TOWER HAMLETS COLLEGE

Report and Financial Statements
for the year ended 31 July 2016

CONTENTS

OPERATING AND FINANCIAL REVIEW

Nature, Objectives and Strategies

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

Legal status

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

The College was incorporated as Tower Hamlets College on 1 January 1993.

Mission

The Mission was revised following the Ofsted inspection in December 2013, when the College was graded as "Good" and was approved by its members in 2015. It is:

"Creating opportunity through inspiring teaching and learning".

College Vision

At the same time, the College's Vision was revised and is:

"By 2018, Tower Hamlets College will be an outstanding provider of education, training and skills, enabling our students to access a broad range of progression opportunities that help them fulfil their potential."

Public Benefit

The College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1 September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 15 to 18.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

Implementation of the strategic plan

In support of the new Mission and Vision, in July 2014 the Corporation approved a new four year strategic plan up to 31 July 2018. This set out three high level strategic priorities:

OPERATING AND FINANCIAL REVIEW (continued)

- To be recognised as an outstanding College
- To be an innovative learning organisation
- To develop financial resilience and security

These recognise the challenging times in which the College operates, with change as rapid as at any time since incorporation in 1993, increased competition from local schools, significant reductions in public funding and the prospect of a radical new approach to funding apprentices and other work with employers.

This changing environment is reflected in the decision by the Department for Business, Innovation and Skills (BIS) to publish in July 2015 its report "Reviewing post-16 education and training institutions", which set out plans for a national programme of area-based reviews, in the context of a need to move towards "fewer, often larger, more resilient and efficient providers". The Department expects "this to enable greater specialisation, creating institutions that are genuine centres of expertise, able to support progression up to a high level in professional and technical disciplines, while also supporting institutions that achieve excellence in teaching essential basic skills – such as English and maths."

The outcome of the Area Reviews will be the most significant change to post-16 education and training since the incorporation of colleges in 1993 and the implications for the College are considered in more detail later in this report.

Merger

As reported last year, the College established during that year an alliance with Newham College of Further Education and Redbridge College to work together on services and projects.

The three colleges faced a number of common issues but in some cases their circumstances were different. It emerged there was sufficient common ground for the College and Redbridge College to consider further options and they commissioned Structures and Prospects Appraisals (SPA) which reported to their respective governors in July 2015. The recommendation to both Corporations was that the colleges should consider merger, a move supported by Newham College. The intention was for this to happen on 1 August 2016.

However, the announcement of Area Reviews was a catalyst for a number of colleges to initiate or accelerate discussions about collaboration. As a result the College had more formal discussions with Hackney Community College, leading to the two colleges opening a consultation on a range of options on 10 November 2015. This consultation concluded on 10 December 2015 and the two Corporations considered the outcome of the consultation and the next steps in January 2016.

After following due process, including an SPA, full due diligence and consultation, the College and Hackney Community College agreed in March that they would merge with effect from 1 August 2016. This was completed as planned, with Hackney Community College dissolving on that date and transferring its assets, liabilities and undertaking to Tower Hamlets College. As part of the merger process the Corporation was expanded to include those independent governors from Hackney who wished to continue, a new independent chair was recruited and the Tower Hamlets principal was confirmed as principal of the merger college. It was also agreed that the intended merger with Redbridge College should be deferred pending the outcome of the Area Review for East London.

The Corporation has now commenced the review of the vision, mission and strategy but for the time being those existing before the merger remain in place.

In terms of achieving the merger, it was agreed that change would only be made immediately where necessary to complete the process. Therefore the curriculum offer continues to reflect the specific characteristics of the two colleges, while steps are under way to harmonise processes and rationalise core business systems over the coming year.

OPERATING AND FINANCIAL REVIEW (continued)

Hackney Community College has produced separate financial statements for the year ended 31 July 2016, and so, in respect of performance during 2015/16, this Operating and Financial Review covers Tower Hamlets College, but developments for 2016/17 reflect the merged college.

Performance indicators

The College is committed to observing the importance of sector measures and indicators and use the FE Choices website which looks at measures such as success rates.

The following paragraphs set out the performance against these measures and indicators.

Student achievement and progression

Overall Achievement rates have continued to improve and rates are now above their previous high in 2013/14. During this period overall achievement rates for 16-18 funded provision have improved by 4% to 83.6%. Over the same period adult achievement rates have been maintained, and have improved by 2% in the last academic year to 88.9%. This improvement has been achieved despite the progressive reduction in funding and the resulting need to operate more efficiently.

The detail behind this improvement includes:
- Retention rates remain outstanding at 95% and are above national averages.
- Overall achievement has remain strong at 86.5%.

Progression to higher education continues to be strong, with 82% learners progressing in 2016. 88% of 18 – 20 year olds who applied were successfully placed. 1% more 16-18 students got places compared to 2014/15 and 47 students were placed in Russell Group universitie, an increase of 15% against the previous year. Of those applying through UCAS, 277 have entered higher education.

Ofsted Inspection

The College used the findings of the inspection in December 2013 to inform continued progress during 2015/16.

Funding

The College's performance against its key funding targets for the year was:
- The College achieved 96.2% of its 16-18 learner number target. It achieved 95% of its 16-18 Responsive Funding target.
- The College achieved 99.8% of its Adult Skills Budget for classroom activity there is no material clawback of funding.
- The College delivered 126.4% (£88,061) of its original allocation for 16-18 Apprenticeships allocation and 72.9% (£309,867) of its adult Apprenticeship allocation.

Student numbers

In 2015/16 the College has delivered activity that has produced funding against the Skills Funding Agency (SFA) and Education Funding Agency (EFA) main allocations amounting to £15,546,000 (2014/15: £16,904,000), including Additional Learning Support. The College had approximately 4,541 (2014/15: 5,279) learners funded by the SFA/EFA and 732 (2014/15: 690) learners funded from other sources. There were 362 apprentices in the year compared to 119 in 2014/15.

OPERATING AND FINANCIAL REVIEW (continued)

Financial objectives

The College's long-term financial objectives were approved as:

i. financial health to remain as good to outstanding;
ii. surpluses generated to allow the College to meet its capital investment requirements.

Underpinning these were four specific measures in respect the proportion of costs to income to be achieved by the end of the planning period:

i. pay costs at no more than 67%;
ii. delivery costs at no more than 50%;
iii. administration costs at no more than 34%; and
iv. estates costs at 8%.

The College continued to take action to ensure the College's long-term financial resilience, by removing inefficiencies and growing income.

During the year, the focus was on the following performance indicators:

Objective	Target for 2015/16	Outturn
Financial Health		
Current ratio	2.73:1	2.03:1
Cash days in hand	97 days	103 days
Operating result before restructuring costs, merger costs and FRS 102 adjustments		
Surplus	£5,000	£53,000
Pay costs		
Pay expenditure (excluding restructuring) as % of income	70%	
- excluding agency staff		66%
- including agency staff		67%
Income growth		
SFA/EFA income as proportion of total income	93%	93%

The College is required to complete the annual Finance Record for the Skills Funding Agency/Education Funding Agency. The Finance Record produces a financial health grading. The current rating of Outstanding.

The reasons for the variances have been reviewed and the Corporation is satisfied with the College's overall performance against the objectives.

OPERATING AND FINANCIAL REVIEW (continued)

Financial results

The financial results are set out in the Consolidated Statements of Comprehensive Income. In summary, these are:

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
Operating surplus before restructuring costs, merger costs and adjustments for FRS 102 Pension Costs	53	13
Holiday Pay Accruals adjustment	(92)	83
Restructuring costs	(344)	(766)
Merger related costs	(130)	-
Deficit) before adjustments for FRS 102 Pension Costs	(513)	(670)
Adjustments for FRS 102 Pension Costs	(425)	(403)
Gain on Investments	15	17
Deficit per Comprehensive Income	(923)	(1,056)

The deficit for the year deducted from reserves is £923,000 (2014/15: a deficit of £1,056,000).

At 31 July 2016, the Group has accumulated reserves and cash and short term investment balances of £13,224,000 and £6,536,000 (2014/15: £17,720,000 and £5,633,000 respectively).

The College has one subsidiary company, TowerSkills Recruitment Services Limited, whose principal activity is a recruitment agency for permanent and temporary staff. Any taxable profits generated by the subsidiary are transferred to the College under the Gift Aid Scheme. In the current year, the company made a deficit of £8,999 (2014/15: a deficit of £20,393).

Tangible fixed asset additions during the year amounted to £769,000 (2014/15: £1,897,000). This was split between land and buildings improvements of £549,000 and equipment purchased of £220,000.

The College has significant reliance on the SFA and EFA for its principal funding source, largely from recurrent grants. In 2015/16 these bodies provided 82% (2014/15: 85%) of the College's total income.

Treasury policies and objectives

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

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. Such arrangements are restricted by limits in the College's Financial Memorandum previously agreed with the LSC and subsequently transferred to the SFA/EFA. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows

The inflow of £1,884,000 after transferring £981,000 from short-term investments to cash (2014/15: outflow of £57,000).

Liquidity

The College had no borrowing as at 31 July 2016 or 2015.

OPERATING AND FINANCIAL REVIEW (continued)

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. In the interests of operational efficiency it is the College's practice to pay suppliers invoices by BACS transmission twice per month. The College incurred no interest charges in respect of late payment for this period.

Current and Future Development and Performance

Curriculum Developments for 2015/16

In order to maintain financial resilience and security, the College has continued to seek to reduce its dependence on the existing core funding from the EFA and SFA.

As a result of the withdrawal of funding for Mandated ESOL in July 2015, we reduced our ESOL offer and SFA funding by £621,786.

The innovative 14-16 programmes through LBTH, introduced in 2014/15, have continued to thrive and by 31 July 2016, we had some 58 such learners enrolled. This provision meets the needs of these young arrivals to the UK and they have achieved some exceptional academic results.

This success has led to LBTH suggesting a second offer, designed for 14-16 year olds who for a variery of reasons have not been suited to mainstream schooling. By 31 July 2016 we had 6 such learners enrolled and this is expected to increase during 2016/17 to 20.

In addition we are working in partnership with two local special schools to extend our high needs provision to include learners with autism and similar learning difficulties. This provision is delivered partly in specially adapted space at Poplar and partly at one of the schools and we have about 15 students enrolled for the first year.

We re-launched our offer of HNC programmes in business, finance and health care, working with a partner for the former two subject areas. While the numbers of students enrolling directly and through the partner were disappointing, not least because universities are no longer constrained in their student numbers, there is sufficient demand to justify its continuation within the business and finance programms for the time being.

Finally we reorganised our employer-facing division, TowerSkills, to enhance the offer in respect of apprenticeships, other work-based learning and full cost courses. The revised offer, although reduced inscale from previous years, was of a much higher quality and met the needs of our business partners. In the second half of the year we sought to expand the volume by limited sub-contracting with a small number of partners for apprenticeships and traineeships.

In all of this we are seeking to continue to build on our strengths and support those curriculum areas that remain strategically important.

Curriculum Developments in 2016/17

As for 2015/16 a key objective is continue to reduce dependency on SFA and EFA core funding and to use the combined expertise to develop opportunities to diversify income sources.

OPERATING AND FINANCIAL REVIEW (continued)

As noted above the curriculum offer for the merged college reflects the characteristics of the two colleges, but improved progression routes in some provision areas, for example higher level construction courses, have been identified, and the curriculum teams across the two sites are working together to share best practice and explore opportunities to develop activity.

Through its subsidiary View Training, Hackney has a much larger employer-facing offer, including significant volumes of apprenticeship activity and this will be an important vehicle for developing this offer in response to the introduction of the Apprentice Levy from April 2017.

The individual colleges each had some 120 high needs learners in 2015/16 but with the merger, this now represents a significant activity that will allow the development of a broader range of specialist skills and a greater ability to collaborate with specialist schools particularly for post 18 provision.

At Tower Hamlets, the provision for 14-16 year olds is being expanded to include not just the existing new arrivals but also those possibly not suited to mainstream schooling and some 70-80 such students are expected to enrol in 2016/17.

The College's strategy has been to seek to diversify income sources by careful investment, and in September 2016 it completed the acquisition of an English Language School, Westbourne Academy. The school is based in Bournemouth, but discussions with the management and agents in advance of the acquisition indicated significant potential to expand the offer by running courses in London and providing clear progression pathways on to vocational courses in London. This will allow the College to develop a comprehensive international offer, on a fee-paying basis.

The merged College has had the following income confirmed by the SFA and EFA for 2016/17:

16 – 18 Funding	£18,150,750
Adult Skills (including adult apprenticeships)	£15,098,283

Future developments

The financial planning for the merged college has made only limited assumptions for savings to be secured as a result of merger and the intention through 2016/17 is to seek secure additional income and cost savings that will help to improve the overall financial position. In addition to systems and business process rationalisation, there is potential to reduce cost by more effective, co-ordinated procurement. Moreover the College had already identified surplus properties and steps are now in hand to dispose of these.

Post balance sheet events

As noted above the College merged with Hackney Community College with effect from 1 Augist 2016.

In addition, on 9 September 2016, the College completed the acquisition of a specialist English Language School, Westbourne Academy, at a cost of £1.45m.

Through the Area Review, the College has continued to promote the deferred merger with Redbridge College and it is intended that this will be completed on or before 1 August 2017. To that end, formal consultation about the merger was commenced on 11 November 2016 and planning is now underway to complete the process within the stated timeframe.

OPERATING AND FINANCIAL REVIEW (continued)

Resources

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

Tangible Resources
Tangible resources include the two principal College Campuses for Tower Hamlets, freehold sites at Poplar High Street and Arbour Square, together with a 99 lease on a property at East India Dock Road.

The College also has the right to enter into a 99 year lease for the Bethnal Green Centre, in return for the agreement with the freehold owner, LBTH, to vacate the building temporarily to allow use by decanted schools involved in the BSF programme. This agreement was extended in 2011/12 until July 2015, when it was further extended to 31 July 2017. LBTH has indicated that it is considering its options for the site and the College continues to have a dialogue with LBTH about its future. This property is included at valuation at the date the dispute was resolved, on the depreciated replacement cost basis. The carrying value of the interest is similar to the valuation and, while the College continues not to occupy the premises or exercise its right to enter a lease, no depreciation is provided.

Following the merger on 1 August 2016, the College now owns the freehold of the Hackney campus, based in Shoreditch.

Financial
As at 31 July 2016, the College had £13.2 million of net assets (including £13.6 million pension liability) and no long term debt.

With the merger on 1 August 2016, the College's net assets are now £28m, including a pension deficit of £34.6m and an outstanding term loan balance of £1.2m repayable by 30 April 2019.

People
During the year ended 31 July 2016, the College employs 274 people (expressed as full time equivalents), of whom 153 are teaching staff. Some 317 staff employed by Hackney were transferred to the College under TUPE on 1 August 2016 and in addition, 50 people continue to be employed by subsidiary companies of Hackney, which are now controlled by the College.

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

Principal Risks and Uncertainties

The system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation, continues to be developed.

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

A risk management plan is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk management plan identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions

OPERATING AND FINANCIAL REVIEW (continued)

being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system and sources of assurance are also identified.

The significant risks are reviewed by the Audit Committee at each of their meetings and the full risk register at least once a year.

With the approval of the new strategic plan 2015-2018, the existing risk register was reviewed and updated, to ensure that risks relevant to the new strategic objectives were properly identified and described.

The organisational changes outlined above under Future Developments, including the proposed merger with Redbridge College, possible collaboration with Hackney Community College and the alliance with Newham College, all seen in the context of the Area Reviews, present significant risks which are currently being identified and evaluated. This will be managed through a separate project risk register.

In the meantime, the operating environment is one of rapid change which is reflected in the nature of the principal risk factors that may affect the College, with or without merger and collaboration and these are described below. This environment requires the Corporation, management and staff to be informed of the changes, aware of the opportunities and able to adapt. Not all the risk factors are within the College's control.

Other factors besides those listed below may also adversely affect the College. The risks are related to the College's key strategic objectives.

1. To be recognised as an outstanding college

The College needs to provide a high quality learning experience, delivering success rates to required national standards, in order to remain able to recruit learners in a competitive environment. The key risks are identified as:

- Maintain, if not improve on, the Ofsted "Good" grade through outstanding teaching and learning;
- Promote ourselves as the provider of choice for the local community and specified industry sectors.

The College manages these risks through a number of actions including:

- the quality improvement plan and a specific post-inspection action plan, which are regularly monitored by Senior Management and the Corporation;
- detailed monitoring of curriculum delivery, including externally-led reviews of curriculum areas and robust self-assessment;
- tracking of student performance, with appropriate intervention as necessary;
- weekly monitoring of student attendance and retention, taking action where issues are emerging;
- consideration of emerging quality issues, for example from Ofsted inspections of other colleges;
- robust lesson observation policy and training for curriculum managers, focused staff development for teaching staff on effective teaching, and targeted support for teachers whose lesson observation is not up to standard;
- the use of current students as ambassadors to promote the positive messages about the quality of teaching and learning;
- collation and promotion of accurate relevant data about academic performance;

OPERATING AND FINANCIAL REVIEW (continued)

- marketing campaigns to promote academic performance and positive benchmarking using relevant national and local comparators, through the web-site, social media and more traditional channels;

- optimising the positive messages from the Ofsted inspection, with the positive Ofsted outcome reducing the probability of the risk crystallising.

2. To be an innovative learning organisation

The College needs to facilitate innovative approaches to teaching improvement, create a culture of peer learning throughout the College, allow practical experimentation and the development of new learning approaches and consider alternative models of collaboration and partnership in order to respond to the changing environment. The key risks are identified as:

- Have clear progression routes for all of the curriculum;
- Have strong links with a range of employers to meet their needs for training and skills;
- Recruit and retain the right staff, who can be encouraged to innovate and support staff in implementing innovation, while ensuring requirements for English and maths, Safeguarding and Equality and Diversity are retained.

The College manages these risks through a number of actions including:

- clear progression pathways for all courses;
- planning guided by: quality; success; recruitment; funding and viability; government and community priorities;
- briefings to local elected representatives on importance of the College;
- the quality improvement plan and a specific post-inspection action plan, which are regularly monitored by Senior Management and the Corporation;
- strategic curriculum review and assessment agreed with Corporation annually;
- communication of College's competitive advantage to differentiate it from immediate competitors - related to quality, student safety, progression to HE and employment, vocational specialisms and pathways, location, industry expertise;
- optimising the positive messages from the Ofsted inspection, with the positive Ofsted outcome reducing the probability of the risk crystallising;
- using positive links with Job Centre Plus and employers to demonstrate opportunities for existing and prospective students;
- maintaining positive PR image and reputation in community and through local media, detailed monitoring of curriculum delivery, including externally-led reviews of curriculum areas and robust self-assessment.

3. To develop financial resilience and security

The College needs to maintain outstanding financial health unless investing for future growth, rebuild its income with an aspirational target of £30m by 2018/19, explore alternative markets across the educational landscape that reduce our dependency on grant funding to 70% and develop a robust, flexible estate that provides an engaging student experience. The key risks are identified as:

- Reduce our dependency on EFA/SFA income;
- Ensure that all investment decisions are properly evaluated and prioritised.

The College manages these risks through a number of actions including:

- a robust budget setting process, with clarity and ownership of income targets and contribution at faculty/departmental level before the start of the year;

OPERATING AND FINANCIAL REVIEW (continued)

- monitoring with budget holders of financial performance, including new income streams, through monthly management accounts;
- management planning days to develop possible new income sources and prepare action plans from these;
- strategic curriculum review and assessment finalised and agreed with Corporation Board annually which informed new strategic plan 2015-18;
- approved authority limits restrict ability for investment;
- governor approval for major investment at concept and final decision stage;
- governor monitoring of progress against strategic plan through KPIs;
- property and accommodation strategies.

Stakeholder Relationships

In line with other colleges, Tower Hamlets College has many stakeholders. These include:

- Students;
- Funding Bodies, primarily the SFA and EFA;
- Staff;
- Local employers;
- Local authorities;
- Government Offices and Local Enterprise Partnerships;
- The local community;
- Other FE institutions;
- Higher education institutions;
- Trade unions;
- Professional bodies.

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

Equal opportunities and employment of disabled persons

Tower Hamlets College is committed to providing a high quality educational experience and to promoting, maintaining and supporting equality and diversity in all aspects of its work.

The College will actively seek to ensure that students and staff experience equality of opportunity and are free from harassment, discrimination or victimisation of any kind, regardless of age, sex (gender), disability, learning difficulty, sexual orientation, gender reassignment and gender recognition, religious or political belief, race, ethnicity, nationality, national origins, family or marital status, social isolation, social status and deprivation, homelessness, unemployment, asylum and refugee status or membership of a trade union, or for any other identifiable cause protected by law.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010 and associated legislation. This has been summarised in the College's Single Equality Scheme, published on the College website, and includes the following:

- The College has a Head of Foundation Learning who provides information, advice and arranges support where necessary for students with disabilities;
- There is a list of specialist equipment, which the College can make available for use by students, held by the IT department, learning technologies team and the additional learning support team. There is also a range of assistive technology equipment/resources available in the library learning centres at each main site;

OPERATING AND FINANCIAL REVIEW (continued)

- The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;
- The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities;
- Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format;
- Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to auditor

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

Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

Lucy de Groot, CBE
Chair

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STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

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

The Corporation recognises as a body entrusted with both public and private funds that it has a particular duty to observe at all times the highest standards of corporate governance in carrying out its responsibilities. In response to the recommendation of the Association of Colleges, for corporations to adopt the English Colleges' Foundation Code of Governance (The Code) it issued in December 2011, the Corporation formally adopted the Code on 11 July 2012.

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the Code. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Governors, the College complies with the provisions of the Code in so far as they apply to the Further Education Sector in the year ended 31 July 2016.

In addition, following the implementation of the Education Act 2011, the College has considered updates to its Instruments and Articles of Government to reflect the changed responsibilities and freedoms.

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

The Corporation

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

Name	Date of appointment	Term of office	Date of Resignation/ Term ended	Status of appointment	Committees served
Vivien Bailey OBE	October 2014	4 years		Independent member	Curriculum Quality & Students
Tasnima Begum	October 2015	1 year	July 2016	Student	Curriculum Quality & Students
Babu Bhattacherjee	Appointed July 2014	4 years		Independent member	Audit

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Name	Date of appointment	Term of office	Date of Resignation/ Term ended	Status of appointment	Committees served
Gunner Burkhart	December 2010 Re-appointed December 2013	4 years		Independent member	Finance & General Purposes, Remuneration, Search
Anne Canning	February 2011 Re-appointed February 2014	4 years		Independent member	Curriculum Quality & Students
Meena Chavda	February 2010 Re-appointed February 2013	4 years		Independent member	Finance & General Purposes (Chair), Remuneration (Chair), Search
Wojciech Dmochowski	June 2013	4 years	July 2016 (term ended)	Staff Member (Academic)	Curriculum Quality & Students
Professor Martin Earwicker	August 2010 Re-appointed August 2013	4 years	July 2016 (resigned)	Independent member	Corporation Chair Finance & General Purposes, Remuneration, Search
Bobbi Ehsran	December 2016	1 year		Staff Member (Academic)	
Rose Ferndando	December 2016	1 year		Student Member	
Julia Gallop	August 2016	Dec 2016		Independent member	Search
Natasha Graham	Appointed July 2014	4 years		Independent member	Curriculum, Quality & Students

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Name	Date of appointment	Term of office	Date of Resignation/ Term ended	Status of appointment	Committees served
Lucy de Groot CBE	August 2016	4 years		Independent member	Corporation Chair Finance & General Purposes, Remuneration, Search
Renarta Guy	October 2009 Re-appointed October 2012	3 years	November 2015 (resigned)	Independent member	Finance & General Purposes, Remuneration
Rachael Halliday	August 2016	Oct 2017		Independent member	Curriculum Quality & Students
Win Harris CBE	August 2016	9 mths		Independent member	Curriculum Quality & Students
Steve Hedges	December 2016	1 year		Staff Member (Support)	
Professor John Joughin	August 2016	Oct 2018		Independent member	Curriculum Quality & Students
Gerry McDonald	April 2013	n/a		Principal	Finance & General Purposes, Curriculum Quality & Students, Search
Jackie Moylan	August 2016	Dec 2017		Independent Member	Audit
Jourdan Newell	October 2015	1 year	December 2015	Student Member	Curriculum Quality & Students
Anthony Painter	August 2016	July 2017		Independent member	Curriculum Quality & Students, Finance & General Purposes, Remuneration

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Name	Date of appointment	Term of office	Date of Resignation/ Term ended	Status of appointment	Committees served
Sue Primmer	August 2016	March 2018		Independent member	Finance & General Purposes, Remuneration
Martin Ryan	May 2011 Re-appointed May 2014	4 years		Independent member	Audit (Chair)
Ahmet Savat	December 2016	1 year		Student Member	
Catherine Swarbrick	July 2012	4 years		Independent member	Audit, Search (Chair)
Gareth Wall	August 2016	Oct 2016		Independent member	Audit
Richard Ward	June 2014	4 years	July 2016 (term ended)	Staff member (Support)	Audit
Ray Wilkinson	December 2010 Re-appointed December 2013	4 years		Independent member	Curriculum, Quality & Students (Chair)

The non-governors who were co-opted to serve on Committees during the year and up to the date of signature of this report were:

Name	Committees Served	Date of departure
Paul Winrow	Audit	
Richard Ward (appointed December 2016)	Audit	
Ioannis Anagnostopoulos (appointed December 2016)	Curriculum, Quality & Students	

Ms Jayne Chaplin was clerk to the Corporation throughout the year ended 31 July 2016.

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.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance and General Purposes, Remuneration, Search, Curriculum, Quality and Students, and Audit. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Tower Hamlets College
112 – 114 Poplar High Street
Poplar
E14 0AF

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

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

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

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

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

There were scheduled meetings that took place on a termly basis. Overall attendance at meetings was 74% while attendance at Corporation meetings was 70%.

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

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

Finance & General Purposes committee (F&GP)

The F&GP Committee comprises eight members, six of which are Corporation members. It operates in accordance with written terms of reference approved by the Corporation, advising on appropriate financial policies and procedures subject at all times to the requirements of the Financial Memorandum between the Corporation and the Skills Funding Agency or successor bodies and the Articles of Government.

Meeting five times each academic year, the Committee oversees the financial affairs of the Corporation, monitors staffing issues and considers and advises the Corporation on matters relating to estates and buildings, health and safety along with determining such other matters that may be delegated to it.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

Remuneration committee

The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior post-holders. The Committee met twice during the year.

Details of remuneration for the year ended 31 July 2016 are set out in note 6 to the financial statements.

Curriculum, Quality and Students Committee (CQ&S)

The CQ&S Committee comprises eight members and includes the two student governor members. It operates in accordance with written terms of reference approved by the Corporation and meets on four occasions each academic year.

It advises on the procedures in place for the continuous review of the curriculum offered by the College; along with the effectiveness of strategies used by managers to improve quality and the academic standard of provision for students. In addition it has responsibility for reviewing and monitoring the arrangements for the promotion of equality, diversity and safeguarding.

Audit committee

The Audit Committee comprises five members, four of which are members of the Corporation. Membership excludes the Accounting Officer and the Chair of the Corporation. The Committee operates in accordance with written terms of reference approved by the Corporation.

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

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

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

The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

Internal control

Scope of responsibility

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

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

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 College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in Tower Hamlets College for the year ended 31 July 2016 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

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

The risk and control framework

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

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

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

Review of effectiveness

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

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

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the programme areas and reinforced by risk awareness training at College Management briefing sessions. The Senior Management Team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control.

The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee.

The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December meeting each year, the Corporation carries out the annual assessment for the year ended at the preceding 31 July by considering documentation from the Senior Management Team and internal audit, and taking account of events since 31 July.

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

Going concern

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

Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

Lucy de Goot, CBE
Chair

Gerry McDonald
Accounting Officer

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

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agencyerms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency As part of our consideration we have had due regard to the requirements of the financial memorandum.

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

Gerry McDonald
Accounting Officer
6 December 2016

Lucy de Groot, CBE
Chair of Governors
6 December 2016

Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, 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 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

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

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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the the Skills Funding Agency are used only in accordance with the Financial Memorandum with the the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency are not put at risk.
Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

Lucy de Groot, CBE
Chair

Independent auditor's report to the Corporation of Tower Hamlets College

We have audited the Group and College financial statements ("the financial statements") of Tower Hamlets College for the year ended 31 July 2016 set out on pages 28 to 54. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective Responsibilities of the Corporation of Tower Hamlets College and Auditor

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 24, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements.

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2016 and of the Group's and of the College's income and expenditure, gains and losses and changes in reserves and the Group's cash flows for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Joint Audit Code of Practice (June 2016) issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the College; or
- the College financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

29/12/2016

Michael Rowley (Senior Statutory Auditor) **Date**
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, 15 Canada Square, Canary Wharf, London, E14 5GL

Reporting Accountant's Report on Regularity to the Corporation of Tower Hamlets College and the Secretary of State for Education acting through Skills Funding Agency.

In accordance with the terms of our engagement letter dated 26 October 2015 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Tower Hamlets College during the period 1 August 2015 to 31 July 2016 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 Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency has other assurance arrangements in place.

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

Respective responsibilities of Tower Hamlet College and the reporting accountant

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

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. 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 2015 to 31 July 2016 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 Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a negative conclusion on regularity consistent with the requirements of the Joint Audit Code of Practice.

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 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

29/12/2016

Michael Rowley (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Reporting Accountant
15 Canada Square
Canary Wharf
E14 5GL

Date

Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 July 2016		Year ended 31 July 2015	
				Restated	
		Group £'000	College £'000	Group £'000	College £'000
INCOME					
Funding body grants	2	16,028	16,028	17,280	17,280
Tuition fees and education contracts	3	1,785	1,785	1,972	1,972
Other income	4	1,269	1,269	835	835
Investment income	5	46	46	75	75
Total income		**19,128**	**19,128**	**20,162**	**20,162**
EXPENDITURE					
Staff costs	6	12,214	12,214	13,903	13,903
Restructuring costs	6	344	344	766	766
Other operating expenses	7	5,077	5,077	4,489	4,489
Depreciation	9	1,858	1,858	1,610	1,610
Interest and other finance costs	8	378	378	306	306
Total expenditure		**19,871**	**19,871**	**21,074**	**21,074**
Deficit before other gains and losses		(743)	(743)	(912)	(912)
Loss on disposal of fixed assets	9	(195)	(195)	(161)	(161)
Gain on investments		15	15	17	17
Deficit before tax		(923)	(923)	(1,056)	(1,056)
Taxation		-	-	-	-
Deficit for the year		(923)	(923)	(1,056)	(1,056)
Actuarial loss in respect of pensions	20	(3,573)	(3,573)	(2,305)	(2,305)
Total Comprehensive Income and Expenditure for the year		**(4,496)**	**(4,496)**	**(3,361)**	**(3,361)**
Represented by:					
Endowment comprehensive income		15	15	17	17
Restricted comprehensive income		(451)	(451)	(438)	(438)
Unrestricted comprehensive income		(4,060)	(4,060)	(2,940)	(2,940)
		(4,496)	**(4,496)**	**(3,361)**	**(3,361)**

Consolidated and College Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total excluding Non controlling interest	Non Contolling interest	Total
	£'000	£'000	£'000	£'000	£'000
Group					
Restated balance at 1st August 2014	9,255	11,826	21,081	-	21,081
Deficit from the income and expenditure account	(1,056)	-	(1,056)	-	(1,056)
Other comprehensive income	(2,305)	-	(2,305)	-	(2,305)
Transfers between revaluation and income and expenditure reserves	399	(399)	-	-	-
	(2,962)	(399)	(3,361)	-	(3,361)
Balance at 31st July 2015	6,293	11,427	17,720	-	17,720
Deficit from the income and expenditure account	(923)	-	(923)	-	(923)
Other comprehensive income	(3,573)	-	(3,573)	-	(3,573)
Transfers between revaluation and income and expenditure reserves	399	(399)	-	-	-
Total Comprehensive Income and Expenditure for the year	(4,097)	(399)	(4,496)	-	(4,496)
Balance at 31st July 2016	2,196	11,028	13,224	-	13,224
College					
Restated balance at 1st August 2014	9,255	11,826	21,081	-	21,081
Deficit from the income and expenditure account	(1,056)	-	(1,056)	-	(1,056)
Other comprehensive income	(2,305)	-	(2,305)	-	(2,305)
Transfers between revaluation and income and expenditure reserves	399	(399)	-	-	-
	(2,962)	(399)	(3,361)	-	(3,361)
Balance at 31st July 2015	6,293	11,427	17,720	-	17,720
Deficit from the income and expenditure account	(923)	-	(923)	-	(923)
Other comprehensive income	(3,573)	-	(3,573)	-	(3,573)
Transfers between revaluation and income and expenditure reserves	399	(399)	-	-	-
Total Comprehensive Income and Expenditure for the year	(4,097)	(399)	(4,496)	-	(4,496)
Balance at 31st July 2016	2,196	11,028	13,224	-	13,224

Balance sheets as at 31 July

	Notes	Group 2016 £'000	College 2016 £'000	Group Restated 2015 £'000	College Restated 2015 £'000
Non current assets					
Tangible Fixed assets	9	27,558	27,558	28,842	28,842
Investments	11	478	478	463	463
		28,036	**28,036**	**29,305**	**29,305**
Current assets					
Trade and other receivables	12	770	784	748	778
Investments	13	1,051	1,051	2,032	2,032
Cash and cash equivalents	16	5,485	5,478	3,601	3,583
		7,306	7,313	6,381	6,393
Less: Creditors – amounts falling due within one year	14	(3,596)	(3,603)	(3,039)	(3,051)
Net current assets		**3,710**	**3,710**	**3,342**	**3,342**
Total assets less current liabilities		**31,746**	**31,746**	**32,647**	**32,647**
Creditors – amounts falling due after more than one year	15	(4,902)	(4,902)	(5,305)	(5,305)
Provisions					
Defined benefit obligations	20	(13,620)	(13,620)	(9,622)	(9,622)
Total net assets		**13,224**	**13,224**	**17,720**	**17,720**
Restricted Reserves					
Income and expenditure reserve - endowment reserve		418	418	403	403
Income and expenditure reserve - restricted reserve		19	19	19	19
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		1,759	1,759	5,871	5,871
Revaluation reserve		11,028	11,028	11,427	11,427
Total Reserves		**13,224**	**13,224**	**17,720**	**17,720**

The financial statements on pages 28 to 54 were approved and authorised for issue by the Corporation on 6 December 2016 and were signed on its behalf on that date by:

Lucy de Groot, CBE
Chairman

Gerry McDonald
Accounting Officer

Consolidated Statement of Cash Flows

	Notes	2016 £'000	Restated 2015 £'000
Cash flow from operating activities			
Deficit for the year		(923)	(1,056)
Adjustment for non-cash items			
Depreciation	9	1,858	1,610
(Increase)/decrease in debtors	12	(22)	322
Increase/(decrease) in creditors due within one year	14	805	(724)
Decrease in creditors due after one year	15	(403)	(170)
Pensions costs less contributions payable	6	47	97
Taxation		-	-
Adjustment for investing or financing activities			
Investment income	5,10	(61)	(92)
Interest payable	8	378	306
Loss on sale of fixed assets	9	195	161
Net cash flow from operating activities		1,874	454
Cash flows from investing activities			
Investment income	5	46	75
Withdrawal of deposits	13	981	970
Payments made to acquire fixed assets		(1,017)	(1,556)
		10	(511)
Cash flows from financing activities			
		-	-
Increase/(decrease) in cash and cash equivalents		**1,884**	**(57)**
Cash and cash equivalents at beginning of the year	16	3,601	3,658
Cash and cash equivalents at end of the year	16	5,485	3,601

Notes to the Financial Statements

1. Accounting policies

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

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

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

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 23.

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

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

- Revaluation as deemed cost – at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition
- The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

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.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Going concern
The activities of the College, 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 College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

The College's forecasts and financial projections indicate that it will be able to operate within its existing finances for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Basis of consolidation
The consolidated financial statements include the College and its subsidiary, TowerSkills Recruitment Services Limited. Intra-group sales and profits are eliminated fully on consolidation. In accordance with Financial Reporting Standard (FRS) 2, 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 2016.

Recognition of income
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 Skills budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body 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.

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

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.

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.

Recognition of income (continued)
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.

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

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

Notes to the Accounts (continued)

1. Accounting policies (continued)

The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

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

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

Non-current Assets - Tangible fixed assets

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. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost.

Freehold land is not depreciated.

Land and Buildings (continued)
Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. The College has a policy of depreciating major adaptations (in excess of £1,000,000) to buildings over the remaining period of their useful economic life of 50 years. Other adaptations (less than £1,000,000) to buildings are depreciated over the period of their useful economic life of up to 15 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The government capital grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic. Non-government grants are recognised in income when the College is entitled to the funds subject to any performance related conditions as permitted by FRS 102.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Non-current Assets - Tangible fixed assets (continued)

basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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 may not be recoverable.

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

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

Subsequent expenditure on existing fixed assets
Where significant expenditure is incurred on tangible fixed assets 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
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Equipment
Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and five years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- motor vehicles – 5 years on a straight-line basis
- general equipment – 3, 5 & 10 years on a straight line basis
- computer equipment – 4 years on a straight-line basis
- Software – 5 & 10 years on a straight-line basis
- furniture, fixtures and fittings – 10 years on a straight-line basis.

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

Leased assets
Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and 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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Non-current Assets - Tangible fixed assets (continued)

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.

Investments and endowment assets
Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Foreign currency translation
Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to 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 company is subject to corporation tax and VAT in the same way as any commercial organisation.

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

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

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

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Liquid resources
Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities and can be readily converted to cash within three months.

Agency arrangements
The College acts as an agent in the collection and payment of discretionary support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 22, except for charges made for placing students at the College crèches, certain fees and charges and the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff (on a full-time equivalent basis) dedicated to the administration of Learner Support Fund applications and payments.

Judgements in applying accounting policies and key sources of estimation uncertainty
In preparing these financial statements, management have made the following judgements:

- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

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

- *Local Government Pension Scheme*
  The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 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 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Financial Statements (continued)

2 Funding body grants

	2016 £'000	2015 £'000
Recurrent grants		
Skills Funding Agency	5,328	6,821
Education Funding Agency	10,218	10,083
HEFCE	115	-
Specific grants		
SFA Non recurrent grants	53	57
Releases of government capital grants	314	319
Total	**16,028**	**17,280**

3 Tuition fees and education contracts

	2016 £'000	2015 £'000
Adult education fees*	387	398
Fees for FE loan supported courses	291	439
Fees for HE loan supported courses	207	-
Total tuition fees	885	837
Education contracts	900	1,135
Total	**1,785**	**1,972**

*includes £91,518 from the Learner Support Fund for 2015/16 (£157,725 in 2014/15)

4 Other income

	2016 £'000	2015 £'000
Other income generating activities	384	344
Other grant income	723	371
Miscellaneous income	162	120
Total	**1,269**	**835**

5 Endowment and investment income

	2016 £'000	2015 £'000
Other interest receivable	46	75
Total	**46**	**75**

Notes to the Financial Statements (continued)

6 Staff costs – Group and College

The average number of persons (including senior post-holders) employed by the College during the year, described as full-time equivalents, was:

	2016 No.	2015 No.
Teaching staff	153	185
Non-teaching staff	121	135
	274	**320**

Staff costs for the above persons	**2016 £'000**	**2015 £'000**
Wages and salaries	9,937	11,608
Social security costs	870	939
Other pension costs (including FRS 102 adjustments of £47,000 – 2015: £97,000)*	1,407	1,356
Staff costs before restructuring costs	**12,214**	**13,903**
Restructuring costs	344	766
	12,558	**14,669**

*Included in Other Pension costs is £163,333 in respect of the past-service deficit (see note 20).

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Senior Management Team which comprises the Principal, Vice Principal of Curriculum and Vice Principal of Finance & Resources. Staff costs include compensation paid to key management personnel for loss of office.

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

	2016 No.	2015 No.
The number of key management personnel including the Accounting Officer was:	3	3

Notes to the Financial Statements (continued)

6 Staff costs – Group and College (continued)

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

	Key Management Personnel		Other staff	
	2016 No.	2015 No.	2016 No.	2015 No.
£60,001 to £70,000			6	3
£70,001 to £80,000			-	-
£80,001 to £90,000			-	-
£90,001 to £100,000	2	2	-	-
£100,001 to £110,000	-	-	-	-
£130,001 to £140,000	1	1	-	-
	3	**3**	**6**	**3**

Key management personnel emoluments is made up as follows:

	2016 £'000	2015 £'000
Salaries	317	317
Employers National Insurance	38	37
Benefits in kind	-	-
	355	**354**
Pension contributions	51	46
Total emoluments	**406**	**400**

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

The above emoluments includes amounts payable to the Accounting Officer (who is also the highest paid officer) of: Tower Hamlets College

	2016 £'000	2015 £'000
Salaries	132	132
Benefits in kind	-	-
	132	132
Pension contributions	22	19

Notes to the Financial Statements (continued)

7 Other operating expenses

	2016 £'000	2015 £'000
Teaching costs	1,701	1,075
Non-teaching costs	1,559	1,642
Premises costs	1,818	1,772
Total	**5,078**	**4,489**

Other operating expenses include:	2016 £'000	2015 £'000
Auditors' remuneration:		
Financial statements audit	30	27
Internal audit	15	17
Other services provided by the financial statements auditors*	5	33
Hire of plant and machinery – operating leases	12	63
Hire of other assets – operating leases	69	69

*includes £1,020 in respect to Professional Fees for the College, £1,500 in respect to TPA Certification and £2,415 in respect to Corporate Taxation advice for the subsidiary company

8 Interest payable

	2016 £'000	2015 £'000
Pension finance costs (note 20)	**378**	**306**
	378	**306**

Notes to the Financial Statements (continued)

9 Tangible fixed assets

	Group and College			
	Land and buildings		Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2015	37,696	5,035	4,023	46,754
Additions	549	-	220	769
Disposals	(450)	-	-	(450)
At 31 July 2016	**37,795**	**5,035**	**4,243**	**47,073**
Depreciation				
At 1 August 2015	15,503	708	1,701	17,912
Charge for the year	1,153	87	618	1,858
Accelerated Deprecation	-	-	-	-
Disposals	(255)	-	-	(255)
At 31 July 2016	**16,401**	**795**	**2,319**	**19,515**
Net book value at 31 July 2016	**21,394**	**4,240**	**1,924**	**27,558**
Net book value at 31 July 2015	22,193	4,327	2,322	28,842

Other than as noted below, land and buildings were valued in 1993 at depreciated replacement cost by a firm of independent chartered surveyors. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

In 2010 the College resolved a dispute with the London Borough of Tower Hamlets (LBTH) regarding a property that it occupied from incorporation until 2010. As a result of the dispute, the property, with a valuation at incorporation in 1993 of £1.2m, was never included within the College accounts. The resolution of the dispute means that the College now has the right to enter into a long-term lease with LBTH for the property at some time in the future, but that LBTH will occupy the property in the meantime and so it is currently not being used by the College. It has been decided to bring the College's interest in the property into the balance sheet at valuation at the date the dispute was resolved. The valuation, on depreciated replacement cost basis, provided by independent Chartered Surveyors is £670,000. The carrying value of the interest is similar to the valuation and, while the College continues not to occupy the premises or exercise its right to enter a lease, no depreciation is provided.

Additions to equipment for the year include £37,475 in respect of software development which are intangible assets. The total net book value of all intangible assets as at 31 July 2016 was £66,899. (2015 - £108,000)

Notes to the Financial Statements (continued)

9 Tangible fixed assets (continued)

If fixed assets had not been revalued before being deemed as cost on transition they would have been included at the following historical cost of nil with depreciation and net book value of nil.

An impairment review of assets was conducted during the year. A number of assets were identified as no longer in use for the business including some items that had not yet reached the end of their expected useful lives. These are all treated as disposals in these accounts.

10 Non-current investments

	Group and 2016 £'000	College 2015 £'000
Investment in subsidiary companies	-	-
Endowment assets:		
Balance at 1 August 2015	463	446
Appreciation of endowment asset investment	15	17
Expenditure		
Balance at 31 July 2016	478	463
Total	**478**	**463**
Represented by		
Charities Aid Foundation IM CAF Fixed Interest Fund and UK Equity Fund, Accumulation units.	372	357
Cash balances	106	106
	478	**463**

The College has 100 per cent of the issued ordinary £1 shares of TowerSkills Recruitment Services Limited, a company incorporated in England and Wales.

TowerSkills Recruitment Services Limited was incorporated on 22 June 2011 with an issued share capital of 100 shares of £1 each. Its principal activity is temporary and permanent recruitment services and operations commenced from October 2011.

Notes to the Financial Statements (continued)

11 Endowment Reserves

Restricted net assets relating to endowments are as follows:

	Permanent Restricted £'000	Permanent Unrestricted £'000	Total Permanent £'000	Expendable Restricted £'000	Total 2016 £'000	Total 2015 £'000
At 1 August 2015	357	42	399	64	463	447
Investment income	15	-	15		15	17
Expenditure	-	-	-		0	(1)
	372	42	414	64	478	463
Gains in market value	-	-	-	-	-	-
At 31 July 2016	372	42	414	64	478	463
Consists of:						
Capital	300	42	342	64	406	407
Accumulated income	72	-	72	-	72	56
	372	42	414	64	478	463
Analysis by type of purpose:						
Student Hardship	372	42	414	64	478	463
	372	42	414	64	478	463

12 Debtors

	2016 Group £'000	2016 College £'000	2015 Group £'000	2015 College £'000
Amounts falling due within one year:				
Trade debtors	217	217	57	57
Prepayments and accrued income	553	553	691	691
Amount owed by group undertakings: subsidiary undertaking	-	14	-	30
Total	**770**	**784**	**748**	**778**

13 Current investments

	2016 Group £'000	2016 College £'000	2015 Group £'000	2015 College £'000
Short term deposits	1,051	1,051	2,032	2,032
	1,051	**1,051**	**2,032**	**2,032**

Notes to the Financial Statements (continued)

13 Current investments (continued)

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority with more than three months maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

14 Creditors: amounts falling due within one year

	2016 Group £'000	2016 College £'000	2015 Group £'000	2015 College £'000
Trade payables	336	336	170	170
Amount owed to subsidiary undertakings:				
Subsidiary undertakings		7		12
Other taxation and social security	249	249	255	255
Accruals and deferred income	2,697	2,697	2,295	2,295
Deferred capital grants	314	314	319	319
Total	**3,596**	**3,603**	**3,039**	**3,051**

15 Creditors: amounts falling due after one year

	2016 Group £'000	2016 College £'000	2015 Group £'000	2015 College £'000
Deferred income – government capital grants	4,902	4,902	5,305	5,305
	4,902	**4,902**	**5,305**	**5,305**

16 Cash and cash equivalents

	At 1 August 2015 £'000	Cash flows £'000	Other changes £'000	At 31 July 2016 £'000
Cash and cash equivalents	3,601	1,884	-	5,485
Total	**3,601**	**1,884**	**-**	**5,485**

Notes to the Financial Statements (continued)

17 Capital commitments

	Group and College	
	2016	2015
	£'000	£'000
Commitments contracted for at 31 July	241	392
Authorised but not contracted for at 31 July	132	98

18 Lease Obligations

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

	Group and College	
	2016	2015
Future minimum lease payments due	£'000	£'000
Land and buildings		
Not later than one year	69	69
Later than one year and not later than five years	237	237
later than five years	4,922	4,982
	5,228	5,288
Other		
Not later than one year	10	61
Later than one year and not later than five years	1	5
later than five years	0	0
	11	66

19 Events after the reporting period

After following due process, including an SPA, full due diligence and consultation, the College and Hackney Community College agreed in March 2016 that they would merge with effect from 1 August 2016. This was completed as planned, with Hackney Community College dissolving on that date and transferring its assets, liabilities and undertaking to Tower Hamlets College.

In addition, on 9 September 2016, the College completed the acquisition of a specialist English Language School, Westbourne Academy, at a cost of £1.45m.

Through the Area Review, the College has continued to promote the deferred merger with Redbridge College and it is intended that this will be completed on or before 1 August 2017. To that end, formal consultation about the merger was commenced on 11 November 2016 and planning is now underway to complete the process within the stated timeframe.

20 Defined benefit obligations

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pension Fund Authority. Both are defined-benefit schemes.

Total pension cost for the year		**2016 £000**		**2015 £000**
Teachers' Pension Scheme: contributions		853		827
Local Government Pension Scheme:				
Contributions paid	512		607	
FRS 102 (28) charge	47		97	
Charge to the Statement of Comprehensive		559		704
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year within staff costs		**1,412**		**1,531**

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

At 31 July 2016, contributions amounting to £167,378 (2015: £63,680) 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.

Notes to the Financial Statements (continued)

20 Defined Pension Obligations (continued)

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.
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 £853,000 (2015: £827,000)

FRS 102 (28)

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

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

Notes to the Financial Statements (continued)

20 Defined Pension Obligations (continued)

Local Government Pension Scheme
The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by London Pension Fund Authority. The total contributions made for the year ended 31 July 2016 were £663,000, of which employer's contributions totalled £512,000 and employees' contributions totalled £151,000. The agreed contribution rates for future years are 15.8% for employers and range from 2.9% to 11.4% for employees, depending on salary.

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

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	4.00%	4.50%
Future pensions increases	2.20%	2.70%
Discount rate for scheme liabilities	2.60%	3.80%
Inflation assumption (CPI)	2.20%	2.70%
Commutation of pensions to lump sums	0%	0%

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

	At 31 July 2016	At 31 July 2015
	years	years
Retiring today		
Males	21.9	21.8
Females	25.1	25.0
Retiring in 20 years		
Males	24.3	24.2
Females	27.4	27.3

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

	Long-term rate of return expected at 31 July 2016	Fair Value at 31 July 2016 £'000	Long-term rate of return expected at 31 July 2015	Fair Value at 31 July 2015 £'000
Equity instruments	-	7,899	-	6,449
Debt instruments	-	6,243	-	5,789
Property	-	574	-	458
Cash	-	639	-	1,882
Total fair value of plan assets		**15,355**		**14,578**
Weighted average expected long term rate of return	**2.6%**		**3.8%**	
Actual return on plan assets		**223**		**29**

Notes to the Financial Statements (continued)

20 Defined Pension Obligations (continued)

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

	2016 £'000	2015 £'000
Fair value of plan assets	15,355	14,578
Present value of plan liabilities	(28,975)	(24,200)
Net pensions liability	**(13,620)**	**(9,622)**

Amounts recognised in the Statement of Comprehensive Income in respect of the plan

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	(559)	(635)
Past service cost	-	(69)
Total	**(559)**	**(704)**
Amounts included in interest payable		
Net interest charge	(378)	(306)
	(378)	**(306)**
Amount recognised in Other Comprehensive Income		
Return on pension plan assets	223	29
Experience losses arising on defined benefit obligations	-	-
Changes in assumptions underlying the present value of plan liabilities	(3,796)	(2,334)
Amount recognised in Other Comprehensive	**(3,573)**	**(2,305)**

Movement in net defined benefit (liability)/asset during year

	2016 £'000	2015 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(9,622)	(6,914)
Movement in year:		
Current service cost	(559)	(635)
Employer contributions	512	607
Past service cost	-	(69)
Net interest on the defined (liability)/asset	(378)	(306)
Actuarial gain or loss	(3,573)	(2,305)
Net defined benefit (liability)/asset at 31 July	**(13,620)**	**(9,622)**

Notes to the Financial Statements (continued)

20 Defined Pension Obligations (continued)

Asset and Liability Reconciliation

	2016 £'000	2015 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	24,200	20,686
Current service cost	559	635
Interest cost	910	881
Contributions by Scheme participants	151	198
Experience gains and losses on defined benefit obligations	-	-
Changes in financial assumptions	3,796	2,334
Estimated benefits paid	(641)	(603)
Past Service cost	-	-
Curtailments and settlements		69
Defined benefit obligations at end of period	**28,975**	**24,200**
Changes in fair value of plan assets		
Fair value of plan assets at start of period	14,578	13,772
Interest on plan assets	554	596
Return on plan assets	201	8
Employer contributions	512	607
Contributions by Scheme participants	151	198
Estimated benefits paid	(641)	(603)
Fair value of plan assets at end of period	**15,355**	**14,578**

21 Related Party Transactions

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

Only the details below concerning the College's subsidiary companies and two members of the Board of Govenors were identified which should be disclosed under Financial Reporting Standard 8 Related Party Disclosures.

TowerSkills Recruitment Services Ltd, a subsidiary of the college

Purchase transactions in the year amounted to £55,000 (2015 - £68,000) relating to staff agency fees less management expenses. The debtor balanace outstanding at the year end amounted to £71,000 (2015 - £77,000).

Tower Hamlets Education Business Partnership – a company in which Gunner Burkhart is a Board member

Purchase transactions in the year amounted to £26,092 (2015 £30,295) relating to work experience placement fees. There were no balances outstanding at the year end (2015 – NIL).

Notes to the Financial Statements (continued)

21 Related Party Transactions (continued)

Poplar HARCA – a company in which Bhattacherjee Babu is a Director of Communities and Neighbourhoods

Purchase transactions in the year amounted to £38,951 (2015 £41,736) relating to childcare fees for ESOL learners funded through the learner support fund. Sales transactions in the year amounted to £1,680 (2015 £1,200) relating to hire of the workhouse pitches. The debtor balance outstanding at the year end amounted to £420 (2015 - £420) and the creditor balance amounted to £25,200 (2015 £12,408).

22 Amounts disbursed as agent

Learner support funds

	2016 £'000	2015 £'000
Funding body grants – discretionary learner support	620	760
	620	760
Disbursed to students	(245)	(322)
Administration costs	(31)	(35)
Amount consolidated in financial statements	(336)	(403)
Balance unspent as at 31 July, included in creditors	8	-

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account. The income and expenditure consolidated in the College's financial statements relates to the payment of Crèche charges and other fees.

23 Transition to FRS 102 and the 2015 FE HE SORP

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

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

Notes to the Financial Statements (continued)

23 Transition to FRS 102 and the 2015 FE HE SORP (continued)

	Note	1 August 2014		31 July 2015	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
Financial Position					
Total reserves under		20,881	20,881	17,420	17,420
Endowment		447	447	464	464
Employee leave accrual	(a)	(247)	(247)	(164)	(164)
Release of non-government	(b)	-	-	-	-
Total effect of transition to FRS 102 and 2015 FE HE		200	200	300	300
Total reserves under 2015		21,081	21,081	17,720	17,720

	Note	Year ended 31 July 2015	
		Group	College
		£'000	£'000
Financial performance			
Deficit for the year after tax under previous SORP		(928)	(928)
		17	17
Net movement in employee	(a)	83	83
Reversal of capital grants	(b)	-	-
Pensions provision – actuarial		(2,305)	(2,305)
Changes to measurement of net finance cost on defined benefit	(c)	(228)	(228)
Total effect of transition to FRS 102 and 2015 FE HE		(2,450)	(2,450)
Total comprehensive income for the year under 2015 FE		(3,361)	(3,361)

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 9 days unused leave for teaching staff and 2 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £164,296 was recognised at 1 August 2014, and at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £92,261 has been charged to Comprehensive Income in the year ended 31 July 2016.

23 Transition to FRS 102 and the 2015 FE HE SORP (continued)

b) Non-government grants accounted for under performance model

The College has previously been in receipt of certain capital grants from sources other than those classified as "government" under FRS 102 and the 2015 FE HE SORP. Under the previous UK GAAP and 2007 SORP, these were able to be capitalised and amortised over the remaining useful economic life of the relevant fixed assets. This accounting treatment is no longer available for non-government grants and the grants have therefore been accounted for under the performance model and treated as if they had been credited to Comprehensive Income immediately that the performance conditions had been met. A corresponding adjustment has been made to the income recognised in the 2015 results that related to the annual amortisation of the capital grants involved.

c) Change in recognition of defined benefit plan finance costs

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

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

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