HEREFORDSHIRE AND LUDLOW COLLEGE

Annual Report and Financial Statements
For the Year Ended
31 July 2017

Key Management Personnel, Board of Governors and Professional advisers

Key Management Personnel:

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2016/17:

Ian Peake	Principal and CEO
David Williams	Deputy Principal
Edward Gwillim	Finance Director
Alyson Moon	Assistant Principal
Jonathan Gill	Assistant Principal
Carl Morris	Head of Ludlow College
Debra Baldwin	Personnel Director

Board of Governors

A full list of Governors is given on page 15 of these financial statements.

Mrs Linda Watkins acted as Clerk to the Corporation throughout the year.

External Independent Auditors:	Mazars LLP Chartered Accountants and Statutory Auditors 90Victoria Street Bristol BS1 6DP
Internal Auditors:	RSM UK LLP 15/20 St Paul's Square Birmingham B3 1QT
Bankers:	Barclays Bank plc 1/3 Broad Street Hereford HR4 9BH
Solicitors:	T A Matthews 6 King Street Hereford HR4 9BS

Contents

Report of the Members of the Corporation

for the Year from 1 August 2016 to 31 July 2017

Operating and Financial Review

Nature, Objectives and Strategies:

The members present their report and the audited consolidated financial statements for the year ended 31 July 2017.

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting Herefordshire and Ludlow College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2011.

The Corporation was incorporated as Hereford College of Technology. Following the merger with Ludlow the Secretary of State granted consent to the Corporation to change the College's name to Herefordshire & Ludlow College from 01/08/2013.

Mission

The College's mission as approved by its governors is:

- Success for our students

Public Benefit

Herefordshire and Ludlow College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 15.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)

Implementation of strategic plan

In March 2014 the College updated the Three Year Development Plan covering the period 2014-2017. This strategic plan includes property and financial plans. The Corporation monitors performance against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are:

- To inspire and support all our learners to achieve their best;
- To create outstanding learning opportunities that meet the needs of young people, adults and employers;
- To provide outstanding resources for learning;
- To build partnerships that provide improved services for learners and employers, and
- To manage the College effectively and efficiently to maintain financial viability.

The College is on target to achieve these objectives.

The College's specific objectives for 2016/17 and achievement of those objectives have been addressed below.

- The full integration of the County Training operation, acquired from Shropshire Council in May 2016. This added £3.1m to college income for the year to 31/7/17.
- Increasing its involvement in its partnership with the University of Worcester, including the development of the university centre at its Folly lane campus.
- Successfully implementing the £849k of capital funding programme supported by £377k of grant funding from the Marches Local Enterprise Partnership enabling major facility enhancements at Holme Lacy and Hereford.
- Continuing the series of property and land sales which will allow greater investment in college facilities in future years.

Financial Objectives

The College's financial objectives are:

- To continue to maintain accumulated reserves of at least 10% of income throughout the development plan period;
- To continue to maintain cash days of 30 or more at all times;
- To achieve at least break-even at operating level;
- Pay expenditure targeted at a maximum of 65% of income;
- To generate positive cash inflows from operating activities;
- To maintain a current ratio of at least 1.5 throughout the development plan period;
- To be in financial health category Good, as defined by the Skills Funding Agency, at the end of the development plan period;
- To produce management accounts on a monthly basis incorporating an income and expenditure account, balance sheet, 12-month rolling cash flow forecast and financial performance indicators;
- To test the desirability and affordability of any proposals which have a financial implication for the College;
- Providing financial and non-financial returns on time and in the agreed format;

- Ensuring all returns requiring certification by auditors are unqualified;
- Adhering to the policy to aim to pay all suppliers within 30 days of receipt of an invoice;
- Providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the College's financial procedures;
- Providing adequate information to ensure staff, management and governors are kept up to date with the financial position of the College;
- Generating sufficient funds to ensure the College's specified programme of planned maintenance can be undertaken;
- Generating sufficient funds to ensure the College can invest in new technology and equipment required to support learning programmes and administration;
- Ensuring adequate procedures are in place to protect assets from loss, theft and neglect.

Performance Indicators

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success rates
- Learner destinations
- Learner views – satisfaction survey
- Employer views – satisfaction survey

The College is committed to observing the importance of the measures and indicators and uses the FE Choices website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The Finance Record produces a financial health grading. The current rating of "Good" is considered an acceptable outcome.

Financial Position

Financial results

The College and Group accounts have been prepared in accordance with FRS 102.

The Group generated a deficit before other gains and losses in the year of £287,000 (2015/16 - deficit of £631,000), with a Total Comprehensive Income of £1,889,000, (2015/16 - (£3,370,000)).

The Group has accumulated reserves of £2,095,000 (2015/16 £206,000) and cash and short term investment balances of £3,230,000 (2015/16 £2,311,000).

Tangible fixed asset additions during the year amounted to £973,000, including £849,000 of investment in engineering, IT and agricultural equipment part grant funded by The Marches LEP.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2016/17 the FE funding bodies provided 77% of the Group's total income (2015/16 79%).

The College had one subsidiary company, Keith St Peters in the year. The principal activity of Keith St Peters Ltd was the provision of hairdressing training. Any surpluses generated by the subsidiary were transferred to the College under deed of covenant.

In the current year, the subsidiary incurred a deficit of £3,000 (2014/15 deficit of £18,000).

At its Board meeting of 18th October 2016 the Corporation agreed to wind up Keith St Peters Ltd during the year to 31st July 2017, The company ceased trading at the end of June 2017 and its operations were taken on directly by the College.

Treasury policies and objectives

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

The College group has a separate treasury management policy in place which aims to preserve the capital value of any investments and reduce risks.

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

Cash flows and Liquidity

Net cash flow from operating activities was £1,979,000 positive (2015/16 £527,000 negative) though a large proportion of this was invested in the acquisitions of new fixed assets as described above. During the year the college continued to pay off its long term loan with the amount outstanding being reduced by £88,000 to leave a year-end balance of £860,000. The College is satisfied that current cash balances are sufficient to cover short-term liabilities as well as to allow future investment.

Reserves Policy

The College needs to retain sufficient reserves to enable it to meet its obligations should there be an unexpected revenue shortfall. The existence of unrestricted reserves also offers the College flexibility to plan and fund major investment projects to develop and maintain its buildings and services. Such unrestricted reserves are expendable at the discretion of the Corporation in furtherance of College objectives.

Available unrestricted reserves (i.e. unrestricted funds excluding defined benefit obligations) stood at £11.6 million (63% of income) at 31 July 2017. The Corporation target is for the level of such reserves to exceed 70% of annual income.

Current and Future Development and Performance

Financial Health

Using the ESFA financial health model scoring system the College has assessed its year end score to be 230 points placing it in the "Good" category.

Student Numbers

The College is funded according to the level of activity it generates each year. In 2016/17 the college met the requirements for learner numbers set by the education sector funding bodies in the funding agreements.

Student Achievements

In 2016/17 the college has demonstrated further improvement in achievement rates – the headlines being an exceptional 90.3% achievement rate across long, short and very short courses, an outstanding 89.4% achievement rate across long courses, a 9.4% increase in overall achievement rates for apprentices from 66.2% to 75.6% and an impressive 8.3% improvement in timely achievement rates from 57% to 65.3%.

College Inspection

The College underwent a short OfSTED (Office for Standards in Education) inspection in February 2016.

The inspectors judged the College's operation as follows:

Overall effectiveness of provision	Good
Capacity to improve	Good
Outcomes for learners	Good
Quality of provision	Good
Leadership and management	Good

Curriculum Developments

The College provides a broad range of vocational programmes up to level 5 to ensure progression opportunities for all learners. The College has a number of specialist courses in its curriculum portfolio:

- Rural Crafts including blacksmithing and farriery
- Horse care and management
- Furniture making
- Leadership and management
- Construction
- Access to work and further education
- Forestry and arboriculture
- Agriculture.

The College offers a broad curriculum including AS Levels, A Levels and vocational qualifications at levels 1, 2 and 3 that include animal care, agriculture, engineering, computing and IT, travel and tourism, public services and sport. The College is committed to providing access to work and further education programmes at entry levels 2 and 3 to develop useful life skills, including gardening, catering and hospitality, car maintenance and household DIY. The course provides students with the opportunity to experience and learn about a variety of occupational area before progressing into further education or into the workplace. Eden Hair, Health and Beauty Salon is open to the public offering a wide range of services and supporting the hair and beauty curriculum. The college's industry standard training kitchens and Cider Orchard restaurant supports the hospitality and catering courses.

In 2016/17 the college launched a new STEM (Science, Technology, Engineering and Mathematics) Centre initiative in partnership with the NEF (The Innovation Institute), which will see the development of the college's Science, Technology, Engineering and Mathematics provision over the next three to five years. The college's identified areas for development are:

- Engineering and manufacturing
- Digital technology
- Applied science in health and well-being
- Agri-tech, food and environmental technologies
- Sustainable construction.

Substantial investments have been made in areas such as engineering manufacturing equipment and the continuing development of the college's domestic gas training and assessment centre. The college has increased its involvement with employers to shape the STEM curriculum and to answer the needs of local STEM industries as well as employing specialist staff.

In 2016/17 over 1500 apprentices were in training. Current apprentices are enrolled onto a variety of frameworks. Frameworks with the most enrolments were: Health and Social Care, Business and Administration, Children and Young People's Workforce, Supporting Teaching and Learning in Schools, Hairdressing, Catering and Professional Chefs and Vehicle Maintenance and Repair.

All full-time and work-based learners receive initial assessments of literacy and numeracy skills during the admissions process. The Learner Services Team support students from their first point of contact offering information and advice related to financial support, learner accommodation, transport, careers, chaplaincy, student support, learning support, as well as operating a library and learning resource centre to support student success. The Student Enrichment Team helps students to develop the personal, social and employability skills as well as gaining self-confidence through sport, fitness and trips.

The College continues to work collaboratively with the University of Worcester to increase its higher education provision in line with employer and learner demand. In 2016/17 the top up BA (Hons) in Integrated Counselling was validated and will be delivered from September 2018. A Foundation Degree in Sport is currently in development.

The Hereford University Centre is run in partnership with the University of Worcester. The centre acts as an educational and cultural hub, aiming to raise aspirations in Herefordshire and encourage increased participation in higher education.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, required colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the year ended 31 July 2017, the College paid 95% of its invoices within 30 days (2015/16: 95%). The College incurred no interest charges in respect of late payment for this year (2015/16: nil).

Events after the end of the reporting period

During the year the college reached an agreement to sell Wilsley House and a small area of surrounding land for £360,000.
The sale was completed on 1st August 2017 and resulted in a profit on disposal of £143,000 which is accounted for in the year to 31/7/18.

Future prospects

The College seeks to increase learner numbers over the next 3 years particularly in apprenticeships.

The College aims to increase financial contribution by introducing a number of efficiency schemes across the College and to improve inefficient buildings at its Holme Lacy campus as well as re-organising the curriculum offering at the newly-acquired County Training business.

Resources

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

Tangible resources include the main college site, a £32m building, and £1.4m held in net current assets (2015/16: £1.4m).

Financial

The College has £2,095,000 of net assets after deduction of a £10m pension liability (2015/16: £206,000 net assets after deduction of a £11m pension liability).

People

The College employs 384 people (expressed as full time equivalents), of whom 187 are teaching staff, and 197 teaching support staff (2015/16 378 people, 183 teaching 195 support).

Reputation

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

Principal Risks and Uncertainties

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

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

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

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

1. Government funding

The College has considerable reliance on continued government funding through the further education funding bodies and HEFCE. In 2017, 77% of the College's revenue was ultimately publicly funded (2015/16 : 79%) and this public funding percentage is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same values or on the same terms.

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

- Changes to the funding system in 2016/17 have seen the introduction of further student loans for some adult learners.
- Changes to apprenticeship funding will affect the amounts of funding the College receives from government and employers.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements;
- By ensuring the College is rigorous in delivering high quality education and training;
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies;
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding; and
- Regular dialogue with funding bodies.

2. Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50% in 2016/17. In line with the majority of other colleges, the College will increase tuition fees in accordance with the fee assumptions. The price elasticity of adult learning for the College is not yet fully understood. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

The risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students; and
- Close monitoring of the demand for courses as prices change.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet. As the LGPS pension scheme is externally run, the risk cannot be fully mitigated by the College, however disclosure in the financial statements comply with the requirements of FRS102.

This risk is mitigated by an agreed deficit recovery plan with the Worcestershire Local Government Pension Scheme

Stakeholder Relationships

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

- Students
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers
- Local authorities
- Government Offices/Regional Development Agency/LEPs
- The local community
- Other FE institutions, schools and universities
- Trade unions
- Professional bodies.

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

Equal opportunities and employment of disabled persons

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, able-bodiedness, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy, including its Race Relations Policy and Transgender Policies, is published on the College's internet site.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which are, as far as possible, identical to those for other employees. An equalities plan is published each year and monitored by managers and governors.

Disability statement

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

a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2003/04, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access. This culminated in the rebuilding of the Hereford Campus through the Hereford Learning Village project, producing a facility fully accessible to all.

b) The College provides information, advice and arranges support where necessary for students with disabilities.

c) The College has a range of specialist equipment and students who require additional specialist equipment can request an assessment of their support needs prior to enrolment. The College has access to specialist agencies who will also assess their equipment needs prior to confirming an offer of a place on a course.

d) The admissions policy for all students is described in the Enquiries & Application Procedure. Appeals against a decision not to offer a place are dealt with under the Student Complaints Procedure.

e) The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. There are a number of teaching assistants and assessors who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.

f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.

g) Counselling and welfare services are described in the College Student Guide, which is available to students together with the Complaints and Disciplinary Procedure on the student intranet and is incorporated in student induction programmes.

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 19 December 2017 and signed on its behalf by:

Mr I Andronov
Chair of the Corporation

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2016 to 31st July 2017 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

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

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

In the opinion of the governors, the college complies with all the provisions of the Foundation Code and it has complied throughout the year ended 31 July 2017. The governing body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which the corporation formally adopted in December 2011. In July 2015 the governing body resolved to adopt the new Code of Governance for English Colleges as from 1 August 2015.

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

The Corporation

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

Statement of Corporate Governance and Internal Control (continued)

Name of Governor	Date of Appointment	Term of Office	Status of Appointment	Committee Served	Attendance
Mrs V M Ainsworth	01.09.2002 Re-appointed 24.04.17	1 year	Independent Member	Chair: Corporation Chair Remuneration Quality & Standards Search & Governance	100%
Mr I Andronov	01.08.2013 Re-appointed 24.04.17	4 years	Independent Member	Chair: Quality & Standards Vice Chair: Corporation Remuneration	83%
Cllr W L S Bowen	30.12.2012 Re-appointed 19.04.2016	4 years	Independent Member	Audit	33%
Mr J Caird	01.08.2013 Reappointed 24.04.17	4 years	Independent Member	Finance & Employment	83%
Ms S Cassels	15.12.2015	4 years	Staff Governor	Audit Committee	60%
Mr R A Ford	12.12.2011 Re-appointed 21.04.2015	4 years	Independent Member	Finance & Employment Search & Governance Remuneration	83%
Mr R Garnett	12.10.2010 Re-appointed 10.07.2014	4 years	Independent Member	Finance & Employment	83%
Mr J Green		1 year	Student Governor	-	40%
Mr H B Hyde		1 year	Student Governor	-	60%
Mrs D Lambert	29.04.2014	4 years	Independent Member	Quality & Standards	67%
Dr A Lavers	30.08.2007 Re-appointed 24.04.17	1 year	Independent Member	Chair: Finance & Employment Remuneration	83%
Mr N Moon	13.07.2010 Re-appointed 10.07.2014	4 years	Independent Member	Chair: Audit	83%
Mrs E M Patrick	27.11.1995 Re-appointed 24.04.17	1 year	Independent Member	Search & Governance Quality & Standards Remuneration	100%
Mr I F Peake	01.01.2005	Ex-officio	Principal	Finance & Employment Search & Governance Quality & Standards	100%
Mrs M Praill	15.12.2009 Re-appointed 22.10.2013	4 years	Independent Member	Chair: Search and Governance Audit	83%
Mr G Thomas	12.10.2010 Re-appointed 10.07.2014	4 years	Independent Member		83%
Mr S Bennett	01.01.2012 Re-appointed 19.04.16	1 year	Co-opted Member Audit Committee	Audit	100%

Statement of Corporate Governance and Internal Control (continued)

Mrs L J Watkins acts as Clerk to the Corporation.

Mrs V M Ainsworth was appointed as Chair of the Corporation with effect from 1 August 2012 until 31 August 2017.

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 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 and Employment, Remuneration, Quality and Standards, Search and Governance, and Audit. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.hlcollege.ac.uk or from the Clerk to the Corporation at:

Herefordshire and Ludlow College
Folly Lane
Hereford
HR1 1LS

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

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

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

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

Corporation Performance

The Governors annually self-assess their performance using a questionnaire framed around the areas of evaluation which are examined by the inspectors of Ofsted when a college is inspected. The guidance contained in the Good Governance Standards for Public Life have also been incorporated in the questionnaire. The self-assessment is presented to the Board and benchmarked against other colleges.

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 which is comprised of 5 members responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding 4 years, but are eligible for re-appointment at the end of this term.

Remuneration Committee

Throughout the year ended 31 July 2017, the College's Remuneration Committee comprised 5 members. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal, the Clerk and other senior post-holders.

Details of remuneration for the year ended 31 July 2017 are set out in note 6 to the financial statements.

Audit Committee

The Audit Committee comprises a Chair and 4 other members of the Corporation (excluding the Principal) including a co-opted finance/audit specialist. The committee 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 auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

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

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

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

Statement of Corporate Governance and Internal Control (continued)

Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the College for the year ended 31 July 2017 and up to the date of approval of the annual financial statements.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2017 and up to the date of approval of the annual financial statements. This process is regularly reviewed by the Corporation.

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The College has an internal audit service, which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements auditors and the regularity auditors in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2017 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2017 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2017.

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

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. Key factors considered include the College's strong balance sheet, current ratio of over 2, borrowing at less than 5% of income and a positive financial plan for the next two years.

For this reason it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 19 December 2017 and signed on its behalf by:

Mr I Andronov
Chair
....

Mr I F Peake
Accounting Officer
....

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

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

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

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

Approved by order of the members of the Corporation on 19 December 2017 and signed on its behalf by:

Mr I Andronov ....
Chair

Mr I F Peake ....
Accounting Officer

Statement of the Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum 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 2016 issued by the ESFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

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

The Corporation is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for 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 Education and Skills Funding Agency are used only in accordance with the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Education and Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 19 December 2017 and signed on its behalf by:

Mr I Andronov I. An ....
Chair

Independent auditor's report to the Members of the Corporation of Herefordshire and Ludlow College

Opinion

We have audited the financial statements of Herefordshire and Ludlow College ("the College") for the year ended 31 July 2017 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flow 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 2017 and of the College's deficit 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's 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's are responsible for the other information. The other information comprises the information included in the report of the Members of the Corporation 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 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 Corporation

As explained more fully in the Statement of Responsibilities of the Member of the Corporation set out on page 22, 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. 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Date 26/12/17

Herefordshire and Ludlow College
Consolidated and College Statements of Comprehensive Income
For the year ended 31 July 2017

	Note	Year ended 31 July		Year ended 31 July	
		2017 Group £'000	2017 College £'000	2016 Group £'000	2016 College £'000
INCOME					
Funding body grants	2	14,418	14,348	12,487	12,412
Tuition fees and education contracts	3	2,928	2,928	2,290	2,290
Other income	4	986	984	850	847
Endowment and investment income	5	3	3	8	8
Total Income		**18,335**	**18,263**	**15,635**	**15,557**
EXPENDITURE					
Staff costs	6	11,429	11,397	9,927	9,883
Fundamental restructuring costs	6	302	302	136	136
Other operating expenses	7	5,537	5,494	4,909	4,857
Depreciation	10	1,091	1,091	1,016	1,016
Interest and other finance costs	8	263	263	278	278
Total expenditure		**18,622**	**18,547**	**16,266**	**16,170**
Deficit before other gains and losses		**(287)**	**(284)**	**(631)**	**(613)**
Gain on disposal of assets		5	5	450	450
Deficit before tax		**(282)**	**(279)**	**(181)**	**(163)**
Taxation		-	-	-	-
Deficit for the year		**(282)**	**(279)**	**(181)**	**(163)**
Actuarial gain/(loss) in respect of pensions schemes	23	2,171	2,171	(2,938)	(2,938)
Write off investment in subsidiary company	11 & 12	0	0	(251)	(377)
Total Comprehensive Income/(Expense) for the year		**1,889**	**1,892**	**(3,370)**	**(3,478)**

Herefordshire and Ludlow College
Consolidated and College Statements of Changes in Reserves
For the year ended 31 July 2017

	Income and Expenditure account £'000	Revaluation reserve £'000	Total £'000
Group			
Balance at 31st July 2016	**(950)**	**1,156**	**206**
Deficit from the income and expenditure account	(282)	-	(282)
Other comprehensive expense	2,171	-	2,171
Total comprehensive expense for the year	1,889	-	1,889
Balance at 31st July 2017	**939**	**1,156**	**2,095**
College			
Balance at 31st July 2016	**(1,006)**	**1,156**	**150**
Deficit from the income and expenditure account	(279)	-	(279)
Other comprehensive expense	2,171	-	2,171
Total comprehensive expense for the year	1,892	-	1,892
Balance at 31st July 2017	**886**	**1,156**	**2,042**

Herefordshire and Ludlow College
Consolidated and College Balance sheets as at 31 July 2017

	Note	Group	College	Group	College
				Restated	
		2017	2017	2016	2016
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible fixed assets	11	14	14	27	27
Tangible fixed assets	9 & 10	32,792	32,791	32,897	32,896
Investments	12	-	-	-	-
		32,806	**32,805**	**32,924**	**32,923**
Current assets					
Stock		183	183	160	160
Trade and other receivables	13	545	597	900	926
Cash and cash equivalents	18	3,230	3,182	2,311	2,216
		3,958	**3,962**	**3,371**	**3,302**
Less: Creditors – amounts falling due within one year	14	(2,538)	(2,594)	(1,922)	(1,908)
Net current assets		**1,420**	**1,368**	**1,449**	**1,394**
Total assets less current liabilities		**34,226**	**34,173**	**34,373**	**34,317**
Less: Creditors – amounts falling due after more than one year	15	(22,323)	(22,323)	(22,789)	(22,789)
Provisions					
Defined benefit obligations	17	(9,504)	(9,504)	(11,062)	(11,062)
Other provisions	17	(304)	(304)	(316)	(316)
Total net assets		**2,095**	**2,042**	**206**	**150**
Unrestricted reserves					
Income and expenditure account		939	886	(950)	(1006)
Revaluation reserve		1,156	1,156	1,156	1,156
Total unrestricted reserves		**2,095**	**2,042**	**206**	**150**
Total reserves		**2,095**	**2,042**	**206**	**150**

The financial statements on pages 25 to 47 were approved and authorised for issue by the Corporation on 19 December 2017 and were signed on its behalf on that date by:

I Andronov
Chair

I F Peake
Accounting Officer

Herefordshire and Ludlow College
Consolidated Statement of Cash Flows
For the year ended 31 July 2017

	Note	2017 £'000	2016 £'000 Restated
Cash flow from operating activities			
Deficit for the year		(282)	(181)
Adjustment for non cash items			
Depreciation and amortisation	9 & 11	1,091	1,016
Increase in stocks		(23)	(7)
Decrease / (increase) in debtors	13	355	(557)
Increase / (decrease) in creditors due within one year	14	616	(68)
Decrease in creditors due after one year	15	(378)	(597)
(Decrease) / increase in provisions	17	(12)	47
Pensions costs less contributions payable	17	613	269
Adjustment for investing or financing activities			
Investment income	5	(3)	(8)
Interest payable	8	7	9
Gain on sale of fixed assets		(5)	(450)
Net cash inflow / (outflow) from operation activities		**1,979**	**(527)**
Cash flows from investing activities			
Proceeds from sale of fixed assets		5	450
Investment income	5	3	8
Payments made to acquire fixed assets	9	(973)	(95)
Net cash (outflow) / inflow from investing activities		**(965)**	**363**
Cash flows from financing activities			
Interest paid	8	(7)	(9)
Repayments of amounts borrowed	16	(88)	(88)
Net cash outflow from financing activities		**(95)**	**(97)**
Increase / (decrease) in cash and cash equivalents in the year		**919**	**(261)**
Cash and cash equivalents at beginning of the year	18	2,311	2,572
Cash and cash equivalents at end of the year	**18**	**3,230**	**2,311**

Herefordshire & Ludlow College is a Further Education College. The principal place of operations is Folly Lane, Hereford HR1 1LS.

1 Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* and in accordance with Financial Reporting Standard 102 – "*The Finance 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.

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The governors have also taken advantage of certain exemptions from the requirements of FRS 102 Chapter 35 'Transition to this FRS'.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 25.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of the FRS102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation as deemed costs – at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed costs and measured at fair value.

- Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.

- The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

- Business combinations –the College has elected not to apply Section 19, Business Combinations and Goodwill, to the KSP business combination that was effected before the date of transition to FRS102.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the College and its subsidiary, Keith St Peters Limited, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. . All financial statements are made up to 31 July 2017.

Going concern

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

The College currently has £860,000 of loans outstanding with bankers on terms negotiated in 2010, which were undergoing renegotiation at 31 July 2017. The terms of the existing agreement are for 17 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

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 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 contract adjustments.

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

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

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 method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

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.

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. Contribution 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 Local Government Pension Scheme (LGPS)
The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currently 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 recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Enhanced pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future costs of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retired. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current assets – Tangible fixed assets

Tangible fixed assets are stated at 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.

Land and buildings

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 20 and 50 years. The College has a policy of depreciating major adaptations to building over the period of their useful economic life of between 20 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Buildings owned by third parties

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

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

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- Technical equipment 5/10 years
- Motor vehicles 4 years
- Computer equipment 3 years
- Furniture, fixtures and fittings 5 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 & Expenditure.

Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation.

Acquired goodwill, being of the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired, is initially recognised at cost and subsequently at cost less any accumulated amortisation and impairment losses. Goodwill arising on the acquisition of subsidiaries and joint ventures is included in the balance sheet category 'Intangible assets'. The gain or loss on the disposal of a subsidiary, associate or joint venture included the carrying value of any related goodwill.

Each financial year the College considers if there is any indication of impairment to the carrying value of goodwill. If such indicators exist, the College will evaluate the carrying value of goodwill to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the income and expenditure account.

Borrowing costs

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

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives relating to leases signed after 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 payment) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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

Investments

Investments in subsidiaries

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

Inventories

Inventories are stated at the lower of their cost (using the first in – first out method) and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow moving and defective items.

Cash and cash equivalents

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

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

Financial instruments accounting policy

The College enters into basic financial instruments transactions that result in recognition of financial assets and liabilities like trade and other debtors and creditors, accrued income, short term deposits, accruals and cash at bank.

Financial liabilities and equity

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

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

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 3% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature. The College's subsidiary company is subject to corporation tax and VAT in the same way as any commercial organisation.

Provisions and contingent liabilities

Provisions are recognised when

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

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

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

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

Agency arrangements

The College acts as an agent in the collection and payment of 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.

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. The 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 26, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any difference between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding council grants

	Year ended 31 July		Year ended 31 July	
	2017	**2017**	**2016**	**2016**
	Group	**College**	**Group**	**College**
	£'000	**£'000**	**£'000**	**£'000**
Recurrent grants				
Education and Skills Funding Agency – adult	3,022	3,022	2,231	2,231
Education and Skills Funding Agency – 16-18	8,174	8,174	7,760	7,750
Education and Skills Funding Agency – apprenticeships	2,550	2,480	1,867	1.802
Higher Education Funding Council	24	24	19	19
Specific Grants				
Releases of government capital grants	648	648	610	610
Total	**14,418**	**14,348**	**12,487**	**12,412**

3 Tuition fees and education contracts

	Year ended 31 July 2017 Group £'000	Year ended 31 July 2017 College £'000	Year ended 31 July 2016 Group £'000	Year ended 31 July 2016 College £'000
Adult education fees	1,214	1,214	1,134	1,134
Fees for FE loan supported courses	360	360	267	267
Fees for HE loan supported courses	59	59	46	46
Total tuition fees	1,633	1,633	1,447	1,447
Education contracts	1,295	1,295	843	843
Total	**2,928**	**2,928**	**2,290**	**2,290**

4 Other income

	Year ended 31 July 2017 Group £'000	Year ended 31 July 2017 College £'000	Year ended 31 July 2016 Group £'000	Year ended 31 July 2016 College £'000
Catering and residences	229	229	56	56
Other income generating activities	26	26	17	17
Farm income	301	301	258	258
Non-government capital grants	-	-	-	-
Miscellaneous income	430	428	519	516
Total	**986**	**984**	**850**	**847**

5 Investment income

	Year ended 31 July 2017 Group £'000	Year ended 31 July 2017 College £'000	Year ended 31 July 2016 Group £'000	Year ended 31 July 2016 College £'000
Other interest receivable	3	3	8	8
	3	**3**	**8**	**8**

6 Staff costs – Group and College

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

	2017 No.	2016 No. Restated
Teaching staff	187	183
Non-teaching staff	197	195
	384	**378**

Staff costs for the above persons	2017 £'000	2016 £'000
Wages and salaries	8,653	7,842
Social security costs	779	578
Other pension costs	1,960	1,428
Payroll sub total	**11,392**	**9,848**
Contracted out staffing services	37	79
	11,429	**9,927**
Fundamental restructuring costs - contractual	302	136
	11,731	**10,063**

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Management Team which comprises the Principal, Deputy Principal, Finance Director, Personnel Director and Assistant Principals. Staff costs include compensation paid to key management personnel for loss of office.

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

	2017 No.	**2016 No.**
The number of key management personnel including the Accounting officer was:	7	8

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

	Key management personnel		**Other Staff**	
	2017 No.	**2016 No.**	**2017 No.**	**2016 No.**
£10,001 to £20,000	-	1		
£50,001 to £60,000	2	2		
£60.001 to £70,000	2	3	-	-
£70,001 to £80,000	-	-	-	-
£80,001 to £90,000	2	1	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	1	1	-	-
	7	**8**	-	-

Key management personnel emoluments are made up as follows:

	2017 £'000	**2016 £'000**
Salaries	552	547
National Insurance	69	62
	621	**609**
Pension contributions	88	84
Total emoluments	**709**	**693**

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

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

	2017 £'000	**2016 £'000**
Salaries	138	137
National Insurance	19	17
	157	154
Pension contributions	21	21

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Compensation for loss of office paid to former key management personnel

	2017 £	2016 £
Compensation paid to the former post-holder – contractual	-	-

The severance payment was approved by the College's remuneration committee.

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

7 Other operating expenses

	Year ended 31 July 2017 Group £'000	Year ended 31 July 2017 College £'000	Year ended 31 July 2016 Group £'000	Year ended 31 July 2016 College £'000
Teaching costs	1,616	1,612	1,413	1,405
Non-teaching costs	2,409	2,382	2,117	2,095
Premises costs	1,512	1,500	1,379	1,357
Total	**5,537**	**5,494**	**4,909**	**4,857**

Other operating expenses include:	**2017 £,000**	**2016 £'000**
Auditors' remunerations:		
Financial statements audit	15	39
Internal audit	23	21
Other services provided by the financial statements auditors		30
Hire of assets under operating leases	258	124

8 Interest payable – Group and College

	2017 £'000	2016 £'000
On bank loans, overdrafts and other loans:	7	9
Pension finance costs (note 23)	256	269
Total	**263**	**278**

9 Tangible fixed assets (Group)

	Land and buildings Freehold	Long leasehold	Equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
As at 1 August 2016	37,883	941	1,365	40,189
Additions	-	-	973	973
Disposals	-	-	(4)	(4)
At 31 July 2017	**37,883**	**941**	**2,334**	**41,158**
Accumulated Depreciation				
At 1 August 2016	6,144	94	1,054	7,292
Charge for the year	832	32	214	1,078
Elimination in respect of disposals			(4)	(4)
At 31 July 2016	**6,976**	**126**	**1,264**	**8,366**
Net book value at 31 July 2016	**30,907**	**815**	**1,070**	**32,792**
Net book value at 31 July 2015	31,739	847	311	32,897

Fixed Assets include £1,287,000 of assets which were gifted to the College by the merger with part of the Pershore Group of Colleges at 1 August 2008. Land and Buildings of £1,287,000 were valued for this purpose by Mr J A Turner FRICS, whilst equipment of £nil book value was valued on a depreciated historic cost basis.

Fixed Assets also include £737,000 of assets which were gifted to the College by the merger with Ludlow College at 1 August 2013. Land and Buildings of £861,000 were valued for this purpose by Mr J A Turner FRICS at that date.

The properties gifted by Ludlow College are legally owned by the Foundation of Ludlow College. The objective of the Foundation of Ludlow College is the provision of items, services and facilities to the former Ludlow College. The Foundation therefore cannot sell, lease or otherwise dispose of any of its property where this is still required for use by the College. The valuation of these assets has therefore been recognised in these financial statements subsequent to their transfer at merger. Lease agreements for the use of these properties by Ludlow College were signed on 24 January 2003, entitling the College to use the properties for 38 years.

10 Tangible fixed assets (College only)

	Land and buildings Freehold	Long leasehold	Equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
As at 1 August 2016	37,883	941	1,358	40,182
Additions	-	-	973	973
Disposals	-	-	(4)	(4)
At 31 July 2017	**37,883**	**941**	**2,327**	**41,151**
Accumulated Depreciation				
At 1 August 2016	6,144	94	1,048	7,286
Charge for the year	832	32	214	1,078
Elimination in respect of disposals			(4)	(4)
At 31 July 2017	**6,976**	**126**	**1,258**	**8, 360**
Net book value at 31 July 2017	**30,907**	**815**	**1,069**	**32,791**
Net book value at 31 July 2016	31,739	847	310	32,896

11 Intangible fixed assets (restated)

	Group £'000	College £'000
Cost		
At 1 August 2016 and 31 July 2017	58	58
Accumulated Amortisation		
At 1 August 2016	31	31
Amortisation - charge for the year	13	13
At 31 July 2017	44	44
Net book Value at 31 July 2017	**14**	**14**
Net book value at 31 July 2016	27	27

Intangible fixed assets consist of investments in software, including installation costs, which are written off over its estimated economic life. Assets previously included as tangible fixed assets were recognised as intangible fixed assets for the accounts to 31/7/17.

12 Non current investments

	College 2017 £'000	College 2016 £'000
Cost at 1 August and 31 July	377	377
Impairment	377	377
Net Book Value at 31 July	-	-

The College owns 100% of the share capital of Keith St Peters Ltd, which is accounted for as a subsidiary undertaking.

During the year ended 31 July 2017 the subsidiary incurred a loss of £2,881 (2016: loss of £18,009).

At its Board meeting of 18th October 2016 the Corporation agreed to wind up Keith St Peters Ltd during the year to 31st July 2017 and the company ceased trading on 31st May 2017.

13 Trade and other receivables

	Group 2017 £'000	College 2017 £'000	Group 2016 £'000	College 2016 £'000
Amounts falling due within one year:				
Trade receivables	180	180	110	110
Amounts owed by group undertakings:				
Subsidiary undertakings	-	52	-	29
Prepayments and accrued income	149	149	133	130
Amounts owed by the ESFA	216	216	657	657
Total	**545**	**597**	**900**	**926**

14 Creditors: amounts falling due within one year

	Group 2017 £'000	College 2017 £'000	Group 2016 £'000 Restated	College 2016 £'000 Restated
Bank loans and overdrafts	88	88	88	88
Trade payables	264	264	157	157
Amounts owed to group undertakings:				
Subsidiary undertakings	-	58	-	-
Other taxation and social security	1	1	1	1
Accruals and deferred income	797	795	607	594
Deferred income – government capital grants	710	710	604	603
Amounts owed to the ESFA	678	678	465	465
Total	**2,538**	**2,594**	**1,922**	**1,908**

15 Creditors: amounts falling due after one year

	Group 2017 £'000	College 2017 £'000	Group 2016 £'000	College 2016 £'000
Bank loans	772	772	860	860
Deferred income – government capital grants	21,551	21,551	21,929	21,929
Total	**22,323**	**22,323**	**22,789**	**22,789**

16 Maturity of debt

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2017 £'000	College 2017 £'000	Group 2016 £'000	College 2016 £'000
In one year or less	88	88	88	88
Between one and two years	88	88	88	88
Between two and five years	264	264	264	264
In five years or more	420	420	508	508
Total	**860**	**860**	**948**	**948**

The outstanding bank loan of £860,000 was originally unsecured, and repayable at 0.375% above LIBOR, supplemented by a variable administration fee (currently 0.0072%) by instalments falling due between 19 July 2010 and 25 April 2027.

After 31 July 2016, the terms of this loan were altered so that the loan became repayable at 1.55% above LIBOR and secured on one of the buildings at the Hereford Campus. The length of arrangement is unaltered.

17 Provisions

	Defined benefit Obligations £'000	Group & College Enhanced Pensions £'000	Other £'000	Total £'000
At 1 August 2016	11,062	294	22	11,378
Expenditure in the year	(880)	(23)		(903)
Transferred from income and expenditure account	(678)	11		(667)
At 31 July 2017	**9,504**	**282**	**22**	**9,808**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 23.

Other provisions relate to leasehold dilapidation provision on premises occupied by the College's subsidiary company Keith St Peters Ltd.

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for these calculations are:

	2017	2016
Price inflation	1.30%	1.70%
Discount rate	2.30%	3.50%

18 Cash and cash equivalents

	At 1 August 2016 Restated £,000	Cash Flows £,000	At 31 July 2017 £'000
Cash and cash equivalents	2,311	919	3,230
Total	**2,311**	**919**	**3,230**

19 Capital commitments

	Group and College 2017 £'000	Group and College 2016 £'000
Commitments contracted for at 31 July	-	75

20 Lease Obligations

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

	College 2017 £'000	College 2016 £'000 restated
Future minimum lease payments due		
Land and buildings		
Not later than one year	70	59
Later than one year and not later than five years	79	110
	149	169
Other		
Not later than one year	62	67
Later than one year and not later than five years	72	132
Later than five years	-	-
	134	199
Total lease payments due	**283**	**368**

21 Contingent liabilities

The college is not aware of any circumstances at this time that would give rise to a material contingent liability (2016:nil).

22 Events after the reporting period

During the year the college reached an agreement to sell Wilsley House and a small area of surrounding land for £360,000. The property and land was disclosed within the land and buildings category of fixed assets and had a net book value at disposal of £217,000. The sale was completed on 1st August 2017 and resulted in a profit on disposal of £143,000 which is accounted for in the year to 31/7/18.

23 Defined benefit obligations

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

Total pension cost for the year	**2017**	**£'000**	**2016**	**£'000**
Teachers Pension Scheme: contributions paid		712		677
Local Government Pension Scheme:				
Contributions paid	880		707	
FRS 102 (28) charge	357		(1)	
		1,237		706
Enhanced pension charge to Statement of Comprehensive Income		11		45
Total Pension Cost for Year within staff costs		**1,960**		**1,428**

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

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and, from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation Account

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

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the costs of pensions' 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 (Valuation 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:

- Employer contribution rates were set at 16.48% of pensionable pay;
- Total scheme liabilities for service to be effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- An employer cost cap of 10.9% of pensionable pay.

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

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

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

Scheme Changes

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

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

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

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

The pension costs paid to TPS in the year amounted to £712,000 (201: £677,000).

FRS 102 (28)

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

Accordingly, the College has taken advantage of the exemption in FRS 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 plan and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Worcestershire Council. The total contribution made for the year ended 31 July 2017 was £1,121,000, of which employer's contributions totalled £880,000 and employees' contributions totalled £241,000. The agreed contribution rates for future years are 16.4% for employers and range from 5.5% to 12.5% for employees, depending on salary.

The bulk transfer/merger calculations relating to employees in the Shropshire County Council LGPS scheme merging in to the fund have not yet been finalised. Included within these financial statements is £396,000 which is based on the 2013 actuarial valuation.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2017 by a qualified independent actuary.

	At 31 July 2017	**At 31 July 2016**
Rate of increase in salaries	3.70%	3.20%
Future pensions increases	2.20%	1.80%
Discount rate for scheme liabilities	2.50%	2.50%
Inflation assumption (CPI)	2.20%	1.70%
Commutation of pensions to lump sums	50%	50%

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

	At 31 July 2017 Years	At 31 July 2016 Years
Retiring today		
Males	22.6	23.5
Females	25.6	25.9
Retiring in 20 years		
Males	24.8	25.8
Females	27.9	28.2

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

	Long term rate of return expected at 31 July 2017	Fair Value at 31 July 2017 £'000	Long term rate of return expected at 31 July 2016	Fair Value at 31 July 2016 £'000
Equities	6.50%	18,058	6.50%	14,654
Bonds	3.60%	1,091	3.60%	1,106
Other	6.50%	755	6.50%	554
Cash	0.50%	272	0.50%	450
Property		**797**		713
Total market value of assets		**20,974**		**17,477**
Weighted average expected long term rate of return	13.20%		9.20%	
Actual return on plan assets		**2,545**		**1,613**

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

	2017 £'000	2016 £'000
Fair value of plan assets	20,974	17,477
Present value of plan liabilities	(30,478)	(28,539)
Net pensions liability (Note 16)	**(9,504)**	**(11,062)**

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

	2017 £'000	2016 £'000
Amounts included in staff costs		
Current service cost	1,062	682
Curtailments & admin expenses	175	24
Total	**1,237**	**706**
Amounts included in investment income		
Net interest cost	(256)	(269)
	(256)	**(269)**
Amounts recognised in Other Comprehensive Expense		
Experience Gain (losses) arising on defined benefit obligations	2,171	(2,938)
Amount recognised in Other Comprehensive Expense	**2,171**	**(2,938)**

Movement in net defined benefit liability during the year

	2017 £'000	2016 £'000
Deficit in scheme at 1 August	(11,062)	(7,856)
Movement in year:		
Current service cost	(1,062)	(682)
Employer contributions	880	707
Administration expenses	(14)	(11)
Curtailments	(161)	(13)
Net interest on the defined (liability)/asset	(256)	(269)
Actuarial gain or loss	2,171	(2,938)
Net defined benefit liability at 31 July	**(9,504)**	**(11,062)**

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligation

	2017 £'000	2016 £'000
Defined benefit obligations at start of period	28,539	23,445
Current Service cost	1,062	682
Interest cost	660	805
Contributions by Scheme participants	241	197
Experience gains and losses on defined obligations	(1,464)	-
Changes in financial assumptions	1,746	4.015
Estimates benefits paid	(467)	(618)
Past Service cost	-	-
Curtailments and settlements	161	13
Defined benefit obligations at end of period	**30,478**	**28,539**

Reconciliation of Assets

	2017 £'000	2016 £'000
Fair value of plan assets at start of period	17,477	15,589
Interest on plan assets	404	536
Remeasurements (assets)	2,453	1,077
Administration expenses	(14)	(11)
Employer contributions	880	707
Contributions by Scheme participants	241	197
Estimated benefits paid	(467)	(618)
Assets at end of period	**20,974**	**17,477**

24 Related party transactions

Owing to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. There are no identified related party transactions other than as reported in relation to expenses below.

The total expenses paid to or on behalf of the Governors during the year was £1,088; 5 governors (2015: £1,022; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: None).

25 Amounts disbursed as agent

Learner support funds

	2017 £'000	2016 restated £'000
Funding body grants – bursary support 16-18	280	234
Funding body grants – residential bursaries 16-18	23	23
	303	257
Disbursed to students	(303)	(245)
Administration costs (fund oversubscribed no admin income available)	-	(12)
Balance unspent as at 31 July, included in creditors	0	0

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

26 Financial Instruments

The College has the following financial instruments:

	Note	Group 2017 £'000	College 2017 £'000	Group 2016 £'000	College 2016 £'000
Financial assets that are debt instruments measured at amortised cost:					
- Trade debtors	13	180	180	110	110
- Amounts owed by group undertakings	13	-	52	-	29
- Other receivables	13	216	216	657	657
		396	**448**	**767**	**796**
Financial Liabilities measured at amortised cost:					
- Bank loans and overdrafts	14, 15	860	860	948	948
- Trade creditors	14	264	264	157	157
- Amounts owed to group undertakings	14	-	58	-	-
- Amounts owed to ESFA	14	678	678	465	465
		1,802	**1,860**	**1,570**	**1,570**

27 Restated amounts

In the accounts to 31/7/16 cash received by the college in its capacity as a paying agent and held, pending disbursement to students or repayment to ESFA, as a creditor balance were excluded from the accounts. The figures for 31/7/16 have been restated in these accounts to include the cash held and the ESFA creditor balance.

There has been a change in the categorisation of some income transactions in the prior year Statement of Comprehensive Income to bring comparatives in line with the current year classification of income.

In addition computer software has been reclassified from tangible assets to intangible assets in the current and prior year. The reclassifications have no impact on net income, expenditure or net assets in either period.

To: The corporation of Herefordshire and Ludlow College and Secretary of State for Education acting through the Department for Education ("the Department")

In accordance with the terms of our engagement letter dated 6 October 2017 and further to the requirements of the financial memorandum with the Education and Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Herefordshire and Ludlow College during the period 01 August 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post 16 Audit Code of Practice ("the Code") issued by the Department. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the Department has other assurance arrangements in place.

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

Respective responsibilities of Herefordshire and Ludlow College and the reporting accountant

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

Our responsibilities for this engagement are 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 Code. 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 01 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 Code issued by the Department. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw to our conclusion 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/ funding agreement with the EFA.
- 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.
- Obtained the College's whistleblowing policy.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2016 to 31 July 2017 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

Date: 20/12/17.