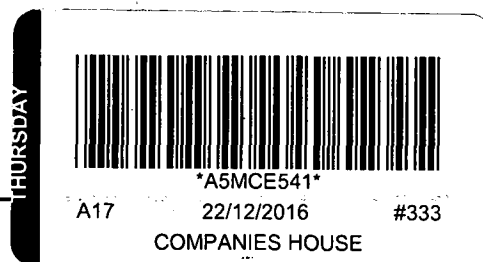


LEEDS COLLEGE
of MUSIC

**LEEDS COLLEGE OF MUSIC,
A COMPANY LIMITED BY GUARANTEE
(COMPANY NUMBER 7596410)**

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 JULY 2016



CONTENTS

Director's Report	3
Strategic Report.....	9
Statement of Corporate Governance and Internal Control	15
Statement of responsibilities of the members of the board	19
Independent Auditor's Report to the Governing Body Of Leeds College of Music.....	20
Statement of Comprehensive Income.....	22
Statement of Changes In Reserves.....	23
Balance Sheet as at 31 st July 2016.....	24
Cash Flow Statement for the Year Ended 31 st July 2016	25
Notes to the accounts.....	26

DIRECTOR'S REPORT

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

Legal status

The company was incorporated on 7 April 2011 as a wholly owned subsidiary undertaking of Leeds City College ("LCC"). The company is an exempt charity for the purposes of the Charities Act 2011.

Vision, mission and values

Our vision is to be a leading European Conservatoire.

Our mission is to ensure we are artistically ambitious, quality driven and industry focussed. We are actively engaged in the future of music making. Our environment nurtures independence and creative risk.

We will achieve this by living the following values:

- Creative
- Rigorous
- Supportive
- Sustainable

Public Benefit

Leeds College of Music ("LCoM") is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE and HE Corporations in England. The members of the Board, who are trustees of the charity, are disclosed on page 16.

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

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

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

DIRECTOR'S REPORT (CONT.)

Implementation of strategic plan

The LCoM Strategic Plan 2015 – 2020 splits our Strategic aims into two elements:

Core Aims: Quality

1. Offer our students an exceptional learning experience
2. Be a Centre of Creative discovery
3. Embed collaboration within our culture

Enabling Aims: Growth

4. Develop our team to inspire and support our students and each other
5. Provide exemplary facilities and technology
6. Operate sustainably

Progress towards these aims is monitored regularly through a set of key performance indicators (KPIs). The performance in year compared to prior year can be summarised in the following table covering:

Strategic aim & category	Indicator	2014/15	2015-16 (& RAG)
1. To exceed our customers' expectations			
Student Satisfaction	Short Courses (internal survey)	90.0%	98.3%
2. To ensure our staff has the right mix of skills, knowledge, attitude and motivation to deliver the mission			
Staff and HR development	Staff turnover	14.7%	10.6%
	Staff absenteeism	1.6%	1.7%
Governance, leadership and management	Attendance at Board meetings	81%	91%
	Audit recommendations completed	100%	100%
3. To operate viably and sustainably			
Institutional sustainability	Net surplus before adjustment for FRS102 and exceptional item 2014-15	£160,508 (1.5%)	£322,206 (3.0%)
Financial health	Staff cost as % income	57.4%	59.6%
	Contribution rates: income derived from non-publicly funded sources	14%	12.4%
Market position	Home/EU undergraduate application increase (excl top-ups) above UCAS reported UK increase rate	4% above UCAS	12% above UCAS
Property costs	Property costs per student FTE	£1,148	£1,225

Other non-financial performance indicators that are monitored are reported further on pages 9 and 10 in the Strategic Report.

DIRECTOR'S REPORT (CONT.)

Financial objectives

The financial objectives adopted by LCoM should be read in the context of the strategic plan to achieve growth in Higher Education ("HE") numbers and funding and to facilitate the provision of Further Education ("FE") at the levels required by the market. The financial objectives that underpin the financial plans to 2020 are that we will achieve earnings before interest, taxation, depreciation and amortisation ("EBITDA") in the region of 8-10%, allowing LCoM to generate positive operating cash flows to enable continued investment in resources. All of our departments will manage their work to agreed budgets and forecasts for each academic year. We will achieve annual student number targets for recruitment and retention, with input from academic and professional support departments.

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

Adoption of FRS102

These financial statements are the first to be prepared under Financial Reporting Standard ("FRS") 102. The impact of this standard has resulted in substantial changes to the presentation of the financial position of LCoM, as set out in detail at note 22. The Income and Expenditure statement has been replaced by a Statement of Comprehensive Income (page 22).

Financial results

LCoM generated a retained deficit of £0.4 million during the year ended 31 July 2016 (in 2015 the restated surplus as a result of implementation of FRS 102 is £0.1 million). The deficit for the year was a result of an estimate by external actuaries that pension liabilities increased by £1.04 million in the year (further discussion of this is set out below). Without incorporating this increased liability charge, operationally LCoM essentially broke even in the year.

As a result LCoM's financial position remains stable, with operating performance slightly up on budget. Improvements in curriculum delivery costs and operating efficiencies continue to be realised in line with plans that will assure the continuing viability and sustainability of LCoM's specialist operations.

LCoM's deficit for the year of £0.4M is after adjusting for the following items below:

- FRS102 pension costs being the difference between the estimated liability charge to LCoM and that paid by LCoM in employer contributions of £319K, recorded in staff costs.
- Net interest of £94K on LCoM's liabilities within the West Yorkshire Pension Scheme, reported within Interest and other finance costs.

A further actuarial loss of £622K on the pension scheme meant total Comprehensive income was £1.1M in deficit in the year. Further discussion of the derivation of the pension costs is set out in Note 16 to these accounts.

The introduction of the new funding regime for undergraduates has provided LCoM with the opportunity to pursue growth in its core business through increased student numbers. The key to continuing financial health will be for the business to maintain the current cost profile of its new curriculum whilst maintaining the quality of provision necessary to attract further growth over future years. The financial performance in 2015/16 again demonstrates the move towards the long-term viability of LCoM's business model and also the effectiveness of the management processes employed to ensure that it is realised.

DIRECTOR'S REPORT (CONT.)

Financial results (cont.)

In common with all HE Institutions LCoM's principal source of funding has shifted from grants to fees, in LCoM's case the result will be an increased level of unit funding for students recruited under the new arrangements. The funding for FE will remain dependant on monies available from the SFA/EFA. It is anticipated that this will continue to reduce and that the provision of specialist music courses in this sector will reduce accordingly, resulting in HE revenue accounting for an increasing proportion of LCoM's turnover.

Balance Sheet

LCoM has £7.0 million of net assets (after providing for a £4.1 million pension liability and long term debt of £2.5 million).

Treasury policies and objectives

Treasury management is the management of LCoM's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. As part of the LCC Group, surplus cash balances are managed as part of a group treasury function. The LCoM Principal does not have any authority to enter into borrowing on behalf of LCoM; however, the Board of Directors may do so in accordance with the LCC Group Financial Regulations.

Liquidity

LCoM's balance sheet reports an inter-company balance with LCC of £1.7 million, which effectively represent LCoM's cash reserves. This is sufficient to meet the on-going working capital and investment needs of the operation.

Post-balance sheet events

There are no major balance sheet events to report in the period since 31 July 2016.

Going Concern

After making appropriate enquiries, the Board considers that LCoM 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.

Stakeholder Relationships

In line with other institutions we have many stakeholders. These include:

- | | |
|---|---|
| • Students | • The local community |
| • Education sector funding bodies | • Other FE institutions |
| • Staff | • Trade unions |
| • Local employers (with specific links) | • Professional bodies |
| • Local authorities | • Government Offices |
| • Specialist music partners | • Validating Partner (University of Hull) |

We recognise the importance of these relationships and engage in regular communication with these stakeholders through our website, our intranet and through meetings, briefings, blogs and other media.

DIRECTOR'S REPORT (CONT.)

Equality and diversity

Leeds College of Music values the rich social and cultural diversity in which it operates and is committed to:

- promoting equality
- promoting social cohesion and building community links
- respecting the dignity of all people who visit, study and work at LCoM
- providing conditions which encourage everyone to participate, progress and achieve in their learning
- actively challenging unacceptable actions and behaviours such as harassment, or bullying.

Commitments to equality will be applied irrespective of:

- age
- disability
- gender reassignment
- marriage and civil partnership
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation

These commitments are evidenced in LCoM policies and procedures and marketing literature. LCoM's Equality, Diversity and Inclusion ("EDI") Action Plan incorporates actions to achieve these commitments and explains how the conservatoire will implement them. LCoM's Equality & Diversity Statement is published on its website <http://www.lcm.ac.uk/About-Us/Equality-diversity-inclusion>.

Disability statement

LCoM seeks to achieve the objectives set down in the Equality Act (2010):

1. As part of its Accommodation Strategy LCoM has an up to date access audit.
2. LCoM has a Disability Advisor, who provides information, advice and arranges support where necessary for students with disabilities.
3. There is identified specialist equipment, assistive technologies and mentoring available for use by identified students.
4. The admissions policies for all students are available on the conservatoire website. Appeals against a decision not to offer a place are dealt with under the Admission Appeals policy.
5. LCoM 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.
6. Specialist programmes are described in prospectuses, and achievements and destinations are recorded and published in a standard format.
7. Counselling and welfare services are described in the student handbook, which is issued to students when they enrol.

DIRECTOR'S REPORT (CONT.)

Disclosure of information to auditors

The Directors 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 LCoM'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 LCoM's auditors are aware of that information.

Approved by order of the Board of Directors on 9 December 2016 and signed on its behalf by:



Libby Raper
Chair of the Board of Directors

Leeds College of Music
3 Quarry Hill
Leeds
LS2 7PD

STRATEGIC REPORT

LCoM had a successful year to 31 July 2016. Significant progress was made against the strategic plan, in particular the achievement of an increased operating surplus, before severance and pension liability movements arising from uncontrollable market conditions.

For the most part, indicators of performance and management of risk was positive, as can be seen below. Where there were negatives, for example although overall the National Student Survey results were positive there are a couple of areas where targets were missed, these will be learnt from and actions taken forward to continually improve.

Student numbers

In 2015/16 LCoM delivered activity that has produced £0.9 million in SFA / EFA main funding. LCoM had 183 SFA / EFA funded students enrolled at the start of the year, compared to 227 students for the same period last year.

In total, 977 HE students enrolled at LCoM in 2015/16, an increase of 10% on prior year – this was 931 undergraduate students and 46 postgraduate students, compared to 853 and 33 students respectively last year.

Curriculum developments

2015/16 was the fifth year of delivery of revised HE provision, replacing individual degree courses with the BA (Hons) Music, a single structure with separate genre pathways and a combined pathway.

A new pathway was introduced in the 2014/15 academic year; BA (Hons) Music Business. This is a complementary course to the other pathways and is a unique offering in a conservatoire setting. The 2015/16 cohort was 38 students, ahead of its target. A new pathway was validated for September 2016 entry, Film Music; again unique in a conservatoire setting.

A new Masters level qualification was also validated for September 2016 entry, MMus Creative Musician, a qualification designed to capitalise on the growth in the market we have seen for Masters level students who focus on cross disciplinary and cross genre practice.

Changes in UK Visa & Immigration regulation meant that the Foundation Certificate could no longer accept International students. For September 2016, a Foundation Year to the three year undergraduate mode of study has been introduced, for both UK and International students.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998 requires companies, 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. During the accounting year ended 31 July 2016 LCoM paid 95% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Future prospects

Looking ahead the future of LCoM remains positive if challenging. Increased competition within the HE sector means that LCoM's current position can be sustained and improved by continued investment in facilities and enhancements to the curriculum to attract the most appropriate students. We will continue to develop our international markets and exploit any opportunities that may arise from the Brexit vote.

STRATEGIC REPORT (CONT.)

Environmental matters

A key strategic objective for LCoM is to continue to operate sustainably and to have regard for the environment through carbon reduction measures and also through a range of sustainability initiatives. LCoM is part of the carbon management programme which was endorsed by the Carbon Trust and approved by the LCC Board of Governors in February 2012. LCoM also now shares the same suppliers for energy, waste management and mechanical maintenance with the wider group. A sustainability group has been established and has developed a sustainability strategy. During the year a project was launched with the Student's Union to sort all the College's waste, the aim being to recycle as much as possible to achieve zero landfill disposal. The project has seen recycling double.

People and Resources

LCoM has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include LCoM's main building, facilities including recording studios and performance spaces, and musical instruments and equipment. LCoM's staff are a significant resource with many having national and international profiles in their field.

The staff headcount of the college as an average for the year is 315, comprising 118 females and 197 males. Expressed as full time equivalents, LCoM employs 156 people of whom 62 are teaching staff. There is one Senior Post Holder, the Principal & Managing Director, who is male.

Brand

LCoM has a good reputation locally and nationally. Maintaining a quality brand is essential for LCoM's success at attracting students and external relationships. A recent brand audit has been undertaken by an external consultancy in this area. Their report and its findings will be used as the basis for a re-fresh of the brand and used as a basis of engaging more closely with staff, students, the local community and wider stakeholders.

Key Performance Indicators

Academic Profile

The percentage of BA students graduating in 2016 who achieved a 2.1 or higher was 77%, against a prior year figure of 79%. FE Level 3 results for Music were also good with 95% of students successful against a target of 85%; in Music Technology results were very pleasing with 98% of students achieving Level 3 against a target of 68%.

We can also report a slight improvement in the outturn for the percentage of graduates in employment or further study. The year-end position was 90% of graduates (the same as prior year), against a benchmarked target of 90%. The conservatoire continues to work hard to maintain and improve on this in the future.

Student Satisfaction

Results from the National Student Survey, which surveys graduating students, gave an overall satisfaction percentage of 80%, unchanged from the previous year. An anticipated improvement in the overall score was not achieved as there were issues emerging within two of our pathways which offset significant improvement in our other pathways. Detailed Action Plans have been developed to address issues and ensure improvements made by the conservatoire across its HE delivery are maintained.

Internal student satisfaction surveys, surveying those HE students not graduating, were positive to the target. HE had an outturn of 93%, slightly up on previous year's figure of 92%.

STRATEGIC REPORT (CONT.)

Principal Risks and Uncertainties

Based on its strategic aims, LCoM identified a number of key strategic risks, which impacted on the whole organisation. These are managed by the Executive Management Group (EMG) and overseen by the Principal & Managing Director and Board. The whole process is overseen by the LCC Audit Committee who use the reports on risk on a regular basis and link them to the work of both internal and external auditors to enable them to comment upon the adequacy or otherwise of the process.

The LCC Group's internal auditors use the risks to inform their prospective work plan so that the entire plan is focused upon the key risks facing LCoM.

Outlined below is a description of the principal risks identified during 2015/16. Significant progress has been made against many of these during the year and whilst the risk levels with planned mitigation are judged to be acceptable, close monitoring of them is nevertheless actively maintained.

Risk Description	Mitigation in place	Planned Mitigation
<p><u>Accommodation</u></p> <p>A shortage of accommodation in the College leads to LCoM's inability to deliver on advertised practice and studio time for students, in turn leading to student dissatisfaction, and limits the conservatoire's capacity for growth in student numbers. Variable growth/decline across pathway recruitment changes specialist resource requirements year on year.</p>	<ul style="list-style-type: none"> Audit of room bookings showed c.25% availability of practice rooms during core hours; this was being communicated back to students. A task and finish group is looking at the whole room booking process from end to end. The group will identify short, medium and longer-term improvements and is consulting with students on potential solutions. Revision of the current Estate plans to accommodate the transfer of FE to LCC in September 2018. Lower FE recruitment in 2016/17 has enabled more space to be allocated to Pop. 5 additional practice rooms and 1 ensemble room have been made available in 2016/17. 	<p>HE enrolment figures for 2016/17 entry are higher than target, meaning there is additional pressure on space. Student feedback will be sought at the Student-Staff Forum to assess the impact of this before the risk is considered to be fully mitigated.</p>

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the year ended 31 July 2016

Risk Description	Mitigation in place	Planned Mitigation
<p><u>Market position</u></p> <p>Competitor strategies impact to reduce our key markets. Competitors' market performance improves significantly and faster than LCoM is able to respond.</p>	<ul style="list-style-type: none"> • Diversification of undergraduate course portfolio to include New Music, Film Music and BA with Foundation Year (2016); postgraduate curriculum rebranded as MMus Creative Musician (2016), giving LCoM a unique course portfolio that differs from both conservatoires and universities. • Marketing strategy in place including work with feeder schools. • HE recruitment split between UCAS and UCAS Conservatoires (CUKAS) to target a variety of markets. • The 2017/18 prospectus has been redesigned to better reflect the LCoM ethos and highlight the student experience. • Folk and Songwriting pathways now in place for 2017 to ensure distinctive market position based on current strengths and market information. • Interviews for Production are being reviewed and will be brought forward in the cycle for 2017 entry. • Successful recruitment for 2016/17, HE student numbers above target and highest ever. 	<ul style="list-style-type: none"> • Additional curriculum development (Musical Theatre and FdA Dance Music for 2018 and potentially Acting for 2019). • Resolution, in consultation with LCC, of the marketing message to potential FE applicants for 2017 entry (the cohort that will transfer to LCC in September 2018). • Targeted improvement in FE-HE progression within LCoM and from LCC to LCoM following the transfer of Level 3 provision, for example development of a Group FE-HE progression strategy. Any expenditure would be countable under our Access Agreement, so we could offer free/automatic/priority auditions, consultation lessons, theory tuition or taster days. • Further development of marketing and recruitment insight through the introduction of CRM. • LCoM website to be redesigned for implementation January 2017. • Development of guest artists / industry partner activities: increase professional contacts, profile of artists and variety of guests year on year. • Brand Audit involving external stakeholders and brand refresh taking place in late 2016; • EMG to review all aspects of LCoM market position.
<p><u>Estates planning</u></p> <p>The option for estate expansion in 2018 (LCC's Eastgate development) does not proceed or is delayed, with an impact on the FE transfer and/or LCoM's options for accommodation of new provision.</p>	<p>LCoM involvement in the design of the Eastgate development, via the Joint Executive.</p>	<ul style="list-style-type: none"> • Discussion with other institutions about other potential Quarry Hill developments to mitigate the Eastgate builds not proceeding. • Possibility of phasing LCoM facilities first, to mitigate delay. • Rental of teaching accommodation elsewhere on a short-term basis to mitigate delay.

STRATEGIC REPORT (CONT.)

Approved by order of the Board of Directors on 9 December 2016 and signed on its behalf by:



Libby Raper
Chair of the Board of Directors
Leeds College of Music
3 Quarry Hill
Leeds
LS2 7PD

PROFESSIONAL ADVISORS

External Auditors

KPMG LLP
1 Sovereign Square,
Sovereign Street,
Leeds,
LS1 4DA

Internal Auditors

RSM
2 Wellington Place
Leeds
LS1 4AP

Bankers

Lloyds Bank PLC
2nd Floor,
Lisbon House,
116 Wellington Street,
Leeds,
LS1 4LT

Solicitors

Eversheds LLP
Bridgewater Place
Water Lane
Leeds
LS11 5DR

Key management personnel

Key management personnel are defined as members of the Executive Management Group and were represented by the following in 2015/16:

Gerry Godley	Principal & Managing Director
Prof. Joe Wilson	Director of Curriculum
David Warren	Director of Operations

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and financial statements of LCoM to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2015 to 31 July 2016 and up to the date of the approval of the annual report and financial statements.

LCoM 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 leaderships; and
- ii) having due regard to the UK Corporate Governance Code 2014 insofar as it is applicable to the further and higher education sectors.

LCoM is committed to exhibiting best practise in all aspects of corporate governance and those aspects of the UK Corporate Governance Code we consider to be relevant to the further and higher education sector and best practise.

In the opinion of the Board of Directors LCoM complies with all the provisions of the Code in so far as they apply, and it has complied throughout the period ended 31 July 2016. The Board recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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

The Board of Directors

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (CONT.)

The Board of Directors (cont.)

Name and status	Date of first Appointment	Term of Office	Date of Resignation / re-appointment	Attendance – Maximum of 7 (6 for Ms Mera-Nelson)
Libby Raper (Chair) – Independent Member	1 st January 2014	4 years	N/A	7
Colin Booth (LCC Principal & CEO)	1st October 2015	Ex officio		6
Cherry Fricker – Independent Member	8 th June 2011	4 years	Re-appointed for a 2 nd term on 8 June 2015	7
Gerry Godley - LCoM Principal & MD	22 nd September 2014	Ex officio	N/A	7
Dr Claire Mera-Nelson – Co-opted Member	1 st November 2015	4 years	N/A	5
Neal Parker – Independent Member	1 st January 2014	4 years	N/A	6
Benjamin Saunders – Independent Member	23 rd September 2013	4 years	N/A	6

Appointments to the Board

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

Members of the Board are appointed for a term of office not exceeding four years. The provisions of the Composition of the Board allow for the co-opting of two directors to the Board.

In accordance with section 172(1) of the Companies Act 2006, Directors have a statutory duty to promote the success of LCoM for the benefit of its members. The Board is provided with regular and timely information on the overall financial performance of LCoM together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Board meets every two months, on average.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (CONT.)

Appointments to the Board (cont.)

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

The Board has a strong and independent non-executive element and no individual or group dominates its decision making process. The Board considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. There is a clear division of responsibility in that the roles of the Chair and Principal & Managing Director are separate.

Full minutes of all meetings, except those deemed to be confidential by the Board, are available from the registered office address:

Leeds College of Music
3 Quarry Hill
Leeds
LS2 7PD

Internal Control

Scope of responsibility

The Board is ultimately responsible for LCoM'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 Board has delegated the day to day responsibility to the Principal and Managing Director for maintaining a sound system of internal control that supports the achievement of LCoM's policies, aims and objectives, whilst safeguarding the public funds and assets.

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 LCoM's 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 Leeds College of Music for the period ended 31 July 2016 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

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

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (CONT.)

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 reviewed and agreed by the Board;
- Regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital investment control guidelines; and
- The adoption of formal project management disciplines, where appropriate.

LCoM is included in the annual internal audit plan of the LCC Group, which operates in accordance with the requirements of the Education Funding Agency and Skills Funding Agency's Joint Audit Code of Practice. The work of the Group's internal audit service is informed by an analysis of the risks to which LCoM is exposed and annual internal audit plans are based on this analysis. Ms Fricker, as well as being a Board member also chairs the LCC Group Audit Committee, reporting to the LCoM Board on the work of the Internal Auditors.

Review of effectiveness

The Principal & Managing Director 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 LCoM who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by LCoM's financial statements auditors and regularity auditors in their management letters and other reports.


The Executive Management Group (EMG) 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 departments and reinforced by risk awareness training. The Board's agenda includes a regular item for consideration of risk and control and receives reports thereon from senior management. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Based on the advice of the LCC Group Audit Committee and the Principal & Managing Director, the Board is of the opinion that LCoM 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"*.

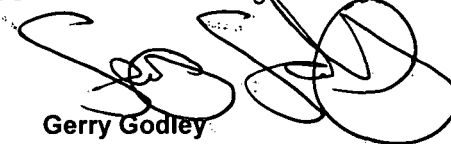
Going Concern

After making appropriate enquiries, the Board considers that LCoM 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 Board of Directors on 9 December 2016 and signed on its behalf by:



Libby Raper
Chair of the Board of Directors
Leeds College of Music



Gerry Godley
Principal and Managing Director
Leeds College of Music

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE BOARD

The members of the Board of Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Board to prepare financial statements for each financial year. Under that law it has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency / Education Funding Agency ("SFA / EFA") and the Board of Governors at LCC, the Board, through its Principal and Managing Director, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* and with the College Accounts Direction 2015 to 2016 issued jointly by the SFA / EFA, and which give a true and fair view of the state of affairs of LCoM and the result for that year.

In preparing these financial statements, the Board is required to:

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

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

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain LCoM's transactions and disclose with reasonable accuracy at any time the financial position of LCoM and enable them to ensure that the financial statements comply with the Companies Act 2006. It has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of LCoM and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on LCoM's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the Board 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 SFA / EFA are used only in accordance with the Financial Memorandum with the SFA / EFA and any other conditions that may be prescribed from time to time. Members of the Board 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 Board are responsible for securing economical, efficient and effective management of LCoM's resources and expenditure, so that the benefits that should be derived from the application of public funds from the SFA / EFA are not put at risk.

Approved by order of the members of the Board on 9 December 2016 and signed on its behalf by:



Libby Raper
Chair of the Board of Directors
Leeds College of Music

INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BODY OF LEEDS COLLEGE OF MUSIC

We have audited the financial statements of Leeds College of Music for the year ended 31 July 2016 set out on pages 22 to 45. 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 Board, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Board 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 Board for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Statement of the Board's Responsibilities set out on page 19, the Board (who are the directors of the company for the purposes of company law) is responsible for the preparation of the 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 College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Director's Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31st July 2016, of the College's income and expenditure, gains and losses and changes in reserves and of the College's cash flows for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF LEEDS COLLEGE OF MUSIC (*cont.*)

Opinion on other matter prescribed in the HEFCE Audit Code of Practice (effective 1 August 2014) issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and
- the corporate governance and internal control requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements* have been met.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the College, or returns adequate for our audit have not been received from branches not visited by us; or
- the College's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Clare Partridge, Senior Statutory Auditor
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants,
One Sovereign Square,
Sovereign Street,
Leeds,
LS1 4DA

15 December 2016

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the year ended 31 July 2016

STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	2016 £'000	2015 £'000 As restated See note 22
Income			
Tuition fees and education contracts	2	8,994	8,094
Other grants and contracts	3	1,379	1,633
Other income	4	430	723
Donations and endowments	5	20	7
Total income		10,823	10,457
Expenditure			
Staff costs	6	6,807	6,205
Other operating expenses	7	3,303	3,115
Depreciation	9	919	827
Interest and other finance costs	8	233	229
Total expenditure		11,262	10,376
(Deficit) / surplus before other gains and losses		(439)	81
Loss on disposal of assets		(2)	(8)
(Deficit) / surplus before tax		(441)	73
Taxation		-	-
(Deficit) / surplus for the year		(441)	73
Actuarial loss in respect of pension schemes		(622)	(564)
Total Comprehensive Income for the year		(1,063)	(491)
Represented by:			
Endowment comprehensive income for the year		6	3
Unrestricted comprehensive income for the year		(1,069)	(494)
		(1,063)	(491)

All items of income and expenditure relate to continuing operations.

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the year ended 31 July 2016

STATEMENT OF CHANGES IN RESERVES

	Income & expenditure reserve - unrestricted £'000	Endowment Reserve - restricted £'000	Total £'000
Restated balance at 1 August 2014 (note 22)	8,510	2	8,512
Surplus from the income and expenditure account	76	-	76
Other comprehensive income	(564)	-	(564)
Transfers between income & expenditure and other reserve	(3)	3	-
Balance at 31 July 2015	8,019	5	8,024
Deficit from the income and expenditure account	(435)	-	(435)
Other comprehensive income	(622)	-	(622)
Transfers between income & expenditure and other reserve	(6)	6	-
Total comprehensive income for the year	(1,063)	6	(1,057)
Balance at 31 July 2016	6,956	11	6,967
Deficit for the year comprises:			
Deficit from the income and expenditure account	(435)		
Transfer to endowment reserve	(6)		
Deficit for the year	(441)		

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the year ended 31 July 2016

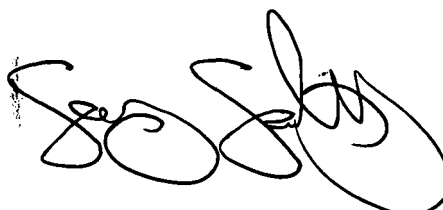
BALANCE SHEET AS AT 31ST JULY 2016

	Notes	2016 £'000	2015 £'000 As restated
Non-current assets			
Tangible Fixed assets	9	<u>12,489</u>	<u>12,551</u>
		12,489	12,551
Current Assets			
Stock		4	4
Trade and other receivables	10	2,073	1,913
Cash at bank and in hand		<u>24</u>	<u>5</u>
Total current assets		2,101	1,922
Less: Creditors - amounts falling due within one year	11	<u>(1,040)</u>	<u>(814)</u>
Net current assets		1,061	1,108
Total assets less current liabilities		13,550	13,659
Less: Creditors – amounts falling due after more than one year	12, 13	(2,486)	(2,555)
Provisions			
Pension provisions	14, 16	<u>(4,097)</u>	<u>(3,080)</u>
TOTAL NET ASSETS		6,967	8,024
Restricted reserves			
Income and Expenditure Reserve - endowment reserve	15	11	5
Unrestricted reserves			
Income and expenditure reserve - unrestricted		<u>6,956</u>	<u>8,019</u>
TOTAL RESERVES		6,967	8,024

The financial statements on pages 22 to 45 were approved and authorised for issue by the Board on 9 December 2016 and were signed on its behalf on that date by:



Libby Raper
Chair of the Board of Directors
Leeds College of Music



Gerry Godley
Principal and Managing Director
Leeds College of Music

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the year ended 31 July 2016

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST JULY 2016

	2016 £'000	2015 £'000 As restated
Cash flow from operating activities		
(Deficit) / surplus for the year	(441)	73
Adjustment for non-cash items		
Depreciation of fixed assets	919	827
Decrease in stock	-	2
(Increase) / decrease in debtors	(130)	4
Decrease in creditors	219	45
(Decrease) / increase in provision for enhanced pensions	(19)	24
Pension service cost in excess of employer contributions	319	185
Interest and other finance costs	233	229
Increase in endowment reserve	6	3
Loss on disposal of tangible fixed assets	2	8
Profit from disposal of interest in leasehold property	-	(357)
Net cash inflow from operating activities	1,108	1,043
Cash flows from investing activities		
Proceeds from sale of assets – disposal of interest in leasehold property	-	357
New deposits – loan to Leeds City College	(30)	(95)
Payments made to acquire tangible fixed assets	(859)	(1,126)
	(889)	(864)
Cash flows from financing activities		
Interest element of finance lease repayments	(139)	(156)
Capital element of finance lease payments	(61)	(20)
	(200)	(176)
Increase in cash and cash equivalents in the year	19	3
Cash brought forward at beginning of year	5	2
Cash carried forward at end of year	24	5

NOTES TO THE ACCOUNTS

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.
- They conform to guidance published jointly by the Skills Funding Agency and the Education Funding Agency in the "Accounts direction for 2015 to 2016 financial statements".

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of fixed assets. As a College based solely in the UK, the functional currency used in the preparation of these accounts is UK Sterling.

Transition to the 2015 FE HE SORP

LCoM 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, LCoM 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 results of LCoM is provided in note 22.

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, LCoM has retained the carrying values of freehold properties as being deemed cost and measured at fair value
 - Lease incentives – LCoM has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition
-

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONT.)

Going concern

The activities of LCoM, 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 LCoM, its cash flow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

LCoM has current finance lease borrowing and has demonstrated its future resourcing plans through the preparation of the five year financial forecasts which have been considered by the board.

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

Recognition of income

Income is 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 is adjusted for and reflected in the level of income recognised. Education activity delivered by LCoM forms part of the total LCC Group funding allocation received from funding bodies. LCC transfers the appropriate funding achieved to LCoM under an agreement between them. This income is included in note 3 under provision of education.

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

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

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

Grant funding including capital grants

Grant funding including funding council block grant and grants from non-government sources are recognised as income when LCoM is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with Donor imposed restrictions are recognised in income when LCoM is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when LCoM is entitled to the funds.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONT.)

Post-retirement benefits

Retirement benefits to employees of LCoM are provided by the Teachers' Pension Scheme (TPS) and the West Yorkshire Pension Fund (WYPF). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS), and the assets are held separately from those of LCoM.

The TPS is an unfunded scheme and contributions 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 pay. The contributions are determined by the Government Actuary on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 18 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 scheme and the contributions recognised as they are paid each year.

The WYPF is a funded scheme and the assets are held separately from those of the College in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to 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 gains and losses on curtailments and settlements. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have been vested. If the benefits have not been vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Short term Employment benefits

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

Enhanced Pensions

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

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONT.)

Non-current assets - Tangible fixed assets

Land and buildings

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

Building improvements made are included in the balance sheet at cost. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 5 and 30 years. Leasehold land and buildings are depreciated on a straight-line basis over their expected economic life to the College of 60 years or, if shorter, the period of the lease.

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 the fixed asset may not be recoverable.

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:

- 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 £1,000 is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

All equipment is depreciated over its useful economic life as follows:

- IT equipment - 4 years on a straight-line basis
- All other equipment - 5 to 30 years on a straight-line basis

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 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.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONT.)

Stock

Stock is held at the lower of cost and net realisable value.

Taxation

LCoM is an exempt charity within the meaning of Part 3 of the Charities Act 2011 and as such is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. The University is recognised as a charity by HM Revenue & Customs. It is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and accordingly is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

In the opinion of the Board no tax charge has arisen in either year.

LCoM receives no similar exemption in respect of value added tax. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased. Capital costs and non-pay expenditure are therefore shown inclusive of VAT with any partial recovery included in other operating income.

Provisions, contingent liabilities and assets

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.

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.

A contingent asset arises where an event has taken place that gives the College a possible asset 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 and assets are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Agency Arrangements

The College acts as an agent in the collection and payment of Discretionary Support Funds. Related payments received and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 21, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONT.)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of LCoM'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

- *West Yorkshire Pension Fund*

The present value of the *West Yorkshire Pension Fund* 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 16, 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.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to LCoM, the donor has designated a specific purpose and therefore LCoM is restricted in the use of these funds.

2. TUITION FEES AND EDUCATION CONTRACTS

	2016 £'000	2015 £'000 As restated
Home and EU students	8,618	7,939
International students	376	155
Total	8,994	8,094

3. OTHER GRANTS AND CONTRACTS

	2016 £'000	2015 £'000 As restated
Provision of education	1,379	1,633
Total	1,379	1,633

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

4. OTHER INCOME

	2016 £'000	2015 £'000
Other Income	430	723
Total	430	723

Included within other income in 2014-15 are the proceeds of the disposal of an interest in the lease of the Joseph Stones accommodation block. The interest was sold to the owner for £406,000 with costs of disposal (agent's fees and legal costs) of £49,000.

5. DONATIONS AND ENDOWMENTS

	2016 £'000	2015 £'000
New endowments	13	3
Unrestricted donations	7	4
Total	20	7

6. STAFF COSTS

The average number of persons (including senior staff) employed by the College during the period, described as full time equivalents, was:

	2016 Number	2015 Number
Teaching	52	49
Teaching support	10	14
Student support	31	29
Management, administration, marketing & IT	33	29
Estates	17	19
Income generation	13	10
Total Staff	156	150

	£000	£000 As restated
Wages and Salaries (see note 22)	5,335	5,039
Social Security Costs (see note 22)	386	332
Other Pension Costs (see notes 14, 16 and 22)	827	673
Payroll sub-total	6,548	6,044
Contracted out staffing services	193	143
Restructuring costs – redundancy	66	18
Total	6,807	6,205

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

6. STAFF COSTS (CONT.)

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 Executive Management Group which comprises the Principal & Managing Director, Director of Curriculum and Director of Operational Services. Staff costs include compensation paid to key management personnel for loss of office.

Emoluments of Key management personnel and other higher paid staff

	2016	2015
	No.	No.
The number of key management personnel including the Principal & Managing Director	<u>3</u>	<u>4</u>

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:

	2016		2015
	Number of senior staff	Number of other staff	
£60,001 to £70,000	-	-	2
£70,001 to £80,000	2	-	-
£90,001 to £100,000	-	-	1
£100,001 to £110,000	1	-	-
	<u>3</u>	<u>-</u>	<u>3</u>

Key management personnel emoluments are made up as follows:

	2016	2015
	£'000	£'000
Salaries	247	283
Benefits in kind	1	9
Pension Contributions	<u>26</u>	<u>30</u>
Total	<u>274</u>	<u>322</u>

The above emoluments include amounts payable to the Principal & Managing Director, Gerry Godley (appointed on 22nd September 2014 and who is also the highest paid member of staff) of:

	2016	2015
	£'000	£'000
Salary	106	87
Benefits in Kind	<u>-</u>	<u>8</u>
Total Staff	<u>106</u>	<u>95</u>
Pension Contributions	<u>11</u>	<u>9</u>

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

6. STAFF COSTS (CONT.)

Emoluments of Key management personnel and other higher paid staff (cont.)

Mr Godley replaced the previous Principal, Phillip Meaden, who left on 21 September 2014 and was paid £18,000 in salary and had £1,000 in pension contributions paid on his behalf during 2014/15. The pension contributions in respect of the key management personnel are in respect of employer's contributions to the West Yorkshire Pensions Fund and are paid at the same rate as for other employees.

The members of the Board other than the Principal did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. The total expenses paid to or on behalf of the Board in the year was £167 (2015 - Nil).

7. OTHER OPERATING EXPENSES

	2016 £'000	2015 £'000
Teaching Costs	660	737
Non-teaching Costs	2,003	1,788
Premises Costs	640	590
Total	3,303	3,115

	2016 £'000	2015 £'000
Non-teaching costs include		
Auditors remuneration:		
- Financial Statements audit	15	13
- Internal audit	8	8
Loss on disposal of tangible fixed assets	2	8
Hire of other assets – operating leases	56	58

8. INTEREST AND OTHER FINANCE COSTS

	2016 £'000	2015 £'000
On finance leases	139	156
Interest on pension liabilities (note 15)	94	73
On finance leases	233	229

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

9. TANGIBLE FIXED ASSETS

	Land & Buildings Leasehold £'000	Equipment £'000	Total £'000
Deemed Cost / Cost			
Balance brought forward 1 August 2015	12,727	1,989	14,716
Additions	309	550	859
Disposals	-	(20)	(20)
At 31st of July 2016	13,036	2,519	15,555
Accumulated depreciation			
Balance brought forward 1 August 2015	1,688	477	2,165
Charge for the year	520	399	919
Elimination in respect of disposals	-	(18)	(18)
At 31st of July 2016	2,208	858	3,066
Net book value at 31st of July 2016	10,828	1,661	12,489
Net book value at 31 st July 2015	11,039	1,512	12,551

Land and buildings were valued at £10.6 million as at July 2014 at depreciated replacement cost by DVS, a firm of independent chartered surveyors, when the net book value at that date was £10.7 million.

The net book value of tangible fixed assets includes an amount of £3,360K in respect of assets held under finance leases. The depreciation charge on these assets for the year was £86K.

10. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Amounts falling due within one year		
Trade receivables	90	57
Amounts owed by parent undertaking – Leeds City College	1,745	1,715
Prepayments and accrued income	238	141
Total	2,073	1,913

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
		As restated
Obligations under finance leases	66	59
Payments received in advance	153	33
Trade creditors	225	186
Other creditors	97	84
Other taxation and social security	124	102
Accruals and deferred income (see note 22)	375	350
Total	1,040	814

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £'000	2015 £'000
Obligations under finance leases	2,486	2,555
Total	2,486	2,555

13. MATURITY OF DEBT

Finance leases

The net finance lease obligations to which LCoM is committed are:

	2016 £'000	2015 £'000
In one year or less	66	59
Between two and five years	323	292
In five years or more	2,163	2,263
Total	2,552	2,614

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

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Defined benefit obligations £'000	Enhanced pensions £'000	Total £'000
Balance brought forward at 1 August 2015	2,843	237	3,080
Expenditure in the year	-	(19)	(19)
Additions in the year	1,036	-	1,036
At 31st July 2016	3,879	218	4,097

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 16.

The enhanced pension provision relates to the cost of staff who have already left the College's employment and commitments for reorganisation cost from which the College cannot reasonably withdraw at the balance sheet date.

The principal assumptions for this calculation are:

	2016 %	2015 %
Price inflation	2.3	3.5
Discount rate	1.3	1.7

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

15. ENDOWMENT RESERVES

	2016 £'000	2015 £'000
Expendable endowments		
Endowment reserves at 1 August	5	2
New endowment income	13	3
Expenditure	(7)	-
At 31st July 2016	11	5
Balance represented by:		
Accumulated income	11	5
At 31st July	11	5
Analysis by type of purpose		
Provision of instruments to students	11	5
Analysis by asset		
Fixed assets	11	5

16. DEFINED BENEFIT OBLIGATIONS

LCoM's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales ("TPS") for academic and related staff; and the West Yorkshire Pension Fund ("WYPF"), a Local Government Pension Scheme (LGPS) for non-teaching staff. Both are multi-employer defined-benefit plans.

Total pension cost for the year

	2016 £'000	2015 £'000 As restated
Teachers' Pension Scheme: contributions paid	19	18
West Yorkshire Pension Fund:		
Contributions paid	481	462
FRS 102 (28) charge	319	185
Charge to the Income and Expenditure account	800	647
Enhanced pension charge to Statement of Comprehensive Income	8	8
Total pension cost for year within staff costs	827	673

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 WYPF 31 March 2013.

NOTES TO THE ACCOUNTS (CONTINUED)

16. DEFINED BENEFIT OBLIGATIONS (CONT.)

Teachers' pension scheme

Introduction

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Valuation of the Teachers' Pension Scheme

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

- employer contribution rates were set at 16.4% of pensionable pay;
- 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>

NOTES TO THE ACCOUNTS (CONTINUED)

16. DEFINED BENEFIT OBLIGATIONS (CONT.)

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 £19K (2015: £18K).

Financial Reporting Standard ("FRS") 102 (28)

Under the definitions set out in FRS 102 (28), the TPS is a multi-employer pension scheme. LCoM is unable to identify its share of the underlying assets and liabilities of the scheme.

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

Contributions amounting to £nil were payable to the scheme at the end of the financial period.

West Yorkshire Pension Fund ("WYPF")

LCoM operates an employee pension benefits scheme through WYPF which is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the period ended 31 July 2016 was £768K of which employer's contributions totalled £481K and employees' contributions totalled £287K. The agreed contribution rates for future years are 10.7% for employers and range from 5.5% to 12.5% for employees, depending on salary. An additional monetary amount of £44,600 will be contributed to the scheme on the advice of the Actuary to assist in reducing the liability that exists within the fund.

NOTES TO THE ACCOUNTS (CONTINUED)

16. DEFINED BENEFIT OBLIGATIONS (CONT.)

West Yorkshire Pension Fund (cont.)

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	
	WYPF funded benefits	WYPF unfunded benefits	WYPF funded benefits	WYPF unfunded benefits
Expected rate of salary increases	1.00%	n/a	1.00%	n/a
Future pension increases	1.80%	1.80%	2.10%	1.90%
Discount rate for scheme liabilities	2.40%	2.40%	3.60%	3.50%
Inflation assumption (CPI)	1.80%	1.80%	2.10%	1.90%
Commutation of pensions to lump sums			100%	n/a

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
<i>Retiring today</i>		
Males	22.7 years	22.6 Years
Females	24.9 years	25.5 Years
<i>Retiring in 20 years</i>		
Males	25.6 years	24.8 Years
Females	28.0 years	27.8 Years

LCoM's share of the assets in the fund at the balance sheet and the expected rates of return were:

	Long-term rate of return expected at 31 July 2016 %	Fair value at 31 st July 2016 £'000	Long-term rate of return expected at 31 July 2016 %	Fair value at 31 st July 2015 £'000
Equities	75.1	7,288	75.9	6,191
Government Bonds	11.2	1,087	10.4	848
Corporate Bonds	4.2	408	4.6	375
Property	4.8	466	4.5	367
Cash	1.4	136	1.5	122
Other	3.3	320	3.1	254
Total fair value of fund assets		9,705		8,157
Weighted average expected long term rate of return		10.8%		10.1%
Actual return on fund assets		961		760

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

16. DEFINED BENEFIT OBLIGATIONS (CONT.)

West Yorkshire Pension Fund (cont.)

The amount included in the balance sheet in respect of the defined benefit plan and enhanced pensions benefits is as follows:

	2016 £'000	2015 £'000
Fair value of fund assets	9,705	8,157
Present value of fund liabilities - Funded	(13,576)	(10,992)
Present value of fund liabilities - Unfunded	(8)	(8)
Net pensions liability (note 14)	(3,879)	(2,843)

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	800	647
Total	800	647

Amounts included in Interest and other finance costs

Interest on pension liabilities	94	73
Net interest cost	94	73

Amount recognised in Other Comprehensive Income

Return on pension fund assets	657	375
Experience losses on scheme liabilities	(1,279)	(939)
	(622)	(564)

History of experience gains and losses

	Year to 31 July				
	2016	2015	2014	2013	2012
Difference between actual and expected return on scheme assets:					
Amount (£'000)	891	897	272	972	161
% of assets at end of year	9%	11%	4%	16%	3%
Experience (gains) / losses on scheme liabilities:					
Amount (£'000)	1,305	1,156	369	-29	-10
% of liabilities at end of year	10%	11%	4%	0%	0%

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

16. DEFINED BENEFIT OBLIGATIONS (CONT.)

West Yorkshire Pension Fund (cont.)

Movement in net defined benefit liability during the year

	2016	2015
	£'000	£'000
Net defined benefit liability in the fund at 1 st August	(2,843)	(2,020)
Movement in period		
- Employer service cost (net of employee contributions)	(800)	(647)
- Employer contributions	481	462
- Past service cost	-	-
- Net interest/return on assets	(94)	(73)
- Net benefits paid out	-	-
- Actuarial (loss) / gain	(623)	(565)
Net defined benefit liability in the fund at 31st July 2016	<u>(3,879)</u>	<u>(2,843)</u>

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations

	2016	2015
	£'000	£'000
		As restated
Defined benefit obligations at start of year	11,000	8,905
Current service cost	800	647
Interest cost	399	369
Employee Contributions	287	265
Actuarial loss	1,279	939
Benefits Paid	(181)	(125)
Defined benefit obligations at end of year	<u>13,584</u>	<u>11,000</u>

Change in fair value of Fund Assets

Fair value of fund assets at start of year	8,157	6,885
Expected return on assets	304	295
Actuarial gain	657	375
Employer Contributions	481	462
Employee Contributions	287	265
Benefits Paid	(181)	(125)
Fair value of fund assets at end of year	<u>9,705</u>	<u>8,157</u>

17. POST-BALANCE SHEET EVENTS

In the period since 31 July 2016 no major events have taken place.

LEEDS COLLEGE OF MUSIC
FINANCIAL STATEMENTS
for the period ended 31 July 2016

NOTES TO THE ACCOUNTS (CONTINUED)

18. CAPITAL COMMITMENTS

	2016 £'000	2015 £'000
Commitments contracted for as at 31 st July 2016	<u>178</u>	<u>375</u>

19. FINANCIAL COMMITMENTS

At 31 July 2016 minimum LCoM had total commitments under non-cancellable operating leases as follows:

	2016 £'000	2015 £'000
Expiring within one year	5	-
Expiring within one and five years inclusive	84	79
Expiring in over five years	<u>17</u>	<u>68</u>
Total	<u>106</u>	<u>147</u>

20. RELATED PARTY TRANSACTIONS

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

Transactions with the funding bodies are detailed in notes 3 and 10.

The directors consider that there are no other disclosures required, LCoM having taken advantage of the exemption not to disclose transactions with members of the group.

No board member has received any remuneration or waived payments from LCoM during the year (2015: £Nil) other than the Principal & Managing Director whose remuneration is disclosed in Note 6.

21. AMOUNTS DISBURSED AS AGENT

Learner Support Funds

	2016 £'000	2015 £'000
Funding body grants – hardship support	59	75
Disbursed to students	(40)	(47)
Administration costs	<u>(2)</u>	<u>(2)</u>
Balance unspent as at 31st July 2016	<u>17</u>	<u>26</u>

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

NOTES TO THE ACCOUNTS (CONTINUED)

22. TRANSITION TO FRS 102 AND THE 2015 FE HE SORP

The year ended 31st July 2016 is the first year that LCoM 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 31st 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.

	<i>Note</i>	1 August 2014 £'000	31 July 2015 £'000
Financial position			
Total reserves under previous SORP		2,909	2,659
Employee leave accrual	(a)	(79)	(85)
Release of capital grants	(b)	5,680	5,445
Changes to measurement of net finance cost on defined benefit funds	(c)	-	-
Total effect of transition to FRS 102 and 2015 FE HE SORP		5,601	5,360
Total reserves under 2015 FE HE SORP		8,510	8,019
Financial performance			
	<i>Note</i>		Year ending 31 July 2015 £'000
Surplus for the year after tax under previous SORP			510
Movement in employee leave accrual	(a)		(6)
Release of capital grant receipt	(b)		138
Reversal of capital grants amortisation	(b)		(372)
Pensions provision – actuarial loss	(d)		(606)
Changes to measurement of net finance cost on defined benefit funds	(c)		(155)
Total effect of transition to FRS 102 and 2015 FE HE SORP			(1,001)
Total comprehensive income for the year under 2015 FE HE SORP			(491)

NOTES TO THE ACCOUNTS (CONTINUED)

22. TRANSITION TO FRS 102 AND THE 2015 FE HE SORP (CONT.)

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 11 days unused leave for teaching staff and 5 days unused leave for non-teaching staff. Employees are entitled to carry forward any unused holiday entitlement at the end of the leave year subject to the discretion of the Executive Management Group. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £79K was recognised at 1 August 2014, and £85K at 31 July 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £6K has been charged to Comprehensive Income in the year ended 31 July 2016.

b) Capital grants accounted for under performance model

The College has previously been in receipt of certain capital grants. 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 and the grants have therefore been accounted for under the performance model and treated as if they had been credited to Comprehensive Income immediately after 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.