restricted Total	Total
	£	£	£	£
At 1 August 2013	13,976	19,539	33,325	33,325
Income for year	7	10	17	17
Expenditure for year	(250)	(200)	(450)	(450)
At 31 July 2014	13,733	19,159	32,892	32,892

Expenditure from restricted permanent endowments in excess of interest income is taken from retained income and not from original capital.

In order to obtain a better return on the endowment funds and to access match funding available to Community Foundations, £32,000 of the endowment fund was transferred to the The Herefordshire Community Foundation (Registered charity 1094935). A fund has been set up by the Foundation called The Hereford College of Arts Fund. This is a ring fenced fund. The fund is controlled by the trustees of The Herefordshire Community Foundation and consequently is excluded from the finances of Hereford College of Arts. The remaining balance has been transferred to the colleges general funds.