

Nottingham College

Financial statements

For the period ended 31 July 2018

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Key management personnel, Board of governors and professional advisors

Key management personnel

Key management personnel were represented by the following in 2017/18:

John Van De Laarschot – CEO; Accounting Officer
Yultan Mellor – Vice Principal Curriculum
Joanne Clifford – Vice Principal Finance
James Whybrow – Vice Principal Partnerships, Apprenticeships and Enterprise

Board of Governors

A full list of Governors is on page 11 of these financial statements.

Ian James acted as Clerk to the Corporation throughout the period.

Professional advisers

Bankers:

Barclays Bank PLC
PO Box 3333
Snow Hill Queensway
Birmingham
B3 2WN

Solicitors:

Eversheds Sutherland LLP
Water Court
116 – 118 Canal Street
Nottingham
NG1 7HF

Internal auditors:

RSM (until 31 July 2018)
The Poynt Building
45 Wollaton Street
Nottingham
NG1 5FW

KPMG LLP
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

Financial statements auditor:

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Report of the Members of the Corporation (including the operating and financial review)

Objectives and strategies

The members present their report and the audited financial statements for the period ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Nottingham College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The College was created by the merger of New College Nottingham and Central College Nottingham on 8 June 2017.

Mission

During 2017-18 the College reviewed and redefined the strategic plan:



Public Benefit

Nottingham College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 and the principal regulator is the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 11.

Nottingham College has a commitment to deliver a significant, measurable public benefit, and a full Public Value statement, setting out how the College adds value to the social, economic and physical well-being of the community served by the College can be found on the Nottingham College website.

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

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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:

- Delivering high quality teaching, learning, assessment and support;
- Producing learners who are successful and grow in confidence;
- Developing students to secure sustainable employment;
- Supporting the development of new skills and knowledge to meet the needs of emerging and growth sectors; via a Market Driven Curriculum;
- Promoting a culture of safety, inclusivity, and respect where every individual matters and providing an environment where everyone feels safe;
- Raising ambitions by challenging learners to be the best they can be;
- Maximising strategic partnerships for the benefit of the community including those with the Local Enterprise Partnership, Local Authorities, key stakeholders, new & existing employers and colleges;
- Reflecting the needs of the community including learners and employers in the range of the education and training offer;
- Valuing our people;
- Gathering, listening to and acting on feedback from our learners;
- Maximising business efficiency, delivering financial viability and value for money and
- Continuous improvement through critical self-evaluation and improvement.

Implementation of Strategic Plan

During 2017-18 the Corporation approved the Strategic Plan and monitors the performance of the College against this plan:



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This strategic plan includes curriculum, property and financial plans covering the period 2016-17 to 2020-21. The Corporation monitors the performance of the College against these plans. The Colleges continuing strategic objectives are:

- A single college proposition that plugs seamlessly into the local economy and directly contributes to the LEP overarching target of creating 55,000 jobs by 2023
- The development of a fully realigned curriculum which offers direct pathways into employment within sectors with identified growth. Curriculum realigned to match local economic growth areas over a five year period.
- Growth in Apprenticeships, including Higher Apprenticeships, specifically construction, engineering and automotive, digital and creative, science, health care science, care and early years.
- Commercial income growth of 12% by 2019-20
- A financially sustainable FE solution for Nottingham, with operating surplus as % of income moving from – (0.6%) to 10.4% across a four year period.
- Delivery of an Estates Strategy including the new City Hub to facilitate the rationalisation of the existing estate

The College is on target for achieving these objectives.

Performance indicators

The College reports on a suite of Key Performance Indicators (KPI's) to the Corporation including:

KPI	Target for KPI	Actual
% Retention (Classroom based students)	92%	91%
% Agree course is preparing them for employment	85%	95%
Pay costs as % of income	67.27%	67.29%
EBITDA as % of income – education specific	4.64%	6.39%

The College is committed to observing the importance of sector measures and indicators. 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. Based upon the Education and Skills Funding Agency assessment the financial health of the college is 'good' for 2017-18.

Development and Performance

Financial Results

The Group generated a deficit before other gains and losses in the year of £3,172,000 (2016/17: operating deficit of £6,766,000), with total comprehensive income of £17,140,000, (2016/17: (£8,713,000)).

The total comprehensive income in 2017-18 is stated after accounting for the disposal of the Broadway premises.

The Group has a deficit on unrestricted reserves of (£32,919,000) and cash and short term investment balances of £16,402,000. The Group wishes to continue to accumulate reserves and cash balances in order to create a contingency fund and to re-invest in resources including the City Hub capital project.

The table below sets out various items which have impacted on the trading result for 2017-18, and shows the adjusted operating surplus after removing them, giving an underlying surplus excluding exceptional items.

	2018 £'000	2017 £'000
Deficit for the year	(£2,754)	(£6,640)
Restructuring costs	£1,771	£1,760
Exceptional merger costs	£348	£1,363
FRS 102 pension costs	£5,614	£4,240
Adjusted trading surplus for the year	£4,979	£723

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The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017-18 the FE funding bodies provided 80% of the Group's total income.

The College has two subsidiary companies; Nottingham College Services Limited and EMTEC Colleges Limited. During the year Central Academy Trust and Contributors Central Limited were wound up. The activities of EMTEC Colleges Limited and Nottingham College Services Ltd have been consolidated into the Group account. Any surpluses generated are transferred to the College under deed of covenant.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College has a treasury management policy in place as part of its Financial Regulations.

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

At £12,325,000 (2016-17: £284,000), net cash flow from operating activities was reasonably strong. During 2017-18, the net cash position improved as a result of the TU loan drawdown of £4.5 million and the receipt of LEP capital grants for the new build.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure an adequate cushion between the total cost of servicing debt and the operating cashflow. The debt servicing targets were achieved for 2017-18.

Current and future development and performance

Student numbers

In 2017/18 the College has delivered activity that has produced £65,377,000 in funding body main allocation funding (2016/17: £66,907,000). Nottingham College engaged with over 30,000 students, including 4,815 apprentices, 6,300 full time 16-18 year olds, 821 higher education students, 12,675 adult SFA-or loans-funded students (including 1,031 full time), and further students in community, family, commercial, pre-16 or international learning.

Student achievements

For class room based provision, the College achievement rate for 2017-18 was the same as 2016-17 at 84%, but there was a reduction in overall apprenticeship achievement rates which decreased to 61.5% for 2017-18 from 70% in 2016-17, partly due to performance by our partner providers.

Curriculum developments

The College continues to develop its apprenticeship and employer programmes across a number of disciplines and the vision of the new college is of an organisation that will be instrumental in helping employers raise productivity and, through training and education, support the implementation of innovation throughout the economy. The curriculum is driven by local economic need, growth plans and key sectors. To achieve this we will:

- Develop more extensive specialist apprenticeship provision
- Ensure the ongoing development of the curriculum offer to meet the needs of the local, regional and national labour market
- Create a fuller commercial offer servicing the training and mentoring needs of business
- Develop 'fully rounded' students with adaptable skills for employment and changing careers
- Embed English and maths, and core employability and independence skills
- Promote a coherent offer with progression opportunities from Entry to HE enabling the best opportunity for positive destinations
- Develop partnerships and commercial arrangements that benefit students, communities and employers
- Establish a quality proposition that delivers a great student experience driving the College to be outstanding in every way

Report of the Members of the Corporation (including the operating and financial review)

The focus remains on improving outcomes and retaining the already high level of positive destinations (whether into further training or into employment) for our students.

Future developments

The college has a long term transformation plan incorporating an estates strategy which will ensure the facilities are rationalised and improved in line with future market needs.

Future prospects

The future prospects of the College are intrinsically linked to successfully delivering the strategic objectives and the completion of the Nottingham City Hub project which will see the College invest £58 million in a new, state of the art college building in central Nottingham. This will in turn allow the disposal of a number of old, inefficient buildings which are no longer suitable for 21st century teaching and learning.

Reserves

The College net reserves are in a negative position due to the significant pension deficit arising from the Local Government Pension scheme. The College recognises the importance of reserves in the financial stability of any organisation, and ensures there are adequate reserves to support the core activities. The College reserves include £71,000 held as restricted reserves. As at the balance sheet date the Income and Expenditure reserve stands at £23,457,000 (2017 £20,431,000). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Going Concern

The College has undertaken a review of its going concern status and are satisfied that the accounts should be filed on a going concern basis. The financial health of the College has improved from 'satisfactory' to 'good' and is projecting to remain at this level for the future financial year.

Principal risks and uncertainties

The College has well developed strategies to embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets, reputation and financial stability.

Based on the strategic plan, the Risk Management Group undertake 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 appraisal will review their effectiveness and progress against risk mitigation actions. Risk Management Group will also consider any new or emerging risks as they arise.

A risk register is maintained at the College level which is reviewed termly by the Audit Committee and reports the key strategic risks to the Corporation. 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 from the College's Risk Management Policy, which is reviewed every two years. Training is undertaken periodically to raise awareness of risk throughout the College.

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

1 Risk of income shortfalls or reductions in Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and through Office for Students. In 2017-18 81% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College has based its forecasts on steady state ESFA (16-18) funding and Adult Education Budget. Apprenticeship funding at 16-18 and adult levels is assumed to increase internally, and there is a risk that this increase in activity may not be funded or achieved. Furthermore, the College expects that the relationship with sub-contractor partners will materially change and the plans include a reduction in third party provision.

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This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements;
- The College continues to strive for improvements in quality which will improve student recruitment and increase financial benefits for the College;
- College apprenticeship provision is made up of a mix of larger employers who are subject to the Employer Levy, and SME employers who are not;
- Robust future planning, horizon scanning and marketing strategy to ensure all opportunities are optimised; and
- Ensuring the College is focused on those priority sectors and identifying opportunities for income diversification.

2 Risk of cost pressures or failure to achieve efficiency targets

The College faces a number of financial pressures in line with most colleges in the sector. There are a number of ongoing efficiencies which need to be delivered to achieve the financial plan and added pressures e.g. from inflation and pension rate increases. There is a risk that the economies of scale are not realised as quickly as anticipated resulting in shortfalls in the future operating surpluses.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in developing an efficient curriculum delivery plan which recognises the contribution by course;
- Detailed financial planning including sensitivity analysis;
- Maximising efficiencies from centralised procurement and embedding value for money across the organisation;
- Maximise efficiencies through the use of technology and the streamlining of processes; and
- Comprehensive budget monitoring, forecasting and intervention plans, if required.

3 Failure to meet the covenants and maintain the financial viability of the College

The College's current financial health grade is classified as good as described above and all financial covenants have been met. The ongoing relationships with funders is dependent upon meeting or exceeding the financial covenants as outlined in the funding agreements.

This risk is mitigated in a number of ways:

- Regular monitoring of financial covenants with long term forecasting;
- Robust treasury management procedures and cashflow forecasting; and
- Robust financial controls.

Resources

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include a number of college sites which are mainly owned.

Financial

The College has negative net assets of £33 million when the £68.4 million pension liability is included and long term debt of £26.5 million. In 2016-17 there were net current liabilities of (£2.6m) in 2017-18 there were net current assets of £2.6m mainly due to increased cash balances.

People

The College employs 1,292 people (expressed as full time equivalents), of whom 750 are teaching staff.

Reputation

The College is building a good reputation locally and nationally. The College was selected from more than 100 UK college entries to win the 'Learning Impact Award' from the Blended Learning Consortium. The award recognised the quality of online learning resources that are being developed at the College.

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Stakeholder relationships

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

- Current, future and past students
- Staff and their trade unions
- Governors
- Local MPs
- Funding Agencies
- Local Enterprise Partnerships
- Local & national employers
- Local Authorities
- Government Offices
- Corporate partners (banks, solicitors, auditors)
- The local community
- Sports clubs and bodies
- Schools and universities
- Other FE institutions
- Partner training providers
- Professional bodies

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

Equality statement

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

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

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

Disability statement

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

- 1 The College has a specialist student support team, who can provide information, advice and arrange support where necessary for students with disabilities. 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.
- 2 There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- 3 The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- 4 Specialist programmes are described in College prospectuses.

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- 5 Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Trade union facility time

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

Numbers of employees who were relevant period	FTE employee number
1,501 to 5,000 employees	1,292

6

Percentage of time	Number of employees
0%	2
1-50%	15
51-99%	0
100%	0

Total cost of facility time	£23,284
Total pay bill	£39,131,762
Percentage of total bill spent on facility time	0.06%

Time spent on paid trade union activities as a percentage of total paid facility time	1.15%
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Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires 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 per cent. During the accounting period 1 August 2017 to 31 July 2018, the percentage for the College was 73%.

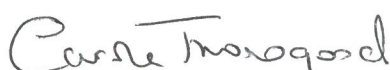
Events after the end of the reporting period

The College continues to work through a transformation programme to deliver the change required for FE in Nottingham. There are no material events after the reporting period.

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 10th December 2018 and signed on its behalf by:



Carole Thorogood

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 1 August 2017 to 31 July 2018 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 Code of Good Governance for English Colleges ("the Code"); and
- iii. having due regard to the UK Corporate Governance Code 2014 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 has adopted and complied with the 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 Code, and it has complied throughout the period ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 14 June 2017.

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

Statement of Corporate Governance and internal control

The Corporation

The members who served the Corporation during the year and up to the date of signature of this report were as listed in the table below:

Name	Date of appointment	Term of office expiry date	Date of retirement/ resignation	Status of appointment	Committees served	Attendance %
Carole Thorogood (Chair)	8 June 2017	21 July 2021		External	Governance & Search Remuneration	100
Anja Beriro	16 April 2018	21 July 2021		External	Audit	50
Mary Carswell	1 Aug 2013	31 July 2020		External	Governance & Search Remuneration	100
Trevor Clay	1 Jan 2015	31 Dec 2018		External	Remuneration	88
Richard Cox	8 June 2017	31 July 2020	31 March 2018	External	Audit	13
Andrew Dickinson	16 April 2018	31 July 2021		External	Audit	67
Richard Donovan	8 June 2017	22 Nov 2019		External	Audit	69
Debra French	24 Nov 2016	31 July 2018		Staff		75
Caroline Houldsworth	24 Nov 2016	31 July 2018	3 Dec 2017	Staff		50
Charlotte Jackson	25 Sep 2017	31 July 2018		Student		50
Neghat Khan	1 Oct 2018	31 July 2019		External		-
John van de Laarschot	21 Sep 2016	N/A		Chief Executive Officer	Governance & Search	90
Gill Lane	8 June 2017	31 July 2019		External	Governance & Search	100
Caroline Mackrory	30 Apr 2014	29 Apr 2018		External	Audit	80
Eseose Okotako	1 Aug 2018	31 July 2019		Student		-
Rebecca Pate	22 Jan 2018	31 July 2019		Staff		100
Liam Perkins	1 Aug 2018	31 July 2020		Staff		-
David Ralph	8 June 2017	15 Sep 2019	18 Dec 2017	External	Remuneration	67
Stephen Russell	8 June 2017	31 July 2018		External	Audit	92
Andrew Unitt	16 Apr 2018	31 July 2021		External	Governance & Search	67
Sam Webster	8 June 2017	7 June 2021	9 July 2018	External	Governance & Search	67
Jermaine Williams	25 Sep 2017	31 July 2018		Student		13
Michael Wisher	1 Aug 2014	31 July 2019		External	Audit	54

Ian James served as Clerk to the Corporation

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 Governance & Search, Audit and

Statement of Corporate Governance and internal control

Remuneration. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website www.nottinghamcollege.ac.uk or from the Clerk to the Corporation at:

Nottingham College
Highfields Campus
Jesse Boot Avenue
The Science Park
Nottingham
NG7 2RU

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 provided on an ad hoc basis.

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a governance and search committee, consisting of five members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

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

Corporation performance

The Corporation assesses its performance as good based on:

- Results of internal and external audits
- Attendance and decision making at Corporation meetings

Remuneration Committee

Throughout the period ended 31 July 2018 the College's Remuneration Committee comprised four members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

Details of remuneration for the period ended 31 July 2018 are set out in note 8 to the financial statements.

Audit Committee

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

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

Statement of Corporate Governance and internal control

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

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

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

Internal Control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Chief Executive Officer, 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 they are personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between Nottingham College and the funding bodies. The Accounting Officer 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 the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Nottingham College for the period ended 31 July 2018 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

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

The risk and control framework

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

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

Nottingham 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

Statement of Corporate Governance and internal control

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 Chief Executive Officer has responsibility for reviewing the effectiveness of the system of internal control. Their review of the effectiveness of the system of internal control is informed by:

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

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

- The executive 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 October 2018 meeting, the Corporation carried out the annual assessment for the period ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.
- Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for *"the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets"*.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. This consideration is based on:

- Review of the College medium term forecast for 2018-19 to 2019-20
- Review of the rolling 12 month cashflow statement

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



Carole Thorogood
Chair of Governors



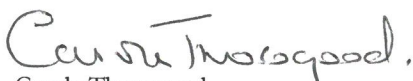
John Van De Laarschot
Accounting Officer

Governing Body's statement of 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 & Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the College's grant funding agreement and contracts with ESFA. As part of our consideration we have had due regard to the grant funding agreements and contracts with ESFA.

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, 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 grant funding agreements and contract with ESFA.

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



Carole Thorogood
Chair of Governors
10 December 2018



John Van De Laarschot
Accounting Officer
10 December 2018

Statement of the responsibilities of the members of the Corporation

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

Within the terms and conditions of the College's grant funding agreements and contracts with ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the College and its surplus/deficit of income over expenditure for that period.

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

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

The Corporation is also required to prepare a Members' Report which describes what it is trying to do and how it is going about it, including 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 including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard its assets and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the 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 ESFA are not put at risk.

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



Carole Thorogood
Chair of Governors

Independent auditor's report to the Corporation of Nottingham College

Opinion

We have audited the financial statements of Nottingham College (the 'College') for the year ended 31 July 2018 which comprise the Consolidated and College Statement of Comprehensive Income and Expenditure, the Consolidated and College Statement of Changes in Reserves, the Consolidated and College Balance Sheet, the Consolidated Cash Flow Statement 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" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

Independent auditor's report to the Corporation of Nottingham College

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 returns adequate for our audit have not been received from branches not visited by us; 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 the Corporation

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 16, the Corporation is 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 is 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 either 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.

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.

Use of the audit report

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

Mazars LLP *Mazars LLP*

Chartered Accountants and Statutory Auditor

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Date

17/12/18

Independent Auditor's Report on Regularity to the Corporation of Nottingham College and Secretary of State for Education acting through Education Funding Agency

To: The corporation of Nottingham 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 23 July 2018 and further to the requirements of the funding agreement 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 Nottingham College during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post 16 Audit Code of Practice ("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 Nottingham 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 Nottingham 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 Nottingham College and the Department for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Nottingham College and the reporting accountant

The corporation of Nottingham 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 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by the 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.

Independent Auditor's Report on Regularity to the Corporation of Nottingham College and Secretary of State for Education acting through Education Funding Agency

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 funding agreement with the ESFA.
- 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 1 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:



Mazars LLP

Date:

17/12/18

Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2018		Year ended 31 July 2017	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2	65,377	65,377	66,907	66,907
Tuition fees and education contracts	3	10,427	10,068	13,535	13,535
Other grants and contracts	4	453	453	639	639
Other income	5	3,824	4,738	5,780	4,142
Investment income	6	851	849	4	4
Donations and Endowments	7	25	25	-	-
Total income		80,957	81,510	86,865	85,227
EXPENDITURE					
Staff costs	8	46,864	44,122	49,891	48,803
Fundamental restructuring costs	8	1,771	1,765	1,760	1,760
Other operating expenses	9	27,969	31,106	33,548	33,001
Depreciation	12	4,124	4,118	4,905	4,900
Interest and other finance costs	10	3,402	3,402	3,527	3,527
Total expenditure		84,130	84,513	93,631	91,991
Deficit before other gains and losses		(3,173)	(3,003)	(6,766)	(6,764)
Gain on disposal of assets	12	418	418	126	126
Deficit before tax		(2,755)	(2,585)	(6,640)	(6,638)
Taxation	11	-	-	(4)	-
Deficit for the year		(2,755)	(2,585)	(6,644)	(6,638)
Actuarial gain (loss) in respect of pension schemes	23	19,895	19,895	(2,069)	(2,069)
Total Comprehensive Income for the year		17,140	17,310	(8,713)	(8,707)

The notes on pages 25 - 45 form part of these financial statements.

Consolidated and College Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1st August 2016	(53,700)	12,424	(41,276)
Deficit from the income and expenditure account	(6,644)	-	(6,644)
Other comprehensive income	(2,069)	-	(2,069)
Transfers between revaluation and income and expenditure reserves	199	(199)	-
	(8,514)	(199)	(8,713)
Balance at 31st July 2017	(62,214)	12,225	(49,989)
Deficit from the income and expenditure account	(2,755)	-	(2,755)
Other comprehensive income	19,895	-	19,895
Transfers between revaluation and income and expenditure reserves	191	(191)	-
Total comprehensive income for the year	17,331	(191)	17,140
Balance at 31st July 2018	(44,883)	12,034	(32,849)
College			
Balance at 1st August 2016	(53,622)	12,424	(41,198)
Deficit from the income and expenditure account	(6,638)	-	(6,638)
Other comprehensive income	(2,069)	-	(2,069)
Transfers between revaluation and income and expenditure reserves	199	(199)	-
	(8,508)	(199)	(8,707)
Balance at 31st July 2017	(62,130)	12,225	(49,905)
Deficit from the income and expenditure account	(2,585)	-	(2,585)
Other comprehensive income	19,895	-	19,895
Transfers between revaluation and income and expenditure reserves	191	(191)	-
Total comprehensive income for the year	17,501	(191)	17,310
Balance at 31st July 2018	(44,629)	12,034	(32,595)

The notes on pages 25 - 45 form part of these financial statements.

Balance sheets as at 31 July 2018

	Notes	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
Fixed assets					
Tangible fixed assets	12	105,657	105,653	104,866	104,856
Investment Property	13	3,469	3,469	5,310	5,310
		109,126	109,122	110,176	110,166
Current assets					
Stocks		51	44	29	29
Trade and other receivables	14	4,858	5,346	2,572	3,157
Cash and cash equivalents	19	16,402	15,999	4,527	3,887
		21,311	21,389	7,128	7,073
Less: Creditors – amounts falling due within one year	15	(18,722)	(18,543)	(9,755)	(9,559)
Net current assets		2,589	2,846	(2,627)	(2,486)
Total assets less current liabilities		111,715	111,968	107,549	107,680
Less: Creditors – amounts falling due after more than one year	16	(73,884)	(73,884)	(71,995)	(72,042)
Provisions					
Defined benefit obligations	18	(68,410)	(68,410)	(82,691)	(82,691)
Other provisions	18	(2,269)	(2,269)	(2,852)	(2,852)
Total net assets		(32,849)	(32,595)	(49,989)	(49,905)
Restricted reserves					
Thomas Earp funds gifted the the college		43	43	43	43
Other funds gifted to the college		28	28	3	3
Total restricted reserves		71	71	46	46
Unrestricted reserves					
Income and expenditure account		23,456	23,710	20,431	20,515
Pension reserve	23	(68,410)	(68,410)	(82,691)	(82,691)
Revaluation reserve		12,034	12,034	12,225	12,225
Total unrestricted reserves		(32,920)	(32,666)	(50,035)	(49,951)
Total reserves		(32,849)	(32,595)	(49,989)	(49,905)

The financial statements on pages 25 to 45 were approved and authorised for issue by the Corporation on 10th December 2018 and were signed on its behalf on that date by:

Carole Thompson

Jonathan [Signature]

Consolidated Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash inflow from operating activities			
Surplus/(deficit) for the year		(2,755)	(6,644)
Adjustment for non cash items			
Depreciation of tangible assets		4,124	4,905
Gain on fair value of investment property		(834)	-
(Increase)/decrease in stocks		(22)	14
(Increase)/decrease in debtors		(2,286)	14
Increase/(decrease) in creditors due within one year		8,978	(4,366)
Increase/(decrease) in creditors due after one year		(630)	1,107
Increase/(decrease) in provisions		(583)	(411)
Pensions costs less contributions payable		3,367	2,268
Taxation		-	4
Adjustment for investing or financing activities			
Investment income		(17)	(4)
Interest payable		3,402	3,527
Taxation paid		-	(4)
Profit on sale of fixed assets		(418)	(126)
		<u>12,326</u>	<u>284</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Proceeds from sale of fixed assets		1,060	701
Disposal of non-current asset investments		-	-
Investment income		17	4
Withdrawal of deposits		-	-
New deposits		-	-
Payments made to acquire fixed assets		(2,887)	(1,679)
		<u>(1,810)</u>	<u>(974)</u>
Cash flows from financing activities			
Interest paid		(1,194)	(1,549)
Interest element of finance lease rental payments		(2)	(42)
New unsecured loans		4,500	19,500
Repayments of amounts borrowed		(1,495)	(15,231)
Capital element of finance lease rental payments		(450)	(746)
		<u>1,359</u>	<u>1,932</u>
Increase in cash and cash equivalents in the year		<u>11,875</u>	<u>1,242</u>
Cash and cash equivalents at beginning of the year	18	4,527	3,285
Cash and cash equivalents at end of the year	18	16,402	4,527

The accompanying accounting policies and notes form an integral part of these financial statements

Notes to the financial statements

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 2017 to 2018 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

The financial statements are presented in Sterling (£), rounded to the nearest thousand.

Basis of accounting

These financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary companies, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. The students union is run as a completely separate entity with all cash flow going through an independently controlled bank account although monitoring of the account is carried out by the learner service function.

Going concern

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

The College currently has £27m of loans outstanding with bankers on terms negotiated in 2011 onwards. The loans are secured by a fixed and floating charge over College assets. The terms of the existing agreements are for up to another 25 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.

The College has reviewed the financial statements and the ongoing financial forecasts; despite the negative position of the balance sheet reserves, the College recognises that the pension deficit is having a material impact and this is a reflection of the annual LGPS valuation based upon a number of variable assumptions. 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

Notes to the financial statements

Recognition of income

Revenue grant funding

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

The recurrent grant from the Office for Students (formerly 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 statement of consolidated income account in the period in which it is earned on a receivable basis.

Accounting for post-retirement benefits

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

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Nottinghamshire Local Government Pension Scheme

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/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 other recognised gains and losses.

Notes to the financial statements

Actuarial gains and losses are recognised immediately in other recognised 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 cost 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 retires. 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 buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Buildings – 50 years
- Refurbishments – 50 years

Freehold land is not depreciated.

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 buildings 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.

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.

Notes to the financial statements

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition unless it is part of a larger project. 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 | 7 years |
| • motor vehicles | 4 years |
| • computer equipment | 3 years |
| • furniture, fixtures and fittings | 7 years |

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. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

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

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

Investment Property

Investment properties are held at fair value in the balance sheet. Formal market valuations are completed at least bi-annually with any material movements released to the income and expenditure account.

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.

Notes to the financial statements

Financial liabilities and equity

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

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

Foreign currency translation

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

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore 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 1% 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.

Provisions and contingent liabilities

Provisions are recognised when;

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

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

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

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

Agency arrangements

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

Notes to the financial statements

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risk 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. 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 disposed values.
- **Local Government Pension Scheme**
The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount on the pension liability.

Notes to the financial statements

Notes to the Accounts (continued)

2 Funding council grants

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Education and Skills Funding Agency - adult	19,283	19,283	18,523	18,523
Education and Skills Funding Agency – 16 -18	35,796	35,796	34,807	34,807
Education and Skills Funding Agency - apprenticeships	8,622	8,622	11,459	11,459
Higher Education Funding Council	753	753	899	899
Specific Grants				
Releases of government capital grants	924	924	216	216
HE grant	-	-	1,003	1,003
Total	65,377	65,377	66,907	66,907

3 Tuition fees and education contracts

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	2,101	1,742	1,403	1,403
Apprenticeship fees and contracts	69	69	473	473
Fees for loan supported courses	7,683	7,683	9,297	9,297
International students fees	574	574	1,465	1,465
Total tuition fees	10,427	10,068	12,638	12,638
Education contracts			897	897
Total	10,427	10,068	13,535	13,535

4 Other grants and contracts

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Erasmus	50	50	114	114
UK-based charities	-	-	45	45
Other grants and contracts	403	403	480	480
Total	453	453	639	639

Notes to the financial statements

5 Other income

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	1,571	1,571	995	1,042
Other income generating activities	1,132	943	3,393	1,662
Other grant income	319	319	407	407
Non government capital grants	665	665	387	387
Miscellaneous income	137	1,240	598	644
	<u>3,824</u>	<u>4,738</u>	<u>5,780</u>	<u>4,142</u>
Total				

6 Investment income

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	17	15	4	4
Gain on revaluation of investment property	834	834	-	-
	<u>851</u>	<u>849</u>	<u>4</u>	<u>4</u>

7 Donations

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Restricted donations	25	25	-	-
	<u>25</u>	<u>25</u>	<u>-</u>	<u>-</u>

Notes to the financial statements

8 Staff costs - Group and College

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

	2018 No.	2017 No.
Teaching staff	750	727
Non teaching staff	542	792
	1,292	1,519
Staff costs for the above persons		
	2018 £'000	2017 £'000
Wages and salaries	34,605	39,066
Social security costs	2,978	3,382
Other pension costs	7,999	7,081
Payroll sub total	45,582	49,529
Contracted out staffing services	1,282	362
	46,864	49,891
Fundamental restructuring costs - contractual	1,724	1,760
non contractual	47	-
	48,635	51,651

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprises the Chief Executive Officer, Vice Principals and Directors. 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

	2018 No.	2017 No.
The number of key management personnel including the Accounting Officer was:	4	8

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

	Senior post-holders		Other staff	
	2018 No.	2017 No.	2018 No.	2017 No.
£60,001 to £70,000	-	-	-	3
£70,001 to £80,000	1	1	6	6
£80,001 to £90,000	-	2	1	1
£90,001 to £100,000	2	2	1	1
£100,001 to £110,000	-	2	-	-
£180,001 to £190,000	1	1	-	-
£200,001 to £210,000	-	-	-	-
	4	8	8	11

Notes to the financial statements

8 Staff costs - Group and College

Key management personnel compensation is made up as follows:

	2018 £'000	2017 £'000
Salaries - gross of salary sacrifice and waived emoluments	507	521
Employers National Insurance	65	78
Benefits in kind		
	<u>572</u>	<u>599</u>
Pension contributions	<u>45</u>	<u>47</u>
Total emoluments	<u>617</u>	<u>646</u>

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

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2018 £'000	2017 £'000
Salaries	207	195
Benefits in kind	<u>-</u>	<u>-</u>
	<u>207</u>	<u>195</u>
Pension contributions	<u>-</u>	<u>-</u>

Compensation for loss of office paid to former key management personnel

	2018 £	2017 £
Compensation paid to the former post-holder - contractual	-	216
Estimated value of other benefits, including provisions for pension benefits	<u>-</u>	<u>-</u>

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

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

Notes to the financial statements

9 Other operating expenses

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	15,356	15,388	20,359	19,812
Non teaching costs	6,957	10,132	6,797	6,869
Premises costs	5,656	5,586	6,392	6,320
Total	27,969	31,106	33,548	33,001

Other operating expenses include:

	2018	2017
	£'000	£'000
Auditors' remuneration:		
Financial statements audit *	49	70
Internal audit	26	58
Operating lease expense	80	58

* Includes £45,000 in respect of the College (2016-17 £54,000)

10 Interest payable - Group and College

	2018	2017
	£'000	£'000
On bank loans, overdrafts and other loans:	1,194	1,544
	1,194	1,544
On finance leases	2	42
Net interest on defined pension liability (note 23)	2,206	1,941
Total	3,402	3,527

11 Taxation - Group only

	2018	2017
	£'000	£'000
Tax payable by the group	-	4

The members do not believe that the College was liable for any corporation tax arising out of its activities during either year. The tax charge in 2016-17 relates to its trading subsidiary companies.

Notes to the financial statements

12 Tangible fixed assets (Group)

	Land and buildings	Equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2017	130,617	31,463	498	162,578
Transfer from Investment Property	2,675	-	-	2,675
VAT refund	(609)	-	-	(609)
Additions	414	514	2,566	3,494
Disposals	(1,682)	-	-	(1,682)
At 31 July 2018	131,415	31,977	3,064	166,456
Depreciation				
At 1 August 2017	30,551	27,161	-	57,712
Charge for the year	2,504	1,619	-	4,123
Elimination in respect of disposals	(1,036)	-	-	(1,036)
At 31 July 2018	32,019	28,780	-	60,799
Net book value at 31 July 2018	99,396	3,197	3,064	105,657
Net book value at 31 July 2017	100,066	4,302	498	104,866

12 Tangible fixed assets (College only)

	Land and buildings	Equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2017	130,617	31,434	498	162,549
Transfer from Investment Property	2,675	-	-	2,675
VAT refund	(609)	-	-	(609)
Additions	414	516	2,566	3,496
Disposals	(1,682)	-	-	(1,682)
At 31 July 2018	131,415	31,950	3,064	166,429
Depreciation				
At 1 August 2017	30,551	27,142	-	57,693
Charge for the year	2,503	1,615	-	4,118
Elimination in respect of disposals	(1,038)	-	-	(1,038)
At 31 July 2018	32,016	28,757	0	60,773
Net book value at 31 July 2018	99,399	3,193	3,064	105,656
Net book value at 31 July 2017	100,066	4,292	498	104,856

Notes to the financial statements

12 Tangible fixed assets (College only) (continued)

The net book value of equipment includes an amount of £nil (2016/17 – £51,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £nil (2016/17 – £349,000).

13 Investment Property

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
Opening balance	5,310	5,310	-	-
Transfer to Fixed Assets	(2,675)	(2,675)	-	-
Gain on fair value	834	834	-	-
Total	3,469	3,469	5,310	5,310

The Investment Property was revalued in May 2018 by Innes England.

14 Trade and other receivables

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
Amounts falling due within one year:				
Trade receivables	2,710	2,691	1,249	1,179
Amounts owed by group undertakings:				
Subsidiary undertakings	-	533	-	655
Prepayments and accrued income	2,148	2,122	518	518
Amounts owed by the ESFA	-	-	805	805
Total	4,858	5,346	2,572	3,157

15 Creditors: amounts falling due within one year

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
Bank loans and overdrafts	467	467	455	455
Obligations under finance leases	448	448	449	449
Trade payables	1,565	1,565	820	958
Other taxation and social security	1,312	1,318	1,397	1,397
Accruals and deferred income	8,611	8,426	5,696	5,362
Deferred income – government capital grants	1,422	1,422	493	493
Unspent capital grants	4,816	4,816	-	-
Learner Support Funds	81	81	445	445
Total	18,722	18,543	9,755	9,559

16 Creditors: amounts falling due after one year

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
Bank loans	26,516	26,516	23,523	23,523
Obligations under finance leases	2,407	2,407	2,856	2,856
Rent Creditor	533	533	450	450
Other	-	-	543	654
Deferred income – government capital grants	44,428	44,428	44,623	44,559
Total	73,884	73,884	71,995	72,042

Notes to the financial statements

17 Maturity of debt

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
In one year or less	467	467	455	455
Between one and two years	976	976	948	948
Between two and five years	1,578	1,578	1,531	1,531
In five years or more	23,940	23,940	21,044	21,044
Total	26,961	26,961	23,978	23,978

The College's loans are detailed as follows;

Lender	Term	Rate	Amount £'000
Barclays RCF	Jun 2022	3.37%	4,940
Barclays Facility A	Jun 2022	3.37%	2,481
Barclays Facility B	Jun 2022	3.37%	2,268
Nottingham City Council	Apr 2030	5.00%	4,272
ESFA	Oct 2030	0.98%	13,000

The loans are secured on a portion of the freehold land and buildings of the College.

(b) Finance leases

The net finance lease obligations to which the institution is committed are:

	Group 2018 £'000	College 2018 £'000	Group 2017 £'000	College 2017 £'000
In one year or less	448	448	449	449
Between two and five years	2,407	2,407	2,147	2,147
In five years or more	-	-	709	709
Total	2,855	2,855	3,305	3,305

Finance lease obligations are secured on the assets to which they relate.

18 Other Provisions

Group and College

	Defined benefit obligations £'000	Enhanced benefit obligations £'000	Other £'000	Total £'000
At 1 August 2017	(82,691)	(2,738)	(114)	(85,543)
Expenditure in the period	-	469	114	583
Additions in the period	14,281	-	-	14,281
At 31 July 2018	(68,410)	(2,269)	-	(70,679)

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.

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 this calculation are:

	2018	2017
Price inflation	2.50%	2.30%
Discount rate	2.65%	2.50%

Notes to the financial statements

19 Cash and cash equivalents

	At 1 August 2017 £'000	Cash flows £'000	Other changes £'000	At 31 July 2018 £'000
Cash and cash equivalents	4,527	11,875	-	16,402
Overdrafts	-	-	-	-
Total	4,527	11,875	-	16,402

20 Capital commitments

	Group and College	
	2018 £'000	2017 £'000
Commitments contracted for at 31 July	54,936	2,857

21 Lease Obligations

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

	Group and College	
	2018 £'000	2017 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	549	549
Later than one year and not later than five years	1,332	1,476
later than five years	1,180	1,039
	<u>3,061</u>	<u>3,064</u>
Other		
Not later than one year	98	105
Later than one year and not later than five years	30	196
later than five years	-	-
	<u>128</u>	<u>301</u>
Total lease payments due	<u>3,189</u>	<u>3,365</u>

22 Contingent liabilities

There are no contingent liabilities as at 31 July 2018 or 31 July 2017.

Notes to the financial statements

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 the Nottinghamshire Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Nottinghamshire City Council. Both are multi-employer defined-benefit plans. 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 of the LGPS 31 March 2016.

Total pension cost for the year	2018 £'000	2017 £'000
Teachers Pension Scheme: contributions paid	2,294	2,697
Local Government Pension Scheme:		
Contributions paid	2,556	2,319
Pension Strain	273	49
FRS 102 (28) charge	<u>3,074</u>	<u>2,091</u>
Charge to the Statement of Comprehensive Income	5,903	4,459
Enhanced pension charge to Statement of Comprehensive Income	-	(87)
Total Pension Cost for Year included within Staff Costs	<u>8,197</u>	<u>7,069</u>

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 payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act. 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 cost 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.

Notes to the financial statements

Valuation of the Teachers' Pension Scheme

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

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

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

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

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

The pension costs paid to TPS in the year amounted to £2,294,000 (2017: £2,697,000)

Notes to the financial statements

23 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

Movement in net defined benefit (liability) during the year

	2018 £'000	2017 £'000
(Deficit) in scheme at 1 August	(82,691)	(76,382)
Movement in year:		
Current service cost	(5,589)	(4,614)
Employer contributions	2,556	2,554
Past service cost	(334)	(208)
Net interest on the defined (liability)	(2,206)	(1,941)
Administrative expenses	(41)	(31)
Actuarial gain or loss	19,895	(2,069)
Net defined benefit (liability) at 31 July	(68,410)	(82,691)

Asset and Liability Reconciliation

	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	186,514	166,396
Current Service cost	5,589	4,614
Interest cost	5,011	4,318
Employer contributions	858	913
Experience gains and losses on defined benefit obligations	-	(3,232)
Changes in financial assumptions	(12,918)	15,772
Estimated benefits paid	(3,304)	(2,475)
Unfunded pension payments	-	-
Past Service cost	334	208
Liabilities assumed/transferred	-	-
Defined benefit obligations at end of period	182,084	186,514

Reconciliation of Assets

Fair value of plan assets at start of period	103,823	90,014
Interest on plan assets	2,805	2,377
Return on plan assets	6,977	10,943
Other actuarial losses	-	(472)
Administration expenses	(41)	(31)
Employer contributions	2,556	2,554
Contributions by Scheme participants	858	913
Estimated benefits paid	(3,304)	(2,475)
Fair value of plan assets at end of period	113,674	103,823

Notes to the financial statements

24 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £804; 4 governors (2016-17: £2,008; 6 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 (2017: None).

25 Amounts disbursed as agent

Learner support funds

	2018 £'000	2017 £'000
Funding body grants – bursary support	1,954	1,185
Funding body grants – discretionary learner support	1,478	1,852
Funding body grants – residential bursaries	-	-
Other Funding body grants	(430)	-
Interest earned	-	-
	<u>3,002</u>	<u>3,037</u>
Disbursed to students	(2,796)	(3,046)
Administration costs	(125)	(124)
	<u>81</u>	<u>(133)</u>
Balance unspent as at 31 July, included in creditors		

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

26 Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
EMTEC Limited	UK	Ordinary	100%	Intermediate Holding Company.
EMTEC (Shanghai) Limited	China	Ordinary	100%	Provision of education.
Nottingham College Services Limited	UK	Ordinary	100%	Provision of cleaning services.

