



Report and Financial Statements

Year ended 31 July 2016

Strategic Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and audited financial statements for the year ended 31 July 2016.

Legal status

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

Public Benefit

Coleg y Cymoedd is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Welsh Government. The members of the Corporation Board, who are trustees of the charity, are disclosed on page 15.

In setting and reviewing the College's strategic objectives, the Corporation Board 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 and learning
- Widening participation and tackling social exclusion
- Good outcomes and progression rates for students
- Strong learner support systems
- Links with employers, industry, commerce and higher education.

Mission, Vision and Core Values

Mission

Governors, learners, staff and managers reviewed the College's mission during 2015/16 and in June 2016 adopted a revised mission statement as follows:

Your Future is our Mission

Vision

Our vision is to be an excellent college focused on learner success.

Core Values

Our Mission and Vision is underpinned by a set of Core Values:

- **Learner Focus:** Placing the interests of our learners at the heart of our college and providing exceptional teaching and learning.
- **Continuous Improvement:** Fostering excellence in all that we do.
- **Developing People:** Recognising contribution and developing people within a healthy and supportive environment.
- **Positive Values and Culture:** Advocating positive professional relationships with our staff and learners.
- **Partnerships across Communities:** Actively seeking partnerships that add value to all our activities.

Strategic Report (continued)**Looking Backwards – the delivery of the Strategic Plan for 2013-16**

The College's ten strategic aims (2013-16) are listed below with an indication of progress against the strategic objectives which were set for 2015/16. In addition the strategic objectives for financial aim 7 are detailed at the end.

Learner Focus

- **Aim 1** – Provide advice and direction to give learners the aspiration, care, support and guidance they need to progress to employment or higher studies. There were 4 objectives in this area – 3 have been achieved and 1 has been achieved and is progressing.
- **Aim 2** – Give all learners access to a curriculum that is relevant to their employment, lifestyle and further training needs and meets the needs of employers and other education providers in terms of literacy, numeracy, enterprise and other employability/life skills. There were 4 objectives in this area – 3 have been achieved and 1 has been achieved and is progressing.
- **Aim 3** – Ensure that the Welsh language and culture is promoted in the College and that clear targets are set to support growth in the post-16 offer for students wishing to study through the medium of Welsh or bilingually. There were 4 objectives in this area – 2 have been achieved and 2 have been achieved and are progressing.

Improving Performance

- **Aim 4** – Improve standards of teaching, training and learning and ensure that quality management is robust, evaluates performance across all areas, is aimed at continuous improvement and striving for excellence. There were 7 objectives in this area – 6 have been achieved and 1 has been achieved and is progressing.
- **Aim 5** – Improve retention, attainment, completion and progression rates by identifying and monitoring critical success factors and ensure that learners are encouraged and challenged to achieve their potential. There were 6 objectives in this area and all 6 have been achieved.

People & Resources

- **Aim 6** – Ensure that the College is seen as the employer of choice and an exemplar in its approach to performance management, continuing professional development and the promotion of health, safety and wellbeing. There were 6 objectives in this area – 2 have been achieved and 4 have been achieved and are progressing.
- **Aim 7** – Ensure that the investment and financial planning decisions taken in the organisation are aimed at long term financial stability and sustainability to deliver effective teaching and learning and appropriate investment in resources and the college estate. Evaluate changes to Welsh Government funding to ascertain the impact on the financial stability of the college. There were 4 objectives in this area – 2 have been achieved and 2 have been achieved and are progressing.
- **Aim 8** – Provide inspirational and forward looking leadership and governance committed to a clear vision for the College and ensuring that performance is improved, monitored, challenged and celebrated. There were 5 objectives in this area – 2 have been achieved, 2 have been achieved and are ongoing and 1 has been withdrawn.
- **Aim 9** – Ensure that the perceived benefits of merger are measured and monitored and the Coleg y Cymoedd brand is recognised for providing high quality education, skills and training across South East Wales. There were 2 objectives in this area – 1 has been achieved and 1 has been achieved and is ongoing.

Partnership

- **Aim 10** – To play a significant role in local, regional and national strategic partnerships to include businesses, employers, schools, Private Training providers, ACL providers, local authorities, HEIs, other FEIs and the Welsh Government. There were 8 objectives in this area and all 8 have been achieved.

Strategic Report (continued)

The College's financial objectives are:

- **7.1** – Produce and implement a flexible financial strategy designed to cope with changes to income and the need to look for opportunities to diversify activities and generate additional income. This objective has been achieved and is ongoing.
- **7.2** – Complete a new Financial Health Self-Assessment (FHSA) once planning for 2016/17 has reached draft stages. This objective has been achieved.
- **7.3** – Determine the level of reserves required and report within the Financial Strategy and FHSA. This objective has been achieved and is ongoing.
- **7.4** – Fully review the operation of the Finance system to ensure that it is fit for purpose and supports the College with accurate, timely and appropriate reports to inform decision making. Undertake a lessons learned exercise to inform future system purchases. This objective has been achieved.

Looking Forwards – the implementation of Strategic Plan for 2016-19

In July 2016 the College adopted a strategic plan for the period 1 August 2016 to 31 July 2019. This strategic plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic aims/objectives are to:

- **Aim 1** – To give learners access to a curriculum that is relevant to their needs and future aspirations.
- **Aim 2** – Provide effective teaching and learning and ensure systems are in place to support learners and the learning process.
- **Aim 3** – To achieve excellence within a culture of continuous improvement.
- **Aim 4** – Promote and support the development of Welsh language/bilingual services and curriculum provision across the college.
- **Aim 5** – To lead and govern the college in an inspirational and forward looking manner developing and investing in our staff.
- **Aim 6** – To be a significant partner in local, regional, national and international collaborative working arrangements and strategic partnerships.
- **Aim 7** – To make investment and financial planning decisions to achieve long term financial stability and sustainability.

Performance indicators

A series of performance indicators have been agreed to monitor the successful implementation of the strategic aims and in relation to financial planning these are.

- Surplus/(deficit) before other gains and losses
- Net cash inflow / (outflow) re: operating activities
- Net current assets / (liabilities)
- Days net liquid assets to total expenditure
- Current ratio
- WG grant as % of total income
- Financial health status
- EBITDA (earnings before interest, tax, depreciation and amortisation) and defined benefit obligations.

The College is required to complete the annual Finance Record for the Welsh Government. The College, utilising the criteria laid down by the WG, and based on its Financial Statements as at 31st July 2015, has assessed its financial health as category "A".

Strategic Report (continued)**Benchmarking**

The College is committed to observing the importance of sector measures and indicators and uses the Learner Outcomes Reports (LOR) data available from the WG which looks at a range of provision and measures completion, attainment and successful completion. The LOR data for other colleges is also scrutinised to look at benchmarking.

FINANCIAL POSITION**Financial results**

2015/16 was the third year of operations for Coleg y Cymoedd, following the merger in August 2013 of Coleg Morgannwg and Ystrad Mynach College. This is the first year of FRS 102 adoption, which has resulted in the restatement of some prior year comparative figures. Full details are given in Note 28 to the financial statements.

The College's income and expenditure for the year is summarised below:

	Actual 2015/2016 £'000	Actual 2014/2015 £'000
Income	36,607	40,825
Expenditure	37,997	41,271
(Deficit)/Surplus before Fundamental Items	(711)	2,425
Deficit before other gains and losses	(1,390)	(446)
Total Comprehensive Expense for the year	(9,648)	(2,273)

The College incurred a deficit before other gains and losses in the year of £1,390k (2014/15: deficit of £446k), with total comprehensive income of (£9,648k), (2014/15: (£2,273k)).

The College has a deficit on its Income and Expenditure reserve of (£2,916k) (2015: surplus of £6,731k) and cash and short term investment balances of £12,860k (2015: £10,217k). The accumulated reserves have decreased in the last year due to an increase in the defined benefit pension obligation of £9,460k. Cash and short term investments have increased during the year as a result of the College acquiring a £4.5m loan from the WG to partly fund the new Cynon Campus build.

Tangible fixed assets additions during the year amounted to £5,439k. This was split between assets under construction of £4,869k and equipment purchased of £570k. Assets under construction relate entirely to the new Cynon Campus build, which will cost £22m in total and is due to be completed in the summer of 2017.

The College has significant reliance on the WG for its principal funding source, largely from recurrent grants. In 2015/16 the WG provided 88.0% (2014/15: 86.4%) 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.

Cash flows and Liquidity

At £5.5m (2015: £3.2m), net cash flow from operating activities was very strong. The net cash flow resulted from the receipt of a new loan of £4.5m and the management of other resources.

During the year the College took out a secured loan of £4.5m in order to help finance a new campus in Aberdare. The balance of the £22m capital cost will be met by £11m of WG capital funds and College reserves.

Strategic Report (continued)

Liquidity as measured by the Current Ratio increased to 2.35 in 2015/16 compared to 2.31 in 2014/15. This ratio is strong and considerably higher than the Welsh average, which is 2.24 according to Welsh Government statistics for 2014/15. The Days of Net Liquid Assets Ratio reveals 123 days compared to 90 days in 2014/15. The sector average for 2014/15 was 62 days.

Cash flow remains healthy but will of course decrease significantly over the next year as reserves are spent to support the ongoing capital programme.

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 2015 to 31 July 2016, the College paid 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

Details of post balance sheet events are included in notes to the financial statements (Note 24).

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**Curriculum changes**

The college took over a new programme, the Level 3 Arts Foundation in September 2016 from the University of South Wales. The programme, which recruits around 120 students a year brought with it around £500k of new FE core funding.

The franchise arrangement with St David's College is in its last year and the student numbers (125) and the funding (£278k) will be utilised to deliver an enhanced curriculum at the new Aberdare campus from September 2017.

The Partnerships Faculty increased its income generation activity and delivered around £3.9m in 2015/16, which equates to nearly 10% of the college income. The Faculty has ambitious plans to increase this further in the next two years.

There are also plans to expand the HE offer at Aberdare and possibly other campuses, also aimed at bringing in new income.

Resources:

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include four campuses, a new £22m build under construction and £13.9m held in current assets.

Financial

The College has £4.36m of net assets (including £27.3m pension liability) and long term debt of £7.3m.

People

The College employs 663 people (expressed as full time equivalents), of whom 312 are teaching staff.

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships. Particular success has been achieved in apprenticeship delivery and this led directly to the college being recommended by the Welsh Government to provide railway industry apprenticeships. This activity which commenced in 2014 has brought in new income, capital funding and has the potential to grow commercial income further.

Strategic Report (continued)**PRINCIPAL RISKS AND UNCERTAINTIES**

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

Based on the strategic plan, the Corporation Board undertakes a comprehensive review of the risks to which the College is exposed. Through the development of a Register of Strategic Risks (RSR), they identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The RSR 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.

The internal controls are then implemented and each year an appraisal of the RSR will review its effectiveness and progress against risk mitigation actions. In addition to reviewing the RSR four times a year at Corporation Board and three times a year at the Audit Committee, each specialist Corporation committee looks at the risks relating to their area and how they are being managed. All Corporation committees also consider any risks which may arise as a result of a new area of work being undertaken or a change to the circumstances affecting the college (funding, competition etc.) by the College and these would be added to the RSR as appropriate.

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

1. Government funding

The College has considerable reliance on continued government funding through the WG. In 2015/16, 88% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same level or on the same terms.

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

- Cuts to public funding
- The removal of European funding (albeit this will not impact for a few years)
- The tender conditions for the next work based learning contract (due January 2017)

This risk is mitigated in a number of ways:

- Considerable focus and investment is placed on maintaining and managing key relationships with the various employers and funding bodies;
- Regular dialogue with the Welsh Government;
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding;
- Developing exit plans in relation to European funding activities;
- By ensuring the College is rigorous in delivering high quality education and training, which leads to an expansion of opportunities as outlined above;
- Increasing commercial income to reduce reliance on public funding.

2. Maintain adequate funding of pension liabilities

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

3. Increasing costs

In common with many public sector organisations the college faces increasing costs of staff and premises at a time when public funding has been reduced or at best a flat cash basis. In order to ensure that the college delivers a surplus, a detailed planning process takes place to look at reducing premises and staff costs and to look for opportunities to increase income from other sources.

Strategic Report (continued)**STAKEHOLDER RELATIONSHIPS**

Coleg y Cymoedd has many stakeholders, these include:

- Students
- Staff
- The Welsh Government
- Local employers (with specific links)
- Local authorities
- Local communities
- Other FE institutions
- HE institutions in South Wales
- Trade unions
- Professional bodies.

The College recognises the importance of these relationships and engages in regular communication with them through a variety of activities.

Equality and Diversity

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in each protected characteristic group - race, gender, sexual orientation, disability, gender identity, religion or belief, marital status, age and pregnancy/maternity. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equal Opportunities Policy 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. We are committed to measuring the impact of new and existing policies, practices and procedures on all equality groups by conducting appropriate impact assessments to ensure they are fair to all groups of people and do not impact adversely on them in any way. To this end, the College has a continuous programme of reviewing policies, procedures and practices in place.

The College is a 'Disability Confident' employer which demonstrates our positive approach to employing disabled people. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and invites applicants who meet the essential criteria for the post to an interview. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues by providing a range of support mechanisms. 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. The College has continued to improve access to all its facilities and provision offered for disabled staff, learners and visitors.

The College has signed to the Time to Change Wales, Organisational Pledge, showing our commitment to tackling stigma and discrimination around Mental Health in the workplace. The College currently holds the Platinum Award for the Corporate Health Standard.

Coleg y Cymoedd is a proud member of the Stonewall Diversity Champions Programme. This is Britain's good practice forum that promotes equality in the workplace for lesbian, gay, bisexual and transgender employees and bring together the UK's top employers to promote diversity.

The College provides a comprehensive training and awareness programme for Equality & Diversity, which is designed to meet the requirements of different staff roles, and includes mainstreaming equality into the College induction programme and staff mandatory training.

The College recognises that the involvement and engagement of appropriate stakeholders is critical to the success of its Equality Objectives. The Equality and Diversity Group seeks to work with all members of the College community to advance equality and celebrate diversity. The Equality and Diversity Group draws its membership from learners, Academic and Business Support staff, and is responsible for monitoring the delivery of objectives and the reviewing and updating procedures across the College.

Strategic Report (continued)

Engagement with external organisations such as Race Equality First and Stonewall is recognised as paramount for promoting equality of opportunity amongst staff and learners and for promoting good relations between persons of different groups.

Equality data monitoring plays an important role as the College uses equality data to understand the College's workforce and learner profile and to develop a better understanding of what our staff and learners need in order to work, perform and enjoy life at the college.

There are a range of staff and learner policies and statements which support the Equality and Diversity agenda and which support staff and learners through their experience of College life. These include codes of conduct, bullying and harassment policies and family friendly policies, to name a few, which are regularly reviewed and communicated to staff and learners.

Staff and Learner Involvement

The college considers good communication with its staff and learners to be very important and to this end publishes regular updates via Staff Life and Student Life, which is available on the college portal and is accessible within and outside the college.

The College encourages staff and learner involvement through membership of formal committees and other cross college groups. These committees include the Governing Body, Academic Board, Learner Parliaments, committees covering health, safety and wellbeing, sustainability and a range of other specialist groups.

Environmental Performance Review

Environmental objectives and targets are defined within the College 'Environmental Management System' as follows:

- Communication of environmental targets and sustainable practices to all persons across the College. This has been achieved by using various methods including extranet, inductions and campaigns;
- Develop and maintain sustainable campuses (including efficient use of energy and recycling). This has been improved by reducing a significant element of backlog maintenance and greater volumes of recycled materials reducing waste to landfill sites;
- Implementing a campus wide 'Green Travel Plan'. This has been achieved and continues to make good progress, monitored by the college Sustainability Group. The work on sustainable travel was recognised in 2015 with a platinum level "Travel Planning in the Workplace, Welsh Travel Plan" award.

Environmental performance over the past year

	2015/16	2014/15	2013/14
Electricity consumption (KWh)	3,747,619	3,750,734	3,850,287
Reduction year on year	0.1%	2.6%	4.9%
Kg CO2	2,038,705	2,040,399	2,094,556
Gas consumption (KWh)	4,905,514	5,424,536	4,448,415
Reduction/(increase) year on year	9.6%	(21.9%)	27.7%
Kg CO2	902,615	998,115	818,508
Gas & electric KWh/m2 floor area	149	158	144
Water consumption M3	19,719	17,850	17,776
Water consumption m3/m2 floor area	0.33	0.3	0.3

Strategic Report (continued)

Financial year 2015/2016 energy use

Degree day is a significant factor for year on year energy comparisons and needs to be taken into consideration when comparing the headline results. Winter 2015/16 was third-warmest for the UK in a series from 1910, behind the winters of 1989 and 2007. For England and Wales, it was the warmest winter in the series. December 2015 (UK anomaly + 4.1°C) was easily the warmest December for both the UK and the Central England Temperature (CET) series from 1659. Remarkably, December had the highest positive anomaly for any month in the CET series by a margin of well over 1 °C. In comparison, temperatures in January (UK anomaly +0.9°C) and February (+ 0.2°C) were mostly unremarkable. Winter 2014/15 however, the mean temperature was slightly above average for December, but near average for January and February, with anomalies of +0.5°C, +0.1°C and -0.1°C respectively. The UK mean temperature for spring 2015 was close to average. A near-average March (anomaly +0.1°C) was followed by a rather warm April (+0.5°C) and a cooler than average May (-0.8°C). Maximum temperatures were well above normal in April but rather suppressed during May. This background accounts for the significant differences in the gas consumption figures between the last three comparison years.

- Electricity consumption year on year has decreased, these figures are not significantly affected by the identified degree day fluctuations.
- Water consumption has increased having previously reduced year on year. There has been a significant increase at the Rhondda campus and this is being investigated as an underground water leak is suspected.
- Gas continues to fluctuate with a 9% reduction in consumption, the previous year's gas consumption was up from 13/14 to 14/15 by 21.9%. This is due to an exceptional mild winter versus a normal winter. The result highlights the impact of degree day on gas consumption although efficiencies can be targeted the degree day factor will significantly impact on any year on year comparisons.

Professional advisers

Bankers:

Barclays Bank Plc
PO Box 41
The Twyn
Caerphilly
CF83 1YJ

Lloyds Bank
St William House
Tresilian Terrace
Cardiff
CF10 5BH

Bank of Scotland Plc
One Kingsway
Cardiff
CF10 3YB

Financial Statements Auditors:

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

Internal Auditors:

TIAA Ltd
53 – 55 Gosport Business Centre
Aerodrome Road
Gosport
Hampshire
PO13 0FQ

Solicitors:

Capital Law
Capital Building
Tyndall Street
Cardiff
CF10 4AZ

Strategic Report (continued)

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 12th December 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'N Bayford', with a large, stylized loop at the end.

**N Bayford
Chair**

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Welsh Government (WG) and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* and with the Accounts Direction for 2015/16 issued by the Welsh Government, which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

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

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

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

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

Approved by order of the Members of the Corporation on 12 December 2016 and signed on its behalf by:



N Bayford
Chair

Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance.

This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC) in September 2012. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2015. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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

The Corporation

The composition of the Corporation, during the year ending 31 July 2016, is set out on page 15. It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference which have been approved by the Corporation. These committees are Search, Remuneration, Employment Policy, Curriculum and Quality, Finance and Estates and Audit. In addition, the Corporation complies with the College's Code of Conduct, Code of Ethics, Policy Statement on Openness and Standing Orders. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

Coleg y Cymoedd
Heol Y Coleg
Nantgarw
Rhondda Cynon Taff
CF15 7QY

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

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

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

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

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

Statement of Corporate Governance and Internal Control (continued)**Appointments to the Corporation**

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

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

Corporation Committees

There are six committees of the Corporation. These committees are formally constituted with terms of reference and, with the exception of the Remuneration Committee and Search Committee, all meet a minimum of three times a year.

Finance and Estates

The Finance and Estates Committee considers in detail all financial aspects of the College. Particular attention is given to monthly management accounts, re-forecasts, and the annual budget. As the main policy committee it approves the Strategic Plan and monitors financial performance accordingly. It also approves the College's Estates Strategy.

Audit Committee

The Audit Committee comprises eight members of the Corporation. The Principal is not a member of this Committee and it does not contain any member who is a member of the Finance and Estates Committee. The Committee meets every term. It provides the forum for reporting by the College's internal and external auditors who always have the right of access to the Committee for independent discussion without the presence of management.

The Audit Committee is the main forum for examining the College's systems of control and advises the Corporation accordingly. The internal auditors monitor the systems of internal control, risk management and governance processes in accordance with an agreed internal audit plan and reports its findings to both management and the Committee. Management is responsible for the implementation of agreed audit recommendations and the Committee monitors progress on the implementation of agreed actions, including a periodic follow up by the internal auditors. It is also responsible for value for money exercises. To assist the Committee, members are co-opted who are able to provide valuable expertise to the College. The Committee receives reports from the Corporation's internal and external auditors as well as WG audit/compliance service and the Wales Audit Office.

Employment Policy Committee

The Employment Policy Committee considers all policy aspects of human resources including the management of health and safety of students, staff and the public.

Curriculum and Quality Committee

The Curriculum and Quality Committee has responsibility for the academic affairs of the College and monitors the work of the Academic Board, which is the main internal mechanism for the determination of general academic policy, strategy and priorities. It provides advice to the Corporation on the educational character and mission of the College.

Search Committee

The Search Committee is responsible for the appointment of new members to the Corporation and to its committees. It is also the governance committee within the Corporation and takes responsibility for reviewing the performance of the Corporation Board and other associated matters.

Statement of Corporate Governance and Internal Control (continued)

Remuneration Committee

The Remuneration Committee has the responsibility of determining the level of remuneration for senior post-holders. The senior post-holders are the Principal, Deputy Principals and Vice Principals.

Details of remuneration for the year ended 31 July 2016 is set out in note 8 to the financial statements.

College Committees

The College has a Strategic Leadership Team that meets every two weeks. It receives regular reports on management accounts, enrolment statistics and trends, with performance against targets providing the basis of the strategic plan. It acts as both a provider of vital information to the Corporation and its committees and is the body that ensures that the policies of the Corporation are implemented and risk assessed.

The College has a well-established Health and Wellbeing Committee that meets each term. This Committee advises the Strategic Leadership Team and the Corporation, through the Employment and Policy Committee, on all aspects of health and safety so helping to minimise risks within the College.

The Academic Board of the College is another management forum that assists the Corporation by concentrating on the academic provision to maintain the highest quality. It meets three times a year. It submits an annual report to the Corporation via the Curriculum and Quality Committee.

Other forums have been established within the College to assist in the internal control process and manage information systems.

The College has also established an Estates Strategy Team that meets periodically to review progress and consider new major initiatives. It advises the Finance and Estates Committee. Two members of the Corporation serve on this group.

Statement of Corporate Governance and Internal Control (continued)

NAME	STATUS OF APPOINTMENT	DATE APPOINTED/ RE-APPOINTED/ DATE OF RESIGNATION	COMMITTEES SERVED
N Bayford (Chair)	Member	01/08/13 Appointed	Finance & Estates
J Bonetto	Member	01/08/13 Appointed	Employment Policy Audit
C Bradshaw	Member	01/08/13 Appointed	Curriculum & Quality
D Bull	Member	01/08/13 Appointed	Finance & Estates Audit
J English (V Chair)	Member	01/08/14 Re-Appointed	Finance & Estates
J Evans (Principal)	Principal	01/08/14 Re-Appointed	Curriculum & Quality Finance & Estates
S Farquharson	Member	01/01/15 Appointed	Curriculum & Quality
H Haines	Member	01/08/13 Appointed	Finance & Estates
Cllr E Hanagan	Member	01/08/13 Appointed	Employment Policy
M Harding	Member	01/08/13 Appointed	Curriculum & Quality Audit
L James	Co-opted to Board	01/08/2013 Appointed 31/07/2016 Resigned	Chair
Dr R Lewis	Member	01/06/15 Re-Appointed	Curriculum & Quality
M Lippard	Member	01/08/13 Appointed	Employment Policy Audit
Dr P Smart	Member	01/08/13 Appointed	Employment Policy Audit
B Tod	Staff Member	01/08/13 Appointed	Finance & Estates
D Watters	Staff Member	01/04/16 Appointed	Curriculum & Quality
R Williams	Member	01/09/15 Appointed	Employment Policy Finance & Estates
A Lee	Student Member	01/06/16 Appointed	Curriculum & Quality
A Reardon	Student Member	01/06/16 Appointed	Curriculum & Quality
J Gilmore	Co-opted Member	01/08/13 Appointed	Finance & Estates
E J Hope	Co-opted Member	01/08/13 Appointed	Finance & Estates
G Williams	Co-opted Member	01/08/13 Appointed	Employment Policy Audit
P O'Donnell acts as Governance Officer to the Corporation.			

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

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

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

The purpose of the system of internal control

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

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2016 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, 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 the 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 Welsh Government. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

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

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her 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 Welsh Government's auditors in their management letters and other reports.

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

The senior leadership team 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 its risk awareness training. The senior leadership team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its November 2016 meeting the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

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

Going Concern

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

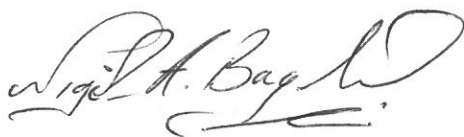
Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the Welsh Government of material irregularity, impropriety and non-compliance with Welsh Government terms and conditions of funding, under the funding agreement in place between the College and the Welsh Government. As part of its consideration the Corporation has had due regard to the requirements of the funding agreement.

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

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 Welsh Government.

Approved by order of the Members of the Corporation on 12 December 2016 and signed on its behalf by:



N Bayford
Chair



J Evans
Accounting Officer

Independent auditors' report to the Corporation of Coleg y Cymoedd (the "Institution")

Report on the financial statements

Our opinion

In our opinion, Coleg y Cymoedd's financial statements (the "financial statements"):

- give a true and fair view of the state of the institution's affairs as at 31 July 2016, and of the institution's income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education; and
- have been properly prepared in accordance with the Accounts Direction issued by the Welsh Government.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the institution's Balance Sheets as at 31 July 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Reserves for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statement is the Statement of Recommended Practice for Further and Higher Education, incorporating United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice). In applying the financial reporting framework, the Corporation has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed in the Further Education Audit Code of Practice 2015 issued by the Welsh Government

In our opinion, in all material respects:

- monies expended out of Welsh Government grants and other funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if appropriate, managed in compliance with all relevant legislation; and
- income has been applied in accordance with the financial memorandum with the Welsh Government.

Responsibilities for the financial statements and the audit

Respective responsibilities of the Corporation and auditors

As explained more fully in the Statement of Responsibilities of the Members of the Corporation, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the institution's Corporation as a body in accordance with Article 18 of the College's articles of government and for no other purpose. We do not, in giving these opinions, accept

or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the institution's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Corporation; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

[Date] 12 December 2016

- a) The maintenance and integrity of the Coleg y Cymoedd website is the responsibility of the Corporation; 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.
- b) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income for the year ended 31 July 2016

	Note	2015/16 £'000	2014/15 £'000
INCOME			
Funding body grants	2	32,214	35,286
Tuition fees and education contracts	3	2,526	2,753
Other grants and contracts	4	258	270
Other income	5	1,561	2,437
Investment income	6	48	79
Total income		36,607	40,825
EXPENDITURE			
Staff costs	7	26,321	26,908
Fundamental staff restructuring costs	12	473	1,073
Other operating expenses	9	8,035	8,597
Fundamental merger costs	12	-	72
Fundamental campus maintenance costs	12	206	1,726
Depreciation	13	2,214	2,162
Interest and other finance costs	10	748	733
Total expenditure		37,997	41,271
(Deficit) / Surplus before fundamental items		(711)	2,425
Fundamental staff restructuring costs	12	(473)	(1,073)
Fundamental merger and other costs	12	(0)	(72)
Fundamental campus maintenance	12	(206)	(1,726)
Deficit before other gains and losses		(1,390)	(446)
Loss on disposal of fixed assets		(28)	(167)
Deficit for the year		(1,418)	(613)
Actuarial loss in respect of pension schemes		(8,320)	(1,750)
Total Comprehensive Expense for the year		(9,738)	(2,363)

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

Statement of Changes in Reserves for the year ended 31 July 2016

	Income and Expenditure Account £'000	Revaluation Reserve £'000	Total Unrestricted Reserves £'000
Restated Balance at 1 August 2014	9,004	7,463	16,467
Deficit for the year	(613)	-	(613)
Other comprehensive expense	(1,750)	-	(1,750)
Transfers between revaluation and income and expenditure reserves	90	(90)	-
Total comprehensive expense for the year	(2,273)	(90)	(2,363)
Balance as at 31 July 2015	6,731	7,373	14,104
Deficit for the year	(1,418)	-	(1,418)
Other comprehensive expense	(8,320)	-	(8,320)
Transfers between revaluation and income and expenditure reserves	90	(90)	-
Total comprehensive expense for the year	(9,648)	(90)	(9,738)
Balance at 31 July 2016	(2,916)	7,282	4,366

Balance Sheet as at 31 July 2016

	Note	2015/16 £'000	2014/15 Restated £'000
Non-current assets			
Tangible fixed assets	13	77,517	74,325
		77,517	74,325
Current assets			
Trade and other receivables	14	1,125	2,242
Investments	15	8,034	5,027
Cash and cash equivalents	20	4,826	5,190
		13,985	12,459
Less: Creditors - amounts falling due within one year	16	(5,939)	(5,384)
Net current assets		8,046	7,075
Total assets less current liabilities		85,563	81,400
Creditors - amounts falling due after more than one year	17	(51,919)	(46,283)
Provisions			
Defined benefit pension obligations	19	(27,348)	(17,888)
Other provisions	19	(1,930)	(3,125)
TOTAL NET ASSETS		4,366	14,104
Unrestricted Reserves			
Income and expenditure account		(2,916)	6,731
Revaluation reserve		7,282	7,373
TOTAL UNRESTRICTED RESERVES		4,366	14,104

The financial statements on pages 21 to 47 were approved and authorised for issue by the Corporation on 12 December 2016 and were signed on its behalf on that date by:



N Bayford
Chair



J Evans
Accounting Officer

Statement of Cash Flows for the year ended 31 July 2016

	Notes	2015/16 £'000	2014/15 £'000
Cash flow from operating activities			
Deficit for the year		(1,418)	(613)
Adjustment for non-cash items			
Depreciation		2,214	2,162
Decrease in stocks		-	3
Decrease/(increase) in debtors		1,116	(822)
Increase/(decrease) in creditors due within one year		633	(192)
(Decrease)/increase in provisions		(1,195)	1,064
Pensions costs less contributions payable		510	340
Pension finance cost		630	600
Deferred capital grants released to income		(1,558)	(1,437)
Adjustment for investing or financing activities			
Investment income		(48)	(79)
Interest payable		118	133
Loss on sale of fixed assets		31	167
Net cash flow from operating activities		2,451	1,939
Cash flows from investing activities			
Proceeds from sale of fixed assets		2	-
Investment income		49	67
New deposits		(3,007)	(8)
Payments made to acquire fixed assets		(5,423)	(4,829)
Deferred capital grants received		3,049	1,913
		(5,330)	(2,857)
Cash flows from financing activities			
Interest paid		(120)	(134)
Interest element of finance lease rental payments		(1)	(1)
New secured loans		4,500	39
Repayments of amounts borrowed		(435)	(385)
Capital element of finance lease rental payments		(11)	(14)
		3,933	(495)
(Decrease) in cash and cash equivalents in the year		(364)	(2,026)
Cash and cash equivalents at beginning of the year		5,190	7,216
Cash and cash equivalents at end of the year		4,826	5,190

Notes to the Financial Statements**1. Statement of accounting policies and estimation techniques**

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP)*, the *WG Accounts Direction for 2015/16* financial statements and in accordance with applicable 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.

Transition to the 2015 FE HE SORP

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the results of the College is provided in note 28.

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

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

- Reversion to historic cost – at 1st August 2014, the College has reverted the carrying values of freehold land and properties to historic cost less depreciation to date.
- Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention for non-current assets.

Going Concern

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

The College currently has £2.9m of loans outstanding with bankers on terms negotiated in 2010 and 2012. The terms of the existing agreements are for up to another 11 years. The College has also entered into a £4.5m financial transaction with the WG in 2015/16, with a term of 20 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

Notes to the Financial Statements (continued)**Recognition of income**

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accruals model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement 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.

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.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance conditions being met.

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.

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.

European funds are included as income during the period in which they are received, unless it is known with reasonable certainty that the monies will be forthcoming, and, in such cases, the income is included in the period in which it is earned.

Exceptional items

Where items of income or expenditure arise that are material in size or nature, these are shown separately on the face of the income and expenditure account. This is to ensure the reader has appropriate information to understand the financial performance of the College. Such items include the funding and associated costs of the merger process (including staff redundancies) and other large, non-recurring expenditures.

Accounting for post employment benefits

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

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

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

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

Notes to the Financial Statements (continued)**Short term Employment benefits**

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

Enhanced pensions

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

Non-current assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The College capitalises assets at cost, this is defined as: the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Land and buildings

Land and buildings inherited from the Local Education Authority on incorporation are stated in the balance sheet at valuation on the basis of depreciated replacement cost, as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated on a straight line basis over their expected useful economic lives to the College. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic lives.

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

On adoption of FRS 102, the College followed the transitional provision to revert the value of land and buildings back to historic cost. The College has decided not to adopt a policy of revaluation of these properties in the future.

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Equipment

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

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

Notes to the Financial Statements (continued)

• Plant and machinery	10 years on a straight-line basis
• Furniture, fixtures and fittings	10 years on a straight-line basis
• Equipment	5 years on a straight-line basis
• Computer hardware	3 years on a straight-line basis
• Motor vehicles	4 years on a straight-line basis

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.

Impairment review

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

Borrowing costs

Where long-term debt is obtained for construction of a building, the College has adopted a policy of capitalising finance costs (interest on long-term debt), as allowed by FRS 15. This will be applied consistently to all tangible fixed assets where finance costs can be directly attributable to the construction.

Leased assets

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

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

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

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

Investments

Listed investments held as non-current assets and current asset investments, which may include listed investments, are stated at fair value, with movements recognised in Comprehensive Income. Investments comprising unquoted equity instruments are measured at fair value, estimated using a valuation technique.

Inventories

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

Maintenance of premises

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

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.

Notes to the Financial Statements (continued)**Taxation**

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Provisions and contingent liabilities

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

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

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

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the Welsh Government and subsequent disbursements to students are excluded from income and expenditure of the College and are shown separately in note 27, except for the 3 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Financial Contingency Fund applications and payments.

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.

Notes to the Financial Statements (continued)

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

Notes to the Financial Statements (continued)

2. Funding body grants

	2015/16 £'000	2014/15 £'000
Core Recurrent funding	26,978	29,423
Other recurrent funding	1,827	2,570
Release of WG capital grants	1,223	1,120
Work-based learning	2,186	2,173
Total	32,214	35,286

3. Tuition Fees and Education Contracts

	2015/16 £'000	2014/15 £'000
EC (including home) tuition fees	553	653
Non-EC tuition fees	1	-
HE fees	1,065	829
Examination fees and expenses (non-EU community)	81	126
Total fees paid by or on behalf of individual students	1,700	1,608
Education contracts		
Higher Education income	303	456
Other contracts (including Local Education Authority)	523	689
Total	2,526	2,753

4. Other Grants and Contracts

	2015/16 £'000	2014/15 £'000
European Commission grants	175	197
Other grants and contracts	83	73
Total	258	270

The College is the lead partner in a consortium to deliver two ESF Priority 2 operations called Upskilling @ Work Objective 1 and Upskilling @ Work Specific Objective 2 and a member of a consortium who deliver Inspire to Achieve (I2A). The income in European funds above includes that earned by the College in its capacity both as a provider and as the consortium lead. All other income claimed from Wales European Funding Office (WEFO) and payable to consortium partners has been excluded from these financial statements. Total income claimed in the year under this arrangement and the related payments to partners was as follows:

	2015/16 £'000	2014/15 £'000
Income received from WEFO	138	693
Payments to other Partners	-	(544)
College Expenses	(35)	(14)
Total	103	135

Notes to the Financial Statements (continued)

5. Other Income

	2015/16 £'000	2014/15 £'000
Catering and residences	17	877
Releases from deferred capital grants (Non-WG)	335	317
Other income-generating activities	438	287
Other income	771	956
Total	1,561	2,437

6. Investment Income

	2015/16 £'000	2014/15 £'000
Interest receivable	48	79
Total	48	79

7. Staff Costs

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

	2015/16 No.	2014/15 No.
Teaching staff	312	350
Non - teaching staff	351	362
	663	712

Staff costs for the above persons

	2015/16 £'000	2014/15 £'000
Wages and salaries	20,926	22,032
Social security costs	1,636	1,505
Other pension costs	3,759	3,371
Payroll sub total	26,321	26,908
Fundamental restructuring costs* - Contractual	222	504
- Non-contractual	251	569
Total staff costs	26,794	27,981

*During the year a voluntary restructuring exercise took place, resulting in a release of 23 (2015: 44) members of staff at a cost of £473k (2015: £1,073k).

A pay award of 1% was approved by the Corporation with effect from 1 August 2015 (2014: 1%).

8. Key management personnel

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

Notes to the Financial Statements (continued)

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

	2015/16 No.	2014/15 No.
The number of key management personnel including the Accounting Officer was:	5	7

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

	2015/16 No.	2014/15 No.
£70,001 to £80,000	2	3
£80,001 to £90,000	1	1
£90,001 to £100,000	1	2
£150,001 - £160,000	1	1
Total	5	7

Key management personnel emoluments are made up as follows:

	2015/16 £	2014/15 £
Salaries	429,936	650,030
Benefits in kind	10,684	11,799
Payments in lieu of notice	-	110,450
	440,620	772,279
Pension contributions	67,055	89,275
Total emoluments	507,675	861,554

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

	2015/16 £	2014/15 £
Salary	145,000	145,000
Benefits in kind	7,743	7,164
	152,743	152,164
Pension contributions	23,608	20,445
Total emoluments	176,351	172,609

The pension contributions in respect of the Accounting Officer and two of the four other senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme, with the remaining senior post-holders contributing to the Local Government Pension Scheme. All contributions are paid at the same rate as for other employees.

Notes to the Financial Statements (continued)

Compensation for loss of office paid to former key management personnel

The aggregate amount of compensation paid to the Accounting Officer and any key management personnel in respect of loss of office was:

	2015/16 No. of Staff	2015/16 £	2014/15 No. of Staff	2014/15 £
Compensation paid to former post-holders - contractual	-	-	2	26,508
Estimated value of other benefits, including provisions for pension benefits	-	-	2	56,466

The compensation paid relates to two individuals – the former Deputy Principal Corporate Resources and the former Vice Principal Student Services who left the College in July 2015.

The members of the Corporation (other than the Accounting Officer and 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.

9. Other Operating Expenses

	2015/16 £'000	2014/15 £'000
Teaching costs	2,460	2,372
Non – teaching costs	3,219	3,830
Premises costs	2,356	2,395
Total	8,035	8,597

Other operating expenses include:

	2015/16 £'000	2014/15 £'000
Auditors' remuneration		
- Financial statements audit	31	39
- Other services provided by the financial statements auditors	18	15
- Internal audit	23	34
- Other services provided by the internal auditors	-	-
Hire of other assets – operating leases	90	92

10. Interest and Other Finance Costs

	2015/16 £'000	2014/15 £'000
On bank loans, overdrafts and other loans	118	131
	118	131
Other interest	-	1
On finance leases	1	1
Pension finance costs (Note 25)	630	600
Total	749	733

Notes to the Financial Statements (continued)

11. Taxation

The members do not believe that the College was liable for any corporation tax arising from its activities during this year or the prior year.

12. Fundamental items

	2015/16 £'000	2014/15 £'000
Staff restructuring costs	473	1,073
Non-pay merger costs	-	72
Campus maintenance costs*	206	1,726
Net costs	679	2,871

*During 2014/15 the Governing Body agreed to a large scale programme for the removal of asbestos, which continued into 2015/16 and is due to be completed in 2016/17.

13. Tangible Fixed Assets

	Freehold land and buildings £'000	Assets under construction £'000	Equipment £'000	Total £'000
Cost or valuation				
At 1 August 2015	83,593	3,753	6,015	93,361
Additions	-	4,869	570	5,439
Transfers	4,297	(4,297)	-	-
Disposals	(501)	-	(9)	(510)
At 31 July 2016	87,389	4,325	6,576	98,290
Accumulated depreciation				
At 1 August 2015	(14,514)	-	(4,523)	(19,037)
Charge for the year	(1,563)	-	(651)	(2,214)
Eliminated in respect of disposals	472	-	6	478
At 31 July 2016	(15,605)	-	(5,168)	(20,773)
Net book value at 31 July 2016	71,784	4,325	1,408	77,517
Net book value at 31 July 2015	69,079	3,753	1,492	74,324
Inherited	7,282	-	-	7,282
Financed by capital grant	43,997	2,162	438	46,597
Other	20,505	2,163	970	23,638
Net book value at 31 July 2016	71,784	4,325	1,408	77,517

Land and buildings with a net book value of £7,282,241 (2015: £7,372,598) were inherited from Local Education Authority sources. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the WG, to surrender the proceeds.

The net book value of equipment includes an amount of NIL (2014/15: £NIL) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £NIL (2014/15: £5,067).

Notes to the Financial Statements (continued)

14. Trade and other Receivables

	2015/16 £'000	2014/15 £'000
Trade debtors	165	1,303
Prepayments and accrued income	960	939
	1,125	2,242

15. Investments

	2015/16 £'000	2014/15 £'000
Current asset investments		
Investments – short-term deposits	8,034	5,027

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority. £4m is currently invested in a 9 month fixed deposit at 1.0% and £4m is currently held in two 32 day notice accounts at variable rates of interest.

16. Creditors - Amounts Falling Due Within One Year

	2015/16 £'000	2014/15 £'000
Bank loans and overdrafts	569	375
Other Loans	31	31
Obligations under finance leases	-	11
Trade payables	381	179
Other taxation and social security	543	562
Accruals and deferred income*	3,182	2,735
Deferred income – capital grants	1,233	1,491
	5,939	5,384

* Accruals and deferred income include an amount of £1,013,057 (2015: £986,810) in respect of accrued holiday pay.

17. Creditors - Amounts Falling Due After More Than One Year

	2015/16 £'000	2014/15 £'000
Bank loans	6,675	2,756
Other Loans	78	110
Deferred income – capital grants	45,166	43,417
	51,919	46,283

Notes to the Financial Statements (continued)

18. Maturity of Debt

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	2015/16 £'000	2014/15 £'000
In one year or less	600	406
Between one and two years	574	391
Between two and five years	1,442	1,064
In five years or more	4,737	1,411
	7,353	3,272

The Barclays bank loan at 4.75%, repayable by quarterly instalments falling due between 1 August 2010 and 30 November 2020, totalling £1.5m is secured on a portion of the freehold land and buildings of the College.

The Lloyds bank loan at 3.58%, repayable by quarterly instalments falling due between 1 August 2012 and 31 December 2027 totalling £3m, is unsecured.

Other loans provided by Salix Finance Ltd are interest-free and repayable by half-yearly instalments falling due between 1 August 2012 and 1 October 2020 totalling £190k, are also unsecured.

A financial transaction with the WG was entered into during 2015/16 totalling £4.5m at a rate of 2.4%. This is repayable in quarterly instalments falling due between 1 June 2016 and 1 March 2036 and is secured on the new Cynon Campus.

(b) Finance leases

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

	2015/16 £'000	2014/15 £'000
In one year or less	-	11
	-	11

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

19. Provisions

	Defined benefit obligations £'000	Restructuring £'000	Campus maintenance £'000	Enhanced Pensions £'000	Total £'000
At 1 August 2015	17,888	173	1,419	1,533	21,013
Utilised in Year	-	(173)	(1,419)	(113)	(1,705)
Additional provision in year	9,460	64	307	139	9,970
At 31 July 2016	27,348	64	307	1,559	29,278

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in note 25.

The restructuring provision relates to staff roles dependant on grant funding, which are due to expire. It also includes pension and redundancy costs resulting from the 2016 voluntary restructuring process.

Notes to the Financial Statements (continued)

The campus maintenance provision relates to the removal/containment of asbestos found on various campus sites, the majority of which is found at the Ystrad Mynach campus.

The enhanced pensions provision relates to the cost of staff who have already left the College's employment. This provision has been recalculated in accordance with guidance issued by the AOC.

20. Cash and cash equivalents

	At August 1 2015 £'000	Cash flows £'000	At 31 July 2016 £'000
Cash and cash equivalents	5,190	(364)	4,826
Total	5,190	(364)	4,826

21. Capital and other Commitments

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Commitments contracted for at 31 July	16,208	1,128
Authorised but not contracted at 31 July	1,620	21,857

The capital commitments have reduced over the year due to work completed and reported in work in progress on the £22m campus at Aberdare.

22. Lease obligations

At 31 July 2016 and 2015 the College had minimum lease payments under non-cancellable operating leases as follows:

	2015/2016 £'000	2014/2015 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	-	50
Later than five years	549	591
	549	641
Other		
Not later than one year	8	13
Later than one year and not later than five years	64	112
	72	125

23. Contingent Assets and Liabilities**Contingent assets**

At 31 July 2016 the College is still seeking to recover VAT from HMRC valued at £489k. This has arisen from a number of lease and leaseback arrangements involving property transactions. The College has received correspondence from its VAT consultants, Deloitte LLP, confirming that they anticipate a repayment in the region of £489k relating to VAT incurred on property.

Notes to the Financial Statements (continued)

These refunds have not yet been received as a final decision from HMRC regarding the query is currently outstanding. However, the College's management is confident it will succeed in recovering a major part of this money based on past advice received from Deloitte LLP.

As the timing of this receipt is uncertain and outside the College's direct control, this expected balance has not been included in the College's short and medium term financial planning.

Contingent liabilities**Grant Income**

The College has received EU grant income in respect of projects approved by the Wales European Funding Office (WEFO). EU Commission auditors have undertaken a review of WEFO's project approval procedures including one project delivered by the College and indicated that the College's project did not comply with EU project approval procedures. The College is satisfied that they have delivered the project in accordance with the approved project specification.

However, should WEFO be found not to have complied with these procedures, the College may have to repay the full grant income of £350k (2015 £350k). The College is in discussion with WEFO on this matter but has received no further indication of whether grant will be repayable, or the sums of grant that may be involved.

24. Events after the end of the reporting period

Since the end of the financial year, the College management are not aware of any other matter or circumstance not otherwise dealt with in the Annual Financial Statements, that has significantly or may significantly affect the operations of the College, the results of those operations, or the state of affairs of the College in subsequent years, with the exception of the following, the financial effects of which have been provided for in the 31 July 2016 Annual Financial Statements:

25. 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 Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Rhondda Cynon Taff County Borough Council. Both are multi-employer defined benefit plans.

Total pension cost for the year

	2015/16 £'000	2014/15 £'000
Teachers' Pension Scheme: contributions paid	1,960	1,741
Local Government Pension Scheme:		
Contributions paid	1,150	1,179
FRS 102 (28) charge	510	340
Charge to the Statement of Comprehensive Income	3,620	3,260
Enhanced pension charge to Statement of Comprehensive Income	139	111
Total pension cost for year within staff costs	3,759	3,371

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was at 31 March 2012 and the LGPS at 31 March 2013.

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

Notes to the Financial Statements (continued)**Teachers' Pension Scheme**

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

The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their requirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act.

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

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.4% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

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

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

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

Scheme Changes

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

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

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

Notes to the Financial Statements (continued)

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

The pension costs paid to TPS in the year amounted to £1,960k (2015: £1,741k).

FRS 102 (28)

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

Accordingly, the College has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined contribution plan. The College has set out above the information available on the 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 Rhondda Cynon Taff County Borough Council (RCTCBC). The total contributions made for the year ended 31 July 2016 were £2,103k (2015: £1,966k), of which employer's contributions totalled £1,660k (2015: £1,519k) and employees' contributions totalled £443k (2015: £447k). The agreed contribution rates for future years are 13.7% for employers and range from 5.5% to 12.5% for employees, depending on salary.

A change in the way employer contributions for LGPS are paid came into effect in April 2011. The new method consists of an employer contribution rate per employee of 13.7% (previously 12.3%), and an additional capital sum payable by the College, which has been dictated by the Rhondda Cynon Taff independent actuaries. The College made a capital sum payment for the period August 2015 to July 2016 of £194k (2014/15: £187k), which is included in the total employer contributions figures above.

Introduction

The disclosures below relate to the funded liabilities within the Rhondda Cynon Taff County Borough Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (the "LGPS").

The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earning scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

Funding / Governance Arrangements of the LGPS

The funded nature of the LGPS requires participating employers and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2013 at the contributions to be paid until 31 March 2017 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate. An actual valuation of the Fund will be carried out at 31 March 2016 and as part of that valuation a new Rates and Adjustment Certificate will be produced for the three year period from 1 April 2017.

The Fund Administering Authority, Rhondda Cynon Taf County Borough Council, is responsible for the governance of the Fund.

Assets

The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures.

Notes to the Financial Statements (continued)

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

Risks associated with the Fund in relation to accounting**Asset volatility**

The liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which while expected to outperform corporate bonds in the long term creates volatility and risk in the short term in relation to the accounting figures.

Changes in Bond Yield

A decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.

Inflation Risk

The majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.

Life expectancy

The majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.

Exiting employers

Employers who leave the Fund (or their guarantor) may have to make an exit payment to meet any shortfall in assets against their pension liabilities. If the employer (or guarantor) is not able to meet this exit payment the liability may in certain circumstances fall on other employers in the Fund. Further the assets at exit in respect of 'orphan liabilities' may, in retrospect, not be sufficient to meet the liabilities. This risk may fall on other employers. 'Orphan liabilities' are currently a small proportion of the overall liabilities in the Fund.

Principal actuarial assumptions:

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary.

	31 July 2016	31 July 2015	31 July 2014
Discount rate	2.4%	3.6%	4.1%
RPI inflation	2.9%	3.2%	3.2%
CPI inflation	1.8%	2.1%	2.2%
Pension increases	1.8%	2.1%	2.2%
Pension accounts revaluation rate	1.8%	2.1%	2.2%
Salary increases	3.3%	3.6%	3.7%

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements. Sample life expectancies resulting from these mortality assumptions are shown below.

Notes to the Financial Statements (continued)

Assumed life expectancy at age 65	31 July 2016	31 July 2015
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Males

Member aged 65 at accounting date	23.1	23.0
Member aged 45 at accounting date	25.3	25.2

Female

Member aged 65 at accounting date	26.0	25.9
Member aged 45 at accounting date	28.4	28.3

Asset allocation and expected return on assets

	Value at 31 July 2016 %	Value at 31 July 2015 %
Equities	70.0	68.5
Property	6.3	6.2
Government bonds	11.5	9.0
Corporate bonds	10.1	12.3
Cash	2.1	4.0
Total	100.0	100.0

Reconciliation of funded status to balance sheet

	Value as at 31 July 2016 £'000	Value as at 31 July 2015 £'000
Fair value of assets	38,810	34,090
Present value of funded defined benefit obligation	(66,160)	(51,980)
Liability recognised in the balance sheet	(27,350)	(17,890)

The split of the liabilities at the last valuation between the various categories of members is as follows:

Active members:	51%
Deferred Members:	19%
Pensioners:	30%

Amounts recognised in income statement

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Operating cost		
Current service cost	1,650	1,480
Past service cost	70	120
Financing cost		
Interest on net defined benefit liability	630	600
Pension expense recognised in income statement	2,350	2,200
Allowance for administration expenses included in Current Service Cost	30	40

Notes to the Financial Statements (continued)

Amounts recognised in other comprehensive income

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Asset gains arising during the year	3,160	2,310
Losses arising during the year	(11,480)	(4,060)
Total amount recognised in other comprehensive income	(8,320)	(1,750)

Pension changes to the present value of the defined benefit obligation

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Opening defined benefit obligation	51,980	45,250
Current service cost	1,650	1,480
Interest expense on defined benefit obligation	1,860	1,840
Contributions by participants	440	450
Actuarial losses on liabilities	11,480	4,060
Net benefits paid out	(1,320)	(1,220)
Past service cost	70	120
Closing defined benefit obligation	66,160	51,980

Changes to the fair value of assets

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Opening fair value of assets	34,090	30,050
Interest income on assets	1,230	1,240
Re-measurement gains on assets	3,160	2,310
Contributions by the employer	1,210	1,260
Contributions by participants	440	450
Net benefits paid out	(1,320)	(1,220)
Closing fair value of assets	38,810	34,090

Actual return on assets

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Interest income on assets	1,230	1,240
Gain on assets	3,160	2,310
Actual return on assets	4,390	3,550

26. Related Party Transactions

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

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

Notes to the Financial Statements (continued)

The College supports the seven principles of public life set out by the Nolan Committee. In this respect the College believes that the principle of openness leads to a requirement for the disclosure of transactions not required by FRS 8. There were no transactions identified which should be disclosed under the principle of openness.

27. Financial Contingency Fund

	Year ended 31 July 2016 £	Year ended 31 July 2015 £
Balance brought forward	150,594	13,462
Adjustment to balance brought forward	(103)	-
WG grant	954,739	928,257
Interest earned	822	970
	1,106,052	942,689
Disbursed to students		
Childcare	614,843	486,604
Books and equipment	13,996	14,801
Tuition, exam and registration fees	55,267	62,532
Transport	234,745	129,347
Accommodation / Trips	4,191	2,861
Other	154,642	67,931
Total disbursed to students	1,077,684	764,076
Administration costs	27,474	27,475
Bank charges	725	544
Total disbursements	1,105,883	792,095
Balance unspent at 31 July	169	150,594

Financial Contingency Fund grants are available solely for students. In the majority of instances, the College acts only as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account.

28. Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31 July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31 July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1 August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position and financial performance is set out overleaf.

Notes to the Financial Statements (continued)

	Note	1 st August 2014 £'000	31 st July 2015 £'000
Financial Position			
Total reserves under previous SORP		69,787	66,833
Employee leave accrual	(a)	(1,152)	(987)
Reversion of land and buildings fixed assets to historical cost	(c)	(52,168)	(51,742)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(53,320)	(52,729)
Total reserves under 2015 FE HE SORP		16,467	14,104
	Note		31 st July 2015 £'000
Financial Performance			
Deficit for the year under previous SORP			(1,493)
Pensions provision – actuarial loss			(1,750)
Changes to measurement of net finance cost on defined benefit plans	(b)		(630)
Holiday pay charge	(a)		165
Change in presentation of pension scheme running costs	(b)		(70)
Changes to depreciation re: land and buildings reversion to historical cost	(c)		1,415
Total effect of transition to FRS 102 and 2015 FE HE SORP			(870)
Total comprehensive income for the year under 2015 FE HE SORP			(2,363)

(a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 10 days unused leave for teaching staff and 5 days for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £1.15m was recognised at 1 August 2014. Following re-measurement exercises in 2015 and 2016, the movement on this provision of £26k in 2016 (2015: -£165k) has been charged to comprehensive income in the relevant year.

(b) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

Notes to the Financial Statements (continued)**(c) Reversion of land and buildings back to historical cost**

Under previous UK GAAP, the College had revalued its freehold land and buildings regularly, with any increases in value taken to a revaluation reserve.

The College has taken advantage of the FRS 102 transition arrangements and reverted its freehold land and building values back to historic cost, less depreciation to date. All decreases in value have been taken to the revaluation reserve, to offset the increases resulting from previous revaluations, with any shortfall being charged to the general reserve. Any adjustments needed to deferred capital grants, due to this reversion to historic cost, have been taken to the general reserve.

Depreciation charges, transfers from revaluation reserve and releases of deferred capital grants for 2014/15 and 2015/16 have been re-calculated based on the 1st August 2014 historic cost net book values.

The College has decided not to adopt a policy of revaluation of these assets in the future.

(d) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

