LEARNING FOR LIFE at Morley

# MORLEY COLLEGE LIMITED

## Report and Financial Statements
## for the year ended 31 July 2017

**Registered number: 2829836**

**Registered charity number: 1023523**

# Key Management Personnel, Board of Governors and Professional advisors

### Key management personnel

Key management personnel are defined as members of the College Senior Management Team (SMT) and were represented by the following in 2016/17:

Dr Andrew Gower - Principal and CEO; Accounting officer

Marco Macchitella - Deputy Principal

Nicholas Rampley - Vice Principal

Rachel Burgess - Director of Finance (from 1 January 2017)

### Governing Body

A full list of Governors is given on pages 15 to 17 of this report. Martin McNeill acted as Clerk to the Governing Body throughout the period.

## General information and professional advisors

### Registered Office

61 Westminster Bridge Road

London SE1 7HT

### Financial statements auditors and reporting accountants

RSM UK Audit LLP

25 Farringdon Street

London EC4A 4AB

### Internal auditors

Grant Thornton UK LLP

30 Finsbury Square

London EC2P 2YU

### Bankers

National Westminster Bank plc

91 Westminster Bridge Road

London SE1 7HN

### Solicitors

Eversheds

Senator House

85 Queen Victoria Street

London EC4V 4JL

Bates Wells & Braithwaite LLP

10 Queen Street Place

London EC4R 1BE

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# Report of the Governing Body and Strategic Report

## NATURE, OBJECTIVES AND STRATEGIES

The Governing Body, which represents the Board of Directors for the purposes of Company law and the Board of Trustees for the purposes of Charity law, presents its report and the audited financial statements of Morley College Limited ('the College') for the year ended 31 July 2017.

### Legal status

The College was incorporated on 18 June 1993 (Company Number 2829836) and began trading on 2 September 1993. This Company replaced the previous organisation which was also known as Morley College and had been in existence since it was founded in 1889. The College is an Institute for Adult Learning (formally a Specialist Designated Institution (SDI)) under the 1992 Further and Higher Education Act).

The College is a registered charity (no. 1023523) which is regulated by a scheme dated 2 September 1993. The College's application to HM Revenue and Customs for exemption from Corporation Tax was made on 6 September 1994 and was accepted on 13 September 1995. The College's activities do not fall within the scope of Corporation Tax.

### Principal activities

The object of the College is the provision of education for adults in such subjects and at such standards as the Governing Body from time to time determines.

### Mission

The College's mission is to empower individuals and strengthen communities through adult education in Arts, Culture and Applied Sciences.

### Public Benefit

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

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

- High-quality teaching
- General and specialist resources and facilities
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with local employers
- Significant contribution to the cultural life of London

The College is funded by the Education & Skills Funding Agency (ESFA) and does not restrict access to beneficiaries. The College develops its curriculum to address the priorities of the London Economic Action Partnership (LEAP) which is the local enterprise partnership for London.

## Implementation of strategic plan

In December 2015 the College adopted a strategic plan for the five years to 2020. The plan defines Morley's strategic direction with its priorities expressed in the statement of three overarching strategic goals:

- Create outstanding learning opportunities

  By 2020 Morley College London is acknowledged locally, nationally and internationally as an outstanding adult education college specialising in the Arts, Culture and Applied Sciences, with a progressive range of participatory programmes from introductory through to higher levels of learning. Academic and artistic excellence remains central to the ambitious, enterprising and welcoming culture of the College, and ensures ever increasing recognition of Morley as a destination within London's thriving cultural scene through an engaging programme of high quality concerts, performances, workshops and exhibitions.

- Deliver an outstanding student experience

  By 2020 Morley College London is acknowledged as highly effective in meeting the diverse learning needs of the communities we serve. The quality of learning opportunities and the associated student experience create a compelling proposition. The passion for learning embodied by the staff team through their subject knowledge, enthusiasm, professional practice and external professional networks, ensures expert and innovative learning, teaching and assessment. In addition, the creative application of digital technology is increasingly a distinguishing feature of Morley's approach in addressing social exclusion and enhancing the flexibility and personalisation of learning.

- Ensure financial sustainability

  By 2020 Morley College London has established key strategic partnerships to extend its reach and influence. A growing reputation in responding to the needs of employees and their employers through workplace learning and professional training draws creatively on Morley's specialist areas of subject expertise. Effective financial controls and an increasingly diversified funding model are enabling operational stability and accurate forward planning.

Implementation of the Plan is achieved through a suite of strategies which provide a framework for business and quality enhancement plans, the progress of which is monitored by the Senior Management Team and reported to the Governing Body. The Governing Body monitors the performance of the College against annual operating plans, including financial and property plans, which link to these high-level goals and their component strategic objectives. In 2016/17 the College's self-assessment review process provided evidence of continuing improvements in quality management and the overall self-assessment grade was good with outstanding features.

## Performance indicators

To enable the Governing Body to monitor the College's progress in implementing the Strategic Plan the College has developed a set of key performance indicators (KPIs) which are aligned directly to its strategic goals. A target is set for each KPI and actual performance is compared on a termly or annual basis as appropriate against the target and against past performance. Wherever possible, KPIs are benchmarked against the performance of other colleges nationally, including using the FE Choices data available on the GOV.UK website, which is a national student satisfaction survey. By analysing KPIs throughout the year, College managers and the Governing Body were able to identify areas of concern and to take appropriate action.

The KPIs for 2016-17 demonstrate a good level of improvement and progress across all three strategic goals. The College met its targets for retention (actual 95%, target 94.4%) and achievement (actual 91.9%, target 91.9%). Student satisfaction was at 91% for the whole year (target 92%). While the ambitious target for fee income was not met (93% of target), the College met the majority of financial targets and the Education and Skills Funding Agency financial health score remains 'Outstanding'.

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency ("ESFA"). The College is assessed by the ESFA as having an "Outstanding" financial health grading.

## Financial Position

### Financial objectives

The College's financial objectives, as set out in its Finance Strategy 2016-20 are:

- to achieve in-year financial sustainability, generating positive earnings before interest, taxes, depreciation and amortisation (i.e. EBITDA) each year;
- to maintain a financial health rating of "good" or better;
- to diversify sources of income as determined by the changing mix of provision in the curriculum strategy and departmental business plans;
- to evaluate capital investment against the College's business and curriculum objectives;
- to contain borrowings to where there is clear infrastructural or strategic benefit and only to the extent determined by operational needs;
- to ensure fees policy reflects objectives of the Strategic Plan;
- to allocate resources through a budget process that maintains delivery standards while generating sufficient funds to maintain required levels of liquidity and allow adequate capital investment; and
- to mitigate against financial risk within the context of the Strategic Plan.

These financial objectives were satisfactorily met and often exceeded during 2016/17.

### Financial results

The College generated a surplus prior to FRS102 pensions adjustments of £209,000 (2015/16: surplus of £139,000, see Note 10), with total comprehensive income of £10,377,000 (2015/16 £10,052,000).

Excluding FRS102 pensions adjustments, the College exceeded its budget for the year, due to maximising funding body income and careful control of costs.

The College has accumulated reserves of £12,359,000 and cash and short term investment balances of £2,198,000.

Tangible fixed asset additions during the year amounted to £852,000. This was split between land and buildings (£662,000) and equipment (£190,000). In the main, these additions related to the completion of a lift in the Nancy Seear building, refurbishments of classrooms and common areas, as well as the purchase of various IT assets to enhance the learning environment.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2016/17 the FE funding bodies provided 57% of the College's total income.

**Treasury policies and objectives**

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

The College has a separate treasury management policy in place. Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Governing Body and shall comply with the requirements of the Financial Memorandum with the SFA (and successor bodies) and the College's Financial Regulations.

**Cash flows and liquidity**

The College continues to maintain high liquidity, with £2,198,000 in bank and cash at the year end (2015/16: £2,337,000). At £719,000 (2015/16 £446,000), net cash flow from operating activities was robust.

**Reserves Policy**

The College recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's strategic goals. The College considers it practicable and desirable to retain a minimum level of general reserves (excluding losses or gains in respect of the pension scheme) equivalent to one term (four months) expenditure to cover the risks and uncertainties of operating its main business. The College therefore maintains a general reserve of this amount and designates any surplus unrestricted funds to specific reserves in support of its strategic goals. According to the College's budget for 2017/18, four months of expenditure (excluding depreciation) equates to £3,402,000 – the excess of £136,000 has therefore been transferred from the General Reserve to the Development Reserve (see Note 18), leaving a balance of £3,402,000 in the General Reserve.

The College's property strategy is a key tenet of the Strategic Plan. Therefore College's reserves policy this year has been to continue to build up reserves through operating surpluses, as identified in the Development Fund, to enable it to pursue the property strategy, the next phase of which commenced in the Autumn term of 2017.

**Current and future development and performance**

**Financial health**

The College's Financial Health was assessed by the ESFA as Outstanding. For 2017/18 and 2018/19 Financial Health is assessed as Good.

**Student numbers**

In 2016/17 the College has delivered activity that has produced £5.9m in funding body main allocation funding (2015/16 – £5.6m) and £4.2m in tuition fees and educational contracts (2015/16 – £4.1m). The College had approximately 12,537 students and 27,798 enrolments.

**Student achievements and curriculum developments**

In designing the 2016/17 curriculum plan the curriculum schools have carefully assessed the 2015/16 provision to ensure that unsuccessful courses, i.e. those who have a history of low enrolments and poor financial contribution, are either discontinued or replaced, so that the breadth of provision and progression pathways are maintained or enhanced.

The 2016/17 curriculum plan saw the start of the implementation of the Curriculum Strategy 2016-20. Every course in the College has now been assigned a level of study in line with national frameworks. This enables clear signposting of student progression pathways on both accredited and non-accredited courses, supporting progression from entry to higher levels of learning.

In 2016/17 the College successfully applied to HEFCE for direct funding and to Pearson for centre approval to run a suite of Higher National Diploma (HND) programmes in areas of study including Music and Performing Arts, Media and Fashion, Health and Social Care, and Business Management, to provide a flexible ‘vocational route’ of higher technical and professional education. The new Higher Education (HE) provision, the first of its kind for an adult and community learning provider, was successfully launched in September 2017.

Morley’s journey to Ofsted ‘outstanding’ progressed well in 2016-17 with strong student achievement which is a clear indicator of the quality of the student experience. At College level, student achievement remains strong for 2016-17 with an overall achievement rate of 91.9%, one percentage point better than 2015-16.

The achievement of Access to HE students is much improved, from 65.6% to 70.3%, with this level of performance slightly above the average achievement rate for students on OCN London Access to HE Diplomas.

Student progress and development of academic and vocational skills are outstanding in many subjects. The majority of Access students make excellent progress relative to their starting points and achieve more distinction and merit grades than those at other colleges. They develop excellent skills in preparation for Higher Education and progression into vocational careers.

In Visual and Digital Arts students exhibit work in the Morley Gallery and other exhibition spaces. Students take part in national competitions such as Inspired by the V&A, and undertake commissions and live projects such as TfL and London Borough of Southwark photography commissions.

In Essential Skills students improve their social, interpersonal and employability skills as well as developing the English and Maths skills necessary for work, home and supporting their children with schoolwork. An increasingly high number of students progress to higher level qualifications and employment upon course completion. Many Health students report an increase in their social and economic wellbeing as professional skill development enables them to enter self-employment or expand their existing practice.

There are good progression routes on many programmes that enable students to progress from beginners to often very advanced levels. On course completion 42% of students who responded reported that their course assisted them with Higher Education skills while 18% stated they had been helped with employment or search for employment.

**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 2016 to 31 July 2017, the College paid at least 95 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

**Events after the end of the reporting period**

The College continues to progress its property strategy and in October 2017, after a full tender process, the College committed to expenditure of £1.3m (excluding VAT) with a building contractor to enter into the next phase of this strategy. The project realises a significant enhancement to the College estate. In particular:

- a more contemporary image on the street-scape
- a fully accessible entrance
- centralised student services
- increased social and seminar space
- a radio production studio

Investing in this first phase will encourage investment in future phases, demonstrating the College's commitment to the capital development of its campus and providing a track record of delivering improvements. The project will be financed through reserves and a bank loan which is expected to be drawn down during 2017/18.

**Future prospects and going concern**

The budget for 2017/18 envisages ongoing diversification of income, including continuing growth in advanced and higher learning, which also supports the College's progression outcomes. The improved facilities provided by the main site support this diversification, along with the use of external venues such as the Stockwell Centre.

Having due regard to best practice developments in the UK Corporate Governance Code 2016 in respect of going concern and risk management reporting, the College believes it will be able to continue in operation and meet its liabilities taking account of the current position and principal risks for the foreseeable future. The College's assessment of going concern is supported by:

- High liquidity levels at year end
- Generation of ongoing cash flow surpluses as noted in the Statement of Cash Flows
- Outstanding Financial Health
- The College's performance against budget
- The College's two-year Financial Plan
- Judgement of the Area Based Review
- Robust risk management processes

## RESOURCES

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

### Buildings and accommodation

Tangible resources include the main College site at Westminster Bridge Road, the sculpture studio at Pelham Hall, and more recently the use of the Stockwell Centre. During the year the College has continued to carry out work to its buildings in order to improve its facilities for learners and staff. This has included classroom and office conversions and refurbishments, and repairs and refurbishments to its common areas. During the course of the year the College continued planning for the next phase of the property strategy as noted above.

### Financial

The College has £12.2 million of unrestricted net assets (including £6.2 million pension liability) and no long term debt.

### People

The College employed on average 166 people during the year (expressed as full time equivalents), of whom 91 are teaching staff, and of whom 75 were non-teaching staff. The College continues to outsource its cleaning and security operations, the cost of which is included within staff costs.

### Reputation

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

### Staff and student involvement

Staff and student representatives are elected as members of the Governing Body and the College encourages staff and student involvement through membership of formal committees. Staff and students are encouraged to join and support the activities of the Friends of Morley, an association which also confers membership of the College. The College considers good communication with its staff and students to be very important. The Principal and members of the Senior Management Team meet regularly with the Student Council and the Class Representatives' Association. Staff communications are achieved through open meetings for all staff with senior managers, regular management meetings, a well-developed intranet system and a regular staff newsletter. A conference is held each year for all staff and meetings for departmental staff are held regularly. Staff bulletins are produced regularly to enhance communication.

## PRINCIPAL RISKS AND UNCERTAINTIES

The College has undertaken further work during the year to develop and embed the system of internal control, including governance, operational and financial risk management which is designed to protect the College's assets and reputation. The College's Risk Management Policy sets out its approach to risk management and documents the roles and responsibilities of the Governing Body, the Risk Management Committee and other key individuals and committees. It also outlines key aspects of the risk management process and identified the main reporting procedures.

Based on the strategic plan, the Risk Management Committee undertakes a comprehensive review of the risks to which the College is exposed. The Committee meets termly and identifies systems and procedures, including specific preventable actions, which should mitigate any potential impact on the College and its ability to meet its strategic goals. The internal controls are then implemented and ongoing appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review of risk management, the Risk Management Committee will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is structured in three sections, each linked to one of the College's three strategic goals. One section is reviewed by the Risk Management Committee and the Audit Committee each term, with the full register being reviewed at least annually and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

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

### 1 Maintenance of quality of provision

Failure to maintain adequate quality in its provision represents a significant risk to the College, particularly as the Strategic Plan includes growth and responsiveness to student needs. This risk is mitigated in a number of ways:

- Scrutiny of key performance indicators by the Quality and Standards Committee
- Plan for OFSTED inspection readiness in place
- Continued development and monitoring of Quality Enhancement Plan
- Rigorous curriculum review process that ensures curriculum meets student interest and demand in addition to addressing the priorities of the LEAP
- Best practice in Human Resources policies and procedures to ensure high quality in teaching and support staff
- Development of a property strategy driven by the needs of the developing curriculum and building a level of reserves to support this strategy

The outcomes of the OFSTED inspection undertaken in April 2016 and the College's own subsequent self-assessment reviews have given the College confidence that the processes and scrutiny being undertaken are effective in driving quality improvement and leading to outstanding learning opportunities.

### 2 Maintenance of an outstanding student experience

The College aims to be highly effective in meeting the diverse learning needs of the communities it serves, addressing social exclusion and enhancing the flexibility and personalisation of learning. Failure to ensure quality of learning opportunities and student experience represents a significant risk to meeting this goal. This is mitigated by:

- A high quality staff team with excellent subject knowledge and enthusiasm

- Continual professional development of staff to ensure a high standard of professional practice
- The use of external professional networks and partnerships to ensure expert and innovative learning, teaching and assessment
- The ongoing focus on three cross-cutting themes: digital inclusion, progression and employability

**3 Failure to maintain the financial viability of the College**

The College's current financial health grade is classified as "Outstanding" as described above. Notwithstanding that, the continuing challenge to the College's financial position remains the constraint on adult education funding arising from the recent sustained period of cuts in public sector spending whilst maintaining the student experience.

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2016/17, 57% of the College's revenue was ultimately publicly funded and, despite diversification, a high level of reliance is expected to continue. Devolution of the Adult Education Budget is expected from 2019/20 and there is no assurance that the current policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. Although this does not affect its ESFA financial health grading, the College recognises the risk presented by the pension liability arising from its membership of this scheme.

The risk regarding financial viability is mitigated in a number of ways:

- Rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls and procedures
- Robust forward planning and cash flow forecasting
- Derivation of income from a number of different sources; continuing diversification of income streams
- Financial and Curriculum Strategies
- Maintenance and management of key relationships with the funding bodies
- Engagement with GLA and LEAP
- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses as prices change
- Monitoring the position of the pension scheme by the Finance, Resources and Fundraising Committee
- Agreed deficit recovery plan with the London Pension Fund Authority

## STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- FE Commissioner;
- Staff;
- Local employers (with specific links);
- Local authorities;
- London Economic Action Partnership (LEAP);
- Government Offices;
- The local community;
- Other FE and HE institutions;
- OFSTED
- Examining boards
- Trade unions;
- Professional and membership bodies.

The College recognises the importance of these relationships and engages in regular communication with these stakeholders. In addition the College works in close partnership with a large number of voluntary sector, arts and other organisations to help fulfil its mission and achieve its strategic goals. Partnerships are vital to Morley's development and institutional well-being, augmenting its reputation, profile and position and providing the connections and capacity it needs to support its communities of location and practice.

During 2016/17 the College progressed its Partnerships Protocol which codifies the nature of those partnerships as constituting: creative projects partnerships, curriculum development partnerships, student progression partnerships, quality enhancement partnerships and fundraising partnerships.

### Equality and Diversity

The College celebrates and values the diversity brought by all members of its community and is committed to providing the education and support that enable all members in the learning community to achieve to their full potential. Action to promote Equality and Diversity is core to the College's mission, values and strategic goals. Morley's vision identifies the College as a provider of inspiring, distinctive and excellent adult learning, a College which contributes to, and is responsive to, the communities it serves.

'Respect for diversity and the promotion of equality' is one of the five core values and is central to Morley's vision as the College strives to provide relevant and challenging education and training for all sections of the community. Morley also strives to be an exemplary employer, and to ensure that the College employs a diverse workforce that is equipped with the skills necessary to achieve shared ambitions.

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

The College publishes an Annual Equality Report 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 is strongly committed to supporting job applicants and staff with disabilities and long term health conditions and is positive about mental health. In recognition of this commitment the College has signed up to the Government's Disability Confident Scheme and has committed to the Mindful Employer's Charter. 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:

a) As part of its property strategy the College is ensuring the main entrance to the College is fully accessible
b) The College provides a range of specialist equipment and assistive technology to assist learners with disabilities
c) The College includes on its staff a number of specialist tutors and support assistants to support students with learning difficulties and/or disabilities
d) There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for learners who have learning difficulties and/or disabilities
e) Specialist programmes are described in College prospectuses and on the College website
f) The progress and achievement of learners who have learning difficulties and/or disabilities is carefully monitored
g) Counselling and welfare services are described in the College's Student Handbook which is issued to students at induction.

**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.

**This report and the Strategic Report (included therein) was approved by the Governing Body, their approval being made in Governors' capacity as company directors, on 11 December 2017.**

Peter Davies CB CBE
Chair

# 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 2016 to 31 July 2017 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and
iii. having due regard to the UK Corporate Governance Code 2016 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 that we consider to be relevant to the further education sector.

In the opinion of the Governors, the College complies with or exceeds all the provisions of the Code, and it has complied throughout the year ended 31 July 2017. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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

## The Governing Body

The members who served on the Governing Body during the year **and up to the date of signature of this report** were as listed in the table below. The Governors are directors and members of the College for the purposes of company law.

### Continuing Members

| | Date of appointment | Term of office ends | Status of appointment | Committees served and offices held 2016-17 | Meetings Attended/ Possible |
|---|---|---|---|---|---|
| Mr M Bamford | 15 December 2015<br><br>Reappointed 11 December 2017 | 30 November 2019 | Student member | Finance, Resources and Fundraising | 8/9 |
| Mr J Brown | 2 April 2014 | 1 April 2018 | External member | Audit (Chair) | 4/8 |
| Mr T Cochrane | 2 April 2014 | 1 April 2018 | External member | Finance, Resources and Fundraising (Chair)<br>Remuneration (Chair) | 8/10 |

| | Date of appointment | Term of office ends | Status of appointment | Committees served and offices held 2016-17 | Meetings Attended/ Possible |
|---|---|---|---|---|---|
| Mr P Davies CB CBE | 7 November 2014 | 6 November 2018 | External member | Chair of Governing Body<br>Search and Governance (Vice-chair)<br>Remuneration | 9/9 |
| Dr S Edwards | 14 December 2009<br><br>Reappointed 10 December 2013 and 16 October 2017 | 31 July 2021 | External member | Vice-chair of Governing Body<br>Finance, Resources and Fundraising<br>Search and Governance (Chair) | 11/12 |
| Ms P Egan | 2 April 2014 | 1 April 2018 | External member | Audit<br>Remuneration<br>Search and Governance (from 27 March 2017) | 8/9 |
| Ms H Fry | 18 October 2016 | 31 July 2020 | External member | Quality and Standards<br>Remuneration (from 27 March 2017) | 6/8 |
| Dr A Gower | 13 April 2015 | N/A | Principal and Chief Executive Officer | Quality and Standards<br>Finance, Resources and Fundraising<br>Search and Governance | 15/15 |
| Mr L Howson | 1 August 2016 | 31 July 2020 | Staff member | Finance, Resources and Fundraising | 7/9 |
| Dr S Ketteridge | 15 February 2013<br><br>Reappointed 6 February 2017 | 31 July 2020 | External member | Quality and Standards (Chair)<br>Search and Governance<br>Lead Governor for Health and Safety | 11/11 |
| Ms M McMenemy | 15 February 2013<br><br>Reappointed 6 February 2017 | 31 July 2019 | External member | Finance, Resources and Fundraising<br>Quality and Standards<br>Search and Governance | 10/15 |
| Mr V Olowe | 2 April 2014 | 1 April 2018 | External member | Audit (Vice-chair)<br>Search and Governance (from 27 March 2017) | 8/8 |
| Ms S Potter | 18 October 2016 | 31 July 2020 | External member | Audit<br>Quality and Standards<br>Lead Governor for Safeguarding (from 15 February 2017) | 10/11 |
| Mrs S Robertson-Jonas | 15 October 2015 | 31 July 2019 | Staff member | Quality and Standards | 8/8 |
| Mr M Seriki | 15 February 2013<br><br>Reappointed 6 February 2017 | 31 July 2020 | External member | Finance, Resources and Fundraising (Vice-chair) | 4/9 |

| | Date of appointment | Term of office ends | Status of appointment | Committees served and offices held 2016-17 | Meetings Attended/ Possible |
|---|---|---|---|---|---|
| Dr F Stephen | 15 October 2013<br><br>Reappointed 16 October 2017 | 30 July 2021 | External member | Quality and Standards (Vice-chair)<br>Lead Governor for Equality and Diversity | 6/8 |

**Retiring Members**

| | Date of appointment | Term of office ended | Status of appointment | Committees served and offices held 2016-17 | Meetings Attended/ Possible |
|---|---|---|---|---|---|
| Ms L Gainsbury | 1 February 2009<br>Reappointed 11 December 2012 | 31 January 2017 | External member | Audit<br>Quality and Standards<br>Search and Governance | 6/6 |
| Ms C Keiffer | 15 February 2013 | 14 February 2017 | External member | Audit<br>Search and Governance<br>Lead Governor for Safeguarding | 4/6 |
| Ms S Tomlins | 15 October 2013<br><br>Reappointed 15 December 2015 | 30 November 2017 | Student member | Quality and Standards | 7/8 |

Mr Martin McNeill served as Clerk to the Governing Body and Company Secretary throughout the year.

### Directors and their interests

The directors of the Company are shown above and, except for any instances mentioned, served throughout the year. None of the directors has any interests in the Company.

The Clerk maintains a register of financial and personal interests of the members of the Governing Body and of senior post-holders. The register is available for inspection at the address below.

### Limited liability

The Company does not have any share capital and is limited by guarantee. The liability of the members, who are the directors, is limited to £1 each in the event of the winding up of the Company.

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

The Governing Body 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 Governing Body meets at least four times per year.

The Governing Body receives advice on the conduct of its business from five committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are Finance, Resources and Fundraising, Quality and Standards, Remuneration, Search and Governance and Audit. Individual Governors ('lead governors') also assisted and advised the Governing Body in the oversight of particular areas of its responsibility, specifically Equality and Diversity, Health and Safety and Safeguarding. The range and remit of committees and the contribution that each makes to effective governance is under continual review.

Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available from the Clerk to the Governing Body at the College's registered office:

61 Westminster Bridge Road
London
SE1 7HT

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 Governing Body, 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 Governing Body 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 Governing Body has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Governing Body 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 Chairman and Accounting Officer are separate.

## Appointments to the Governing Body

Appointments to the Governing Body are matters for the consideration of the Governing Body as a whole. The Governing Body has a Search and Governance Committee, which is responsible for the selection and nomination of any new external member for the Governing Body's consideration and for considering and nominating retiring governors for re-appointment. The Governing Body is responsible for ensuring that appropriate training is provided as required.

Members of the Governing Body are appointed for a term of office not exceeding four years, except for student members who are appointed for a term not exceeding two years. Members generally serve for a maximum of two terms of office.

## Governing Body performance

The Governing Body has established a comprehensive framework for evaluating its own performance and enhancing the quality of governance, comprising:

- regular review of the composition of the Governing Body and the extent to which the skills and experience of members match the needs of the College;
- analysis of the extent to which members attend board and committee meetings, participate in training and development activities and take up opportunities to engage with the day-to-day work of the College, its staff and students;

- an annual survey of members' views of the effectiveness of the Governing Body;
- an annual review of the impact of the Governing Body on the success of the College;
- a biennial development interview with each member of the Governing Body;
- an annual review of the effectiveness of each committee in discharging the responsibilities delegated to it; and
- a periodic (currently triennial) evaluation of the effectiveness of governance by an independent consultant.

Having considered its overall performance in 2016-17, the Governing Body has identified the following four key strengths of governance at the College:

- a strong strategic focus;
- robust performance oversight and challenge;
- the range and level of skills available; and
- the Governing Body's commitment to governor development.

At the same time, the Governing Body has recognised the following four areas for enhancement:

- the Governing Body's ability to assess the College's capability and capacity to deliver against agreed strategic objectives and new initiatives;
- the Governing Body's understanding of the needs and aspirations of stakeholders and, in particular, the attention that it pays to student voice;
- a sharper focus on risk management and strategic decision-making at board level;
- the maintenance of a broad range of skills and experience relevant to the challenges that the College faces.

**Committees of the Governing Body**

*Audit Committee*

The Audit Committee comprises between three and six members of the Governing Body (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Governing Body.

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

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

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

The Audit Committee also advises the Governing Body on the appointment of internal and financial statements auditors and of accountants to report on regularity and on their remuneration for audit and non-audit work. In common with all other committees, it provides an annual report to the Governing Body summarising its work over the preceding year.

*Finance, Resources and Fundraising Committee*

The Finance, Resources and Fundraising Committee comprises between six and eight members of the Governing Body. The Committee advises the Governing Body and provides it with assurance on matters relating to its responsibilities for oversight of financial health, financial management, estates, human resources, fundraising and health and safety.

*Quality and Standards Committee*

The Quality and Standards Committee comprises between six and eight members of the Governing Body. The Committee advises the Governing Body and provides it with assurance on the quality of learning, teaching and assessment, with particular reference to standards, outcomes for learners, curriculum offer, inclusion and the enhancement of the Morley student experience.

*Remuneration Committee*

The Remuneration Committee comprises four members of the Governing Body (excluding staff and student members and the Accounting Officer). The membership was increased from three to four with effect from 27 March 2017. The Committee advises the Governing Body on the remuneration and benefits of the Accounting Officer and other holders of senior posts.

Details of remuneration for the year ended 31 July 2017 are set out in notes 6 and 7 to the financial statements.

*Search and Governance Committee*

The Search and Governance Committee comprises between four and seven members of the Governing Body (excluding staff and student members). The Committee advises the Governing Body on the appointment and re-appointment of external members and on all matters relating to the governance of the College, including the development of the Board as a whole and of individual governors, the setting of targets for Governing Body Performance and the related performance review arrangements.

## Internal control

*Scope of responsibility*

The Governing Body 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 Governing Body has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the funding bodies. He is also responsible for reporting to the Governing Body 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 the College for the year ended 31 July 2017 and up to the date of approval of the annual report and accounts.

*Capacity to handle risk*

The Governing Body 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 Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Governing Body.

*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; and
- the adoption of formal project management disciplines, where appropriate.

The College has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Governing Body 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.

*Review of effectiveness*

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

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

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

The Risk Management Committee, which comprises members of the Senior Management Team and other co-opted members representing Health and Safety, Premises, IT, HR, Finance and the Academic staff, receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Risk Management Committee 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 Governing Body's agenda includes a regular item for consideration of risk and control and it receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

At its December 2017 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2017 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2017.

Based on the advice of the Audit Committee and the Accounting Officer, the Governing Body 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, and taking account of:

- the high level of liquidity as at 31 July 2017
- the financial health rating (Outstanding)
- the College's performance against budget
- the two-year Financial Plan

the Governing Body 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.

**Approved by order of the members of the Governing Body on 11 December 2017 and signed on its behalf by:**

| | |
|---|---|
| Signed | Signed |
| Peter Davies CB CBE | Dr Andrew Gower |
| Chair | Accounting Officer |

# Statement of Regularity, Propriety and Compliance

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

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

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

Peter Davies CB CBE
Chair

11 December 2017

Dr Andrew Gower
Accounting Officer

11 December 2017

## Statement of Responsibilities of the Governing Body

The members of the Governing Body (who act as trustees for the charitable activities of the College, and are also the directors of the College for the purposes of company law) are required to present audited financial statements for each financial year.

Company law and the law applicable to charities in England and the terms and conditions of the Financial Memorandum between the ESFA and the Governing Body of the College, require the Governing Body of the College to prepare financial statements and the Report of the Governing Body and Strategic Report for each financial year, in accordance with the *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions,* the *Accounts Direction* issued by the ESFA, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and which give a true and fair view of the state of affairs of the College's deficit of income over expenditure for that period.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

In preparing the financial statements, the Governing Body is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and which enable them to ensure that the financial statements are prepared in accordance with the Companies Act 2006 and other relevant accounting standards. They are responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Governing Body are responsible for ensuring that funds from the ESFA are used only in accordance with the authorities that govern them as defined by and in accordance with the Further and Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the ESFA and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Governing Body on 11 December 2017 and signed on its behalf by:

Peter Davies CB CBE
Chair

# Independent auditor's report to the Governing Body of Morley College Limited

## Opinion

We have audited the financial statements of Morley College Limited (the "College") for the year ended 31 July 2017 which comprise the college statement of comprehensive income, the college balance sheet, the college statement of changes in reserves, the college statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2017 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

## 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 governing body's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governing body have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent 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 governing body is responsible for the other information. The other information comprises the information included in the Report and Financial Statements 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.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Governing Body and the incorporated strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Governing Body and the incorporated strategic report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Governing Body and the incorporated strategic report.

We have nothing to report in respect of the following matters where the Companies Act 2006 or the Post-16 Audit Code of Practice 2016 to 2017 issued by the Department for Education 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
- certain disclosures of the governing body's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;

**Responsibilities of the Governing Body of Morley College Limited**

As explained more fully in the Statement of the Governing Body's Responsibilities set out on page 24, the Governing Body (who act as trustees for the charitable activities of the college, and are also the directors and members of the college for the purposes of company law) is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Governing Body 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 Governing Body 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 Governing Body either intend to liquidate the College or 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 http://www.frc.org.uk/auditorsresponsibilities this description forms part of our auditor's report.

This report is made solely to the company's members, as a body the Governing Body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

HANNAH CATCHPOOL (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

Date: 18 December 2017

# Statement of Comprehensive Income
# For the year ended 31 July 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **INCOME** | | | |
| Funding body grants | 2 | 5,924 | 5,597 |
| Tuition fees and education contracts | 3 | 4,205 | 4,125 |
| Other income | 4 | 239 | 312 |
| Endowment and investment income | 5 | 9 | 18 |
| **Total income** | | **10,377** | **10,052** |
| **EXPENDITURE** | | | |
| Staff costs | 6 | 7,680 | 7,184 |
| Other operating expenses | 8 | 2,220 | 2,136 |
| Depreciation | 11 | 553 | 562 |
| Interest and other finance costs | 9 | 178 | 166 |
| **Total expenditure** | | **10,631** | **10,048** |
| **(Deficit)/surplus before other gains and losses** | | **(254)** | **4** |
| Gain on investments | | 9 | 4 |
| (Deficit)/surplus before tax | | (245) | 8 |
| Taxation | | - | - |
| (Deficit)/surplus for the year | 10 | (245) | 8 |
| Remeasurement of defined benefit pensions liability | 20 | 889 | (2,160) |
| **Total Comprehensive Income for the year** | | **644** | **(2,152)** |
| **Represented by:** | | | |
| Unrestricted comprehensive income | | 673 | (2,119) |
| Restricted comprehensive income | | (29) | (33) |
| | | **644** | **(2,152)** |

The statement of comprehensive income is in respect of continuing activities.

| **Memo item: surplus prior to FRS102 pensions adjustments** | | | |
|---|---|---|---|
| (Deficit)/surplus before other gains and losses | | (254) | 4 |
| Interest and other finance costs | 9 | 178 | 166 |
| FRS 102 pension costs within staff costs | 6 | 285 | (31) |
| Surplus prior to FRS102 pensions adjustments | | **209** | **139** |

# Statement of Changes in Reserves
# For the year ended 31 July 2017

| | Income and Expenditure account | Restricted Reserves | Revaluation reserve | Total |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Balance at 1st August 2015** | (543) | 221 | 14,189 | 13,867 |
| Surplus/(deficit) from the income and expenditure account | 33 | (33) | 4 | 4 |
| Other comprehensive income | (2,156) | - | - | (2,156) |
| | (2,123) | (33) | 4 | (2,152) |
| **Balance at 31st July 2016** | (2,666) | 188 | 14,193 | 11,715 |
| (Deficit)/surplus from the income and expenditure account | (225) | (29) | | (254) |
| Other comprehensive income | 889 | - | - | 889 |
| Other gains | - | - | 9 | 9 |
| **Total comprehensive income for the year** | 664 | (29) | 9 | 644 |
| **Balance at 31st July 2017** | **(2,002)** | **159** | **14,202** | **12,359** |

# Balance sheet as at 31 July 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible fixed assets | 11 | 17,227 | 16,873 |
| Intangible assets | 11 | 55 | 98 |
| Investments | 13 | 228 | 219 |
| | | **17,510** | **17,190** |
| **Current assets** | | | |
| Trade and other receivables | 14 | 354 | 309 |
| Cash and cash equivalents | 17 | 2,198 | 2,337 |
| | | **2,552** | **2,646** |
| Less: Creditors – amounts falling due within one year | 15 | (1,348) | (1,291) |
| **Net current assets** | | **1,204** | **1,355** |
| **Total assets less current liabilities** | | **18,714** | **18,545** |
| Less: Creditors – amounts falling due after more than one year | 16 | (145) | (194) |
| **Provisions** | | | |
| Defined benefit pension scheme | 20 | (6,210) | (6,636) |
| **Total net assets** | | **12,359** | **11,715** |
| **Restricted reserves** | 18 | 159 | 188 |
| **Unrestricted reserves** | | | |
| Pension reserve | 20 | (6,210) | (6,636) |
| Income and expenditure account | 18 | 4,208 | 3,970 |
| Revaluation reserve | 18 | 14,202 | 14,193 |
| **Total unrestricted reserves** | | **12,200** | **11,527** |
| **Total reserves** | | **12,359** | **11,715** |

The financial statements on pages 28 to 52 were approved and authorised for issue by the Governing Body on 11 December 2017 and were signed on its behalf on that date by:

Peter Davies CB CBE
Chair

Dr Andrew Gower
Accounting Officer

# Statement of Cash Flows
# For the year ended 31 July 2017

| | Notes | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Deficit)/surplus for the year | | (254) | 4 |
| **Adjustment for non-cash items** | | | |
| Depreciation | | 553 | 562 |
| (Increase)/decrease in debtors | | (45) | 105 |
| Increase/(decrease) in creditors due within one year | | 60 | (300) |
| Decrease in creditors due after one year | | (49) | (42) |
| Pensions costs less contributions payable | | 463 | 135 |
| **Adjustment for investing or financing activities** | | | |
| Investment income | | (9) | (18) |
| **Net cash flow from operating activities** | | **719** | **446** |
| **Cash flows from investing activities** | | | |
| Investment income | | 9 | 18 |
| Purchase of non-current assets – tangible assets | | (852) | (230) |
| Purchase of non-current assets – intangible assets | | (12) | (103) |
| | | (855) | (315) |
| **Financing activities** | | | |
| Repayments of amounts borrowed – Salix loan | | (3) | (9) |
| | | (3) | (9) |
| **(Decrease)/increase in cash and cash equivalents in the year** | | **(139)** | **122** |
| Cash and cash equivalents at beginning of the year | 17 | 2,337 | 2,215 |
| Cash and cash equivalents at end of the year | 17 | 2,198 | 2,337 |

# Notes to the Accounts

## 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 2016 to 2017* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

### Basis of accounting

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

The College's financial statements are presented in sterling which is also the functional currency of the College. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

### Going concern

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

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

### Recognition of income

#### *Revenue grant funding*

The recurrent grant from the ESFA represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

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

*Tuition 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; this includes all fees payable by students or their sponsors.

*Investment income*

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

*Capital grant funding*

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. The deferred income is allocated between creditors due within one year and those due after more than one year.

*Agency arrangements*

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

**Accounting for post-employment benefits**

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

*Teachers' Pension Scheme (TPS)*

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

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

Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

*Local Government Pension Scheme (LGPS)*

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

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

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

**Short term employment benefits**

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

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

Tangible fixed assets are stated at cost 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**

The College's buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. Internal buildings improvements or modifications which may not add to the long-term value of the building may be depreciated over a period of up to ten years.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the income and expenditure account. On adoption of FRS 102, the College followed the transitional provision and elected to use the fair value of land at 1 August 2014 as deemed cost but not to adopt a policy of revaluations of land in the future. The College retained the book value of all other assets.

**Equipment**

Equipment costing less than £3,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost and depreciated over its useful economic life on a straight line basis at the following rates:

| | |
|---|---|
| General equipment | 10-33% per annum |
| Computer equipment | 33% per annum |
| Pianos | 11% per annum |
| Lift | 10% per annum |
| Boilers | 10% per annum |

In the year of acquisition, assets are depreciated for a full year. Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

**Heritage Assets**

The College has a collection of paintings, drawings and sculptures which are held to enhance the fabric of its buildings or to celebrate its distinguished history in the liberal arts. The Governing Body considers that, owing to the incomparable nature of these paintings, drawings and sculptures, conventional valuation approaches lack sufficient reliability and that, even if the valuations could be obtained, the costs would be onerous compared with the additional benefits derived by the College and users of the accounts. As a result, no value is reported for these assets in the balance sheet.

**Intangible Assets**

Intangible assets comprise software licences and information technology. Items costing less than £3,000 are written off to the income and expenditure account in the year of acquisition. All other items are capitalised and amortised over five years.

*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. The cost of routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

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

**Leased assets**

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure.

**Fixed asset investments**

Fixed asset investments are carried at their market value less any provision for impairment in their value. Any increase or decrease in value during the year is credited or debited to the revaluation reserve.

**Cash and cash equivalents**

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

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

**Financial liabilities and equity**

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

All loans, investments and short term deposits held by the College 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 College 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 a registered charity and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010. 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 received no similar exemption in respect of value added tax. For this reason, and because the College is not VAT registered, the College is unable to recover the input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT.

**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.

**Judgements in applying accounting policies and key sources of estimation uncertainty**

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

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

*Other key sources of estimation uncertainty*

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 20, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

**2 Funding body grants**

| | **2017** | **2016** |
|---|---|---|
| | **£'000** | **£'000** |
| **Recurrent grants** | | |
| Education and Skills Funding Agency – adult | 5,790 | 5,495 |
| Education and Skills Funding Agency – 16-18 | 85 | 58 |
| **Specific Grants** | | |
| Releases of government capital grants | 49 | 44 |
| **Total** | **5,924** | **5,597** |

## 3 Tuition fees and education contracts

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Tuition fees | 3,628 | 3,512 |
| Education contracts | 577 | 613 |
| **Total** | **4,205** | **4,125** |

## 4 Other income

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Other income generating activities | 239 | 312 |
| **Total** | **239** | **312** |

## 5 Investment income

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Other investment income | 4 | 6 |
| Other interest receivable | 5 | 12 |
| **Total** | **9** | **18** |

## 6 Staff costs

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

| | 2017 No. | 2016 No. |
|---|---|---|
| Teaching staff | 91 | 81 |
| Non-teaching staff | 75 | 71 |
| | **166** | **152** |

The average monthly number of persons (including key management personnel) employed by the College during the year was:

| | 2017 No. | 2016 No. |
|---|---|---|
| Teaching staff | 360 | 343 |
| Non-teaching staff | 115 | 105 |
| | **475** | **448** |

| **Staff costs for the above persons** | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Wages and salaries | 6,133 | 5,884 |
| Social security costs | 434 | 353 |
| Other pension costs | 828 | 946 |
| FRS 102 pension cost adjustments | 285 | (31) |
| **Sub total** | **7,680** | **7,152** |
| Restructuring costs | - | 32 |
| | **7,680** | **7,184** |

**7 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 Senior Management Team which comprises the Principal, Deputy Principal, Vice Principal and Director of Finance. Staff costs include compensation paid to key management personnel for loss of office.

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

| | **2017 No.** | **2016 No.** |
|---|---|---|
| The number of key management personnel including the Accounting Officer was: | 4 | 3 |

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:

| | **Key management personnel** | | **Other staff** | |
|---|---|---|---|---|
| | **2017 No.** | **2016 No.** | **2017 No.** | **2016 No.** |
| £60,001 to £70,000 | - | - | 1 | - |
| £70,001 to £80,000 | 3 | 2 | - | - |
| £100,001 to £110,000 | 1 | 1 | - | - |
| | **4** | **3** | **1** | **-** |

Key management personnel compensation is made up as follows:

| | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Salaries - gross of salary sacrifice and waived emoluments | 291 | 246 |
| Employers National Insurance | 36 | 28 |
| Benefits in kind | 4 | |
| | **331** | **274** |
| Pension contributions | 43 | 41 |
| **Total emoluments** | **374** | **315** |

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:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Salaries | 102 | 100 |
| Employers National Insurance | 13 | 12 |
| Benefits in kind | 1 | |
| | 116 | 112 |
| Pension contributions | 17 | 16 |
| Total emoluments | 133 | 128 |

The pension contributions in respect of the Accounting Officer and key management personnel are in respect of employers' contributions to the Teachers' or Local Government Pension Schemes and are paid at the same rate as for other employees.

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

## 8 Other operating expenses

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Teaching costs | 638 | 608 |
| Non-teaching costs | 959 | 874 |
| Premises costs | 623 | 654 |
| **Total** | **2,220** | **2,136** |

| **Other operating expenses include:** | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Auditors' remuneration: | | |
| Financial statements audit (including regularity) | 22 | 19 |
| Internal audit | 18 | 18 |
| Hire of assets under operating leases | 27 | 27 |

## 9 Interest payable

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Net interest on defined pension liability (note 20) | 178 | 166 |
| **Total** | **178** | **166** |

## 10 Deficit on continuing operations for the year

The deficit for the year on continuing operations for the period is made up as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Operating surplus prior to FRS 102 pension adjustment | 209 | 139 |
| FRS 102 net impact on income and expenditure account | (463) | (135) |
| **College's (deficit)/surplus for the period** | **(254)** | **4** |

## 11 Tangible fixed assets

| | Freehold land and buildings | Equipment | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost or valuation** | | | |
| At 1 August 2016 | 18,193 | 3,122 | 21,315 |
| Additions | 662 | 190 | 852 |
| **At 31 July 2017** | **18,855** | **3,312** | **22,167** |
| **Depreciation** | | | |
| At 1 August 2016 | 1,792 | 2,650 | 4,442 |
| Charge for the year | 236 | 262 | 498 |
| **At 31 July 2017** | **2,028** | **2,912** | **4,940** |
| **Net book value at 31 July 2017** | **16,827** | **400** | **17,227** |
| Net book value at 31 July 2016 | 16,401 | 472 | 16,873 |

The value of freehold land not depreciated is £14.5m. Land was valued as at 1 August 2014 by Gerald Eve LLP, a firm of independent chartered surveyors.

**Intangible assets**

| | Software £'000 |
|---|---|
| **Cost or valuation** | |
| At 1 August 2016 | 399 |
| Additions | 12 |
| **At 31 July 2017** | 411 |
| **Amortisation** | |
| At 1 August 2016 | 301 |
| Charge for the year | 55 |
| **At 31 July 2017** | 356 |
| **Net book value at 31 July 2017** | 55 |
| Net book value at 31 July 2016 | 98 |

In addition to the assets outlined above, the College owns a collection of artworks of historical and artistic importance which it deems to be heritage assets as defined under FRS 102 (34). The collection comprises paintings, drawings and sculptures which have been commissioned or acquired at various times by the College either to enhance the fabric of its buildings or to celebrate its distinguished history in the liberal arts. The collection is considered to be part of the College's ethos in relation to its educational approach and integral to its broader objective of educating the public in the arts. It is not practical to ascertain the cost of these assets.

The College considers that these heritage assets cannot be reasonably valued and has therefore, and in accordance with paragraph 18.14 of the Charities SORP 2015, not included them in its balance sheet.

## 12 Capital Commitments

At the year end, the College had made outstanding commitments of £328,000 (2016: £445,000) in connection with remodelling and refurbishment of classrooms and office areas.

## 13 Non current investments

| | **2017** | **2016** |
|---|---|---|
| | **£'000** | **£'000** |
| (i) M & G Charifund investments | 64 | 59 |
| (ii) STIC Global investments | 116 | 116 |
| (iii) COIF Bursary and Prize Fund investments | 48 | 44 |
| **Total** | 228 | 219 |

Total investment gains in the year were £9K (2016: £4K).

### (i) M & G Charifund investments

| The College owns 3,982 M & G Charifund income units: | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Cost | 4,999 | 4,999 |
| Revaluation surplus brought forward | 54,003 | 53,839 |
| Revaluation movement in year (Note 17) | 5,324 | 164 |
| Market value at 31 July 2017 | **64,326** | **59,002** |

### (ii) STIC Global investments

| The College owns 115,085 £1 shares in STIC Global: | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Market value as at 31 July 2017 | **115,881** | **115,563** |

**(iii) Charities Official Investment Fund (COIF)**

The College owns shares in the Charities Official Investment Fund (COIF):

| Cost of shares | Number of Shares | 2017 £ | 2016 £ |
|---|---|---|---|
| Martineau Memorial Fund | 473 | 491 | 491 |
| Emma Cons (Morley College) Memorial Fund | 68 | 70 | 70 |
| Sheddon Memorial Fund | 1,844 | 1,961 | 1,961 |
| Anstruther Sheepshanks Scholarship | 365 | 379 | 379 |
| Group Theatre (Morley College) | 587 | 610 | 610 |
| **Total cost of shares** | **3,337** | **3,511** | **3,511** |
| **Cost of Capital Shares** | | | |
| Martineau Memorial Fund | | 371 | 371 |
| Emma Cons (Morley College) Memorial Fund | | 67 | 67 |
| Sheddon Memorial Fund | | 1,242 | 1,242 |
| Anstruther Sheepshanks Scholarship | | 379 | 379 |
| Group Theatre (Morley College) | | 596 | 596 |
| **Total capital shares** | | **2,655** | **2,655** |
| **Cost of Income Shares** | | | |
| Martineau Memorial Fund | | 120 | 120 |
| Emma Cons (Morley College) Memorial Fund | | 3 | 3 |
| Sheddon Memorial Fund | | 719 | 719 |
| Group Theatre (Morley College) | | 14 | 14 |
| **Total income shares** | | **856** | **856** |
| Cost | | 3,511 | 3,511 |
| Revaluation surplus bought forward | | 40,477 | 37,818 |
| Revaluation movement in the year (Note 18) | | 4,019 | 2,659 |
| **Market value as at 31 July 2017 as above** | | **48,007** | **43,988** |

**14 Trade and other receivables**

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade receivables | 25 | 11 |
| Other debtors | 118 | 116 |
| Prepayments and accrued income | 211 | 182 |
| **Total** | **354** | **309** |

## 15 Creditors: amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Payments received in advance / deferred income | 530 | 477 |
| Trade payables | 72 | 199 |
| Other taxation and social security | 156 | 149 |
| Accruals and deferred income | 311 | 166 |
| Other provisions | 216 | 227 |
| Amounts owed to the ESFA | 15 | 22 |
| Deferred Capital Grant (funding body) | 48 | 48 |
| Salix loan | - | 3 |
| **Total** | **1,348** | **1,291** |

## 16 Creditors: amounts falling due after one year

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Deferred Capital Grant (funding body) | 145 | 194 |
| **Total** | **145** | **194** |

| **Deferred Capital Grants** | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **At 1 August** | 242 | 286 |
| Released to income and expenditure account | (49) | (44) |
| **At 31 July** | **193** | **242** |

## 17 Cash and cash equivalents

| | At 1 August 2016 £'000 | Cash flows £'000 | Other changes £'000 | At 31 July 2017 £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 2,337 | (139) | - | 2,198 |
| **Total** | **2,337** | **(139)** | **-** | **2,198** |

## 18 Funds

| | As at 31st July 2016 £'000 | Incoming Resources £'000 | Resources Expended £'000 | Other gains £'000 | Trans-fers £'000 | As at 31st July 2017 £'000 |
|---|---|---|---|---|---|---|
| **Restricted Funds** | | | | | | |
| Bursary and Investments | 131 | - | (25) | - | - | 106 |
| Special Projects | 57 | 2 | (6) | - | - | 53 |
| | 188 | 2 | (31) | - | - | 159 |
| **Unrestricted Funds** | | | | | | |
| General Reserve | 3,304 | 10,369 | (10,135) | - | (136) | 3,402 |
| Revaluation Reserve | 14,193 | - | - | 9 | - | 14,202 |
| Development Reserve | 599 | - | - | - | 136 | 735 |
| Other Designated Funds: | | | | | | |
| Bursary fund | 46 | 1 | - | - | - | 47 |
| Special Projects | 13 | 5 | - | - | - | 18 |
| Heritage Fund | 8 | - | (2) | - | - | 6 |
| Total Unrestricted Funds | 18,163 | 10,375 | (10,137) | 9 | - | 18,410 |
| **Total Funds (excluding Pension Reserve)** | 18,351 | 10,377 | (10,168) | 9 | - | 18,569 |
| Pension reserve | (6,636) | - | (463) | 889 | - | (6,210) |
| Total reserves excluding pension reserve | 11,715 | 10,377 | (10,631) | 898 | - | 12,359 |

### Restricted funds

Restricted funds are held for the specific purposes of providing bursaries and prizes, meeting the cost of competitions and exhibitions, and supporting defined projects. During the year £2k was received into restricted funds and £31k expended, £25k of which was spent on bursary support for disadvantaged students.

### Unrestricted funds: Revaluation Reserve

The revaluation reserve smooths out the effects over time of changes in the value of the College's investment portfolio. Current practice is to increase or decrease the size of the reserve by the increase or decrease in the value of investments so that this movement does not impact the income and expenditure account. This reserve also includes the increase in the value of land on adoption of FRS102.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1 August | 14,193 | 14,189 |
| Revaluations in the period (note 13) | | |
| M & G Charifund investments | 5 | 1 |
| COIF Bursary and Prize Fund investments | 4 | 3 |
| **Total** | **14,202** | **14,193** |

**Development Reserve**

The Development Reserve is a designated fund that has been established to improve and extend the College's buildings, its environment and the facilities available for students in accordance with the College Property Strategy. The College's reserves policy is to retain a minimum level of general reserves (excluding losses or gains in respect of the pension scheme) equivalent to one term (four months) expenditure to cover the risks and uncertainties of operating its main business and continue building up the Development Reserve from annual operating surpluses. During the year the Development Reserve increased by £136K represented by the transfer of funds from the General Reserve.

**Bursary Fund**

The Bursary Fund has been established to supplement the restricted funds held to provide support for learners to attend College whose financial circumstances otherwise preclude them from doing so. During the year £1K was allocated to the Fund and no funds were expended. All funds required to support disadvantaged students were distributed through the restricted Bursary Fund.

**Special Projects Fund**

The Special Projects Fund exists to help the College develop new initiatives, support innovation and pilot new work and performances which will strengthen the College's reputation and profile. £5k of funds were newly designated during the year and no funds were expended.

**Heritage Fund**

The Heritage Fund exists to maintain, promote and celebrate the College's history and heritage including the restoration, renovation and expansion of the College art collection. During the year the College utilised the fund to frame a painting for its art collection.

## 19 Returns on investments and servicing of finance

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Interest received and investment income | 9 | 18 |
| **Total** | **9** | **18** |

## 20 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 London Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pension Fund Authority. 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** | | **2017 £'000** | | **2016 £'000** |
|---|---|---|---|---|
| Teachers Pension Scheme: contributions paid | | 521 | | 472 |
| Local Government Pension Scheme: | | | | |
| Contributions paid | 307 | | 474 | |
| FRS 102 (28) charge | 285 | | (31) | |
| Charge to the Statement of Comprehensive Income | | 592 | | 443 |
| **Total Pension Cost for Year** | | **1,113** | | **915** |

Contributions amounting to £32,493 were payable to the schemes as at 31 July 2017 and are included in creditors.

### Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. The TPS is an unfunded scheme and members contribute 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.

### 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 £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- 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 TPS valuation determined an employer rate of 16.48% (including 0.03% administration fees) which was payable from 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.

The pension costs paid to TPS in the year amount to £521,000 (2016 £472,000).

***FRS 102 (28)***

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

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

**Local Government Pension Scheme**

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by the London Pension Fund Authority. The total contribution made for the year ended 31 July 2017 was £436,000, of which employer's contributions totalled £307,000 and employees' contributions totalled £129,000. The agreed contribution rates for future years are 12.0% for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

**Principal Actuarial Assumptions**

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

| | **At 31 July 2017** | **At 31 July 2016** |
|---|---|---|
| Rate of increase in salaries | 4.20% | 4.00% |
| Future pensions increases | 2.70% | 2.20% |
| Discount rate for scheme liabilities | 2.70% | 2.60% |
| Inflation assumption (CPI) | 2.70% | 2.20% |
| Commutation of pensions to lump sums | 50% | 50% |

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

| | **At 31 July 2017 years** | **At 31 July 2016 years** |
|---|---|---|
| *Retiring today* | | |
| Males | 21.20 | 21.70 |
| Females | 24.10 | 25.20 |
| | | |
| *Retiring in 20 years* | | |
| Males | 23.60 | 24.10 |
| Females | 26.30 | 27.50 |

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

| | **Long-term rate of return expected at 31 July 2017** | **Fair Value at 31 July 2017** | **Long-term rate of return expected at 31 July 2016** | **Fair Value at 31 July 2016** |
|---|---|---|---|---|
| | | **£'000** | | **£'000** |
| Equities | 61.00% | 5,364 | 51.00% | 3,819 |
| LDI/Cashflow matching | 0.00% | 0 | 9.00% | 648 |
| Target Return Portfolio | 21.00% | 1,815 | 24.00% | 1,804 |
| Infrastructure | 5.00% | 394 | 7.00% | 524 |
| Commodities | 0.00% | 0 | 1.00% | 40 |
| Property | 7.00% | 570 | 4.00% | 277 |
| Cash | 7.00% | 606 | 4.00% | 309 |
| **Total market value of assets** | | **8,749** | | **7,421** |
| **Weighted average expected long term rate of return** | **1.50%** | | **1.5%** | |
| **Actual return on plan assets** | | **1,138** | | **369** |

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

| | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Fair value of plan assets | 8,749 | 7,421 |
| Present value of plan liabilities | (14,959) | (14,057) |
| **Net pensions liability** | **(6,210)** | **(6,636)** |

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

| | **2017 £'000** | **2016 £'000** |
|---|---|---|
| **Amounts included in staff costs** | | |
| Current service cost | 616 | 442 |
| Past service cost | - | 23 |
| **Total** | **616** | **465** |

| **Amounts included in investment income** | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Net interest income | 168 | 156 |
| Administration expenses | 10 | 10 |
| | **178** | **166** |

**Amounts recognised in Other Comprehensive Income**

| | | |
|---|---|---|
| Return on pension plan assets | 943 | 105 |
| Other actuarial gains/(losses) on assets | 32 | - |
| Experience losses arising on defined benefit obligations | 883 | (1) |
| Changes in assumptions underlying the present value of plan liabilities | (969) | (2,264) |
| Amount recognised in Other Comprehensive Income | **889** | **(2,160)** |

**Movement in net defined benefit (liability/asset during the year**

| | **2017 £'000** | **2016 £'000** |
|---|---|---|
| Surplus/(deficit) in scheme at 1 August | (6,636) | (4,341) |
| Movement in year: | | |
| Current service cost | (616) | (442) |
| Employer contributions | 331 | 496 |
| Past service cost | - | (23) |
| Administration expenses | (10) | (10) |
| Net interest on the defined liability | (168) | (156) |
| Actuarial gain or loss | 889 | (2,160) |
| **Net defined benefit liability at 31 July** | **(6,210)** | **(6,636)** |

| **Changes in the present value of defined benefit obligations** | **2017 £'000** | **2016 £'000** |
|---|---|---|
| **Defined benefit obligations at start of period** | 14,057 | 11,154 |
| Current Service cost | 616 | 442 |
| Interest cost | 363 | 420 |
| Contributions by Scheme participants | 129 | 120 |
| Experience gains and losses on defined benefit obligations | (883) | 1 |
| Changes in financial assumptions | 969 | 2,264 |
| Estimated benefits paid | (292) | (367) |
| Past Service cost | - | 23 |
| **Defined benefit obligations at end of period** | **14,959** | **14,057** |

**Reconciliation of Assets**

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | **£'000** |
| **Fair value of plan assets at start of period** | 7,421 | 6,813 |
| Interest on plan assets | 195 | 264 |
| Return on plan assets | 943 | 105 |
| Other actuarial gains/losses | 32 | - |
| Administration expenses | (10) | (10) |
| Employer contributions | 331 | 496 |
| Contributions by Scheme participants | 129 | 120 |
| Estimated benefits paid | (292) | (367) |
| **Fair value of plan assets at end of period** | **8,749** | **7,421** |

## 21 Related party transactions

Due to the nature of the College's operations and the composition of the Governing Body 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 Governing Body 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 £1,795; 5 governors (2016: £1,084; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2016: None).

The College has continued with its contract with Healthcare Learning Limited, a company of which Mr M Seriki, a governor of the College, is a director and chief executive and in which he has a significant shareholding. The contract, which has a maximum value of £26,980 for the funding period 2015/16 to 2017/18, is for delivery of ESFA Apprenticeship programmes. The total value of transactions during the year was £5,024 (2016: £700).

## 22 Lease obligations

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

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | **£'000** |
| **Future minimum lease payments due** | | |
| Not later than one year | 27 | 23 |
| Later than one year and not later than five years | 7 | 26 |
| Total | 34 | 49 |

## 23 Events after the reporting period

The College continues to progress its property strategy and in October 2017, after a full tender process, the College committed to expenditure of £1.3m (excluding VAT) with a building contractor to progress the next phase of this strategy. The project realises a significant enhancement to the College estate. In particular:

- a more contemporary image on the street-scape,
- fully accessible entrance,
- centralised student services,
- increased social and seminar space and, more recently,
- a radio production studio.

Investing in this first phase will encourage investment in future phases, demonstrating the College's commitment to the capital development of its campus and providing a track record of delivering improvements.

The project will be financed through reserves and a bank loan which is expected to be drawn down during 2017/18.