Financial Review

Financial Review

More detail about the information in this section may be found in the Financial Statements. Some of the figures given for the year ending 31 August 2015 – which provide a comparison with those for the year ending 31 August 2016 – differ from those shown in the Report for the year ending 31 August 2015. Where this is the case, it is because the new FRS 102 SORP accounting principles differ from those applying under the previous regime, and the preceding year's figures have had to be re-calculated in order to give a true comparison.

The majority of the figures in this section are rounded to one decimal point: this may result in apparent arithmetical errors.

The City & Guilds Group
This Report and the Financial Statements cover the activities of the City & Guilds Group ('the Group'). In addition to the Institute, the active members of the Group are:

City and Guilds International Ltd	CGIL	a company limited by shares registered in England and Wales (1894671) owned by the Institute and with the same England and Wales charity number. It is registered as an external company in seven countries, has twelve active wholly owned or controlled overseas subsidiaries and, through its Singapore subsidiary, a minority shareholding in one other (Manipal City & Guilds Pte Ltd)
City and Guilds Kineo Ltd	CGK	a company limited by shares registered in England and Wales (7150983) and owned by the Institute. It has one wholly owned US subsidiary (Kineo Group Inc.) and a minority shareholding in a New Zealand company (Totara Learning Solutions Ltd)
Flexible Learning Network Ltd	FLN	a company limited by shares registered in New Zealand (1727137) and owned by the Institute. It is registered as an external company in Australia, and formerly traded as Kineo Pacific
The Oxford Group Consulting and Training Company Ltd	OGCT	a company limited by shares registered in England and Wales (2828084) and as an external company in France and Hong Kong. OGCT is owned by The Oxford Group Consulting and Training Holding Company Ltd (a wholly owned subsidiary of the Institute) and has one wholly owned US subsidiary (Oxford Group Consulting and Training Inc.)
Nine Lanterns Pty Ltd	NLP	a company limited by shares registered in Australia (098839082) and acquired by the Institute on 30 October 2015
Radiowaves Schools Ltd	RSL	a company limited by shares registered in England and Wales (05774430) and acquired by the Institute on 10 June 2016
Digitalme Ltd	DML	a company limited by guarantee registered in England and Wales (05303626) and acquired by the Institute on 10 June 2016

On 7 January 2016, the Institute of Leadership and Management transferred part of its business to the Institute and ceased to be a member of the Group. On 8 November 2016, the Institute acquired Interact Learning Pty Ltd (an Australian company): more information about this will be given in the Report for the year ending 31 August 2017.

Income and assets

The Group

The Group's income was £137.4m (2014–15: £141.1m). Of this 81% (2014–15: 85%) is classed as educational in the Financial Statements. The Group's expenditure was £135.0m (2014–15: £134.3m). Of this 81% (2014–15: 85%) is classed as educational in the Financial Statements.

The Group's net income was however £-10.0m (2014–15: £49.5m) because there was a one-off item of 'expenditure' totalling £13.8m to reflect the fact that The Institute of Leadership and Management ceased to be a member of the Group on 7 January 2016. Even if this had not been the case, there would still have been a marked difference between this and the previous year: this is because the previous year included a significant one-off gain on a property disposal.

From the net income was deducted £33.0m (2014–15: an addition of £1.7m) to arrive at the net movement in funds, which totalled £-43.0m (2014–15: £51.3m). This adjustment consisted of an actuarial loss in relation to the defined benefit pension scheme of £34.1m (2014–15: gain of £2.1m), and foreign currency gains of £1.1m (2014–15: losses of £0.3m). There is more information about pensions later in this Report.

The balance sheet value of the Group's assets at 31 August 2016 was £75.3m (31 August 2015: £118.3m). The difference between this and the previous year is attributable to the items detailed above.

The Institute

The Institute's income was £98.2m (2014–15: £101.8m). Of this 99% (2014–15: 98%) is classed as educational in the Financial Statements. The Institute's expenditure was £94.3m (2014–15: £96.4m). Of this 100% (2014–15: 100%) is classed as educational in the Financial Statements. The Institute's net income was £5.8m (2014–15: £48.9m). The marked difference between this and the previous year is because the previous year included a significant one-off gain on a property disposal. From the net income was deducted £34.3m to arrive at the net movement in funds which was £-28.6m (2014–15: £51.0m). This adjustment consisted of an actuarial loss in relation to the defined benefit pension scheme of £34.1m (2014–15: gain of £2.1m), and foreign currency losses of £0.3m (2014–15: gains of £0.07m). There is more information about pensions later in this Report. The balance sheet value of the Institute's assets at 31 August 2016 was £78.4m (31 August 2015: £107.0m). The difference between this and the previous year is attributable to the items detailed above.

Other principal active members of the Group

Their results can be found in the Financial Statements. If the Institute's direct subsidiaries make profits, they normally pay them (either by dividend or gift aid donation) to the Institute.

The balance sheet value of CGK's assets at 31 August 2016 was £-2.4m (31 August 2015: £-2.6m) and it was therefore materially in deficit. Following its acquisition in November 2012 revenue targets were set which are expected to eliminate the deficit over a reasonable period of time and CGK's performance has been in line with expectations. None of the Institute's other subsidiary undertakings were materially in deficit.

Capital expenditure and depreciation

Capital expenditure of £3.1m (2014–15: £8.8m) was largely incurred by the Group on IT assets. Depreciation was £6.2m (2014–15: £7.4m). Capital expenditure of £2.9m (2014–15: £11.4m) was largely incurred by the Institute on IT assets. Depreciation was £5.9m (2014–15: £5.5m). Figures for the other Group members can be found in their own accounts.

Risk management

The Trustees, supported by the Audit and Risk Committee, keep under regular review the risks to which the Group is exposed, the risk appetite, and ways in which risk management processes can be used to enhance performance. The Trustees seek to limit the impact of those risks by adopting appropriate measures and monitoring their implementation. The Strategic Risk Register and Operational Risk Registers for each business area record risks, their inherent and residual scores, and mitigation measures. Each strategic risk is owned by a member of the Management Board who is responsible for monitoring it and ensuring that the measures are implemented. Risk management is undertaken at all levels of the organisation and the Group Risk Manager and Risk Co-ordinators meet regularly to discuss risk related issues. The Group Internal Auditor provides independent assurance that the risk management, governance and internal control processes are operating effectively.

The principal risks and uncertainties facing the Institute and its subsidiary undertakings, as identified by the Trustees are as follows (with a summary of the Trustees' plans and strategies for managing those risks):

- Failure to respond effectively to changes in funding, policy and regulation. The Trustees' plans to manage this risk include working with employers and industry contacts to influence policy before it happens

- Failure to maintain and support customer facing services (including quality issues). The Trustees' plans to manage this risk include focussing on ensuring platforms are integrated and roadmaps aligned, and improving the interfaces between underlying systems to enhance the customer experience

- Loss of key systems and/or data. The Trustees' plans to manage this risk include reviewing the existing hosting arrangements to enhance hardware security, and reviewing or updating core software to enhance software security

- Failure of acquisitions or investments to meet operational and financial targets. The Trustees already have adequate controls in place, and the key aim is therefore to ensure that they are applied.

Financial Review
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Designated Fund
The Skills Development Fund was created by the Institute in July 2015. Its aim is to invest in new and innovative activities which have a demonstrable impact; create long-term and sustainable change; deliver real benefit to the education sector, employers and/or learners; and reflect the Group's global profile. The timing of the expenditure depends on the strategies adopted for the Fund's use, and the nature, size and number of opportunities which present themselves. The value of the Fund at 31 August 2016 was £4.8m (2015: £5.0m).

Restricted Funds
ILM Fund
Until 7 January 2016 The Institute of Leadership and Management (TILM) was a member of the Group. Its charitable objects ('the promotion and development of the science of leadership and management, and the advancement of education involving the study of the skills of leadership and management') are narrower than those of the Institute and TILM is therefore treated as a restricted fund in the Financial Statements. In the period between 1 September 2015 and 7 January 2016 its income was £3.4m, its expenditure £3.2m, and its net income therefore £0.2m. Further adjustments were made to arrive at the net movement in funds (£13.2m). These adjustments were investment gains of £0.1m and 'expenditure' of £13.3m to reflect the fact that TILM ceased to be a member of the Group on 7 January 2016.

Following the transfer to the Institute of part of TILM's business and assets on 7 January 2016, the Institute holds a fund (the ILM Fund) whose objects are the promotion and development of the science of leadership and management, and the advancement of education involving the study of the skills of leadership and management.

At 7 January 2016 the ILM Fund consisted of cash of £3.3m and non-cash assets. At that date the non-cash assets were valued on an arm's length basis at £1.3m and, in order to avoid the costly and complex accounting required to record the cash flows of these assets, the Institute transferred £1.3m in cash to the ILM Fund in exchange for them. The ILM Fund therefore consists entirely of cash.

As part of the transfer arrangements, the Institute agreed to make a payment to TILM of £500,000 in each of the next 10 years. The first payment was due in mid-January 2016 and was met out of the ILM Fund. It is planned to fund the remaining nine payments (totalling £4.5m) out the ILM Fund as far as possible.

The cash transferred by TILM was £3.3m, the cash transferred by the Institute in exchange for the non-cash assets was £1.3m and the interest earned on the total cash to 31 August 2016 was £0.02m. Deducted from this prior to 31 August 2016 was the first payment to TILM of £0.5m.

In the Financial Statements the assets and liabilities of the fund have both been accounted for at book value (and discounted to present value where appropriate). The book value of the assets was £2.5m and the book value (discounted to present value) of the liabilities was £3.1m. As at 31 August 2016 the book value of the ILM Fund was therefore £nil.

NPTC Fund
Following the transfer to the Institute of NPTC's business and assets in 2010, the Institute holds a fund which supports its land-based activities. The timing of the expenditure depends on the strategies adopted for the Fund's use, and the nature, size and number of opportunities which present themselves. The value of the Fund at 31 August 2016 was £3.8m (2015: £3.7m), made up of £1.3m in equities, managed by CCLA Investment Management Ltd, and £2.5m in cash. In the year ending 31 August 2016, £0.08m (2014–15: £0.03m) was spent. This consisted of bursaries, marketing and staff costs.

Reserves
The Institute adopts a risk based approach to setting a minimum level of free reserves which the Trustees consider to be appropriate to maintain for the coming year. Factors considered include budget cash flow forecasts, long term plans, key risks, the timing of major income, expenditure and capital items, potential cash outflows not included in the budget process (acquisitions for example), and estimated closure costs. Other members of the Group have policies which specify reserves of three months' planned operating expenditure or more.

The appropriate level of the Group's free reserves at 31 August 2016 was £52.0m. The value of the actual free reserves at that date was £69.6m (2015: £59.9m). This was calculated by adding the net current assets (£59.6m) to the investments (£19.5m) and then deducting the value of the Restricted Funds (£3.8m) and Designated Fund (£4.8m) and provisions for liabilities and charges (£0.9m). Active consideration is being given to the investment of the excess reserves.

Investments

Subsidiaries
These investments take the form of shares in companies owned or controlled by the Institute, or loans to those companies. The Institute's investment in City and Guilds International Ltd is a 'programme-related investment', made to further the Institute's aims in a way that may also produce some financial return for it. The remainder are 'social investments', made with a view both to directly furthering the Institute's purposes and to achieving a financial return. The Trustees' policy is to set up new subsidiaries where it is prudent or desirable for activities to be carried out by a separate legal entity, and to acquire existing companies where this is preferable to creating a product or service in-house.

In the year ending 31 August 2016, the Institute acquired Nine Lanterns Pty Ltd, a company limited by shares registered in Australia (098839082); Radiowaves Schools Ltd, a company limited by shares registered in England and Wales (05774430); and Digitalme Ltd, a company limited by guarantee registered in England and Wales (05303626).

Information about the values of these investments can be found in Note 7 to the Financial Statements.

On 8 November 2016, the Institute acquired Interact Learning Pty Ltd (an Australian company): more information about this will be given in the Report for the year ending 31 August 2017.

Other investments in companies
These are also social investments. The Trustees' policy is to become a minority shareholder in existing companies where participation in their management will be more beneficial than contractual arrangements alone.

In the year ending 31 August 2016, the Institute acquired minority interests in three companies: Excel With Business Ltd (a company limited by shares registered in England and Wales (06888906) which trades as Filtered), Credly Inc (a US registered company), and GetMyFirstJob Ltd (a company limited by shares registered in England and Wales (06685719)).

Information about the values of these investments can be found in Note 7 to the Financial Statements.

Cash and equities
The Trustees' policy is, after keeping a prudent cash reserve, to invest in the BlackRock ChariTrak Fund, which aims to provide charity investors with returns in line with the UK equity market, using indexation techniques to track the performance of the FTSE All-Share Index. On behalf of its clients, Blackrock's dedicated team engages with companies and vote proxies to encourage business and management practices that support sustainable financial performance over the long-term. The Trustees' review of the objectives and strategy is ongoing as it is dependent on the plans for future capital expenditure.

At 31 August 2016, the Group's cash amounted to £67.8m (2015: £80.6m). The Group's equities were valued at £19.5m (2015: £22.3m), of which £16.0m (2015: £20.2m) was the market value of its ChariTrak holding and £1.3m (2015: £1.2m) the CCLA investments in the NPTC Fund. Statistics on the return on ChariTrak are available quarterly (at 31 December, 31 March, 30 June and 30 September), and the return for the year ending 30 September 2016 was 16.33% (2015: -2.6%) compared to the benchmark performance of 16.41% (2015: -2.6%).

Pension Fund

At 31 August 2016, the funding of the defined benefit section of the City and Guilds (1966) Pension Scheme was in deficit by £62.7m (2015: £27.0m). The marked increase in the deficit resulted from a significant drop in corporate bond yields following the result of the EU referendum on 23 June 2016. These yields are used to discount future liability which in turn impacted the value of the deficit. The Trustees are aware of the volatile nature of pension surpluses/deficits calculated according to FRS102, which may vary in response to market factors and the actuarial assumptions made. The Trustees have considered the impact of this liability on future cash flow and reserves and believe that it will be funded from normal activities.

Relationships between the Institute and related parties

The Institute provides a range of services to its subsidiaries, for which payment on arms' length terms is made. The nature of those services varies according to the subsidiary concerned but may include management and support services such as IT, human resources and development, finance, facilities and legal.

Remuneration Report

Statement from Allan Johnston, Chair of Remuneration Committee
I am pleased to present, on behalf of the Remuneration Committee of the Trustees, the report on the remuneration of the executive key management personnel for year ended August 2016.

For a number of years, as well as complying with the minimum remuneration reporting requirements of the charities recommended reporting practice (SORP), the Remuneration Committee has produced a more comprehensive remuneration report which, amongst other additional information, gave full details of the remuneration package of the Chief Executive.

Last year we introduced two further innovations. Firstly, in anticipation of the new larger charities SORP (FRS102), which was to apply for reporting years ending January 2016 and after, the Committee provided aggregate emoluments for the Chief Executive and those members of the Management Board reporting directly to him. This group were identified as the executive 'key management personnel' as defined by the new SORP. In addition we provided a 'future remuneration policy table' along the lines of that required by the Directors' Remuneration Reporting Regulations for main market listed companies, covering the Chief Executive and the rest of the key management personnel. We consider, therefore, that last year's report was already more than compliant with the new SORP and we are not introducing further structural changes this year.

It should be noted that any remuneration, benefits or expenses provided to the Trustees has to be reported in detail under SORP, and is included in Note 16 to the Financial Statements. It is not covered by this remuneration report.

In setting the remuneration policy for the key management personnel, the Committee has to strike a balance between the status of the Institute as a charity and the reality that it is competing against purely commercial organisations, both in product markets and talent markets. The Institute is not funded by charitable donations or grants, but must earn all its revenues in the market place.

Consequently, the basic remuneration policy needs to achieve a sufficient level of competitiveness in the relevant executive talent markets to allow the recruitment and retention of the people needed to lead the organisation in a global market. At the same time, meaningful incentive plans need to be in place to provide focus and alignment with the Institute's challenging objectives. The Committee has decided that the balance is best struck by providing a basic package (salary and benefits) which is around the middle of the market for similar sized commercial service businesses (excluding financial services). At the same time, the Committee has considered information on the total remuneration available in other not-for-profit and charitable organisations and has set the incentive policy so that the total earnings opportunity is rather less, at maximum, than would be provided in purely commercial organisations.

Nevertheless, the incentive plans are considered an important part of effective management. In the past year, the Institute had two plans for the key management personnel, an annual bonus plan and a three-year cash long-term incentive plan (the 'LTIP') which matured at the end of August 2016.

Due to significant changes in the organisation structure and operating targets following the separation of The Institute of Leadership & Management and the integration of our international and UK vocational awarding activities the 2016 annual bonus plan has been based on performance against total Group surplus targets only. The Remuneration Committee agreed it was better to focus the leadership on the overall surplus rather than business unit specific targets due to these changes. In a difficult market, the Group took market share from its competitors, and the Group operating surplus finally achieved was 101% of target.

The 2014–2016 LTIP was designed to reward the key management personnel for creating long-term value in the Institute by both growing the financial surplus over time and creating sustainability of future profits through the general strength of products and market presence. The performance period was the three fiscal years ending in August 2016. The Group has been accruing the cost of this plan in its accounts over the three years, but with respect to this Remuneration Report, the full three year payment is included as a lump sum in the Chief Executive's remuneration for the year and in the aggregate emoluments for the key management personnel. The payment for all participants was dependent on the average increase in operating surplus over the three years and a structured assessment of future growth prospects for the Group, taking into account the strength of the market position, success in diversification and Group financial strength. A final award of 108.6% of qualifying salary was made against a three year 'on target' opportunity of 100% salary.

Overall the Committee believes that the current remuneration policy (described in detail below) is working well to support the aims of the Institute.

Allan Johnston
Chair of Remuneration Committee of Trustees

The Remuneration Committee
The Remuneration Committee ('the Committee') is a Committee of the Trustee Board of the Institute. The Trustee Board considers the Committee's members to be independent. The current members of the Committee are Allan Johnston (Chair), David Illingworth, Peter McKee and Pat Stringfellow. The Chair of the Institute Trustees, Sir John Armitt, sits as an ex-officio Member.

The role of the Committee is to decide remuneration policy, terms of employment and remuneration plan design for the executive key management personnel, including the CEO, and to confirm their salaries, individual opportunity and pay outs under the annual bonus plan and LTIP.

During the year the Committee received remuneration policy advice and pay market information from MM&K, which was appointed as formal Committee adviser from September 2010 until December 2015, and subsequently from Damien Knight Associates.

Report on Remuneration for Year Ending 31 August 2016
The following table is prepared to show the detail of the emoluments paid to the CEO in the latest year and previous year.

Chris Jones CEO

	Salary[1]	Taxable Benefits [2]	Cash Bonus Earned in the Year[3]	LTIP Payment[4]	Total Emoluments*
2016	£259,500	£46,375	£107,367	£277,229	£690,471
2015	£256,333	£35,100	£140,350	£0	£431,783

* Total taxable earnings

Notes
1. Mr Jones' salary was increased in January 2015 and has been unchanged since.
2. Includes car allowance and cash in lieu of pension. Mr Jones' total contractual pension entitlement remains the same as in 2015 at 25% of gross salary of which £27,500 was paid directly in to his pension scheme. The balance was paid as taxable income.
3. Mr. Jones was awarded a bonus of 41.4% of salary (2015: 54.1%) against a target bonus of 40% salary. No deferral of bonus applies to the 2016 or 2015 awards.
4. This is a lump sum payment covering the three years ended August 2016 and amounts to 36% of salary per year of the plan.

Remuneration Report
(continued)

Other key management personnel
The total value of emoluments (cash salaries, bonuses and taxable benefits-in-kind) paid to the executive key management personnel (including the CEO) in year ending August 2016 was £3,273,222 (2015: £1,947,000). This figure includes the full payment of the three-year LTIP. In addition to these emoluments, the executive key management personnel (excluding the CEO) participate in the Institute's pension scheme on the same terms as other staff members. The number of executive Key management personnel members at the year end was 8.

Remuneration Policy
As a registered charity, the Institute is non-profit making, and our mission is the achievement of our charitable objectives. At the same time most of our services are being sold and provided in a highly competitive and commercial market place in which we must either develop and grow or lose ground to stronger competitors. We need to make a healthy net surplus to allow reinvestment in the business to maintain the high quality current products for our learners, and to provide investment for growth. We also need to be able to recruit and retain talented staff.

Consequently the Committee has proposed and agreed with the Trustees a clear remuneration philosophy and set of principles to guide its decisions about executive remuneration. These require it to take into account both market levels of remuneration and the economic and funding realities of the Group's businesses and to provide variable reward so as to allow employment costs to be managed and enhance the focus on performance.

Future policy table – remuneration of CEO and other key management personnel

Base salary	
Purpose/Link to corporate strategy	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the Institute's business strategy.
Operation	Salary only. Reviewed annually with changes effective 1 January if appropriate.
Opportunity	Reviews based on market comparisons, the Institute's financial position and increases to other Group staff. The CEO's salary for 2016 and 2017 is shown in the implementation statement following. Increases in salary will normally be limited to the average staff increase in the Group or less.
Performance metrics	None

Pension	
Purpose/Link to corporate strategy	To provide Directors with a long-term savings opportunity. The pension cash in lieu is part of a basic competitive package to recruit and retain.
Operation	The Institute makes a company contribution to the CEO's Personal Pension Plan, and to the extent that this exceeds the maximum HMRC permitted tax free amount this is paid as cash in lieu of pension. Any amount paid in cash in lieu of pension is fully subject to income tax and National Insurance deductions. Other members of the key management personnel are members of the standard Institute pension scheme.
Opportunity	The CEO receives a total contribution of 25% of gross base salary (i.e. excluding bonus or any allowance). Other members of the Key management personnel may participate in the Institute's pension schemes on the same terms as other members of staff. However, from tax year ending April 2017, they have the choice to opt into an arrangement, which reduces pensionable salary so that the value of pension saving is unlikely to exceed £10,000 (the 'minimum' HMRC saving limit, i.e. that at maximum tapering) and to receive, through PAYE, cash compensation for loss of pension benefits at the value of 15% of the difference between pensionable salary with and without this cap.
Performance metrics	None

Benefits	
Purpose/Link to corporate strategy	Insured benefits are included to provide employee protection for the benefit of the employee and Company. A car allowance is provided as part of a competitive package.
Operation	Car allowance paid in cash; private medical insurance for self and family under the Group scheme; life insurance and income protection under the Group scheme.
Opportunity	Private medical insurance – premium family cover Life assurance – four times salary Income Protection Policy – up to 55% of salary Car Allowance currently £9,000 for CEO and other key management personnel
Performance metrics	None

Remuneration Report
(continued)

Annual bonus plan	
Purpose/Link to corporate strategy	To incentivise and focus attention on Institute key performance indicators (KPIs) and provide a competitive performance-related annual earnings opportunity; compulsory deferred element provides a retention effect.
Operation	Targets are set at start of year. Payment is made after the year end, depending on achievement against targets.
Opportunity	On-target bonus is 40% of salary for the CEO and 30% for the other Key management personnel members. Maximum bonus for exceptional achievement is 60% salary for the CEO and 45% for other Key management personnel members.
Performance metrics	Corporate financial goals are set which may include operating surplus and revenue at a Group and an individual business level. (For 2016 the sole measure was Group operating surplus) Over-achievement of goals is required for maximum bonus. There is no payment below threshold performance (97% of target). All bonus payments are at the discretion of the Committee.

2014–2016 Long-Term Incentive Plan (LTIP) – now complete	
Purpose/Link to Corporate Strategy	To reward the CEO and selected key management personnel for the conception and implementation of a business strategy that leads to long-term sustainable growth in order to drive performance and support retention and long-term commitment to Institute success
Operation	Single cash payment at the end of a three year period ended in August 2016 depending on both average operating surplus over the three year period and the Remuneration Committee's assessment of surplus growth prospects at the end of the three year period
Opportunity	Maximum 150% of average salary over the three years (i.e. 50% of salary per year) for all participants. Actual payment 108.6% has been made
Performance Metrics	
Future Plan	The Remuneration Committee have now begun to consider what alternative plans could be introduced in order to incentivise key management personnel to further develop the Institute.

Performance Metrics:

	Threshold £	Achieved £
Cumulative operating surplus	24.1m	29.1m (after costs)
Average operating surplus	8.03m	9.7m (after costs)

Structure, governance and management

Constitution and charitable status
The Institute's purposes and administration are regulated by its Royal Charter granted on 26 October 1900, and the associated Supplemental Charters, Statutes, Ordinances and Standing Orders.

In 1965 the Institute was registered as a charity in England and Wales (312832) and it is now also registered as a charity in Scotland (SC039576). The Trustees have due regard to the Charity Commission public benefit guidance when exercising any powers or duties to which it is relevant, and take the view that the contents of this Report demonstrate that its requirements are met. The Office of the Scottish Charity Regulator (OSCR) expects the Trustees to include some narrative in this Report about the Institute's activities in Scotland. The nature of the Institute's activities in Scotland is the same as in the rest of the United Kingdom. The Institute is supported by an advisory committee for Scotland which met twice in the year ending 31 August 2016 and at those meetings reviewed the Institute's activities in Scotland, discussed product development, received updates on regulation and policy in Scotland, considered the implications for Scotland of changes in the English regulatory framework, and were briefed on organisational changes.

Honorary Officers
Her Royal Highness The Princess Royal is the President of the Institute. The other Honorary Officers are the Vice-Presidents, the Treasurer (who is elected annually by the Members) and the Honorary Secretaries (who are appointed by Council).

Members
There are five categories of Member: Ex-officio, Honorary, Founder, Ordinary and Non-Corporate. Members meet once a year to receive the Annual Report and Financial Statements, elect the Treasurer and Councillors, and appoint the auditors.

Council
Council's primary role is to appoint and advise the board of Trustees ('Trustee Board') and, jointly with the Trustees, to act as guardian of its constitution. There are four categories of Councillor: Ex-officio, Appointed (by the City of London Corporation and certain livery companies), Elected (by Members), and Co-opted (by Council itself). Appointed, Elected and Co-opted Councillors serve for limited terms. Council meets twice a year to receive financial reports and reports from the Trustees and the Quality and Standards Committee, to appoint new Chairmen, Honorary Secretaries and Trustees, to co-opt Councillors, to consider other matters brought to it for consideration and to discuss specific topics of current relevance.

Trustees
The Trustees have control of, and responsibility for, the affairs of the Institute. The Trustee Board consists of the Chairman and Vice-Chairman of Council, the Treasurer, the Honorary Secretaries, and other Trustees appointed from and by Council on advice from the Nominations Committee. One quarter of the appointed Trustees retire every year and are eligible for re-appointment. The Trustee Board meets six times a year, its meetings presided over by the Chairman or Vice-Chairman of Council. Trustees undergo an induction process and receive updates and briefings on specific topics during their terms of office. The skills required on the Trustee Board, the Trustee recruitment policy and process, and the induction and development policies are kept under review as a matter of course.

Under the constitution the Trustees may be remunerated for professional services rendered, and the Chairman of Council may also be remunerated for acting as Chairman. No other benefits may be received except as permitted by law. Details of trustee expenses and any other benefits and remuneration may be found in the Financial Statements.

Secretary
The Secretary, who is appointed by the Trustees, is responsible, on behalf of the Trustee Board and Council, for ensuring compliance with the Constitution and the Institute's legal obligations, and is accountable to the Trustee Board and Council through the Director-General.

Committees
There are five Trustee Board Committees: the Nominations Committee (which has a Fellowship sub-committee), the Learning, Assessment and Digital Policy Committee (whose role is under review), the Audit and Risk Committee, the Remuneration Committee and (since October 2015) the Skills Development Fund Committee. They meet between two and four times a year, and the chairman of each committee is a Trustee who reports to the Trustee Board on its activities.

Quality and Standards Committee
The Quality and Standards Committee is independent of the Trustees and Council. Its terms of reference were reviewed in the year ending 31 August 2016 with a view to giving it a more active role in the maintenance of quality and standards. Its principal role is now to assist the Institute in respect of all Group activities to maintain and enhance the confidence of learners and centres in the currency and credibility of the Group's assessment and qualifications work. Included in this is oversight of Group internal appeal processes and the role of the final arbiter in appeals against decisions relating to qualifications and assessments awarded or made by Group members. It meets four times a year but if necessary holds additional meetings to deal with appeals or any other matter.

Executive management
The executive management of the Institute is delegated to the Director-General, who reports to the Trustees and Council. He has all the powers not expressly reserved to them or delegated by them to committees, and these powers may be exercised on his behalf by such members of staff as he determines. He works with and through a Management Board, which deals with major strategic and operational issues and receives reports from representatives of the Institute's divisions and the other Group members. The affairs of the other active Group members are overseen either by a chief executive (with or without a senior management team) or by their directors, depending on the extent and nature of their activities.

The policies maintained by the Trustees and the governing bodies of the other Group members include a policy which sets out the limits of the authority given to people at different levels to commit to transactions by reference to their financial or other value.

Statement of Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' Report and the Consolidated Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England & Wales and Scotland requires the Trustees to prepare the financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under charity law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and charity and of the incoming resources and application of resources, including the income and expenditure, of the Group for that period.

In preparing these Financial Statements, the Trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and accounting 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 the Institute will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. They are also responsible for safeguarding the assets of the charity and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Trustees are aware:

- there is no relevant audit information of which the Institute's auditor is unaware; and
- the Trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Auditors

At the Yearly Meeting on 14 April 2016, BDO LLP was re-appointed as the Institute's auditors. It has indicated its willingness to continue in office and it is the current intention that it should do so.

Approval and signature

This report was approved by the Trustees on 8 December 2016 and signed on their behalf by

Sir John Armitt CBE FREng FICE FCGI
Chairman

Independent Auditors' Report
To The Trustees Of The City And Guilds Of London Institute

We have audited the financial statements of The City and Guilds of London Institute for the year ended 31 August 2016 which comprise the Group Statement of Financial Activities, the Group and Institute Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with the Charities Act 2011 and the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charity's trustees 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 charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor
As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under section 144 of the Charities Act 2011 and report in accordance with regulations made under those Acts. 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at: www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Group's and the Institute's affairs as at 31 August 2016 and of the Group's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Charities Act 2011 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:
- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- proper and sufficient accounting records have not been kept; or
- the Institute financial statements are not in agreement with the accounting records or returns; or
- we have not received all the information and explanations we require for our audit.

BDO LLP BDO LLP
Statutory Auditor
Gatwick
United Kingdom
Date: 9 December 2016

BDO LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement Of Financial Activities for the Year Ended 31 August 2016
(Incorporating an Income and Expenditure Account)

	Note	£'000 Unrestricted Funds	£'000 Restricted Funds	Year ended 31 August 2016 £'000 Total	£'000 Unrestricted Funds	£'000 Restricted Funds	Year ended 31 August 2015 £'000 Total
Income and endowments from:							
Donations and legacies		–	–	**–**	13	–	13
Other trading activities		25,509	–	**25,509**	19,493	–	19,493
Investments	2	790	73	**863**	731	387	1,118
Charitable activities	3	107,660	3,339	**110,999**	110,397	10,030	120,427
Total income		133,959	3,412	**137,371**	130,634	10,417	141,051
Expenditure on:							
Raising funds		25,655	–	**25,655**	19,267	–	19,267
Charitable activities		105,915	3,260	**109,175**	105,306	9,338	114,644
Other							
Investment management costs		33	–	**33**	31	–	31
Tax on overseas activities		185	–	**185**	392	–	392
Total expenditure	4	131,788	3,260	**135,048**	124,996	9,338	134,334
Net income before investments, property disposals, associates and deconsolidations		2,171	152	**2,323**	5,638	1,079	6,717
Gains / (Losses) on investment assets	7	703	781	**1,484**	(1,199)	(467)	(1,666)
Gain on disposal of property		–	–	**–**	44,689	–	44,689
Share of outgoing resources of associate	7	(63)	–	**(63)**	(198)	–	(198)
Deconsolidation of subsidiary charity	13	–	(13,789)	**(13,789)**	–	–	–
Net (expenditure) / income		2,811	(12,856)	**(10,045)**	48,930	612	49,542
Other recognised gains and losses							
Gain / (loss) on revaluation of foreign currency net investments		1,076	–	**1,076**	(305)	–	(305)
Actuarial (loss) / gain on defined benefit pension scheme	19	(34,067)	–	**(34,067)**	2,050	–	2,050
Net movement in funds		(30,180)	(12,856)	**(43,036)**	50,675	612	51,287
Accumulated funds brought forward		101,646	16,645	**118,291**	50,971	16,033	67,004
Accumulated funds carried forward	13	71,466	3,789	**75,255**	101,646	16,645	118,291

The above results are derived entirely from continuing activities.

The notes on pages 46 to 71 form part of these Financial Statements.

Balance Sheets at 31 August 2016

	Note	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Intangible fixed assets	5	**17,345**	16,924	**363**	410
Tangible fixed assets	6	**46,257**	49,738	**45,721**	48,817
Investments					
Investment in subsidiaries	7	**-**	-	**21,930**	18,545
Investment in associate	7	**67**	28	**-**	-
Other investments	7	**19,522**	22,336	**19,200**	15,874
Total investments		**19,589**	22,364	**41,130**	34,419
Total fixed assets		**83,191**	89,026	**87,214**	83,646
Current assets					
Debtors due within one year	8	**25,810**	26,160	**21,910**	20,993
Debtors due after one year	9	**-**	-	**6,961**	6,572
Stock		**47**	197	**103**	212
Cash at bank and in hand		**67,809**	80,595	**55,543**	62,989
Total current assets		**93,666**	106,952	**84,517**	90,766
Current liabilities					
Creditors: amounts falling due within one year	10	**(34,105)**	(48,328)	**(26,001)**	(38,218)
Net current assets		**59,561**	58,624	**58,516**	52,548
Total assets less current liabilities		**142,752**	147,650	**145,730**	136,194
Creditors: amounts falling due after one year	11	**(3,882)**	(599)	**(3,882)**	(542)
Provisions for liabilities and charges	12	**(915)**	(1,760)	**(710)**	(1,628)
Net assets excluding pension liability		**137,955**	145,291	**141,138**	134,024
Defined benefit pension scheme liability	19	**(62,700)**	(27,000)	**(62,700)**	(27,000)
Net assets		**75,255**	118,291	**78,438**	107,024
The funds of the charity					
Unrestricted funds					
Unrestricted funds excluding pension liability	13	**126,433**	120,521	**129,616**	122,229
Revaluation reserve	13	**7,733**	8,125	**7,733**	8,125
Defined benefit pension scheme liability	19	**(62,700)**	(27,000)	**(62,700)**	(27,000)
Total unrestricted funds		**71,466**	101,646	**74,649**	103,354
Restricted funds	13	**3,789**	16,645	**3,789**	3,670
TOTAL CHARITY FUNDS		**75,255**	118,291	**78,438**	107,024

The notes on pages 46 to 71 form part of these Financial Statements.

The Financial statements on pages 43 to 71 were approved by the board of Trustees and authorised for issue on 8 December 2016 and signed on its behalf by:

Sir John Armitt, Chairman **P McKee, Treasurer** **C Jones, Director-General**

Consolidated Statement of Cash Flows for the Year Ended 31 August 2016

	Note	£'000	Year ended 31 August 2016 £'000	£'000	Year ended 31 August 2015 £'000
Cash flows from operating activities	14		**269**		4,561
Investment income (excluding re-investments)		**249**		462	
Taxation paid		**(185)**		(392)	
Net cash generated from operating activities			**333**		4,631
Cash flows from investing activities					
Purchases of tangible fixed assets		**(4,744)**		(11,154)	
Purchases of investments	7	**(1,288)**		–	
Proceeds from sale of fixed assets		**630**		65,160	
Investment in subsidiary undertakings	7	**(3,649)**		(7,711)	
Investment in associated undertaking	7	**(102)**		(65)	
Cash acquired with subsidiaries		**–**		1,044	
Net cash outflow on separation from subsidiary charity		**(3,966)**		–	
Net cash from investing activities			**(13,119)**		47,274
Net (decrease)/ increase in cash and cash equivalents			**(12,786)**		51,905
Cash and cash equivalents at beginning of year			**80,595**		28,690
Cash and cash equivalents at end of the year			**67,809**		80,595
Cash and cash equivalents comprise:					
Cash at bank and in hand			**67,809**		80,595
			67,809		80,595

The notes on pages 46 to 71 form part of these Financial Statements.

Notes to the Financial Statements for the Year Ended 31 August 2016

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material to the charity's accounts.

1.1 Basis of preparation

The Financial Statements are prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) – (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Charities Act 2011.

The Institute meets the definition of a public benefit entity under FRS102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes. The financial statements have been prepared on a going concern basis as there are no material uncertainties about the charity's ability to continue.

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015. Information on the impact of first-time adoption of FRS 102 is given in note 23.

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

Parent entity disclosure exemptions
In preparing the separate financial statements of the parent, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No statement of cash flows has been presented;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent as their remuneration is included in the totals for the Group as a whole.

1.2 Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of The City and Guilds of London Institute ('the Institute') and of its subsidiaries.

All subsidiaries are consolidated on a line by line basis from the date of acquisition.

Associates are accounted for using the equity method.

The investment in Totara Learning Solutions Limited is not treated as an associate despite a holding of more than 20% as the Group does not exert significant influence on the operating and financial policies of this company.

Despite there being a uniting direction in place between the Institute and City and Guilds International Ltd, the Institute figures presented in these accounts solely reflect the assets, liabilities and activities of the Institute.

In accordance with the transitional exemption available under Section 35 of FRS 102, the Group has chosen not to retrospectively apply Section 19 to business combinations that occurred before the date of transition to FRS 102, being 1 September 2014.

1.3 Reserves and fund structure

Unrestricted funds comprise accumulated surpluses on general funds and revaluation reserve which the Trustees are free to use for any purpose in furtherance of the charitable objects.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the Charity for particular purposes.

1. Accounting policies (continued)

1.4 Tangible fixed assets and depreciation

The Institute's long leasehold offices at 1 Giltspur Street and 5–7 Giltspur Street are included at open market valuation, carried out by Daniel Watney, Chartered Surveyor, as at 1 September 2014 plus subsequent additions at cost. Surplus on revaluation is taken to the charity's funds with the then market values adopted as deemed costs on transition date in accordance with the transitional exemption available in FRS 102.

The offices of the Institute of Leadership and Management are included at cost.

Freehold property is depreciated on a straight-line basis over 50 years.

Short leasehold properties held by the Group are accounted for as operating leases, but any initial or other major expenditure on improvements is capitalised and written off on a straight-line basis over the life of the leases, subject to a maximum period of 50 years.

Group policy is to capitalise equipment greater than £1,000.

Assets which are subject to a period of construction are depreciated from the date they are brought into operational use.

Other tangible fixed assets as stated below are depreciated on a straight-line basis over their estimated useful life as follows:

Long leasehold land	Lease term
Long leasehold buildings	2%
Computer software and equipment	20%–33⅓%
Furniture and fixtures	25%
Motor vehicles	25%–33⅓%
Plant	5%–25%

1.5 Intangible fixed assets

Goodwill, being the excess of the purchase price of acquisitions over the fair value of the net assets acquired, is capitalised in accordance with FRS 102 and amortised over its estimated useful economic life, which is up to a maximum of 10 years.

Other intangible fixed assets consist of intellectual property rights, customer relationships, programme content and trade names, which are capitalised at cost or transaction value and amortised on a straight-line basis over their estimated useful economic lives. The intangible assets are amortised over the following useful economic lives:

Intellectual property rights	IPR term	Based on IPR protection period
Customer relationships	various	Based on the estimated life of the cash flows
Programme content	various	Based on the estimated remaining life of the cash flows
Trade name	various	Based on the estimated remaining life of the cash flows

When circumstances are identified which give rise to an impairment in the value of any intangible or fixed asset, that impairment loss is recognised immediately.

1.6 Taxation

The Institute is a charity within the meaning of Para 1 Schedule 6 Finance Act 2010. Accordingly the Institute is exempt from taxation in respect of income or capital gains within categories covered by Chapter 3 of Part 11 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.

Trading subsidiaries provide for tax at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Notes to the Financial Statements for the Year Ended 31 August 2016

1. Accounting policies (continued)

1.7 Incoming resources

Fee income relating to registrations is deferred and recognised over the estimated time taken to complete the relevant qualification. A proportion of registration fee income is recognised immediately to reflect an estimate for learners who do not complete the course. Where assessment and certification income exceeds registration fee income for any qualification, the registration income is not deferred. Registration income for qualifications with a typical duration of three months or less is not deferred.

Membership income is recognised over the period to which the subscription relates.

Sales of named user licences with indefinite expiry dates are deferred until licence activation and then recognised evenly over the estimated period of use of the licence.

Income receivable from contracts entered into to provide e-learning or other services or solutions is recognised on the basis of percentage of contract completed.

1.8 Resources expended

Expenditure is recognised on an accrual basis as a liability is incurred.

The costs of preparing examinations are written off as they are incurred irrespective of examination dates.

Third party content development costs are written off in the year they are incurred unless:

- The product has an estimated useful life of more than one year
- There is a reasonable expectation that the revenue to be generated over the useful life of the product will exceed the expected total development costs and that those costs are separately identifiable and quantifiable

If the above criteria are met, the expenditure is carried forward in prepayments and written off over three years, which is the typical useful life of the product.

Irrecoverable VAT is included within resources expended or capitalised with the appropriate asset.

Costs of raising funds include costs incurred in trading activities that raise funds.

Charitable activities include expenditure in respect of education services, and include both direct costs and support costs relating to these activities.

Governance costs include expenditure in respect of the Institute's constitutional requirements.

Support costs include central functions and have been allocated to activities on a basis consistent with the use of resources. The allocation is shown in Note 4.

1.9 Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling at the monthly average rate of exchange.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the Balance Sheet date.

The Financial Statements of overseas branches and undertakings are translated into sterling on the following basis:

- Assets and liabilities at the rate of exchange ruling at the Balance Sheet date.
- Statement of Financial Activities items at the average rate of exchange for the year.

Exchange differences arising on the re-translation of the results of overseas entities into sterling are included in other recognised gains and losses within the Consolidated Statement of Financial Activities.

1. Accounting policies (continued)

1.10 Pensions

The City and Guilds (1966) Pension Scheme has defined benefit and defined contribution sections.

The defined benefit section is accounted for in accordance with the requirements of FRS 102 and details are shown in note 19. The difference between the fair value of the assets held in the Group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Group's balance sheet as a pension asset or liability as appropriate. Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contributions by the Group are charged to expenditure or other gains and losses within the Statement of Financial Activities in accordance with FRS 102.

The Institute operates a policy of recharging the costs of the defined benefit pension scheme to group entities based on employer contributions made of behalf of the relevant staff members.

Contributions to the defined contribution section are charged to the Consolidated Statement of Financial Activities in the year in which they are made.

1.11 Holiday pay accruals

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

1.12 Concessionary loans

Concessionary loans are those loans made or received by the Group to further its purposes and any interest charged is below the prevailing market rates. These loans are measured at cost less provisions for impairment.

1.13 Operating leases and leased assets

Rentals applicable to operating leases are charged to the Consolidated Statement of Financial Activities on an accruals basis.

1.14 Investments

Investments in subsidiary companies are shown at cost in the parent company, less provisions where appropriate.

Quoted investments are a form of basic financial instrument and are initially recognised at their transaction value and subsequently measured at their fair value as at the balance sheet date using the closing quoted market price. The Consolidated Statement of Financial Activities includes the net gains and losses arising on revaluation and disposals throughout the year.

1.15 Judgements in applying accounting policies

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

Indicators of impairment

Management determines whether there are indicators of impairment of the Group's tangible and intangible 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.

Actuarial assumptions in respect of defined benefit pension schemes

The application of actuarial assumptions relating to defined benefit pension schemes is incorporated in the financial statements in accordance with FRS 102. In applying FRS 102, advice is taken from independent qualified actuaries. In this context, significant judgement is exercised in a number of areas, including future changes in salaries and inflation, mortality rates and the selection of appropriate discount rates.

Notes to the Financial Statements for the Year Ended 31 August 2016

1. Accounting policies (continued)

1.16 Other key sources of estimation uncertainty

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

The impact on income of the estimated course length: Fee income relating to registrations is deferred and recognised over the estimated time taken to complete the relevant qualification. An increase in course length by 10% during the year would result in a reduction in net surplus by £1,160,000 on existing income level.

The impact on income of the estimated drop-out rates for students signing up to courses: As a proportion of registration fee income is recognised immediately to reflect an estimate for learners who do not complete (i.e. drop out of the course), an increase in drop-out rates by 10% will result in an increase in net surplus by £240,000 on existing income level.

The assumptions underlying the pension scheme valuation: The principal actuarial assumptions are shown in note 19(f). The effect of changes in these assumptions on scheme liabilities are as follows:
- 0.1% pa increase in discount rate leads to a decrease of £3.7m in scheme liabilities
- 0.1% pa increase in inflation rate leads to an increase of £3.6m in scheme liabilities
- 0.25% pa increase in rate of salary increases leads to an increase of £0.8m in scheme liabilities
- 0.1% pa increase in rate of increase in pensions in payment leads to an increase of £2.4m in scheme liabilities
- 1 year increase in life expectancy leads to an increase of £5.9m in scheme liabilities

The assumptions underlying the valuation of intangible assets: The acquired intangible assets are professionally valued using multi-period excess earnings and relief-from royalty methods. The valuation approach relies on both internal and external business intelligence which can only ultimately be reliably tested in the market itself. Key inputs into the valuations were:
- Customers retention rate
- Long term operating EBIT margin
- Percentage of all revenues generated from bespoke and blended learning solutions
- Royalty rate
- Weighted Average Cost of Capital specific to the acquisition on the transaction date

The future viability of courses where third party content development costs have been deferred: Development in new products has many inherent uncertainties, with the future viability being the key one. The Group mitigates this risk through the use of analytical and tracking tools like regular market research. As at the balance sheet date, the management considers the risk to be remote. The Group also has a prudent policy of immediately expending deferred third party content development costs when the future viability of the underlying courses is in question.

Risk of material adjustment to the carrying value of investment portfolio: All investments are carried at their fair value. The basis of fair value for quoted investments is equivalent to the market value, using the bid price. Asset sales and purchases are recognised at the date of trade at cost (that is their transaction value).

The main risk to the Group from financial instruments lies in the combination of uncertain investment markets and volatility in yield.

Liquidity risk is anticipated to be low as the Group's investments are mainly traded in markets with good liquidity and high trading volumes. The Group has no material investment holdings in markets subject to exchange controls or trading restrictions.

The Group manages these investment risks by retaining expert advisors and operating an investment policy that provides for a high degree of diversification of holdings within investment asset classes that are quoted on recognised stock exchanges. The Group does not make use of derivatives and similar complex financial instruments.

2. Income from investments

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Interest on deposits	**249**	266
Interest on investments	**614**	852
	863	1,118

3. Income from charitable activities: Educational services

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Fee income	**110,989**	120,405
Royalties received	**10**	22
	110,999	120,427

4. Resources expended

(a) Analysis of total expenditure

	Staff Costs (Note 15) £'000	Other Direct Costs £'000	Support Costs £'000	Year ended 31 August 2016 Total £'000	Year ended 31 August 2015 Total £'000
Trading costs	13,756	8,812	3,087	**25,655**	19,266
Investment management costs	–	33	–	**33**	31
Educational services	59,497	29,690	19,988	**109,175**	114,645
Tax on overseas activities	–	185	–	**185**	392
	73,253	**38,720**	**23,075**	**135,048**	134,334

(b) Analysis of support costs

	Trading Costs £'000	Educational Services £'000	Governance £'000	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Premises and utilities	918	3,566	9	4,493	4,716
Communication and IT	913	5,470	13	6,396	5,524
Postage and printing	78	1,357	3	1,438	1,976
Other	989	860	4	1,853	2,547
Depreciation	185	5,957	12	6,154	7,538
Amortisation costs	–	2,595	5	2,600	2,054
Financial costs	4	137	–	141	293
	3,087	**19,942**	**46**	**23,075**	24,648

Support costs are allocated on a basis consistent with the use of resources and apportioned to the respective activity by utilising the average number of staff employed on relevant activities as a proportion of the total average staff number.

Notes to the Financial Statements for the Year Ended 31 August 2016

4. Resources expended (continued)

(c) Analysis of governance costs

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Audit fees	**305**	221
Professional fees	**198**	174
Costs of governance meetings and Trustee travel	**86**	142
Staff costs	**146**	160
Apportionment of support costs	**46**	57
	781	754

(d) Cost analysis
Included within total expenditure are the following individual items:

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Group auditors' remuneration:		
Audit fees	**267**	203
Fees paid to auditors for non-audit services:	**32**	37
Other auditors' remuneration:		
Audit fees	**38**	18
Operating lease rentals:		
Land and buildings	**1,807**	1,537
Plant and equipment	**460**	518
Loss on disposal of tangible fixed assets	**71**	221
Depreciation (Note 6)	**6,154**	7,539
Amortisation (Note 5)	**2,600**	2,054
Net loss on foreign currency transactions	**91**	71

5. Intangible fixed assets

	Goodwill £'000	Intellectual Property Rights £'000	Customer Relationships £'000	Programme Content £'000	Trade Name £'000	Total £'000
Group:						
Cost or valuation						
At 1 September 2015	20,032	1,680	1,497	1,437	562	25,208
Additions	3,021	–	–	–	–	3,021
At 31 August 2016	23,053	1,680	1,497	1,437	562	28,229
Amortisation						
At 1 September 2015	6,563	1,506	87	112	16	8,284
Amortisation for the year	2,172	58	150	192	28	2,600
At 31 August 2016	8,735	1,564	237	304	44	10,884
Net book values						
At 31 August 2015	13,469	174	1,410	1,325	546	16,924
At 31 August 2016	**14,318**	**116**	**1,260**	**1,133**	**518**	**17,345**
Institute:						
Cost or valuation						
At 1 September 2015 and 31 August 2016	1,893	1,680	–	–	–	3,573
Amortisation						
At 1 September 2015	1,657	1,506	–	–	–	3,163
Amortisation for the year	(11)	58				47
At 31 August 2016	1,646	1,564	–	–	–	3,210
Net book values						
At 31 August 2015	236	174	–	–	–	410
At 31 August 2016	**247**	**116**	**–**	**–**	**–**	**363**

Notes to the Financial Statements for the Year Ended 31 August 2016

5. Intangible fixed assets (continued)

Goodwill is reviewed annually for indications of impairment. If such indications exist, goodwill is additionally tested for impairment using value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 2016/17. The key assumptions used by management in the value in use calculations were:

Discount rates
The discount rate is based on the risk free rate for government bonds, adjusted for a risk premium to reflect the specific circumstances of each investment.

Perpetuity growth rates
A perpetuity growth rate of 2.25% was used based on the long term forecast growth rate in the UK.

Cash flow growth rates
Cash flow growth rates are based on management's forecasts of sales, gross operating margins and overheads for the next 5 years.

Customer relationships are core business assets retained through the strong relationship management capability at senior level. The average residual amortisation period for the carrying intangible is 9 years.

Programme content comprises of learning solutions, learning content, training products including the flagship 5 Conversations product that are intrinsic to the business operations. The average residual amortisation period for the carrying intangible is 6.5 years.

Trade name is associated with businesses acquired by the Group. The average residual amortisation period for the carrying intangible is 19 years.

6. Tangible fixed assets

	Freehold Property £'000	Leasehold Property £'000	Computer Software and Equipment £'000	Plant, Fixtures and Motor Vehicles £'000	Assets Under Construction £'000	**Total £'000**
Group:						
Cost or valuation						
At 1 September 2015	594	37,837	19,463	3,308	1,660	62,862
Transfers	–	–	383	238	(621)	–
Additions	–	28	207	251	2,610	3,096
Disposals	(594)	–	(307)	(49)	–	(950)
Foreign exchange revaluation	–	(19)	50	(21)	–	10
At 31 August 2016	–	37,846	19,796	3,727	3,649	65,018
Accumulated depreciation						
At 1 September 2015	200	926	10,335	1,663	–	13,124
Charge for the year	6	655	4,840	653	–	6,154
Disposals	(207)	–	(298)	(38)	–	(543)
Foreign exchange revaluation	1	–	16	9	–	26
At 31 August 2016	–	1,581	14,893	2,287	–	18,761
Net book values						
At 31 August 2015	394	36,911	9,128	1,645	1,660	49,738
At 31 August 2016	**–**	**36,265**	**4,903**	**1,440**	**3,649**	**46,257**
Institute:						
Cost or valuation						
At 1 September 2015	–	37,752	19,181	2,560	1,662	61,155
Transfers	–	–	383	238	(621)	–
Additions	–	2	153	109	2,608	2,872
Disposals / write downs	–	–	(180)	(16)	–	(196)
Foreign exchange revaluation	–	–	3	–	–	3
At 31 August 2016	–	37,754	19,540	2,891	3,649	63,834
Accumulated depreciation						
At 1 September 2015	–	880	10,312	1,146	–	12,338
Charge for the year	–	621	4,742	543	–	5,906
Disposals	–	–	(121)	(13)	–	(134)
Foreign exchange revaluation	–	–	3	–	–	3
At 31 August 2016	–	1,501	14,936	1,676	–	18,113
Net book values						
At 31 August 2015	–	36,872	8,869	1,414	1,662	48,817
At 31 August 2016	**–**	**36,253**	**4,604**	**1,215**	**3,649**	**45,721**

Assets under construction are transferred to the relevant asset category on becoming operational.

At 31 August 2016, the historical cost of the leasehold property of the Group amounted to £29,425,000 (2015: £29,416,000) and of the Institute amounted to £29,333,000 (2015: £29,331,000).

Notes to the Financial Statements for the Year Ended 31 August 2016

7. Investments

a) Subsidiaries:

All investments in subsidiaries are deemed mixed motive investments with the exception of the investment in City and Guilds International Limited, which is programme related.

The Group's net movement in funds, a deficit of £43,036,000 (2015: surplus of £51,287,000), includes the results of the following eight charitable / wholly owned trading subsidiaries all of which are incorporated in the UK unless otherwise stated:

City and Guilds International Limited, a registered charity within the Institute's registration. Together with its eight subsidiaries it delivers examination and award services overseas.

City and Guilds Enterprises Limited, a limited company which undertakes commercial activities on behalf of the Group.

City and Guilds Kineo Limited, a limited company that, together with its US subsidiary, helps businesses improve their performance through learning and technology.

Flexible Learning Networks Limited (trading as Kineo Pacific) a company incorporated in New Zealand which provides e-learning solutions for corporate and public sector clients.

The Oxford Group Consulting and Training Holding Company Limited, a limited company that, together with its UK and US subsidiaries, delivers management development, leadership and executive coaching programmes.

Nine Lanterns Pty Limited, a company incorporated in Australia which partners with businesses to create custom-built e-learning content and platform solutions.

Digitalme Limited, a company limited by guarantee that provides a range of design, consultancy and platform services relating to digital credentialing for education providers, employers and professional bodies.

Radiowaves Schools Limited, a limited company that provides Schools Internet Radio.

NPTC, Guildco Limited, City and Guilds for Business Limited, Screenhold Limited, Learning Assistant Limited, City and Guilds of North America Inc, Oxford Call Centres Limited, Oxford Europe Limited, Oxford Personnel Limited, Oxford Group Pension Trustees Limited, Oxford Recruitment Limited and Oxford Training Limited, are dormant subsidiaries in the Group.

7. Investments (continued)

a) Subsidiaries:
The carrying value as well as the performance of these eight subsidiaries is summarised below:

	Company Number (Charity Number)		Investment £'000	Total Income £'000	Total Expenditure £'000	Surplus / (Deficit) £'000	Assets £'000	Liabilities £'000	Funds £'000
City and Guilds International Limited	1894671	2016	1,007	17,314	(17,224)	90	12,645	(11,206)	1,439
	(312832)	2015	1,007	22,481	(22,925)	(444)	9,858	(8,509)	1,349
City and Guilds Enterprises Limited	5200334	2016	–	19	(19)	–	21	(21)	–
	(N/A)	2015	–	22	(22)	–	13	(13)	–
City and Guilds Kineo Limited	7150983	2016	9,733	15,708	(15,494)	214	5,111	(7,471)	(2,360)
	(N/A)	2015	9,733	14,149	(13,937)	212	8,603	(11,177)	(2,574)
Flexible Learning Network Limited	155963250	2016	2,225	2,508	(2,734)	(226)	1,211	(1,379)	(168)
	(N/A)	2015	1,623	2,252	(2,416)	(164)	878	(820)	58
The Oxford Group	6074029	2016	6,150	7,330	(7,215)	115	5,885	(3,418)	2,467
	(N/A)	2015	6,162	3,992	(3,613)	379	4,457	(2,105)	2,352
Nine Lanterns Pty Limited	ACN 098 839 082	2016	1,763	695	(937)	(242)	48	(320)	(272)
	(N/A)	2015	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Digitalme Limited	05303626	2016	–	37	(108)	(71)	129	(230)	(101)
	(N/A)	2015	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Radiowaves Schools Limited	05774430	2016	1,032	33	(120)	(87)	151	(236)	(85)
	(N/A)	2015	n/a	n/a	n/a	n/a	n/a	n/a	n/a

b) Acquisitions:
In the year, the Institute completed the acquisition of Nine Lanterns Pty Limited and Digitalme Limited/Radiowaves Schools Limited on 30 October 2015 and 10 June 2016 respectively through the purchase of 100% of the ordinary share capital of these entities.

Subsidiaries acquired	Nine Lanterns Pty Ltd £'000	Digitalme Ltd/Radiowaves Schools Ltd £'000	Total £'000
Net assets acquired	(46)	(86)	(132)
Total cash consideration	1,763	1,032	2,795
Total goodwill acquired – note 5	1,809	1,118	2,927

In addition to the cash sums payable on completion, there are also elements of deferred consideration and earn-out consideration: the deferred consideration is payable by instalments on anniversary of completion contingent on certain conditions being satisfied. The earn-out consideration is payable by instalments contingent on certain targets relating to operating contribution being met.

The estimated useful life of the goodwill arising on these acquisitions is 10 years based on management's expected flow of future economic benefits.

Notes to the Financial Statements for the Year Ended 31 August 2016

7. Investments (continued)

c) Associate:

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Investment in Associates				
Manipal City & Guilds Pte Limited				
At 1 September	**28**	161	**–**	–
Capital injection	**102**	65	**–**	–
Share of retained loss	**(63)**	(198)	**–**	–
At 31 August	**67**	28	**–**	–

The Group holds, through City & Guilds (Asia) Pte Limited (a subsidiary of City and Guilds International Limited), 49% (2015: 49%) of the share capital in Manipal City & Guilds Pte Limited, a company incorporated in India.

d) Other:

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
At 1 September	**22,336**	23,126	**15,874**	16,353
Additions	**1,288**	–	**1,288**	–
Disposals	**(6,327)**	–	**–**	–
Net (loss) / gains	**1,645**	(1,446)	**1,458**	(999)
Income reinvested	**580**	656	**580**	520
At 31 August	**19,522**	22,336	**19,200**	15,874

Other investments are comprised of 89% (2015: 96%) listed investments in the year.

Holdings in the listed investments in excess of 5% (2015: 5%) of the market value of the portfolio at 31 August 2016 are as follows: 82.0% is invested in the ChariTrak UK Equity Accumulation Fund and 6.9% in the CCLA COIF Fund.

At 31 August 2016, the historical cost of these listed fixed asset investments of the Group amounted to £16,026,000 (2015: £16,963,000) and of the Institute amounted to £16,026,000 (2015: £10,924,000).

Holdings in the unlisted investments included £322,000 in Totara Learning Solutions Ltd, £557,000 in MyKindaFuture Ltd, £488,000 in Excel With Business Ltd, £286,000 in Credly Inc and £488,000 in GetMyFirstJob Ltd.

8. Debtors: Amounts falling due within one year

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Trade debtors	**18,596**	18,954	**9,760**	8,864
Amounts owed by subsidiary undertakings	**–**	–	**6,286**	6,730
Concessionary loans owed by subsidiary undertakings	**–**	–	**–**	–
Other debtors	**3,058**	2,789	**2,632**	1,814
Prepayments	**4,156**	4,417	**3,232**	3,585
	25,810	26,160	**21,910**	20,993

All debtors fall due for payment within one year.

The impairment loss recognised in the Group net income for the period in respect of bad and doubtful trade debtors was £495,000 (2015: £324,000). The impairment loss recognised in the Institute net income for the period in respect of bad and doubtful trade debts was £142,000 (2015: £78,000).

9. Debtors: Amounts falling due after one year

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Concessionary loans owed by subsidiary undertakings	**–**	–	**6,961**	6,572

The above is made up of amounts owed by City and Guilds International Limited, a subsidiary to the Institute. Interest is chargeable at concessionary rate for these loans.

10. Creditors: Amounts falling due within one year

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Trade creditors	**3,598**	5,943	**2,121**	4,173
Amounts owed to subsidiary undertakings	**–**	–	**641**	271
Taxation and social security	**2,007**	12,676	**1,314**	12,139
Other creditors	**2,248**	2,891	**2,212**	2,642
Accruals	**11,850**	12,709	**9,160**	9,540
Amounts payable to former directors of subsidiary undertaking	**–**	1,500	**–**	–
Deferred consideration	**1,865**	500	**1,865**	500
Deferred income – see below	**12,537**	12,109	**8,688**	8,953
	34,105	48,328	**26,001**	38,218

Deferred income:

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
At 1 September	**12,109**	12,341	**8,953**	8,079
Deferred in the year	**12,537**	12,109	**8,688**	8,953
Released in the year	**(12,109)**	(12,341)	**(8,953)**	(8,079)
At 31 August	**12,537**	12,109	**8,688**	8,953

Notes to the Financial Statements for the Year Ended 31 August 2016

11. Creditors: Amounts falling due after one year

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Other creditors	**2,572**	–	**2,572**	–
Deferred consideration	**1,310**	599	**1,310**	542
	3,882	599	**3,882**	542

12. Provisions for liabilities and charges

	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
At 1 September	**1,760**	1,303	**1,628**	1,303
Provided in the year	**155**	712	**82**	580
Utilised in the year	**(1,000)**	(255)	**(1,000)**	(255)
At 31 August	**915**	1,760	**710**	1,628

The above totals for both Group and Institute contain an amount of £nil relating to a Long Term Incentive Plan (2015: £1,000,000). The Long Term Incentive Plan liability which is payable in the year ended 31 August 2017, has been recalculated and reclassified to accruals under Creditors: amounts payable within one year in the year.

The remaining balance relates to a provision for the dilapidation cost that will crystallise on termination of building leases. The exact cost of these dilapidations will only be known once the lease is terminated.

13. Funds
Analysis of group net assets between funds:

	Restricted £'000	Unrestricted £'000	At 31 August 2016 £'000	Restricted £'000	Unrestricted £'000	At 31 August 2015 £'000
Fixed Assets	69	63,533	**63,602**	394	66,268	66,662
Investments	1,345	18,244	**19,589**	7,366	14,998	22,364
Net current assets	2,375	57,186	**59,561**	8,885	49,739	58,624
Provisions	–	(915)	**(915)**	–	(1,760)	(1,760)
Creditors: amounts falling due after one year	–	(3,882)	**(3,882)**	–	(599)	(599)
Defined benefit pension scheme liability	–	(62,700)	**(62,700)**	–	(27,000)	(27,000)
Net assets at 31 August	**3,789**	**71,466**	**75,255**	16,645	101,646	118,291

13. Funds (continued)

Analysis of movement in the funds of the charity:

	At 1 September 2015 £'000	Income £'000	Expenditure £'000	Other Movements £'000	At 31 August 2016 £'000
Group:					
Unrestricted					
General	115,521	133,959	(129,907)	2,108	**121,681**
Revaluation reserve	8,125	–	–	(392)	**7,733**
Skills Development Fund	5,000	–	(248)	–	**4,752**
Defined benefit pension scheme liability	(27,000)	–	(1,633)	(34,067)	**(62,700)**
Total unrestricted funds	101,646	133,959	(131,788)	(32,351)	**71,466**
Restricted					
NPTC	3,670	58	(80)	141	**3,789**
ILM	12,975	3,354	(3,180)	(13,149)	**–**
Total restricted funds	16,645	3,412	(3,260)	(13,008)	**3,789**
Total	**118,291**	**137,371**	**(135,048)**	**(45,359)**	**75,255**
Institute:					
Unrestricted					
General	117,229	95,130	(92,362)	4,867	**124,864**
Revaluation reserve	8,125	–	–	(392)	**7,733**
Skills Development Fund	5,000	–	(248)	–	**4,752**
Defined benefit pension scheme liability	(27,000)	–	(1,633)	(34,067)	**(62,700)**
Total unrestricted funds	103,354	95,130	(94,243)	(29,592)	**74,649**
Restricted					
NPTC	3,670	58	(80)	141	**3,789**
ILM	–	3,014	–	(3,014)	**–**
Total restricted funds	3,670	3,072	(80)	(2,873)	**3,789**
Total	**107,024**	**98,202**	**(94,323)**	**(32,465)**	**78,438**

Notes to the Financial Statements for the Year Ended 31 August 2016

13. Funds (continued)

Analysis of movement in the funds of the charity – prior year:

	At 1 September 2014 £'000	Income £'000	Expenditure £'000	Other Movements £'000	Transfers £'000	At 31 August 2015 £'000
Group:						
Unrestricted						
General	76,551	130,634	(129,652)	42,987	(5,000)	**115,520**
Revaluation reserve	8,220	–	(94)	–	–	**8,126**
Skills Development Fund	–	–	–	–	5,000	**5,000**
Defined benefit pension scheme liability	(33,800)	–	4,750	2,050	–	**(27,000)**
Total unrestricted funds	50,971	130,634	(124,996)	45,037	–	**101,646**
Restricted						
NPTC	3,622	58	(26)	16	–	**3,670**
ILM	12,411	10,359	(9,312)	(483)	–	**12,975**
Total restricted funds	16,033	10,417	(9,338)	(467)	–	**16,645**
Total	**67,004**	**141,051**	**(134,334)**	**44,570**		**118,291**
Institute:						
Unrestricted						
General	77,962	101,767	(100,794)	43,293	(5,000)	**117,228**
Revaluation reserve	8,220	–	(94)	–	–	**8,126**
Skills Development Fund	–	–	–	–	5,000	**5,000**
Defined benefit pension scheme liability	(33,800)	–	4,750	2,050	–	**(27,000)**
Total unrestricted funds	52,382	101,767	(96,138)	45,343	–	**103,354**
Restricted						
NPTC	3,622	58	(26)	16	–	**3,670**
ILM	–	–	–	–	–	**–**
Total restricted funds	3,622	58	(26)	16	–	**3,670**
Total	**56,004**	**101,825**	**(96,164)**	**45,359**	**–**	**107,024**

13. Funds (continued)

Unrestricted
Institute
Within the Institute's unrestricted funds are prize and trust funds of £16,896 (2015: £16,266).

Subsidiary charities
The unrestricted funds of each subsidiary are given in Note 7a.

Designated
The Skills Development Fund was created by the Institute in July 2015. Its aim is to invest in new and innovative activities which have a demonstrable impact; create long-term and sustainable change; deliver real benefit to the education sector, employers and/or learners; and reflect the Group's global profile.

Restricted
NPTC
The NPTC Fund relates to assets transferred from NPTC whose use is restricted to the advancement of education and training by means of the establishment and/or administration of schemes of Proficiency Tests, Vocational Qualifications, Certificates of Competence, Certificates of Qualification and other such awards in agriculture, horticulture, forestry and other industries as the Charity shall from time to time decide. It is the intention of the Trustees of The City and Guilds of London Institute to continue to support specific land-based activities through such things as research, grants and bursaries, product development and other industry initiatives.

ILM
Until 7 January 2016 The Institute of Leadership and Management (TILM) was a member of the Group. Its charitable objects ('the promotion and development of the science of leadership and management, and the advancement of education involving the study of the skills of leadership and management') are narrower than those of the Institute and TILM is therefore treated as a restricted fund in the Financial Statements.

Following the transfer to the Institute of part of TILM's business and assets on 7 January 2016, the Institute holds a fund (the ILM Fund) whose objects are the promotion and development of the science of leadership and management, and the advancement of education involving the study of the skills of leadership and management.

On 7 January 2016, TILM amended its constitution and this resulted in the Institute no longer controlling TILM. As a result, the financial statements reflect the disposal of this subsidiary at this date. As per the terms of the transfer agreement also signed on this date, various assets and liabilities were transferred to the Institute and were accounted for in the above 'Institute' current year table at their book value of 3.0m. Also contained in the transfer agreement was an obligation for the institute to pay TILM £0.5m per year for the next ten years. The net present value of this obligation of £3.6m has been accounted for in the current financial year and £3.0m of this obligation is accounted for in the ILM Fund, bringing the value of the fund to zero at the year end.

The opening value of the ILM Fund was £13.0m and between 1 September 2015 and 7 January 2016, TILM made a surplus of £0.2m. The total value assets leaving the group as a result of the separation was £13.8m. £0.6m of this was allocated to general reserves (see previous paragraph) and so £13.1m was charged to the ILM Fund.

Notes to the Financial Statements for the Year Ended 31 August 2016

14. Reconciliation of net income to cash flows from operating activities

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Net (expenditure) / income	**(10,045)**	49,542
Adjust for non-cash items:		
Net outgoing resources of associate	**63**	198
Investment income	**(863)**	(1,117)
Depreciation	**6,154**	7,539
Amortisation	**2,600**	2,054
Deferred consideration charge	**–**	819
Taxation	**185**	392
Employee benefits adjustment	**–**	17
(Loss)/Gain on investment assets	**(1,484)**	1,666
Gain on disposal of fixed assets	**(568)**	(44,468)
Impairment in investment	**234**	–
Deconsolidation of subsidiary charity	**13,789**	–
Decrease in stock	**150**	176
Decrease / (Increase) in debtors	**350**	(4,973)
Increase in creditors	**(11,084)**	(2,992)
(Decrease) / Increase in provisions	**(845)**	458
Pension deficit movement	**1,633**	(4,750)
Cash flows from operating activities	**269**	**4,561**

15. Group staff costs

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Wages and salaries	**56,525**	53,870
Social security	**5,040**	4,961
Severance payments	**2,577**	632
Pension	**9,111**	9,345
	73,253	68,808

The above staff costs include bonus and long service award costs.

	Year ended 31 August 2016	Year ended 31 August 2015
Average number of staff:		
Educational services	**1,255**	1,184
Governance	**2**	2
	1,257	1,186

15. Group staff costs (continued)

	Year ended 31 August 2016	Year ended 31 August 2015
Number of staff whose emoluments fell within the following bands:		
£60,001 – £70,000	**70**	63
£70,001 – £80,000	**52**	48
£80,001 – £90,000	**19**	15
£90,001 – £100,000	**17**	14
£100,001 – £110,000	**11**	10
£110,001 – £120,000	**7**	7
£120,001 – £130,000	**6**	5
£130,001 – £140,000	**6**	4
£140,001 – £150,000	**2**	4
£160,001 – £170,000	**1**	1
£170,001 – £180,000	**1**	1
£180,001 – £190,000	**–**	3
£190,001 – £200,000	**1**	–
£210,001 – £220,000	**–**	1
£220,001 – £230,000	**1**	1
£250,001 – £260,000	**–**	2
£260,001 – £270,000	**–**	1
£290,001 – £300,000	**1**	–
£310,001 – £320,000	**1**	–
£320,001 – £330,000	**1**	1
£340,001 – £350,000	**1**	–
£380,001 – £390,000	**1**	–
£420,001 – £430,000	**–**	1
£440,001 – £450,000	**1**	–
£470,001 – £480,000	**1**	–
£620,001 – £630,000	**–**	1
£670,001 – £680,000	**1**	–
£690,001 – £700,000	**2**	–

Emoluments in the above bands comprise salaries, bonus, benefits in kind, severance payments of £2,577,000 (2015: £628,000), contingent consideration relating to acquisitions of £1,209,000 (2015: £748,000) and provisions for long term incentive plans of £1,350,000 (2015: £nil).

116 of these staff (2015: 134) are accruing retirement benefits under the defined benefit section of the City and Guilds (1966) Pension Scheme and 25 (2015: 40) under defined contribution arrangements. Contributions to the defined contribution scheme in respect of these 25 were £126,000 (2015: £222,000).

The total compensation paid to key management personnel for services provided to the group was £3,273,000 (2015: £1,947,000).

Notes to the Financial Statements for the Year Ended 31 August 2016

16. Expenses reimbursed to Trustees

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Travel and subsistence expenses reimbursed	**9**	8

	Year ended 31 August 2016	Year ended 31 August 2015
Number of Trustees in receipt of expense reimbursements	**9**	9

17. Emoluments to Trustees

Indemnity insurance is paid on the Trustees behalf. No remuneration was paid to any trustee during the year nor did they receive any other benefits from employment with the charity or its subsidiaries during the year.

18. Operating leases

Minimum lease payments under non-cancellable operating leases were as follows:

Operating leases that expire:	Group 31 August 2016 £'000	31 August 2015 £'000	Institute 31 August 2016 £'000	31 August 2015 £'000
Land and buildings:				
Within one year	**1,339**	1,434	**1,078**	1,129
In two to five years	**1,428**	2,213	**1,360**	1,992
Over five years	**19,338**	19,499	**19,338**	19,499
Other:				
Within one year	**300**	290	**281**	277
In two to five years	**83**	302	**64**	297

19. Pensions

The Institute provides a pension scheme, The City and Guilds (1966) Pension Scheme, which comprises both defined benefit sections and defined contribution sections. Total contributions to the defined contribution sections for the year were £1,900,000 (2015: £1,500,000). Both sections are approved by HM Revenue and Customs with their assets each held separately from those of the Group.

There were no prepaid or outstanding contributions in relation to either of the two defined contribution schemes as at 31 August 2016.

A triennial actuarial valuation of The City and Guilds (1966) Pension scheme was carried out by independent qualified actuaries, Towers Watson Limited, at 30 September 2014. The valuation disclosed a funding deficit amounting to £19.1m million. The deficit recovery plan required that the annual contributions of £3.1m would continue until 31 August 2015, thereafter annual contributions of £1.6m will be paid until 30 September 2024. In addition, a one-off payment of £5.0m was paid in August 2015. Effective from 1 October 2014, normal contributions increased from 17.0% to 23.2% for the Full CARE section and from 11.0% to 16.1% for the Hybrid CARE section.

19. Pensions (continued)

The final salary section of the scheme was closed to future accrual on 1 April 2009.

Disclosure in relation to the defined benefit scheme is in accordance with FRS102.

a) Amounts recognised in the Balance Sheets

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Fair value of Scheme assets	**183,500**	156,800
Present value of funded obligations	**(246,200)**	(183,800)
Net liability	**(62,700)**	(27,000)

b) Amounts recognised in the Statement of Financial Activities

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Current service cost	**(5,933)**	(6,150)
Net interest charge	**(900)**	(1,300)
Total included in net income	**(6,833)**	(7,450)
Actuarial loss	**(54,567)**	(50)
Return on assets greater than discount rate	**20,500**	2,100
Total charge in Statement of Financial Activities	**(40,900)**	(5,400)

Actual return on Scheme assets was £26.7m (2015: £7.8m).

c) Changes in the present value of the Scheme obligations

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
At 1 September	**183,800**	176,200
Service cost	**5,933**	6,150
Interest charge on Scheme liabilities	**6,900**	7,000
Loss on change in assumptions	**54,367**	5,250
Experience loss / (gain)	**200**	(5,500)
Benefit payments	**(5,400)**	(5,500)
Expenses payments	**(700)**	(900)
Member contributions	**1,100**	1,100
At 31 August	**246,200**	183,800

Notes to the Financial Statements for the Year Ended 31 August 2016

19. Pensions (continued)
d) Changes in fair value of Scheme assets

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
At 1 September	**156,800**	142,400
Interest on assets	**6,000**	5,700
Return on assets	**20,500**	2,100
Institute contributions	**5,200**	12,200
Member contributions	**1,100**	1,100
Actuarial adjustments	**–**	(300)
Benefit payments	**(5,400)**	(5,500)
Expenses payments	**(700)**	(900)
At 31 August	**183,500**	156,800

The Group expects to make normal contributions of £3.7m (2015: £3.7m) and deficit payments of £1.6m (2015: £1.5m) during the next financial year.

e) Major categories of assets as % of total assets

	Year ended 31 August 2016 %	Year ended 31 August 2015 %
Equities	**23.7**	32.4
Bonds	**36.7**	27.7
Property	**6.4**	7.1
Diversified Growth Funds	**32.5**	27.9

f) Principal actuarial assumptions at the Balance Sheet date

	Year ended 31 August 2016 %	Year ended 31 August 2015 %
Rate of increase in salaries above inflation rate	**0.75**	0.75
Rate of increase in pensions in payment	**2.55**	3.00
Discount rate	**2.10**	3.80
Inflation rate assumption (RPI)	**2.75**	3.20
Inflation rate assumption (CPI)	**1.75**	2.20

The post-retirement mortality assumptions adopted at 31 August 2016 are in line with the standard SAPS S2 All Pensioners tables with future improvements based on the CMI 2015 projections with a long term trend of 1.25% pa.

19. Pensions (continued)

g) History of deficit and experience gains and losses

	31 August 2016 £'000	31 August 2016 % of assets	31 August 2015 £'000	31 August 2014 £'000	31 August 2013 £'000	30 September 2012 £'000	30 September 2011 £'000
Scheme assets	**183,500**		156,800	142,400	123,700	115,000	100,100
Scheme obligations	**(246,200)**		(183,800)	(176,200)	(158,000)	(146,800)	(134,100)
Deficit	**(62,700)**		(27,000)	(33,800)	(34,300)	(31,800)	(34,000)
Experience adjustments on assets	**–**	**0.0%**	(300)	9,800	6,500	6,500	(5,300)
Experience adjustments on liabilities	**(200)**	**0.1%**	5,500	900	(600)	4,900	(100)
Gain / (loss) on change in assumptions	**(54,367)**		(5,250)	(10,300)	(9,600)	(9,800)	4,400
Actuarial gain / (loss)	**(54,567)**	**22.2%**	(50)	400	(3,700)	1,600	(1,000)

20. Parent charity Income and Expenditure account

The City and Guilds of London Institute has not presented its own Income and Expenditure account. The income of the parent charity is £98,201,000 (2015: £101,824,000) and the deficit for the year to 31 August 2016 is £28,586,000 (2015: surplus of £51,020,000).

Notes to the Financial Statements for the Year Ended 31 August 2016

21. Related party transactions

Transactions with related parties are set out below.

	Note	As at 31 August 2016		Year ended 31 August 2016		As at 31 August 2015		Year ended 31 August 2015	
		Amounts due from £'000	Amounts due to £'000	Sales to £'000	Purchases from £'000	Amounts due from £'000	Amounts due to £'000	Sales to £'000	Purchases from £'000
Institute:									
Subsidiary undertakings	a								
City and Guilds International Limited		7,270	–	10,373	316	6,565	–	14,451	–
Screenhold Limited		–	–	–	–	664	–	–	2,012
City and Guilds Enterprises		–	13	–	–	–	45	–	–
Guildco Limited		–	500	–	–	–	205	1	–
City and Guilds for Business Limited		5	–	–	–	–	721	–	–
Learning Assistant Limited		–	20	–	–	–	26	–	209
City and Guilds Kineo Limited		3,325	–	51	161	5,890	–	–	134
Flexible Learning Network Limited		–	–	–	–	–	–	–	–
The Oxford Group		842	–	–	6	–	–	–	–
Nine Lanterns Pty Limited		–	–	–	–	–	–	–	–
ILM		–	–	1,582	167	519	–	1,466	–
Digitalme Limited		175	–	–	–	–	–	–	–
Radiowaves Schools Limited		200	–	–	–	–	–	–	–
Total		**11,817**	**533**	**12,006**	**650**	13,638	997	15,918	2,355

a) Unless specified otherwise, amounts due from and to subsidiary undertakings are repayable on demand. Transactions with subsidiary undertakings are primarily for intra-group services and cross company recharges.

Details of transactions with other group companies (that are not wholly owned subsidiaries) are set out below.

The City and Guilds of London Institute paid £168,000 (2015: £275,000) to Manipal City & Guilds Pte Limited in the period for services provided. £nil (2015: £nil) was outstanding at the period end.

City and Guilds Kineo Limited paid £430,000 (2015: £80,000) to Totara Learning Solutions Limited for services provided. £5,000 was due to Totara Learning Solutions Limited (2015: £35,000) at the year end.

During the year the Institute spent £nil (2015: £84,000) with Learning Pool Limited, a company incorporated in Northern Ireland. Donald Clark and his business partners (the other two directors of the company) own 100% of the shares in Learning Pool Limited.

22. Post Balance Sheet Events

On 8 November 2016, the Institute acquired 100% of the share capital of Interact Learning Pty Ltd, a company registered in Australia.

23. First time adoption of FRS 102

	Note	At 1 September 2014 £'000	Income £'000	Expenditure £'000	Other Movements £'000	Transfers £'000	At 31 August 2015 £'000
Group:							
Unrestricted funds as previously stated		42,964	130,634	(122,647)	43,437	–	94,388
Revaluation to fair value of long leasehold	a	8,220	–	(94)	–	–	8,126
Revaluation of business combination	b	–	–	(637)	–	–	(637)
Recognition of holiday pay accruals	c	(213)	–	(18)	–	–	(231)
Pension adjustments under FRS 102	d	–	–	(1,600)	1,600	–	–
As stated in accordance with FRS 102		50,971	130,634	(124,996)	45,037	–	101,646
Restricted funds as previously stated		16,033	10,417	(9,338)	(467)	–	16,645
As stated in accordance with FRS 102		16,033	10,417	(9,338)	(467)	–	16,645
Total		**67,004**	**141,051**	**(134,334)**	**44,570**	**–**	**118,291**
Institute:						–	
Unrestricted funds as previously stated		44,162	101,767	(93,624)	43,743	–	96,048
Revaluation to fair value of long leasehold	a	8,220	–	(94)	–	–	8,126
Revaluation of business combination	b	–	–	(820)	–	–	(820)
Pension adjustments under FRS 102	d		–	(1,600)	1,600	–	–
As stated in accordance with FRS 102		52,382	101,767	(96,138)	45,343	–	103,354
Restricted funds as previously stated		3,622	58	(26)	16	–	3,670
As stated in accordance with FRS 102		3,622	58	(26)	16	–	3,670
Total		56,004	101,825	(96,164)	45,359	–	107,024

Explanation of changes to previously reported net income and funds

a) The group has taken the optional exemption available in FRS 102 to adopt the market value of the long leasehold properties on the transition date, 1 September 2014 as deemed cost. The effect of the change has been to increase the revaluation reserve for the year ended 31 August 2014 and subsequent depreciation charges.

b) FRS 102 requires that intangible assets acquired in business combinations from the transition date to be recognised at fair value separate from the goodwill. This was not required under previous UK GAAP. Effectively, this has led to a reallocation of recognised business combination goodwill to separable intangible assets which are amortised over individually estimated useful lives. The effects incidentally have been a reduction in amortisation charges. Separately, FRS 102 also requires contingent consideration arrangement in which the payments are automatically forfeited if employment terminates to be treated as post-combination services remuneration. This has led to £819,000 of additional expenditures being recognised in the year ended 31 August 2015.

c) FRS 102 requires that a liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. The retrospective application of this requirement has led to additional holiday pay liability being recognised on the transition date.

d) FRS 102 requires the recognition in net income of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported net income for the year ended 31 August 2015 because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets be they equities, properties or bonds. The change has had no effect on reported funds as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported net income is mirrored by an increase in actuarial gains which are presented within other recognised gains and losses.

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