

OFFICE COPY

RNN Group
Financial statements
For the year ended 31 July 2018

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Key Management Personnel, Board of governors and professional advisors

Key management personnel:

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2017/18:

John Connolly, Principal and CEO; Accounting Officer
Philip Sayles, Deputy Principal*
Jason Austin, Vice Principal Curriculum & Quality
Kate Noble, Director of Finance
Cheryl Martin, Director of Quality
Claire Godfrey, Assistant Principal
Denise West, Director of Human Resources*
Graham Adams, Commercial Director*
Jana Checkley, Director of Higher Education and Skills
Natalie James, Director of Funding & Contracts
Tony De'Ath, Director of Estates & IT

*Left the Group at or prior to the end of the financial year

Board of Governors:

A full list of Governors is on page 12 of these financial statements.

Details of people acting as Clerk to the Corporation throughout the period are on page 13.

Key Management Personnel, Board of governors and professional advisors

Bankers:

Barclays Bank
PO Box 1385
2 Arena Court
SHEFFIELD
S9 2LF

National Westminster Bank Plc
69 Bridge Street
WORKSOP
Nottinghamshire
S80 1DJ

Royal Bank of Scotland Plc
PO Box 6743
1st Floor Crombie House
Derwent Street
DERBY
DE1 2XR

Clydesdale Yorkshire Bank
2nd Floor
51 West George Street
GLASGOW
G1 2HL

Lloyds Bank
2nd Floor
14 Church Street
SHEFFIELD
S1 2HP

Solicitors:

Ford & Warren
Westgate Point
Westgate
LEEDS
LS1 2AX

Ilett and Clark Solicitors
86 Bridge Street
WORKSOP
Nottinghamshire
S80 1JA

Eversheds LLP
Bridgewater Place
Water Lane
LEEDS
LS11 5DR

Key Management Personnel, Board of governors and professional advisors

Internal auditors:

Wylie Bisset
Unit 2, Ignite
Magna Way
ROTHERHAM
South Yorkshire
S60 1FD

ICCA Education, Training and Skills
11th Floor
McLaren House
46 Priory Queensway
BIRMINGHAM
B4 7LR

Financial statements and regularity auditor:

Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
2 Broadfield Court
SHEFFIELD
S8 0XF

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

Nature, objectives and strategies

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

Legal status

On 1 February 2016, Rotherham College of Arts and Technology and North Nottinghamshire College merged to form RNN Group. On that date, the name of Rotherham College of Arts and Technology was changed to RNN Group and the assets and liabilities of North Nottinghamshire College and its subsidiaries were transferred into this Group. A further merger on 1 February 2017 saw the assets and liabilities of Dearne Valley College transfer into the RNN Group, but with the Group retaining its original name.

The Group's address is: RNN Group, Eastwood Building, Eastwood Lane, Rotherham, S65 1EG.

Our mission statement and values

The Group has made excellent progress to achieve an Ofsted grading of 'Good' and strives to assist its students, employers and local communities to achieve their ambitions. The desire to be 'Outstanding' continues to be at the heart of our mission and values:

Mission Supporting economic prosperity and social wellbeing through outstanding education and training.

This will be achieved by:

- Contributing to economic growth and productivity rises in our region
- Delivering higher-level skills and apprenticeships
- Supporting skills for entrepreneurship and business creation
- Helping people with lower-level skills or barriers enter employment
- Providing vocational routes to work, higher skills and education
- Fulfilling a civic responsibility in support of our local communities

Public Benefit

The RNN Group is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Corporation, who are trustees of the charity, are disclosed on page 12.

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

In delivering its mission, the College provides the following identifiable public benefits through its educational work:

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

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

Implementation of Strategic Plan

In 2017, RNN Group consisting of its governors, staff and stakeholders, reviewed its strategic aims in the context of coming together as a larger organisation. The strategic review highlighted five core values which set the tone for how the Group will behave and define what it wants to achieve, these being Respect, Support, Inclusion, Excellence and Partnership.

The purpose of the Group will continue to be working together to make a difference to its students and communities, and to do that to the best of the Group's abilities. The Group's vision is to become one of the UK's leading Further Education Colleges, delivering outstanding technical and professional training, helping businesses succeed and grow, and transforming the lives of its students and its communities.

There are four areas that the Group will focus on to help achieve these ambitions:

- Becoming Outstanding
- Transforming its Offer
- Building for the Future
- Having Influence and Impact.

The plan includes performance measures established by the senior leadership team, which will be regularly monitored by the Board together with improvement plans which identify actions and resources necessary to achieve the required outcomes. At the present time, the Board considers the Group has made satisfactory progress against the relevant performance measures in the short time since the most recent merger date.

Performance indicators

The College is committed to observing the importance of sector measures and indicators and uses data available on the Gov.UK website which looks at measures such as success rates for a range of subjects and types of delivery, for example apprenticeship programmes. The College is required to complete the annual Financial Record for the Education and Skills Fund Agency ("ESFA"). The College is assessed by the ESFA as having "Good" financial health grading, which is considered to be an acceptable outcome given the changes made over the last two years.

Financial position

Financial Results

The Group generated a deficit for the year of £2,449,000 (2016/17: surplus of £868,000) after tax and disposal of fixed assets.

Reconciliation of operating to underlying surplus

	2018	2017
	£'000	£'000
Surplus/(deficit) for the year after taxation	(2,449)	868
Restructuring costs	450	623
Enhanced pension provision adjustment	(131)	(149)
Negative goodwill from Dearne Valley College acquisition released	-	(1,751)
FRS 102 section 28 pension scheme related charges	3,235	2,392
Underlying surplus	<u>1,105</u>	<u>1,983</u>

At the year end, the Group has Income and Expenditure Account reserves (including pension reserves) of £18,467,000 (2016/17: £11,942,000) and cash and cash equivalents balances of £4,928,000 (2016/17: £10,462,000).

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

Tangible fixed asset additions during the year amounted to £10,490,000. This was split between assets under construction of £9,096,000, land and buildings acquired of £33,000 and equipment purchased of £1,361,000. The assets under construction relate to the construction of the new University Centre in Rotherham (UCR). The UCR was completed on 8 August 2018 and opened to Students in September 2018.

The Group has significant reliance on the ESFA for its principal funding source, largely from recurrent grants. In 2017/18, the ESFA provide 70% of the Group's total income (2016/17: 73%).

The FRS 102 Section 28 (previously referred to as "FRS17") Pension Scheme related charges do not, other things being equal, result in short term cash flows it should be noted. The Local Government Pension Scheme deficit has reduced to £17,627,000 (2016/17: £24,292,000).

Treasury policies and objectives

Treasury management is the management of the Group'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 Group has a separate treasury management policy in place. Deposit funds are invested in at least two mainstream banking institutions in order to reduce the risk of capital loss.

Short term borrowing for temporary revenue purposes is authorised by the Principal. Such arrangements are restricted by limits in the Financial Memorandum with the Education and Skills Funding Agency. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows

At £4,936,000 (2016/17: £2,952,000), net cash inflow from operating activities was strong.

Reserves policy

The College has no formal reserves policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. The College Group has no restricted reserves. At the balance sheet date, the income and expenditure reserve stands at £18,467,000 (2017: £11,942,000). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Current and future development and performance

Financial health

RNN Group received notification on 15 October 2018 from the EFSA that the assessment for the year ended 2017/18 was 'Good' financial health. The ESFA financial health assessment is based on three criteria, which are evaluated by the submission of a three-year financial plan. The operating surplus (EBITDA) is the first measure, and is the most negative aspect of the Group's assessment, with a deficit exacerbated by merger activities and costs. Borrowing levels are relatively low and therefore strengthen the financial assessment. The balance sheet (measured using an adjusted current ratio) is also a strong financial measure for the Group.

The Group submitted a three-year financial forecast to the ESFA in July 2018 and this financial plan predicts that the organisation will have good financial health in 2018/19 and increasing to outstanding in 2020/21. Although borrowing increases in 2018/19 to 24% (relating to the development of the University Centre), the adjusted current ratio continues to improve and is greater than 2 by the end of the 2019/20 financial year.

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

Student numbers

In 2017/18 the Group has delivered activity that has produced £32,334,000 in funding bodies' main allocation funding. The Group had approximately 16,486 grant funded and 2,144 non-grant funded students.

The volume of students in the 16-18 age group in 2017/18 for which funding was received from the ESFA equated to 91% of learner number allocation. For the 19+ age group, the value of activity equated to 88% of funding allocation. Employer Responsive activity equated to 92% of the funding allocation.

Curriculum developments

In 2017/18, post-merger, the college refined the curriculum offer, allowing for specialisms of provision by site, and ensuring that, at lower levels, a wide range of provision at each site existed to meet the needs of local communities. A robust curriculum mapping process has ensured that curriculum 'ladders' exist, and that the group maximises the use of specialist resources, for example, Sports provision at the Dearne Valley site. Learners on full time vocational courses were entitled to receive high quality employability training, ensuring they are ready for the world of work. The progress tutor model continues to ensure that learners get full access to three tiers of employability, including independent external work experience. The College took part in the Dfe work placement pilot in readiness for T level qualification delivery. The pilot has been particularly relevant in identifying suitable models for industrial placement activity. The College now offers new Foundation Degree and BA programmes which will enhance the College's higher education portfolio, particularly with the new University Centre opening in Rotherham in 2018.

Payment performance

The College has been through two mergers in recent years and therefore systems difficult to compare, we are also in the process of being fully rolled out across the campuses. The College recognises the importance of paying suppliers within a reasonable timescale and where invoices have been approved they are paid in line with the payment terms required by the supplier. Where an invoice is disputed, the College will not pay even if the due date has passed. The College is working towards setting a target for payments where invoices are not disputed.

Future developments

Although it will continue to be a significant income stream, the College would like to reduce dependency on the Skills Funding Agency and ESFA, and is seeking opportunities to diversify income particularly in areas such as Higher Education. The College secured grant funding support along with a loan agreement for the University Centre building scheme in Rotherham at a cost of £10,000,000 which opened on schedule in September 2018 offering degree courses, foundation degrees and higher apprenticeships to support the growth in Higher Education level skills that are much needed in the Rotherham area.

Resources

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

Estate

The Group's estate includes the:

- Rotherham Town Centre Campus
- Rawmarsh Road units in Rotherham (Leased)
- The Worksop Campus
- Shireoaks units in Worksop (Leased)
- Dinnington Campus
- Manvers Campus in Swinton
- Rockingham Centre (sold subject to contract).
- Retford Post 16 Centre (Leased)
- Idle Valley Nature Reserve Centre

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

Financial

The Group has £26,314,000 of net assets (after deducting £17,627,000 pension liability).

People

The Group employed 962 people during the year (expressed as full time equivalents), of whom 368 are teaching staff.

Reputation

The Group has a good reputation locally and nationally and in 2013 was officially recognised as “Good” with some “Outstanding” features by Ofsted. Maintaining a quality brand is essential for the Group's success at attracting students and external relationships.

Trade Union Facility Time

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

Relevant Union Officials:

Numbers of employees who were relevant union officials in the relevant period	FTE employee number

Percentage of working hours spent on facility time:

Percentage of time spent on facility time	Number of employees
0%	
1-50%	
51-99%	
100%	

Percentage of pay bill spent on facility time:

Total cost of facility time	
Total pay bill	
Percentage of total bill spent on facility time	

Paid trade union activities:

Time spent on paid trade union activities as a percentage of total paid facility time	
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Principal risks and uncertainties

The Group 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 Group's assets and reputation.

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the Group is exposed. They identify systems and procedures, including specific actions which should help to mitigate the potential impact on the Group. The internal controls are then implemented and the subsequent year's process will include the review of progress against risk mitigation actions. The Risk Management Group will also consider any risks which may arise during the Group year.

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

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

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

1 Government funding

The College has considerable reliance on continued government funding through the ESFA and HEFCE. In 2017/18, 71% of the Group's revenue was ultimately public funded and this level of requirement is expected to continue. There has been no increase in the funding rate for 16-19 year old learners for some time and there can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The Group is aware of significant issues which will impact on future funding and finances, or could impact on reputation:

- Pressure on government funding of further education, particularly for non-apprenticeship delivery is expected to continue for the foreseeable future.
- The lower levels of recruitment of 16-18 year-old study programme learners that are resulting in significantly lower income under the lagged funding model.
- The significant competition from schools and academies in the 16-18 year-old market
- The changes to the funding of apprenticeships both in terms of apprenticeships levy and funding available.
- The uncertainty of the structure and resource requirement of T level qualifications

These risks are mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training with the aim of gaining Ofsted at least Good status. This will benefit learners and also help to maximise College recruitment and income.
- Remaining responsive to changing circumstances.
- Ensuring the College is focused on those sectors that are a priority for employers which will continue to benefit from public funding.
- Develop new Curriculum Strategy to reflect expectations and opportunities of Technical and Professional Education routes.
- Establish RNN as primary Apprenticeship delivery partner for employers within catchment and wider SCR.
- Continue to develop the Higher Education and Skills offer, focussed on Higher Apprenticeships and other employer related skills needs.
- Funding is derived through a number of direct and indirect contractual arrangements.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies.
- Regular dialogue with the ESFA.
- Endeavouring to identify compensatory income improvements and cost reductions to mitigate the net impact on the College.

2 Tuition fee policy

In line with the majority of other Colleges, the Group seeks to increase tuition fees in accordance with the fee assumptions. The risk for the Group is that demand falls off as fees increase. This will impact on the growth strategy of the Group.

This risk is mitigated in a number of ways:

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

3 Maintain adequate funding of pension liabilities

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

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

Stakeholder relationships

In line with other Colleges and with Universities, RNN Group has many stakeholders. These include:

- Students
- Education sector funding bodies
- Staff
- Local employers (with specific links)
- Local Authorities
- Government Offices/ Regional Development Agencies/ Local Enterprise Partnerships
- The local community
- Local schools and academies
- Other Further Education institutions
- Higher Education institutions
- Trade unions and
- Professional bodies

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

Equality, Diversity and Inclusion (EDI)

The Group believes that all forms of prejudice and discrimination are unacceptable. The Group is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, religion, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Single Equality Scheme, including its Race Relations and Transgender Policies, is published on the College's internet site.

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

The Group has an EDI Management Group comprised of senior members of staff and a Governor 'Champion'. This group meets termly to consider all aspects of EDI and looks at strategies for continuous improvement. In addition, there is an EDI Committee, with representatives from across the organisation, which works hard to implement strategies to improve the learning and work environment for all.

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 Group'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 Group's auditors are aware of that information.

Approved by order of the members of the Corporation on 12 December 2018 and signed on its behalf on 18 December 2018 by:



Atholl Stott
Chair of the Corporation

Statement of Corporate Governance and Internal Control

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

The Group endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in 'The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- iii. having due regard to the UK Corporate Governance Code 2014 ("the Code") insofar as it is applicable to the further education sector.

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

In the opinion of the Governors, the Board 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 2018. The Board recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in October 2012.

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

Statement of Corporate Governance and Internal Control

The Corporation

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

Name	Date of appointment /reappointment	Current term of office	Date of resignation	Committees served	Status of appointment	Attendance
John Connolly	01/04/2007	When ceases to be Principal	11/10/18	Search Remuneration	CEO/Principal	100%
Atholl Stott (Chair)	01/09/2016	2 year		Search Remuneration	External	100%
Stephen Smith (Vice Chair)	01/09/2016	2 year		Search & Gov Remuneration	External	60%
Leanne Adams	01/02/2017	18 months	31/07/18		Staff	78%
Emma Barnett	01/02/2017	11 months	14/12/17		Staff	50%
Catherine Burn	01/09/2016	2 year		Search Remuneration	External	70%
Darren Buxton	01/02/2017	18 months		Audit Committee	External	85%
Ian Knowles	01/09/2016	2 years		Audit Committee	External	69%
Anne Nortcliffe	01/02/2017	18 months		Strategic Quality Group	External	79%
David Smith	01/09/2016	20 months	18/04/18	Strategic Quality Group	External	90%
Chris Stanbra	01/09/2016	2 years	31/08/18	Audit Committee	External	62%
Kathy Wood	01/09/2016	1 year	18/04/18 LOA	Strategic Quality Group	External	70%
Angela Philips	10/05/18	2 years		Audit Committee	External	75%
Helen Groves	08/02/18	1 year		Strategic Quality Group	External	71%
Sophie Sims	01/04/2018	1 year		N/A	Student	20%

Tony De'Ath acted as Clerk to the Corporation of RNN Group from 1 August 2017 to 31 July 2018.

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 regularly through the year.

Statement of Corporate Governance and Internal Control

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

RNN Group
Eastwood Lane
Rotherham
S65 1EG

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 Group'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 Chair of the Corporation and Principal of the Group are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance Committee comprising of up to six members who 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.

Statement of Corporate Governance and Internal Control

Audit Committee

The Audit Committee comprises up to seven members of the Corporation (who exclude the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the Group's system of internal control and its arrangements for risk management, control and governance processes.

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

The Group's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

Internal Control

Scope of responsibility

The Corporation is ultimately responsible for the Group'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 Group's policies, aims and objectives whilst safeguarding the public funds and assets for which they are personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between RNN Group and the Funding Bodies. The Principal is also responsible for reporting to the Corporation any material weaknesses or break-downs 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 on-going process designed to identify and prioritise the risks to the achievement of Group 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 at RNN Group for the year ended 31 July 2018 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 Group 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 on-going process for identifying, evaluating and managing the Group's significant risks that has been in place for the period ending 31 July 2018 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, administration procedures including the segregation of duties, and a system of delegation and accountability. This includes, in particular:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Corporation.
- Regular reviews by the Corporation of periodic and annual financial reports which indicate financial performance against budgets.

Statement of Corporate Governance and Internal Control

- Setting targets to measure financial and other performance.
- Clearly defined capital investment control guidelines.
- The adoption of formal project management disciplines, where appropriate.

The Group has an internal audit service which operates in accordance with requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the Group 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.

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

Review of effectiveness

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

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

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

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

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the Group 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".

On 11 October 2018, the incumbent Principal and Accounting Officer, John Connolly stepped down from the College. An Interim Principal and Accounting Officer, Jason Austin, was appointed by the Board on 14 November 2018.

Going concern

After making appropriate enquiries, the Corporation considers that the Group 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.

Approved by order of the members of the Corporation on 12 December 2018 and signed on its behalf on 18 December 2018 by:



Atholl Stott
Chair of the Corporation



Jason Austin
Interim Principal

Corporation's statement of the College's regularity, Propriety and Compliance with the Funding Body Terms and Conditions of funding


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

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

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



Atholl Stott
Chair of the Corporation



Jason Austin
Interim Principal

18 December 2018

Statement of the responsibilities of the members of the Corporation

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

Within the terms and conditions of the Financial Memorandum with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction for 2017/18 issued by the ESFA, which give a true and fair view of the state of affairs of the Group and the result for that year.

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

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

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

Requirement to prepare members report

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to 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 to safeguard assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Approved by order of the members of the Corporation 12 December 2018 and signed on its behalf on 18 December 2018 by:



Atholl Stott
Chair of the Corporation

Independent auditor's report to the Corporation of RNN Group

Opinion

We have audited the financial statements of RNN Group (the 'parent' College) and its subsidiaries (the 'group') for the year ended 31 July 2018 which comprise the Consolidated statement of comprehensive income, the Consolidated and College statement of changes in reserves, the Balance Sheets, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent College's affairs as at 31 July 2018 and of the Group's deficit of income over expenditure and parent College's deficit of income over expenditure for the year then ended; and
- have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice – Accounting for Further and Higher Education issued in March 2014.

Basis for opinion

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

Who are we reporting to

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

Conclusions relating to going concern

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

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

Other information

The Corporation is responsible for the other information. The other information comprises the information included in the annual report, set out on pages 4 to 17 other than the financial statements and our auditor's report thereon. The Corporation is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



Independent auditor's report to the Corporation of RNN Group

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the RNN Group; or
- the RNN Group annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Corporation for the financial statements

As explained more fully in the Statement of the responsibilities of the members of the Corporation set out on page 17, the College's Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
SHEFFIELD
18 December 2018

Independent Accountant's Report on Regularity to the Corporation of RNN Group and Secretary of State for Education acting through Skills Funding Agency and Education Funding Agency

In accordance with the terms of our engagement letter dated 2 July 2018 and further to the requirements and conditions of funding in ESFA's grant funding agreements and contracts we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that, in all material respects, the expenditure disbursed and income received by RNN Group during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of RNN Group and ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of RNN Group and ESFA those matters we are required to state in a limited assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of RNN Group, as a body, and ESFA, as a body, for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of RNN Group and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that, in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by ESFA. We performed a limited assurance engagement as defined in that framework.

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

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters



Independent Accountant's Report on Regularity to the Corporation of RNN Group and Secretary of State for Education acting through Skills Funding Agency and Education Funding Agency

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

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

The work undertaken to draw our conclusion includes:

- an assessment of the risk of material irregularity and impropriety across the college's activities;
- evaluation of the processes and controls established and maintained in respect of regularity and propriety for the use of public funds through observation of the arrangements in place and enquiries of management;
- consideration and corroboration of the evidence supporting the Accounting Officer's statement on regularity, propriety and compliance and that included in the self-assessment questionnaire (SAQ); and
- limited testing, on a sample basis, of income and expenditure for the areas identified as high risk and included on the SAQ.

Conclusion

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

Carole M. W. W.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield

18 December 2018

Consolidated statement of comprehensive income

	Note	2018 £'000	2017 £'000
Income			
Funding body grants	2	32,334	33,558
Tuition fees and education contracts	3	7,326	6,708
Other income	4	4,792	5,015
Release of negative goodwill		-	1,751
Investment income	5	15	20
Total income		<u>44,467</u>	<u>47,052</u>
Expenditure			
Staff costs	6	31,765	31,281
Other operating expenses	8	11,837	11,482
Depreciation	12	2,758	2,512
Amortisation	13	20	20
Interest and other finance costs	9	825	862
Total expenditure		<u>47,205</u>	<u>46,157</u>
(Deficit)/Surplus before other gains and losses		(2,738)	895
Gain/(loss) on disposal of assets		266	(3)
(Deficit)/Surplus before tax		<u>(2,472)</u>	<u>892</u>
Taxation	10	23	(24)
(Deficit)/Surplus after tax		<u>(2,449)</u>	<u>868</u>
Other comprehensive income			
Actuarial gain in respect of pension scheme	20	8,792	5,022
Total comprehensive income for the year		<u><u>6,343</u></u>	<u><u>5,890</u></u>

The above activities relate to continuing operations.

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

Consolidated and College statement of changes in reserves

Group	Income and expenditure reserve £'000	Revaluation Reserve £'000	Total £'000
Balance at 1 August 2016	5,822	8,259	14,081
Surplus from the income and expenditure account	868	-	868
Other comprehensive income	5,022	-	5,022
Total comprehensive income for the year	5,890	-	5,890
Transfers between revaluation and income and expenditure reserves	230	(230)	-
Balance at 31 July 2017	11,942	8,029	19,971
Deficit from the income and expenditure account	(2,449)	-	(2,449)
Other comprehensive income	8,792	-	8,792
Total comprehensive income for the year	6,343	-	6,343
Transfers between revaluation and income and expenditure reserves	182	(182)	-
Balance at 31 July 2018	18,467	7,847	26,314
 College	 Income and expenditure reserve £'000	 Revaluation reserve £'000	 Total £'000
Balance at 1 August 2016	5,886	8,259	14,145
Surplus from the income and expenditure account	591	-	591
Other comprehensive income	5,022	-	5,022
Total comprehensive income for the year	5,613	-	5,613
Transfers between revaluation and income and expenditure reserves	230	(230)	-
Balance at 31 July 2017	11,729	8,029	19,758
Deficit from the income and expenditure account	(2,633)	-	(2,633)
Other comprehensive income	8,792	-	8,792
Total comprehensive income for the year	6,159	-	6,159
Transfers between revaluation and income and expenditure reserves	182	(182)	-
Balance at 31 July 2018	18,070	7,847	25,917

Balance Sheets

	Note	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Non current assets					
Fixed asset investments	11	-	-	350	350
Tangible assets	12	55,505	47,825	54,248	46,673
Intangible assets	13	-	20	-	-
		<u>55,505</u>	<u>47,845</u>	<u>54,598</u>	<u>47,023</u>
Current assets					
Stocks		12	10	11	9
Trade and other receivables: amounts due after more than one year	14	-	-	826	1,153
Trade and other receivables: amounts due within one year	14	2,737	2,938	2,486	2,864
Cash and cash equivalents	19	4,928	10,462	4,040	9,721
		<u>7,677</u>	<u>13,410</u>	<u>7,363</u>	<u>13,747</u>
Creditors: amounts falling due within one year	15	<u>(12,294)</u>	<u>(9,579)</u>	<u>(11,470)</u>	<u>(9,312)</u>
Net current (liabilities)/assets		<u>(4,617)</u>	<u>3,831</u>	<u>(4,107)</u>	<u>4,435</u>
Total assets less current liabilities		<u>50,888</u>	<u>51,676</u>	<u>50,491</u>	<u>51,458</u>
Creditors: amounts falling due after one year	16	<u>(3,946)</u>	<u>(4,157)</u>	<u>(3,946)</u>	<u>(4,157)</u>
		<u>46,942</u>	<u>47,519</u>	<u>46,545</u>	<u>47,301</u>
Provisions					
Other provisions	18	(3,001)	(3,256)	(3,001)	(3,251)
Defined benefit obligations	18	(17,627)	(24,292)	(17,627)	(24,292)
		<u>(20,628)</u>	<u>(27,548)</u>	<u>(20,628)</u>	<u>(27,543)</u>
Total net assets		<u>26,314</u>	<u>19,971</u>	<u>25,917</u>	<u>19,758</u>
Reserves					
Income and expenditure account		18,467	11,942	18,070	11,729
Revaluation reserve		7,847	8,029	7,847	8,029
Total		<u>26,314</u>	<u>19,971</u>	<u>25,917</u>	<u>19,758</u>

The financial statements on pages 26 to 48 were approved by the Corporation on 12 December 2018 and were signed on its behalf on 18 December 2018 by:



Atholl Stott
Chair of the Corporation



Jason Austin
Interim Principal

Consolidated Statement of Cash Flows

	Note	2018 £'000	2017 £'000
Cash inflow from operating activities			
(Deficit)/surplus for the year		(2,449)	868
Adjustment for non-cash items			
Depreciation		2,758	2,512
Amortisation of goodwill and other intangibles		20	20
Release of negative goodwill		-	(1,751)
Decrease in debtors		201	862
(Increase)/decrease in stocks		(2)	25
Increase/(decrease) in creditors due within one year		2,739	(740)
Decrease in other provisions		(367)	(369)
Pension costs	20	2,997	2,425
Contributions payable		(1,482)	(1,769)
Adjustment for investing or financing activities and taxation			
Tax on profit on ordinary activities		(23)	24
Investment income		(15)	(20)
Interest payable		825	862
(Gain)/loss on sale of fixed assets		(266)	3
Net cash inflow from operating activities		<u>4,936</u>	<u>2,952</u>
Cash flows from investing activities			
Net cash from acquisition of Dearne Valley College		-	1,451
Payments made to acquire tangible fixed assets		(10,490)	(1,773)
Investment income		15	20
Proceeds from sale of fixed assets		318	-
		<u>(10,157)</u>	<u>(302)</u>
Cash flows from financing activities			
Interest paid		(102)	(150)
New secured loan		-	4,430
Repayments of amounts borrowed		(211)	(4,975)
Payment of finance leases		-	(92)
		<u>(313)</u>	<u>(787)</u>
(Decrease)/increase in cash and cash equivalents in the year		(5,534)	1,863
Cash and cash equivalents beginning of the year	19	<u>10,462</u>	<u>8,599</u>
Cash and cash equivalents at end of the year	19	<u>4,928</u>	<u>10,462</u>

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

Notes to the financial statements

1 Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements are prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), The College Accounts Direction for 2016 to 2017 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

The financial statements are presented in Sterling (£'000).

Going concern

The activities of the Group, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the Group, its cash flow, liquidity and borrowings are described in the financial statements and accompanying notes.

The Group currently has £4.1m of loans outstanding with Lloyds Bank plc on terms recently negotiated in 2017. The term of the loan is 5 years. The Group'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 Group 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 the financial statements.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, Rotherham Education Services Limited, Aston Recruitment and Training Limited, Charnwood Training Group Limited, Create Skills Limited and National Fluid Power Centre Limited controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Under the purchase method of accounting, the results of subsidiary and associated undertakings acquired or disposed of during the year are included in the Consolidated Income and Expenditure Account from or up to the date on which control of the undertaking passes. Intra-group sales and profits are eliminated fully on consolidated. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2018.

Business combination accounting

Where the combination of entities meets the requirements to be a merger the results of the combining entities are shown as if the entities had always been combined. Where the combination does not fall to be classified as a merger, acquisition accounting is used. Acquisition accounting incorporates the results of acquired operations in the Statement of Comprehensive Income the date of acquisition. The Balance Sheet, assets and liabilities are initially recognised at their fair value at acquisition date.

All costs associated with the combinations are charged as an expense in the period incurred.

Where the fair value of net assets acquired is higher than the consideration paid the difference is classified as negative goodwill. Where the consideration is higher than the fair value of assets acquired then the difference is classified as goodwill.

Notes to the financial statements

1 Statement of accounting policies and estimation techniques (continued)

Recognition of income

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the Income and Expenditure Account.

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the Income and Expenditure Account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred income and released when all performance conditions have been met.

Where the Group receives and disburses funds in which it has no direct beneficial interest, such funds are excluded from the Income and Expenditure Account on the grounds that the Group does not have direct control over the future economic benefits derived from these funds. The Group has applied this policy to certain funds received during the year from the funding bodies (see note 25).

Income from tuition fees is recognised in the period for which it is receivable and includes all fees payable by students or their sponsors.

Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met, or the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the Income and Expenditure Account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the Income and Expenditure Account to accumulated income within endowment funds.

Capital grants

Government and non-government capital grants are recognised as income when the group is entitled to the funds subject to any performance related conditions being met.

Accounting for post-retirement benefits

Retirement 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 schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS). Contributions to the TPS are charged as incurred. 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 and Expenditure Account in the periods during which services are rendered by employees.

The TPS is an unfunded scheme. Contributions to the TPS scheme 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 quinquennial valuations using a prospective benefit method.

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 liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in Other Comprehensive Income.

Notes to the financial statements

1 Statement of accounting policies and estimation techniques (continued)

Further details of the pension schemes are given in note 20.

Short term Employment benefits

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

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a College annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the Income and Expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current assets - tangible fixed assets

Land and buildings

Land and buildings inherited from the Local Education Authority are stated in the Balance Sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Land and buildings acquired since incorporation are included in the Balance Sheet at cost. Freehold land is not depreciated as it is considered to have an infinite useful life. Freehold buildings are depreciated over their expected useful economic life to the Group of up to 60 years. The Group has a policy of depreciating major adaptations to buildings over the remaining useful economic life of each respective building.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are released to the statement of comprehensive income when all performance conditions have been met.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

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(s) may not be recoverable.

On adoption of FRS 15, the College followed the transitional provisions to retain the book value of land and buildings, which were re-valued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

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. Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the Income and Expenditure Account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Assets capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the assets life beyond that conferred by repairs and maintenance

Notes to the financial statements

1 Statement of accounting policies and estimation techniques (continued)

Buildings owned by third parties

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

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

Equipment

Equipment costing less than £1,000 per individual item (except in the case of IT) is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Equipment is depreciated over its useful economic life as follows:

Motor vehicles	-	6 years
Computer equipment	-	3 years or 6 years
General equipment	-	8 years or 15 years
Education, office and catering equipment	-	3 years
Furniture	-	10 years
Fixtures and fittings	-	10 years

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy. The related grants are released to the statement of comprehensive income when all performance conditions have been met.

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

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term to the Income and Expenditure Account. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The relevant assets are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

Borrowing costs

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

Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual Financial Statements.

Notes to the financial statements

1 Statement of accounting policies and estimation techniques (continued)

Financial liabilities and equity

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

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

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 items.

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 year with all resulting exchange differences being taken to the Income and Expenditure Account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 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.

The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks and building societies and government securities.

Provisions

Provisions are recognised when the Group 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.

Cash and cash equivalents

Cash for the purposes of the Statement of Cash Flows comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Notes to the financial statements

1 Statement of accounting policies and estimation techniques (continued)

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the ESFA, and subsequent disbursements to students are excluded from the Income and Expenditure Account and are shown separately in note 25 except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

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 Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risk and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the Group's tangible assets, 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.
- The selection of the policy for accounting for capital grants on the basis of the performance model requires the judgement to be made as to whether the performance conditions have been met.

Other key sources of estimation uncertainty:

- Tangible fixed assets

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposed values. In preparing these statements, management have used the transitional fair value as deemed cost provisions of FRS 102 to revise the valuation of fixed assets in respect of the land and RNN Group's properties. The restated asset valuation now recognises the non-depreciating and value inherent in RNN Group's property assets at current market rates.

- Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 20 will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount on the pension liability.

Notes to the financial statements

2 Funding body grants

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Recurrent grants				
Education and Skills Funding Agency – Adult and Apprenticeship (SFA)	12,729	14,412	12,729	14,412
Education and Skills Funding Agency – 16-18 (EFA)	18,418	18,371	18,418	18,371
HEFCE	514	519	514	519
Non recurrent grants				
Education and Skills Funding Agency	-	31	-	31
Other funding body grants	511	174	511	174
HEFCE	30	8	30	8
Co-financed ESF	56	-	58	-
Releases of deferred capital grants	76	43	76	43
	<u>32,334</u>	<u>33,558</u>	<u>32,336</u>	<u>33,558</u>

3 Tuition fees and education contracts

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Tuition fees	5,801	5,391	4,583	4,287
Education contracts	1,525	1,317	1,524	1,317
	<u>7,326</u>	<u>6,708</u>	<u>6,107</u>	<u>5,604</u>

4 Other income

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Catering, residence and conferences	58	109	58	109
Exams	7	22	7	22
Income generating activities	4,000	4,002	4,019	4,002
Release from other deferred capital grants	92	-	92	-
Other grants	635	882	566	801
Intercompany recharge	-	-	867	841
	<u>4,792</u>	<u>5,015</u>	<u>5,609</u>	<u>5,775</u>

5 Investment income

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Other interest receivable	15	20	14	19
Intercompany interest (NFPC)	-	-	18	17
	<u>15</u>	<u>20</u>	<u>32</u>	<u>36</u>

Notes to the financial statements

6 Staff costs – Group

The average monthly number of persons (including key management personnel) employed by the Group during the period, expressed as full time equivalents, was:

	2018 Number	2017 Number
Teaching staff	368	408
Non-teaching staff	594	586
	<u>962</u>	<u>994</u>

The numbers above do not include estimates of the staff numbers employed through contracting out arrangements.

Staff costs for the above persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	22,326	22,998
Social security costs	2,022	1,980
Other pension costs	2,939	3,283
Charge to income statement less cash contributions	1,515	656
Enhanced pension provision adjustment (note 18)	(131)	(149)
Payroll sub total	<u>28,671</u>	<u>28,768</u>
Contracted out lecturing services	1,312	1,006
Contracted out other staffing services	1,332	884
	<u>31,315</u>	<u>30,658</u>
Restructuring costs	450	623
	<u>31,765</u>	<u>31,281</u>

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Senior Leadership Team, which comprises the Principal, Deputy Principal, Vice Principal Curriculum & Quality, Director of Finance, Director of Funding and Contracts, Commercial Director, Director of Quality, Director of Estates and IT, Assistant Principal, Director of Higher Education and Skills and the Director of Human Resources.

	2018 Number	2017 Number
The number of Key Management Personnel including the Accounting Officer was	<u>14</u>	<u>16</u>

Notes to the financial statements

7 Key Management Personnel Emoluments

The number of staff, including senior post-holders and other staff, who received annual emoluments, excluding pension contribution and employer's national insurance but including benefits in kind, in the following ranges was:

	2018 Number of senior post- holders	2018 Number of Other staff	2017 Number of senior post- holders	2017 Number of Other staff
£1 to £10,000	1	-	-	-
£10,001 to £20,000	-	-	-	-
£20,001 to £30,000	-	2	-	2
£30,001 to £40,000	-	-	1	-
£40,001 to £50,000	-	1	-	-
£50,001 to £60,000	-	5	-	5
£60,001 to £70,000	1	-	-	-
£70,001 to £80,000	1	-	2	-
£80,001 to £90,000	1	-	2	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	-	-	-	-
£140,001 to £150,000	1	-	1	-
£150,001 to £160,000	-	-	-	-
£160,001 to £170,000	-	-	-	-
£170,001 to £180,000	1	-	-	-

Senior post holders are defined as members of the senior leadership team.

	2018 Number	2017 Number
The number of senior post-holders including the Principal was:	<u>6</u>	<u>6</u>

Key Management Personnel emoluments are made up as follows:

	2018 £'000	2017 £'000
Emoluments	922	824
Employer's National Insurance	104	93
Pensions costs	<u>113</u>	<u>112</u>
	<u>1,139</u>	<u>1,029</u>

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	2018 £'000	2017 £'000
Emoluments – current Principal	142	144
Pensions costs – current Principal	<u>19</u>	<u>17</u>
	<u>161</u>	<u>161</u>

In October 2018, John Connolly stepped down from the business at which point he received emoluments totalling £150,000 including payment in lieu of notice, entitled holiday pay and early access to pension funds.

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and Local Government Pension Scheme and are paid at the same rate as for other employees.

Notes to the financial statements

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

8 Other operating expenses

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Teaching costs	5,882	6,363	8,104	9,314
Non-teaching costs	3,262	2,892	2,804	2,538
Premises costs	2,693	2,227	2,456	2,119
	<u>11,837</u>	<u>11,482</u>	<u>13,364</u>	<u>13,971</u>
			2018 £'000	2017 £'000
Other operating expenses include:				
Auditors' remuneration				
Financial statements audit			59	49
Other services provided by the financial statement auditor			27	4
Internal audit			19	43
Hire of plant and machinery – operating leases			184	75
Hire of other assets – operating leases			164	93
			<u>453</u>	<u>264</u>

9 Interest and other finance costs – Group and College

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
On bank loans, overdrafts and other loans:				
Repayable wholly or partly in more than five years	102	150	102	150
Pension finance costs	723	712	723	712
	<u>825</u>	<u>862</u>	<u>825</u>	<u>862</u>

Pension finance cost includes amounts relating to Enhanced Pension Provision of £112,000 (2016/17: £101,000).

Notes to the financial statements

10 Taxation – Group only

Whilst the College's activities in the year are exempt from corporation tax, the subsidiaries have incurred a tax (credit)/charge which is shown within the Consolidated Income and Expenditure Account.

The tax (credit)/charge represents:

	2018 £'000	2017 £'000
(Deficit)/surplus on ordinary activities before tax	<u>(2,472)</u>	<u>892</u>
Tax on (loss)/profit on ordinary activities at standard corporation tax rate of 19% (2017: 20%)	(470)	178
Effect of:		
Fixed asset difference	5	(5)
Other timing differences	-	(2)
Amounts in College not deductible	369	(4)
Adjustment to deferred tax rates	12	-
Adjustments in respect of previous periods	(23)	-
Deferred tax not recognised	84	-
Unrelieved tax losses	-	(143)
Total tax (credit)/charge for the year	<u>(23)</u>	<u>24</u>

11 Fixed asset investments

The College

	Shares in subsidiary undertakings £'000
Cost	
At 1 August 2017 and at 31 July 2018	619
Provisions	
At 1 August 2017 and at 31 July 2018	<u>269</u>
Net book value at 31 July 2018	<u>350</u>
Net book value at 31 July 2017	<u>350</u>

Notes to the financial statements

11 Fixed asset investments (continued)

At 31 July 2018, the group held 20% or more of the allotted share capital of the following:

Subsidiary undertakings	Country of incorporation	Class of share held	Proportion held	Nature of business
Aston Recruitment & Training Limited	England and Wales	Ordinary	100%	Provider of education and training
Retford International College Limited	England and Wales	Ordinary	100%	Dormant
National Fluid Power Centre Limited	England and Wales	None	N/A	Provider of education and training
Create Skills Limited	England and Wales	Ordinary	100%	Provider of education and training
Charnwood Training Group Limited	England and Wales	Ordinary	100%	Provider of education and training
Rotherham Education Services Limited	England and Wales	Ordinary	100%	Provider of agency staff to the Group

Retford International College Limited is the sole member of Retford College Limited and therefore the Corporation indirectly controls its activities. Both companies are dormant.

National Fluid Power Centre Ltd (previously North Notts Create Limited), a company limited by guarantee and without any share capital, is treated as a subsidiary as it is indirectly controlled by the Corporation and its activities are conducted for the benefit of the College.

12 Tangible fixed assets

The Group

	Freehold land and buildings £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 August 2017	56,992	22,974	932	80,898
Additions	33	1,361	9,096	10,490
Acquisitions	-	-	-	-
Transfers	(63)	158	(95)	-
Disposals	(75)	(43)	-	(118)
At 31 July 2018	56,887	24,450	9,933	91,270
Depreciation				
At 1 August 2017	14,877	18,196	-	33,073
Charge for the year	1,591	1,167	-	2,758
Transfers	48	(48)	-	-
Eliminated in respect of disposals	(34)	(32)	-	(66)
At 31 July 2018	16,482	19,283	-	35,765
Net book amount at 31 July 2018	40,405	5,167	9,933	55,505
Net book amount at 31 July 2017	42,115	4,778	932	47,825

Notes to the financial statements

12 Tangible fixed assets (continued)

The College

	Freehold land and buildings £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 August 2017	55,597	21,631	933	78,161
Additions	33	1,153	9,096	10,282
Acquisitions	-	-	-	-
Transfers	(62)	158	(96)	-
Disposals	(75)	-	-	(75)
At 31 July 2018	55,493	22,942	9,933	88,368
Depreciation				
At 1 August 2017	14,394	17,094	-	31,488
Charge for the year	1,563	1,103	-	2,666
Transfers	48	(48)	-	-
Eliminated in respect of disposals	(34)	-	-	(34)
At 31 July 2018	15,971	18,149	-	34,120
Net book amount at 31 July 2018	39,522	4,793	9,933	54,248
Net book amount at 31 July 2017	41,203	4,537	933	46,673

Land and buildings with a net book value of £4,150,000 (2016/17: £4,331,000) have been partly financed from exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council, to surrender the proceeds. The 2016/17 net book value has been restated from £3,993,000 as it has subsequently come to light that assets with a net book value of £338,000 should have been included.

Tangible fixed assets inherited from the Local Education Authority on incorporation have been valued by the Corporation on a depreciated replacement costs basis, with the assistance of independent professional advice. As set out in the policy note, the Group carries inherited assets at an inherited valuation. The assets were valued at £4,246,000 on incorporation.

A building with a net book value of £445,900 (2016/17: £458,640) has been financed by Surestart project funds. Should these assets be sold or cease to be used for Surestart purposes, the College may be liable under the terms of the Surestart agreement to repay all or part of the funding.

Notes to the financial statements

13 Intangible Assets

Group

	Goodwill £'000	Course Development £'000	Subtotal – Goodwill & Course Development £'000	Negative Goodwill £'000	Total £'000
Cost					
At 1 August 2017 and at 31 July 2018	525	60	585	(1,751)	(1,166)
Amortisation					
At 1 August 2017	525	40	565	(1,751)	(1,186)
Amortised in the year	-	20	20	-	20
At 31 July 2018	525	60	585	(1,751)	(1,166)
Net book value at 31 July 2018	-	-	-	-	-
Net book value at 31 July 2017	-	20	20	--	20

The negative goodwill relates to the acquisition of Dearne Valley College on the 1 February 2017. RNN group was not required to pay any consideration for the acquisition and therefore consider the nature of the acquisition to be a gift.

The goodwill relates to the acquisition of Charnwood Training Group Limited on 14 October 2014 for a consideration of £2. An adjustment was included to write off the goodwill in its entirety in 2015.

14 Debtors

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Amounts falling due within one year:				
Trade receivables	603	722	407	515
Amounts owed by group undertaking	-	-	200	209
Other debtors	354	855	350	795
Amounts owed by the ESFA	1,078	929	1,078	929
Prepayments and accrued income	702	432	451	416
	2,737	2,938	2,486	2,864
Amounts falling due after more than one year:				
Amounts owed by group undertaking	-	-	826	1,153
	2,737	2,938	3,312	4,017

Notes to the financial statements

15 Creditors: amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Trade payables	1,724	824	1,314	720
Amounts owed to subsidiary undertakings	-	-	428	757
Other taxation and social security	634	252	461	57
Accruals and deferred income	8,302	5,443	7,633	4,742
Other amounts owed to the ESFA	1,381	2,783	1,381	2,783
Bank loans (note 17)	225	225	225	225
Corporation tax	-	24	-	-
Other loans (note 17)	28	28	28	28
	<u>12,294</u>	<u>9,579</u>	<u>11,470</u>	<u>9,312</u>

16 Creditors: amounts falling due after one year

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Bank loan (note 17)	3,924	4,107	3,924	4,107
Other loans (note 17)	22	50	22	50
	<u>3,946</u>	<u>4,157</u>	<u>3,946</u>	<u>4,157</u>

The bank loan is secured on the freehold land and buildings at the Dinnington Campus.

In the prior period, other loans were not separately disclosed (included within bank loans). This has been corrected with no impact on total creditors.

17 Maturity of debt

	Group 2018 £'000	Group 2017 £'000	College 2018 £'000	College 2017 £'000
Loans are repayable as follows:				
In one year or less	253	253	253	253
Between one and two years	247	253	247	253
Between two and 5 years	675	697	675	697
In five years or more	3,024	3,207	3,024	3,207
	<u>4,199</u>	<u>4,410</u>	<u>4,199</u>	<u>4,410</u>

During 2016/17, the Group agreed a new debt facility with Lloyds Bank. The loan facility is up to £4,430,000, and is secured on the freehold land and buildings of the Dinnington Campus. The facility is repayable in instalments up until March 2022 with interest rates set at Libor plus 1.41%. This loan facility was used to pay down and consolidate the previous loans held by the Group including Dearne Valley College loans.

The Group has a further facility with Lloyds Bank for £6,000,000 which is currently undrawn. This facility will be used to support the construction costs of the new University Centre in Rotherham, and it is expected that it will be drawn in winter 2018.

Notes to the financial statements

18 Provisions for liabilities

Group

	Defined benefit obligations £'000	Enhanced pensions £'000	Other Provisions £'000	Total £'000
At 1 August 2017	24,292	3,221	35	27,548
Payments in the period	(1,482)	(231)	-	(1,713)
Income and expenditure account	2,997	(131)	(5)	2,861
Interest	612	112	-	724
Actuarial gain	(8,792)	-	-	(8,792)
At 31 July 2018	<u>17,627</u>	<u>2,971</u>	<u>30</u>	<u>20,628</u>

College

	Defined benefit obligations £'000	Enhanced pensions £'000	Other Provisions £'000	Total £'000
At 1 August 2017	24,292	3,221	30	27,543
Payments in the period	(1,482)	(231)	-	(1,713)
Income and expenditure account	2,997	(131)	-	2,866
Interest	612	112	-	724
Actuarial gain	(8,792)	-	-	(8,792)
At 31 July 2018	<u>17,627</u>	<u>2,971</u>	<u>30</u>	<u>20,628</u>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in note 20.

Enhanced Pensions relate to ongoing liabilities for early retirements in the 1990s. The principal assumptions for this calculation are:

	2018	2017
Price inflation	2.3%	2.3%
Discount rate	1.3%	1.3%

Other Provisions of £30,000 (2017: £30,000) relate to a liability for European funds that may have to be repaid.

19 Cash and cash equivalents

Group

	At 1 August 2017 £'000	Cash flows £'000	Other charges £'000	At 31 July 2018 £'000
Cash at bank	10,462	(5,534)	-	4,928

College

	At 1 August 2017 £'000	Cash flows £'000	Other charges £'000	At 31 July 2018 £'000
Cash at bank	9,721	(5,681)	-	4,040

Notes to the financial statements

20 Defined benefit obligations

The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). Both are multi-employer defined benefit plans. The total pension cost for the period is set out below:

	2018 £'000	2017 £'000
Teachers' pension scheme contributions	1,219	1,547
Local Government Pension Scheme:		
Current service cost	2,915	2,392
Past service cost	26	-
Curtailments	19	-
Administration expenses	37	-
Surestart pension scheme	224	-
Subsidiary pension schemes	14	-
Charge to the statement of comprehensive income	3,235	2,392
Enhanced pension charge to the statement of comprehensive income	(131)	(149)
Total pension cost for year within staff costs	4,323	3,790

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

Contributions amounting to £357,303 (2017: £26,644) were payable to the schemes and are included in creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Valuation of The Teachers' Pension Scheme

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

- new employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities 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 was implemented in September 2015.

Notes to the financial statements

20 Defined benefit obligations (continued)

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.

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 £1,219,000 (2017: £1,547,000).

FRS 102 (28)

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

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

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by South Yorkshire Pensions Authority. The total contributions made for the year ended 31 July 2018 were £2,060,000, of which employer's contributions totalled £1,482,000 and employees' contributions totalled £578,000. The agreed contribution rates for future years are 14.2% for employers and range from 5.5% and 12.5% (50/50 scheme: 2.75% to 6.25%) for employees, depending on salary.

A recent High Court ruling found Guaranteed Minimum Pensions (GMPs) must be equalised between men and women, and that past underpayments must be corrected. Employers, such as the College, with a defined benefit pension scheme and contracted out of the State Second Pension from 17 May 1990 to 5 April 1997 are covered by the ruling, and will be impacted by increased defined benefit pension obligations. The specific impact on the College is unknown.

Principal actuarial assumptions

	RNN At 31 July 2018 %	RNN At 31 July 2017 %
Inflation (CPI)	2.1	2.2
Rate of increase in salaries	2.1	2.2
Rate of increase in pensions	2.1	2.2
Discount rate for liabilities	2.9	2.6

Notes to the financial statements

20 Defined benefit obligations (continued)

On advice from our actuaries we have assumed that 50% of employees retiring after 6 April 2009 will take advantage of the option to commute part of their future annual pension to a lump sum payment on retirement.

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

	RNN At 31 July 2018	RNN At 31 July 2017
Retiring today		
Males	23.0	22.9
Females	25.8	25.7
Retiring in 20 years		
Males	25.2	25.1
Females	28.1	28.0

The assets of the scheme relating to the College and the expected rate of return were:

	RNN % of total plan assets at 31 July 2018 %	RNN Fair Value at 31 July 2018 £'000	RNN % of total plan assets at 31 July 2017 %	RNN Fair Value at 31 July 2017 £'000
Equities	53.2	32,669	60.8	34,978
Bonds	21.6	13,264	20.6	11,851
Property	9.7	5,956	9.1	5,235
Cash	4.6	2,825	2.0	1,151
Other	10.9	6,693	7.5	4,315
Total fair value of plan assets		<u>61,407</u>		<u>57,530</u>

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

	2018 £'000	2017 £'000
Fair value of plan assets	61,407	57,530
Present value of plan liabilities	(78,792)	(81,559)
Present value of unfunded liabilities	(242)	(263)
Net pension liability	<u>(17,627)</u>	<u>(24,292)</u>

Notes to the financial statements

20 Defined benefit obligations (continued)

Analysis of the amount recognised in the statement of comprehensive income in respect of the plan are as follows:

	2018 £'000	2017 £'000
Amounts included in staff costs		
Current service cost	2,915	2,392
Past service cost	26	-
Curtailments	19	-
Administration expenses	37	33
Total	<u>2,997</u>	<u>2,425</u>
Amounts included in interest and other finance costs		
Net interest cost	612	611
Total	<u>612</u>	<u>611</u>
Amount recognised in other comprehensive income		
Return on pension plan assets	2,347	3,416
Experience losses arising on defined benefit obligations	-	4,737
Changes in assumptions underlying the present value of plan liabilities	<u>6,445</u>	<u>(3,131)</u>
Amount recognised in other comprehensive income	<u>8,792</u>	<u>5,022</u>
	2018 £'000	2017 £'000
Movement in defined benefit liability during year		
Net defined benefit liability in scheme at 1 August	(24,292)	(21,561)
Movement in year:		
Current service charge	(2,915)	(2,392)
Employer contributions	1,482	1,769
Past service cost	(26)	-
Curtailments	(19)	-
Net interest on the defined liability	(612)	(611)
Administration expenses	(37)	(33)
Dearne Valley College acquisition	-	(6,486)
Actuarial gain	8,792	5,022
Net defined benefit liability in scheme at 31 July	<u>(17,627)</u>	<u>(24,292)</u>
Changes in the present value of defined benefit obligations		
Defined benefit obligations at 1 August	81,822	63,989
Current service charge	2,915	2,392
Interest cost	2,109	1,823
Employee contributions	578	522
Experience gains and losses on defined benefit obligations	-	(4,737)
Changes in financial assumptions	(6,445)	3,131
Benefits paid	(1,990)	(1,530)
Dearne Valley College acquisition	-	16,232
Past service cost	26	-
Curtailments	19	-
Defined benefit obligations at 31 July	<u>79,034</u>	<u>81,822</u>

Notes to the financial statements

20 Defined benefit obligations (continued)

	2018 £'000	2017 £'000
Changes in fair value of plan assets		
Fair value of plan assets at 1 August	57,530	42,428
Interest on plan assets	1,497	1,212
Expected return on assets	2,347	3,416
Employer contributions	1,482	1,769
Contributions by scheme participants	578	522
Estimated benefits paid	(1,990)	(1,530)
Business Combination (Dearne Valley College)	-	9,746
Administration expenses	(37)	(33)
	<u>61,407</u>	<u>57,530</u>
Fair value of plan assets at 31 July		

The value of employer contributions for the year ended 31 July 2018 is £1,482,000 (2017: £1,769,000).

21 Group and College Capital commitments

Commitments contracted for at 31 July 2018 totalled £187,000 (2017: £139,000).

22 Group and College Lease obligations

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

	2018		2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Future minimum lease payments due				
No later than one year	139	79	146	123
Later than one year and not later than five years	291	115	362	171
Later than five years	75	143	136	150
	<u>505</u>	<u>337</u>	<u>644</u>	<u>444</u>

23 Contingent liability

The Group had no contingent liabilities as at 31 July 2018 (2017: £nil).

The College has received grant income over many years. The funding bodies have claw back arrangements in place for many of the grants and the College may have to pay monies back in the event of an unsatisfactory audit.

Notes to the financial statements

24 Related party disclosures

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

Transactions with the funding bodies and HEFCE are detailed in notes 2, 14, and 15.

The total expenses paid to or on behalf of the Governors during the year was £3,794 to 5 Governors (2017: £4,737, 6 Governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2017: None).

During the year, the College paid £35 (2017: £155) for goods and services on behalf of the Centre for Sport and Learning, a community interest company of which J Connolly, the principal, is sole director. At 31 July 2018 the company owed the College £nil (2017: £155) in relation to this. The College also received £1,505 (2017: £1,451) for sessions delivered by a member of RNN Group staff.

The College has taken advantage of the exemption in FRS 102 of disclosing transactions with its wholly owned subsidiaries.

25 Amounts disbursed as agent

	2018 £'000	2017 £'000
Funding body grants – bursary support	520	476
Funding body grants – discretionary learner support	-	571
Other funding bodies grants	1,055	1,042
Interest earned	-	2
	<u>1,575</u>	<u>2,091</u>
Disbursed to students	(1,245)	(1,430)
Administration costs	(44)	(89)
Balance unspent at 31 July, included in creditors	<u>286</u>	<u>572</u>

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements have therefore been excluded from the income and expenditure account, other than when the College has directly incurred expenditure itself.

The income and expenditure consolidated in the College's financial statements relates to the purchase of nursery placements and tuition fees by the College on the students' behalf.

Prior year funds carried forward are not included in the above note.

Notes to the financial statements

26 Surestart

The College acted as lead body for the Nottinghamshire Children and Families Partnership (NCFP), along with the Nottinghamshire Healthcare NHS Trust and Family Action, which runs 58 Children's Centres under a contract with Nottinghamshire County Council. The College recognised £3,132,688 of income (2017: £3,278,363) and £2,902,926 (2017: £2,965,934) expenditure relating to its own Surestart expenditure in the year. All funds are maintained in a bank account separate to the College.

None (2017: £nil) of the Bassetlaw Area Support Group (BASG) funding has been spent during the year. No further income was received during the year. The College holds £10,545 (2017: £10,545) of the groups funds as at 31 July 2018. No further diploma courses have been delivered by the College and no fee income has been received (2017: £nil).

27 Post balance sheet event

A recent High Court ruling found Guaranteed Minimum Pensions (GMPs) must be equalised between men and women, and that past underpayments must be corrected. Employers, such as the College, with a defined benefit pension scheme and contracted out of the State Second Pension from 17 May 1990 to 5 April 1997 are covered by the ruling, and will be impacted by increased defined benefit pension obligations. The specific impact on the College is unknown.

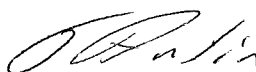
College Statement of Comprehensive Income

	Note	2018 £'000	2017 £'000
Income			
Funding body grants	2	32,336	33,558
Tuition fees and education contracts	3	6,107	5,604
Other income	4	5,609	5,775
Release of goodwill		-	1,751
Investment income	5	32	36
Gift aid		193	-
Total income		<u>44,277</u>	<u>46,724</u>
Expenditure			
Staff costs	6	29,523	28,892
Other operating expenses	8	13,364	13,971
Depreciation	12	2,666	2,408
Interest and other finance costs	9	825	862
Total expenditure		<u>46,378</u>	<u>46,133</u>
(Deficit)/surplus before other gains and losses		(2,101)	591
Gain on disposal of assets		262	-
Intercompany provisions		(794)	-
(Deficit)/surplus before tax		(2,633)	591
Taxation		-	-
(Deficit)/surplus for the year		(2,633)	591
Actuarial gain in respect of pension schemes		8,792	5,022
Total comprehensive income for the year		<u>6,159</u>	<u>5,613</u>

Approved by order of the members of the Corporation on 12 December 2018 and signed on its behalf on 18 December 2018 by:



Atholl Stott
Chair of the Corporation



Jason Austin
Interim Principal