

Hereford College of Arts

**Financial Report and Accounts
For the year ended 31st July 2018**

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Key Management Personnel, Board of Governors and Professional Advisers

Key Management Personnel

Key management personnel are defined as the following:

Abigail Appleton Principal and Chief Executive Officer; Accounting Officer
Jim Walmsley Vice Principal
Tim Williams Finance Director

Board of Governors

A full list of Governors is given on page 16 & 17 of these financial statements.

Mrs L. Watkins acted as Clerk to the Corporation throughout the period.

Professional Advisers

Financial Statement auditors and reporting accountants:

Mazars LLP, 90 Victoria Street, Bristol, BS1 6DP

Internal Auditors:

RSM Risk Assurance Services LLP, St. Philips Point, Temple Row, Birmingham, B2 5AF

Bankers:

HSBC Bank, 35 High Town, Hereford, HR1 2AQ

Solicitors:

Harrison Clark Rickerbys (inc Gordon Lutton), Thorpe House, 29 Broad Street, Hereford HR4 9AR

Members' Report

Objectives and Strategy

The Corporation present their annual Members' Report together with the financial statements and auditor's report for Hereford College of Arts for the year ended 31st July 2018.

Legal Status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Hereford College of Arts. The Corporation is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

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

Mission

"To empower creativity and enrich our world through transformative arts education."

Public Benefit

Hereford College of Arts is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 16 and 17.

In setting and reviewing the Corporation's strategic objectives, the Corporation 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 Corporation 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
- Links with Local Enterprise Partnerships (LEPs).

The delivery of public benefit is covered throughout the Members Report.

Members' Report

Implementation of Strategy

As part of the review of the Strategic Plan, the Corporation's Vision and Values were approved:

Vision

Our vision of success looks like this:

- Hereford College of Arts is widely recognized as a leading arts school, rooted in place but connected to the world.
- Students are empowered with skills for life and work, to succeed in education, employment and entrepreneurship, and to have a positive impact on the world.
- A vibrant creative community, we welcome a rich diversity of people, with different experiences and perspectives.
- We make an inspiring contribution to the cultural and economic life of the region and beyond.

Values

We support students and staff to be:

- **Collaborative:** we believe creative collaboration gives people the power to change the world.
- **Inquisitive:** we urge our students to question, seek the wider context, think critically, and use arts to engage with society.
- **Brave:** we support and challenge individuals to achieve their ambitions, to tackle important issues, and to take bold creative risks.
- **Inventive:** we encourage an appetite to take on problems and a resourceful, Creative approach to solving them.
- **Individual:** we respect the individual needs and interests of all members of our creative community, and provide a safe space for unique creative voices to develop and thrive.

The College approved 4 Strategic Pillars underpinning the College's Strategic Plan on the 9th July 2018.

Strategic Pillars

1. Curriculum

- 1.1 Create more inter-disciplinary pathways at Further and Higher Education and through our short course.
- 1.2 Expand our digital curriculum to enable students to work creatively in a world full of new digital possibilities.
- 1.3 Launch new BA and MA programmes to attract talent and establish Hereford's national reputation as a destination for specialist higher education.

2. Community

- 2.1 Deliver a college wellbeing strategy focused on building confidence, empathy, and connection.
- 2.2 Instigate ambitious research projects on the role of creative practice in contributing to wider community wellbeing.
- 2.3 Curate a holistic student experience promoting social, play and volunteering experiences as well as formal learning.
- 2.4 Ensure all students are challenged to engage creatively with diverse cultures, viewpoints

Members' Report

and opinions: locally, nationally and internationally.

3. Creative Spaces and Places

- 3.1 Support all our students to explore our city and county, for the benefit of their creative practice and personal wellbeing.
- 3.2 Deepen HCA engagement in our city and county: amplify current projects and develop ambitious new partnerships with cultural organisations and businesses, to attract more people to live, work, study, and visit Hereford and our region.
- 3.3 Extend access to our campus through more weekend and holiday opening for academic and short course students, as well as hosting more public events.

4. Student Careers and Enterprise

- 4.1 Launch a digital showcase to promote recent HCA alumni and make it easy for businesses and other clients to connect with new talent.
- 4.2 Work with partners to develop more start-up support for new creative businesses in Hereford and the region (e.g. graduate studios, co-working and incubation spaces).
- 4.3 Develop a co-ordinated network of business mentors for students and recent alumni.

Over the next five years we will:

Grow our college-level student community to at least 470 students.

Grow our degree level student community to at least 680 full time equivalent students.

Deliver at least 4000 short course places, enabling local people to empower their creativity.

Extend our network of regional and national partnerships with at least 5 major partnerships.

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 Corporation's financial objective is to maintain a Financial Health category of Good or better. The Education & Skills Funding Agency (ESFA), the Corporation'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 assessment will confirm that the Corporation has an outstanding financial health for 2017/18. The Corporation will use some of its reserves to implement the Strategic Plan. This will impact on the Corporation's Financial Health as it will decrease to Satisfactory for the next 3 years before returning to Outstanding. This reduction in Financial Health is part of a planned strategy with the aim of improving the Colleges financial sustainability in the long-term.

Performance indicators

The Corporation is committed to observing the importance of sector measures and indicators such as the measures of success rates and learner surveys such as FE Choices data as published on the GOV.UK website.

Members' Report

Financial Position

Financial Results

The Corporation has generated a deficit before other gains and losses in the year of £128,000 (2016/17 – surplus of £94,000), with total comprehensive surplus of £563,000 (2016/17 - £412,000).

The Corporation has accumulated reserves of £3,584,000 (2016/17 - £3,003,000) and cash balances of £2,944,000 (2016/17: £2,434,000)

Tangible fixed asset additions during the year amounted to £221,000. (2016/17: £196,000).

The Corporation has significant reliance on the education sector funding bodies (ESFA and Office for Students) for its principal funding sources mainly but not exclusively from recurrent grants. The Corporation received £2.4 million or 40% of its total income directly from these agencies in the form of a recurrent grant. (2016/17: £2.4m or 41%).

Treasury Management

Treasury Management is the management of the Corporation's cash flows, banking and money market transactions; the effective control of risks associated with these activities; and the pursuit of optimum performance consistent with the associated risks.

The Corporation has a separate Treasury Management policy in place. Short term borrowing for temporary purposes is authorised by the Accounting Officer (Principal). All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash Flows

The Corporation had a cash inflow of £731,000 from operating activities (2016/17 inflow of £479,000).

Reserves Policy

The Corporation has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. As at the balance sheet date the Income and Expenditure reserve stands at £3.6 million (2017: £3.0million). The Corporation expectation is that £1million of cash reserves should be retained.

Current and Future Development and Performance

Office for Student(OfS) registration

On the 13th November 2018, the Corporation received notification from the OfS, the new regulator for higher education, that the College had successfully completed the new registration process. The

Members' Report

OfS is taking a more active role in the regulation of higher education than its predecessor organisation. The registration highlights confidence in Hereford College of Arts to deliver higher education and protect students.

Student numbers

The Corporation enrolled 378 ESFA funded 16-18 year old students. 5 students were funded by the ESFA Adult Education Budget and 28 students paid fees via Advanced Learning Loans.

Higher Education students are partly funded by the Office for Students (OfS) and partly by student tuition fee loans. In 2017/18 the College enrolled 325 full-time and 34 part time undergraduate HE students. 36 post graduate MA students were also enrolled.

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

Student achievements

Achievement levels for were consistently high on the main FE programmes, with healthy rates of progression into higher education and employment.

Overall achievement rates for FE courses in 2017/18 were 94% (2016/17: 91%). This level of achievement exceeds corresponding national averages. Main programmes with achievement rates of over 90% included Foundation Diploma in Art & Design(91%), Extended Diploma in Performing Arts(95%), Extended Diploma in Art & Design(94%), Level 3 Diploma in Art & Design(95%), Level 3 Diploma in Performing Arts(95%), Level 2 Diploma in Art & Design 91% and Level 2 Diploma in Performing Arts(100%).

The College had a short inspection from Ofsted in October 2017. The overall conclusion of this inspection was that the College "continues to be good". A copy of the inspection report can be found at this link: <https://reports.ofsted.gov.uk/inspection-reports/find-inspection-report/provider/ELS/130714>

In Higher Education final year BA(Hons) students were awarded 26 Firsts, 42 Upper Seconds, 17 Lower Seconds and 7 Thirds (2016/17: 23 Firsts, 43 Upper Seconds, 14 Lower Seconds and 4 Thirds). Nationally and within the context of the Herefordshire Post 16 sector, the Corporation has a well established reputation for academic excellence and extra curricular activities. Methods of teaching and learning are subject to continuous review and development in order to ensure that the curriculum meets the needs of the local students.

Curriculum Developments

The Corporation plans to expand our further education offer with the introduction of a level 3 Extended Diploma in Digital Futures and Interactive Media in 2019/20. In subsequent years this will expand to include a Level 2 offer.

At higher education level the Corporation will introduce a new BA(Honours) degree to in 2020-21 and for each of the following 2 years. Over the next 5 years it is planned to expand its Masters provision from 2 to 8 courses.

Future prospects

The Corporation aims as part of its strategic plan to increase its Higher Education student numbers, partly by increasing the student numbers on each higher education course but also by increasing the

Members' Report

number of higher education courses being delivered. This will require continued investment in the higher education facilities, increased marketing and recruitment activity and provision of additional student accommodation in order to attract and retain new students to Hereford.

The Corporation will need to do this while, maintaining quality and enrolment levels on its existing further education provision, and dealing with the changing landscape of both HE and FE.

The Corporation has a strong balance sheet and a large cash balance, which will allow it to continue investing in higher education as well as maintaining a high level of support for further education, and ensuring that the Corporation can continue on a going concern basis for the foreseeable future.

Post-balance sheet events

There are no post-balance sheet events to report.

Resources

The Corporation 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 Corporation also leases its College Road campus in Hereford that houses its Higher Education provision.

Financial

The Corporation has £4.7 million of net assets (including a £1.2million pension liability) and no long term debt.

People

The Corporation employs 112 people (expressed as full time equivalents), of whom 63 were teaching staff.

Reputation

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

Principal Risks and Uncertainties

The system of internal control maintained by the Corporation includes financial, operational and risk management which is designed to protect the College's assets and reputation.

A risk register is maintained at College level, which is reviewed at each meeting of the Audit Committee and the full Board, and on a regular basis by the Senior Leadership Team. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the Corporation and the actions being taken to reduce and mitigate the risk. Risks are prioritised using a consistent scoring system.

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

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1 Government funding

The Corporation has considerable reliance on continued government funding through the further education funding bodies and OfS. In 2017/18, 89% (2016/17 92%), of revenue was ultimately publicly funded, and this level of requirement is expected to continue. There can be no assurance that government policy and practise will remain the same, or that public funding will continue at the same level or on the same terms.

The Corporation is aware of the following issues that may impact on future funding;

- Future potential changes in the funding methodology which may result in a further reduction in ESFA funding for 16 to 18 year olds.
- The reduction of the Adult Education Budget(AEB)
- The risk from demographic decline within Herefordshire
- The reduction of the Office for Students(OfS) funding grant
- The possible reduction in students taking arts based subjects in year 10 as the result of the introduction of EBacc and other school performance measures.
- Stronger competition from other local providers.
- Changes in emphasis to vocational education arising from the Government Skills Plan.
- The Augar Review into post-18 education.

The risk is mitigated in a number of ways:

- By ensuring the Corporation is rigorous in delivering high quality education and training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the funding bodies.
- Ensuring the Corporation is focussed on those priorities which will continue to benefit from public funding.
- Regular dialogue with the Funding Agencies and the Local Authority.
- The increased focus on growth in further and higher education student numbers.

2 Increase student numbers

The College is small for the sector, so it is crucial to maintain current student numbers but also to increase these where possible. This will help to mitigate the changes in funding but allow the College to develop and invest for the future and increase educational opportunities within Herefordshire. The Corporation as part of its strategy plans to increase both FE and HE student numbers over the period of the strategy. The strategy includes increasing the number of courses that are delivered as well as increasing the number of enrolments on existing courses.

As part of the implementation of the strategy the Corporation is investing some of its reserves into curriculum development, improved infrastructure including additional key staff appointments and other investments to increase the level of applications to the College and increase student numbers.

The HE sector is very competitive and though increasing student numbers is an opportunity it is also a significant risk if student numbers do not increase.

The College is also aware that there is a demographic decline in HE student numbers and that Brexit may impact the number of EU students coming to the UK to study. This could further reduce the overall student pool from which to recruit.

3 Maintenance of adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102.

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The risk is mitigated by an agreed deficit recovery plan with Worcestershire County Council Local Government Pension Scheme.

A revaluation of the Teachers Pensions Scheme (TPS) has taken place and it is anticipated that the employer contribution rate will increase from 16.48% to approximately 23% in September 2019. It is expected that the increase will be covered by the relevant funding agencies in the short-term.

4 Failure to maintain financial viability of the College

The Corporations' current financial health grade is classified as "Outstanding". This is largely the consequence of a strong balance sheet with a high cash balance, no gearing, and a large surplus when measured using EBITDA. As part of the Corporation strategy some reserves will be used to implement the strategy. The strategy should lead to increased student growth, but the use of reserves will cause the financial health to deteriorate in the short term from Outstanding to Satisfactory. At the end of the period of the Strategy the financial health grade will return to Outstanding. As the strategy is implemented the Corporation will need to closely monitor the implementation of the strategy to ensure that it is on track to deliver its outcomes. Notwithstanding that, the continuing challenge to the financial position remains the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining student experience, as well as an increasingly competitive higher education sector. This risk can be mitigated in a number of ways:

- By rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing procurement efficiencies

Stakeholder Relationships

In line with other Corporations and with universities, Hereford College of Arts has many stakeholders. These include:

- Students;
- Parents and carers;
- Education sector funding bodies;
- FE Commissioner;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Local Enterprise Partnerships (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 website and by meetings.

Members' Report

Equality

The Corporation 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 Corporation 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.

Disability statement

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

- a) As part of its accommodation strategy, the Corporation updated its access audit 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) There is a list of specialist equipment, including assistive technology, which the College can make available for use by students.
- d) The admissions policy for all students. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f) Counselling and welfare services are described on the College student intranet along with the Complaints and Disciplinary Procedure.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the College to publish information on facility time arrangements for trade union officials at the College.

During the period covered by this Members' Report, the College did not have any trade union officials and therefore there is no facility time to report for that period.

Members' Report

Events after the reporting period

There were no significant post balance sheet events.

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 17th December 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Mervyn Jones', is written over a horizontal line of small, repeating characters.

Mervyn Jones
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the Corporation to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2017 to 31st July 2018 and up to the date of approval of the annual report and financial statements.

The Corporation endeavours to conduct its business:

- in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and

In the opinion of the Governors, the Corporation complies with all the provisions of the Code and it has complied throughout the year ended 31 July 2018. 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 Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 13 July 2015.

The Corporation

The composition of the Corporation is set out on pages 16 and 17.

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

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

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 & General Purposes(F&GP), Search and Governance(S&G), Academic Quality and Standards(AQ&S) and Audit. Full minutes of all Corporation meetings, except those deemed to be confidential by the Corporation, are available on the College 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, which 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 of 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.

Statement of Corporate Governance and Internal Control

Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board meetings. Briefings are provided on an ad-hoc briefings 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 the Accounting Officer (Principal) 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 the Accounting Officer (Principal), the Chair of the Corporation and four other members, 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 not exceeding four years, upon which they may be re-elected.

Corporation Performance

The Corporation carried out a self-assessment of its own performance for the year ended 31st July 2018 and graded itself as Good on the Ofsted scale.

Remuneration Committee

The remit of the Remuneration Committee has been merged with the College's Finance and General Purposes (F&GP) Committee since June 2003. Throughout the year ended 31st July 2018, the F&GP Committee comprised a minimum of 4 members. The Committee's responsibilities are to make recommendations to the Corporation on the remuneration and benefits of the Accounting Officer (Principal) and other senior post-holders. Details of remuneration of these post-holders for the year ended 31st July 2018 are set out in note 6 of the financial statements.

Audit Committee

The Audit Committee comprises at least five members of the Corporation (excluding the Accounting Officer (Principal) and Chair) and operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis, and provides a forum for reporting by the College's internal and external (financial statements and regularity) 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 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 audit recommendations and internal audit undertake periodic follow-up reviews to ensure that recommendations have been implemented.

Statement of Corporate Governance and Internal Control

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

Membership of the Corporation

See over page.

Statement of Corporate Governance and Internal Control

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

Name	Date of First Appointment	Date of Resignation	End of Current Term	Committees Served during the year ended 31 st July 2017	Attendance percentage*
Professor Robin Baker	24.04.17		31.08.21	F&GP, S&G	100%
Lynn Forrester-Walker	20.10.11	31.08.18	31.08.19	F&GP	100%
Dr. Elizabeth Halford	17.10.16		31.08.20	AQ&S, Audit	100%
Professor Daniel Howard (Chair – until 31.08.17)	01.09.13	31.08.17	31.08.17	F&GP, S&G	N/A
Mervyn Jones (Chair – from 01.09.17)	14.07.16		31.08.20	F&GP, S&G	100%
Alison McLean (Vice Chair)	21.10.10		31.08.19	Audit, S&G, AQ&S	80%
Timothy Newsholme	20.03.14		30.03.22	AQ&S, S&G	100%
John Nicol	01.01.13		31.08.20	AQ&S	60%
Scott Rolfe	24.05.12		31.08.19	F&GP	60%
John M. Rookes	24.03.11		31.08.19	Audit, AQ&S	100%
Kay Sandford-Beal	13.12.16		31.08.20	F&GP	60%
Katie Seekings	14.12.15		31.08.19	Audit, S&G	100%
Oliver Tomlinson	17.10.16	31.08.18	31.08.20		80%
Staff Member					
Neil Hadfield	21.10.10				
Wendy Tolley	22.03.12	05.07.18	20.10.18		100%
Stevie-Jane Callendar	09.07.18		21.03.20		75%
Daniel Fox	22.10.18		31.08.22		100%
Student Member					
Mairead McVeigh	24.04.17	31.07.18			
Jordan Knight	11.12.17	31.07.18	31.07.18		80%
Jennifer Hodgeman	01.09.18		31.07.20		75%
					N/A

Statement of Corporate Governance and Internal Control

Hannah Jones	01.09.18		31.07.19		N/A
Principal and Chief Executive					
Abigail Appleton	22.10.15		Ex-officio	AQ&S, F&GP, S&G	100%
Co-opted Member Committee Only					
Graham Briscoe	20.10.11		31.08.19	Audit	100%
Kate Murrie	01.12.16		31.08.20	AQ&S	75%
Independent Clerk					
Linda Watkins	01.10.97		On leaving		N/A

Key to Committees

'AQ&S' – Academic Quality & Standards Committee

'F&GP' – Finance & General Purposes Committee.

'S&G' – Search & Governance Committee.

* Attendance Percentage relates to Governing Body meetings only, with the exception of Co-opted members where attendance relates to the Committee they are on.

Statement of Corporate Governance and Internal Control

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 to business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated day to day responsibility to the Accounting Officer (Principal), 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 Funding Agreement between Hereford College of Arts and the funding bodies. She is also responsible for reporting to the Corporation any significant weaknesses or breakdowns in internal control.

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 31st July 2018 and up to the date of approval of the annual report and accounts.

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 year ended 31st July 2018 and up to the date of approval of the annual report and accounts. The 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, administrative 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 ESFA's *Post16 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

Statement of Corporate Governance and Internal Control

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

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review 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 any government appointed funding auditors in their management letters and other reports.

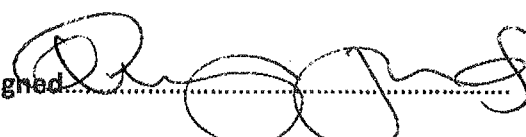
The Accounting Officer (Principal) has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the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

The Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the College and reinforced by risk awareness training. The Senior Leadership Team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Leadership Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2018 by considering documentation from the Senior Leadership Team and internal audit, and taking account of events since 31st July 2018.

Based on the advice of the Audit Committee and the Accounting Officer (Principal), 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 safeguarding of their assets"*.

Approved by order of the members of the Corporation on 17th December 2018 and signed on its behalf by:

Signed.......... Abigail Appleton
Accounting Officer (Principal)

Signed.......... Mervyn Jones
Chair of the Corporation

The Corporation'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 Education and Skills Funding Agency(ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding under the College's grant funding agreement and contracts with the ESFA. As part of its consideration, the Corporation has due regard to the requirements of the grant funding agreements and contracts with ESFA.

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's grant funding agreements and contract with the ESFA.

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 ESFA.



Abigail Appleton
Accounting Officer (Principal)



Mervyn Jones
Chair of the Corporation

Date: 17th December 2018

Statement of Responsibilities of the Members of the Corporation

The members of the Corporation, as charity trustees, are required to present audited financial statements for each financial year.

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

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

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

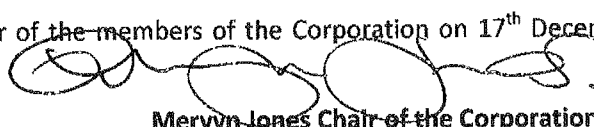
The Corporation is required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of including the Further and Higher Education Act 1992 and Charities Act 2011 and relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the Corporation 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 ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the Corporations must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds to 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 ESFA are not put at risk.

Approved by order of the members of the Corporation on 17th December 2018 and signed on its behalf by:



Mervyn Jones Chair of the Corporation

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

Opinion

We have audited the financial statements of Hereford College of Arts ("the College") for the year ended 31 July 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2018 and of the College's surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Corporation are responsible for the other information. The other information comprises the information included in the strategic report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be

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

materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post 16 Audit Code of Practice issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- the information given in the report of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and
- we have not received all the information and explanations we require for our audit.

Responsibilities of Members of the Corporation

As explained more fully in the Statement of Responsibilities of the Member of the Corporation set out on page 21, the Corporation are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation are responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation intend to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [website at www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This

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

description forms part of our auditor's report.

Use of the audit report

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 those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.



Mazars LLP
Chartered Accountants and Statutory Auditor
90 Victoria Street, Bristol, BS1 6DP

Date: 18/12/18

**Independent Reporting Accountant's Report on Regularity to the
Corporation of Hereford College of Arts ("the Corporation") and the
Secretary of State for Education acting through the Education and Skills
Funding Agency**

In accordance with the terms of our engagement letter 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 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the 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 Agency 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 the 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 the 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 established in the United Kingdom by our profession's ethical guidance and 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 2016 to 31 July 2017 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 the 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

**Independent Reporting Accountant's Report on Regularity to the
Corporation of Hereford College of Arts ("the Corporation") and the
Secretary of State for Education acting through the Education and Skills
Funding Agency**

significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

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

The work undertaken to draw to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with funding body terms and conditions of funding;
- Reviewed the College's completed self-assessment questionnaire on regularity;
- Read the financial memorandum with the SFA;
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant;
- Obtained the policy for personal gifts and/or hospitality;
- Obtained the register of personal interests;
- Obtained the financial regulations/financial procedures; and
- Obtained the College's whistleblowing policy.

Conclusion

Except for the above, in the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

Mazars LLP.

Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Date: 18/12/18

Statement of Comprehensive Income

	Notes	2018 £'000	2017 £'000
INCOME			
Funding body grants	2	2,369	2,377
Tuition fees and education contracts	3	3,543	3,326
Other income	4	115	91
Investment income	5	4	-
Total Income		6,031	5,794
EXPENDITURE			
Staff costs	6	3,834	3,587
Other operating expenses	7	1,847	1,627
Depreciation	10	439	441
Interest and other finance costs	9	39	45
		6,159	5,700
(Deficit)/Surplus before other gains and losses		(128)	94
Loss on disposal of assets		-	-
(Deficit)/Surplus before tax		(128)	94
Taxation	8	-	-
(Deficit)/Surplus for the year		(128)	94
Actuarial gain in respect of pension scheme	24	691	318
Total Comprehensive Income for the year		563	412
Represented by:			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		563	412
		563	412

Statement of Changes in Reserves

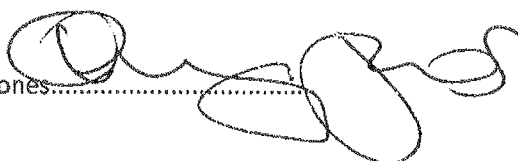
	Income & Expenditure Account £'000	Revaluation Reserve £'000	Total £'000
Balance at 1st August 2016	2,573	1,184	3,757
Surplus from the Income & Expenditure account	94	-	94
Other comprehensive income	318	-	318
Transfers between Revaluation and Income & Expenditure account	18	(18)	-
Total comprehensive income for the year	430	(18)	412
Balance at 31st July 2017	3,003	1,166	4,169
(Deficit) from the Income & Expenditure account	(128)	-	(128)
Other comprehensive income	691	-	691
Transfers between Revaluation and Income & Expenditure account	18	(18)	-
Total comprehensive income for the year	581	(18)	563
Balance at 31st July 2018	3,584	1,148	4,732

Balance Sheet as at 31 July 2018

	<u>Notes</u>	2018 £'000	2017 £'000
Non Current assets			
Tangible fixed assets	10	4,228	4,445
		<u>4,228</u>	<u>4,445</u>
Current assets			
Stocks	12	13	12
Debtors	13	136	212
Cash at bank and in hand	17	2,944	2,434
Total Current assets		<u>3,093</u>	<u>2,658</u>
Less: Creditors			
- amounts falling due within one year	14	(997)	(836)
Net current assets		<u>2,096</u>	<u>1,822</u>
Total assets less current liabilities		<u>6,324</u>	<u>6,267</u>
Creditors			
- amounts falling due after more than one year	15	(437)	(483)
Provisions			
Defined benefit obligation	16/24	(1,155)	(1,617)
Total Net Assets		<u>4,732</u>	<u>4,167</u>
Unrestricted Reserves			
Income & expenditure account		3,584	3,003
Revaluation reserve		1,148	1,166
Total Unrestricted Reserves		<u>4,732</u>	<u>4,169</u>

The financial statements on pages 27 to 51 were approved and authorised by the Corporation on 17th December 2018 and were signed on its behalf on that date by:

Mervyn Jones
Chair



Abigail Appleton:
Accounting Officer (Principal)



Statement of Cashflows

	2018 £'000	2017 £'000
Cashflow from operating activities:		
Surplus / (Deficit) for the year	(128)	94
	<u>(128)</u>	<u>94</u>
Adjustment for non-cash items:		
Depreciation	439	441
(Increase) in stocks	(1)	(1)
Decrease/(increase) in debtors	76	(77)
Increase/(Decrease) in creditors due within one year	162	(66)
(Decrease) in creditors due after one year	(46)	(58)
Increase / (decrease) in provisions	-	-
Pension costs less contributions payable	190	101
Taxation	-	-
Adjustment for investing or financing activities:		
Investment income	-	-
Interest/finance costs payable	39	45
Taxation paid	-	-
Loss on sale of fixed assets	-	-
Net cashflow from operating activities	<u>731</u>	<u>479</u>
Cashflows from Investing activities		
Investment income	-	-
Payments made to acquire fixed assets	(221)	(196)
	<u>(221)</u>	<u>(196)</u>
Cashflows from financing activities		
Interest paid	-	-
Interest element of finance lease rental payments	-	-
	<u>-</u>	<u>-</u>
Increase in cash and cash equivalents	<u>510</u>	<u>283</u>
	2018 £'000	2017 £'000
Cash and cash equivalents at the beginning of the year	2,434	2,151
Cash and cash equivalents at the end of the year	2,944	2,434
	<u>510</u>	<u>283</u>

Notes to the Financial Statements for the year ended 31 July 2018

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.

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2017 to 2018 and in accordance with the Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of Accounting

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

Going Concern

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

The College has no loans or overdrafts.

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

Revenue grant funding

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

The recurrent grant from Office for Students(OfS) represents the funding allocations attributable

Notes to the Financial Statements for the year ended 31 July 2018

to the current financial year and is credited direct to the Statement of Comprehensive Income.

Where part of a government grant is deferred, the deferred element is recognized as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

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

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognized as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

Fee income

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

Investment income

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

Agency arrangements

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

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

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

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Worcestershire County Council Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS

Notes to the Financial Statements for the year ended 31 July 2018

liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses.

Short term Employment benefits

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

Non-Current Assets – Tangible Fixed Assets

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

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land & 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. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

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

Freehold buildings are depreciated over their expected useful economic life to the College of between 15 and 40 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

Notes to the Financial Statements for the year ended 31 July 2018

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Subsequent expenditure on existing fixed assets

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

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 or with an expected life of twelve months or less is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

All equipment is generally depreciated on a straight line basis over its remaining useful economic life of between 3 and 10 years.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Leased assets

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

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

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Notes to the Financial Statements for the year ended 31 July 2018

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

Cash and cash equivalents

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

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

Stocks

The only stocks held at the end of 2017/18 were stocks from the library shop. Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective costs.

Foreign Currency Translations

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 period with all resulting exchange differences being taken to income in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010, and therefore meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is not registered for Value Added Tax and receives no major exemption in respect of VAT, with only a few items being exempt by virtue of its charitable status. 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.

Provisions and contingent liabilities

Provisions are recognized

- when the College has a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

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

Notes to the Financial Statements for the year ended 31 July 2018

period it arises.

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

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

The College currently has no provisions except for the obligations with regard to the Local Government Pension Scheme and no contingent liabilities.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Financial Statements for the year ended 31 July 2018

2. Funding Body Grants

	2018	2017
	£'000	£'000
Recurrent grants		
Education and Skills Funding Agency – adult	29	86
Education and Skills Funding Agency - 16-18	1,993	1,934
Higher Education Funding Council	253	266
Release of deferred capital grant	94	91
Other		
	2,369	2,377

3. Tuition Fees and Education Contracts

	2018	2017
	£'000	£'000
Further Education Fees students	192	159
High Needs Income	24	12
Advanced Learning Loans	147	147
UK Higher Education Students	231	160
UK Higher Education Loans	2,803	2,795
Non-EU Higher Education Fees	44	20
Other	102	33
	3,543	3,326

4. Other Income

	2018	2017
	£'000	£'000
Other Income Generating Departments	25	24
Other income	90	67
	115	91

5. Investment Income and Interest

	2018	2017
	£'000	£'000
Bank interest receivable	4	-
	4	-

Notes to the Financial Statements for the year ended 31 July 2018

6. Staff Costs

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

	2018 fte's	2017 fte's
Teaching staff	63	62
Non teaching staff	49	48
	<u>112</u>	<u>110</u>

Staff costs for the above persons:

	2018 £'000	2017 £'000
Wages & salaries	2,997	2,861
Social security costs	213	203
Pension costs	434	401
Pension FRS 102 cost	190	101
Other	-	-
	<u>3,834</u>	<u>3,566</u>
External employees	-	-
	<u>3,834</u>	<u>3,566</u>
Exceptional restructuring costs	-	21
Total staff costs	<u>3,834</u>	<u>3,587</u>

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the college and are represented by the Accounting Officer (Principal) and holders of other senior posts whom the Corporation have selected for the purposes of the Articles of Government of the College. Decisions relating to such appointments are made by the Governors.

No compensation has been paid to key management personnel for loss of office.

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

	2018	2017
The number of key management personnel including the Accounting Officer (Principal) was	<u>3</u>	<u>3</u>

Notes to the Financial Statements for the year ended 31 July 2018

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

	Key management personnel		Other staff	
	2018 No.	2017 No.	2018 No.	2017 No.
£40,001 - £50,000	-	-	N/A	N/A
£50,001 - £60,000	1	1	N/A	N/A
£60,001 - £70,000	1	1	-	-
£70,001 - £80,000	-	-	-	-
£80,001 - £90,000	-	-	-	-
£90,001- £100,000	1	1	-	-
	3	3	-	-

Key management personnel compensation is made up as follows:	2018 £'000	2017 £'000
Salary – gross of salary sacrifice and waived emoluments	215	217
Employers National Insurance	24	27
Employers Pension contributions	31	31
Total key management personnel compensation	270	275

There were no amounts due to key management personnel that were waived during the year, nor any salary sacrifice arrangements in place.

The above emoluments include amounts payable to the Accounting Officer (Principal) (who is also the highest paid officer) of:

	2018 £'000	2017 £'000
Salary	100	100
Employers' Pension contributions	13	13
Total emoluments	113	113

Employer pension contributions in respect of the Accounting Officer (Principal) and key management personnel are paid at the same rate as for other employees. No compensation for loss of office was paid to key management personnel.

With the exception of the Accounting Officer (Principal) and two Staff Governors, the members of the Corporation do not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. There were no benefits in kind given to any staff, other than the ones highlighted above.

Notes to the Financial Statements for the year ended 31 July 2018

7. Other Operating Expenses

	2018	2017
	£'000	£'000
Teaching Departments	403	348
Teaching Support Services	260	237
Other Support Services	16	13
Administration and Central Services	491	431
General Education	52	55
Premises Costs	398	346
Planned Maintenance	92	70
Bursary Payments to Students	108	107
Other Expenses	27	20
	1,847	1,627

Other operating expenses include:

Auditors' remuneration included above -

Financial Statement Audit

15	15
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Internal Audit

11	10
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Operating lease costs

210	194
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8. Taxation

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

9. Interest and other finance costs

	2018	2017
	£'000	£'000
Pension finance costs	39	45
	39	45

Notes to the Financial Statements for the year ended 31 July 2018

10. Tangible Fixed Assets

	Freehold £000	New buildings and property improvements £000	Equipment & Vehicles £000	Total £000
Costs or valuation				
At 1st August 2017	1,595	5,370	1,479	8,444
Additions	-	43	178	221
Disposals	-	-	-	-
	<u>1,595</u>	<u>5,413</u>	<u>1,657</u>	<u>8,665</u>
At 31st July 2018				
Depreciation	430	2,303	1,266	3,999
At 1st August 2017				
Charge for year	18	285	137	439
Elimination - disposals	-	-	-	-
	<u>448</u>	<u>2,588</u>	<u>1,403</u>	<u>4,438</u>
At 31st July 2018				
Net Book Value at 31st July 2018	<u>1,147</u>	<u>2,825</u>	<u>254</u>	<u>4,227</u>
Net Book Value at 31st July 2017	<u>1,165</u>	<u>3,067</u>	<u>213</u>	<u>4,445</u>

Inherited land and buildings were valued for the 1994 financial statements at depreciated replacement cost by Hereford and Worcester County Council. No revaluation has taken place since then. If inherited land and buildings had not been valued on Incorporation, they would have been included in the accounts at a historic value of zero.

Notes to the Financial Statements for the year ended 31 July 2018

11. Investments

Cash was held at HSBC. There were no investments in any other institutions during the year.

12. Stocks

	2018	2017
	£'000	£'000
Arts supplies held by College Shop	13	12
	<u>13</u>	<u>12</u>

13. Debtors: amounts falling due with one year

	2018	2017
	£'000	£'000
Trade debtors	13	10
Prepayments and accrued income	123	202
	<u>136</u>	<u>212</u>

14. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	97	65
Other taxation, social security and pensions	60	58
Accruals and other creditors	477	363
Accruals – employee annual leave	136	136
Grants received in advance	147	132
Deferred income – government capital grants	80	82
	<u>997</u>	<u>836</u>

15. Creditors: amounts falling due after one year

	2018	2017
	£'000	£'000
Deferred income – government capital grants	437	483
	<u>437</u>	<u>483</u>

Notes to the Financial Statements for the year ended 31 July 2018

16. Provisions

	Defined Benefit Obligation	Total
	£'000	£'000
At 1 August 2017	1,617	1,617
Expenditure in the period	(185)	(185)
Additions in the period	(268)	(268)
At 31 July 2018	1,155	1,155

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 24.

17. Cash and cash equivalents

	At 1 August 2017	Cashflows	At 31 July 2018
	£'000	£'000	£'000
Cash and cash equivalents	2,434	510	2,944
	2,434	510	2,944

18. Capital and other commitments

	2018	2017
	£'000	£'000
Commitment contracted for at 31 July	37	27
	37	27

Notes to the Financial Statements for the year ended 31 July 2018

19. Lease obligations

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

	2018 £'000	2017 £'000
Land and building		
Not later than one year	214	175
Later than one year and not later than five years	856	700
Over five years	18	190
	<u>1,088</u>	<u>1,065</u>
Other		
Not later than one year	3	17
Later than one year and not later than five years	21	19
Over five years	-	-
	<u>24</u>	<u>36</u>

The land and building lease commitment, relates to the College Road Campus. The other leases are for photocopiers, printers and franking machine.

20. Contingent liabilities

The College is not aware of any issues that could give rise to a contingent liability.

21. Learner Support Funds

	2018 £'000	2017 £'000
Balance held at 1 August	46	59
ESFA 16-19 Student Bursary Grant	47	44
ESFA Residential Grant	27	30
Advanced Learner Loans Bursary	7	7
Funding clawback	(25)	(35)
	<u>102</u>	<u>105</u>
Disbursed to Students	(62)	(55)
Administration Costs	(4)	(4)
	<u>36</u>	<u>46</u>
Balance unspent as at 31 July, included in creditors		

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

Notes to the Financial Statements for the year ended 31 July 2018

22. Related Party Transactions (FRS 8)

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 such transactions are conducted at arms' length, in accordance with the College's financial regulations and normal procurement procedures.

The total travel expenses paid to or on behalf of the Governors during the year were £4k (2016/17 £2k). This represents travel and subsistence expenses and out of pocket expenses incurred in attending Governor meetings, college events, training courses and conferences.

No Governor has received any remuneration or waived payments from the College during the year (2016/17 none).

Transactions with the Funding Agencies are detailed in note 2.

23. Post Balance Sheet Events

There have been no events since the balance sheet date that would materially affect the results for the year.

Notes to the Financial Statements for the year ended 31 July 2018

24. Defined pension obligations

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

Total pension cost for the year

	2018 £'000	2017 £'000
Teachers' Pension Scheme:		
Employers' contributions	240	213
Local Government Pension Scheme:		
Employer's contributions	163	140
Employer's additional contribution	31	48
FRS 102 (28) net service cost	190	101
Charge to the Statement of Comprehensive Income	384	289
Total Pension Cost for the Year within staff cost	624	502

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31st March 2012 and the LGPS 31st March 2016.

There were no outstanding or prepaid contributions at the end of the financial year. For 2016/17 there was also no outstanding or prepaid contributions at the financial year end.

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.

Notes to the Financial Statements for the year ended 31 July 2018

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. Retirement and other pension benefits are paid by public funds provided by Parliament.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191.5 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

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 to the Financial Statements for the year ended 31 July 2018

Scheme Changes

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

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

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

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

The pension costs (Employers and Employees) paid to TPS in the year amounted to £361,000 (2016/17: £321,000).

FRS 102 (28)

Under the definitions set out in Financial Reporting Standard 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. 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 contributions made for the year ended 31st July 2018 were £270k, of which employer's contributions were £194k (£163k was normal employer contributions and £31k was lump sum contributions toward deficit financing) and employees' contributions were £76k. The agreed contribution rates for future years are 13.6% for employers and 5.5% to 12.5% for employees, depending on salary.

On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, ('GMP'). The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes

Notes to the Financial Statements for the year ended 31 July 2018

required to LGPS schemes

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2016 updated to 31st July 2018 by a qualified independent actuary:

	2018 %	2017 %
Rate of Future Salary increases	3.6	3.7
Rate of Future Pension increases	2.2	2.2
Discount rate for Scheme Liabilities at 31 st July	2.9	2.6
Rate of inflation (CPI)	2.1	2.2
Commutation of pensions to lump sums (max)	50	50

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

	31 st July 2018	31 st July 2017
Retiring today		
Males	22.7	22.6
Females	25.7	25.6
Retiring in 20 years		
Males	24.9	24.8
Females	28.0	27.9

The College's share of the assets in the plan at the balance sheet date and the expected rates of return were:

	Fair Value at 31 st July 2018 £'000	Fair Value at 31 st July 2017 £'000
Equities	3,142	3,099
Bonds - Government	335	-
Bonds - Other	192	187
Cash	53	47
Property	188	137
Other	176	130
Total fair value of plan Assets	4,086	3,600
Actual return on plan assets	398	482

Notes to the Financial Statements for the year ended 31 July 2018

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

	2018	2017
	£'000	£'000
Fair value of plan assets	4,086	3,600
Present value of plan liabilities	(5,241)	(5,217)
Net pensions (liability) (note 19)	(1,155)	(1,617)

Amounts recognised in the Statement of Comprehensive Income in respect of the plan are as follows:

Amounts included in staff costs	2018	2017
	£'000	£'000
Current service cost	379	285
Administration fee	5	4
Total	384	289

Amounts included in Interest and other finance costs	2018	2016
	£'000	£'000
Net Interest cost	39	45
Total	39	45

Amounts recognised in Other Comprehensive Income	2018	2017
	£'000	£'000
Remeasurement of assets	303	370
Experience gain arising on defined benefit obligations	-	369
Changes in assumptions underlying the present value of plan liabilities	388	(421)
Amount recognised in Other Comprehensive Income	691	318

Notes to the Financial Statements for the year ended 31 July 2018

Movement in net defined benefit (liability) / asset during the year:	2018 £'000	2017 £'000
Net defined benefit (liability) in scheme at 1 August	(1,617)	(1,786)
Movement in year:		
Current service cost	(379)	(285)
Employer contributions	194	185
Past service cost	0	0
Net interest on defined (liability)	(39)	(45)
Administration fee	(5)	(4)
Actuarial gain	691	318
Net defined benefit (liability)/asset in scheme at 31 July	(1,155)	(1,617)

Asset and Liability Reconciliation	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations:		
Defined benefit obligations at start of period	5,217	4,755
Current service cost	379	285
Interest cost	134	125
Contributions by scheme participants	76	67
Actuarial (gain)/loss	(388)	52
Estimated benefits paid	(177)	(67)
Defined benefit obligations at end of period	5,241	5,217

Changes in the fair value of plan assets:	2018 £'000	2017 £'000
Fair value of plan assets at start of period	3,600	2,969
Interest on plan assets	95	80
Actuarial gain	303	370
Employer contributions	194	185
Contributions by scheme participants	76	67
Administration fee	(5)	(4)
Estimated benefits paid	(177)	(67)
Fair value of plan assets at end of period	4,086	3,600

LGPS pension deficit contributions

The College has entered into an agreement with the LGPS to make additional contributions of **£30k** in 2017/18 tax year, **£31k** in 2018/19, **£32k** in 2019/20 in addition to normal funding levels until the next full valuation at which point the situation will be reviewed.



Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

17th December 2018

Dear Sirs

Hereford College of Arts - audit for year ended 31 July 2018

This representation letter is provided in connection with your audit of the financial statements of Hereford College of Arts for the year ended 31 July 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you.

Our responsibility for the financial statements and accounting information

We believe that we have fulfilled our responsibilities, as set out in the audit engagement terms, for the true and fair presentation and preparation of the financial statements in accordance with the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards.

Our responsibility to provide and disclose relevant information

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the company you determined it was necessary to contact in order to obtain audit evidence.

We confirm as governors that we have taken all the necessary steps to make us aware, as governors, of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as we are aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

We confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and Corporation meetings, have been made available to you in accordance with section 499 of the Companies Act 2006.

Hereford
College
of Arts

Richard
Hodgson
Chair

EDWARD JONES
Company Secretary

Edward Jones LLP, 90 Victoria Street

hereford.co.uk

Accounting policies

We confirm that we have reviewed the accounting policies applied during the year in accordance with Financial Reporting Standard 18 Section 10 of Financial Reporting Standard 102 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

We confirm that any significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Corporation have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards.

Laws and regulations

We confirm that we have disclosed to you all those events of which we are aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

We acknowledge our responsibility as governors of the Corporation, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We have disclosed to you:

- all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the entity involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Transactions with Corporation Members

The College has at no time during the year entered into any arrangement, transaction or agreement to provide credit facilities including loans, quasi-loans, credit transactions, mutually beneficial arrangements, or guarantees or security for the foregoing or assumed or assigned any such rights or liabilities for any governors, shadow governors, alternate governors, or their connected persons, or non-governor officers except as disclosed in the financial statements.

No governor or their connected persons had a direct or indirect material interest in any other transaction or arrangement with the College other than those disclosed in the accounts.

Related party transactions

We confirm that all related party relationships, transactions and balances, (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards.

We have disclosed to you the identity of the company's related parties and all related party relationships and transactions of which we are aware.

Impairment review

To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the fixed assets and intangible assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All the Corporation's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

We confirm all events subsequent to the date of the financial statements and for the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

Yours faithfully

A handwritten signature in black ink, appearing to be 'M. Jones', is written over a dotted line. The signature is fluid and cursive.

Signed on behalf of the Hereford College of Arts

