

REPORT AND FINANCIAL STATEMENTS

For the year ended 31st July 2015



REAL COURSES

REAL SKILLS

REAL JOBS

REAL FUTURES



HEART OF
**WORCESTERSHIRE
COLLEGE**

HEART OF WORCESTERSHIRE COLLEGE

Report & Financial Statements

for the year

1 August 2014 to 31 July 2015

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NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2015.

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting Heart of Worcestershire College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

On 1st August 2014 North East Worcestershire College (NEWC) merged its activities with those of Worcester College of Technology (WCT) and changed its name to Heart of Worcestershire College. At that date all assets, liabilities and activities of Worcester College of Technology transferred. Worcester College of Technology was then dissolved. All activities are continuing within the merged College.

The Corporation believes this was a merger and not an acquisition and therefore these financial statements have been prepared in accordance with merger accounting under Financial Reporting Standard 6: Acquisitions and Mergers.

The merger and first year of the Heart of Worcestershire College

On 1st August 2014 the Heart of Worcestershire College was formed from the merger of two already successful colleges within Worcestershire, becoming the largest Further Education provider based in the County.

Both parties were excited and confident about the merger and the benefits that could be achieved as a result, shaping and developing the College to meet the diverse needs of the local learning communities whilst strengthening the College position to meet the challenges facing the further education sector. The anticipated benefits of merging were seen as:

- Creating synergies from the complementary strengths of the two Colleges which would both safeguard existing provision and offer a broader curriculum across a wider geographic area;
- providing financial stability for educational provision in the County and presenting opportunities for capital investment in facilities;
- providing a significant contribution to the local economy and the up-skilling and re-skilling of the workforce;
- enhancing the service and range of offer to employers; and
- improving information, advice and guidance to all potential learner groups, and increasing choice.

Reflections on the first year

The merger has allowed the Heart of Worcestershire College to maintain delivery and continue to offer a broad curriculum across Worcestershire as a result of the larger geographic area covered by the College. During this first year the Heart of Worcestershire brand has grown and developed and is being recognised by schools, employers, stakeholders and members of the public as the leading provider for vocational, technical and professional qualifications in Worcestershire.

Heart of Worcestershire College

Operating and Financial Review (continued)

Reflections on the first year (continued)

The wider footprint across Worcestershire, has enabled the College to strengthen employer engagement and to work with new key partners. We have continued to maximise core competencies in “not in Education Employment or Training” (NEET) delivery, which has produced growth in this key priority area and in turn increased the College inclusive option on offer to students.

There has been remarkable progress in the first year, maintaining continuity for students and partners. The merger is delivering real benefits and improved success rates for students. Increased inclusive options have positively impacted on withdrawal/retention rates in the autumn term of 2015/16; this in turn will deliver related growth from organic progression routes.

Systems and processes have been harmonised with tutorial support, the expansion of personal learning coaches (PLC's) and ALS delivery providing efficient, effective and value for money student focused provision. Key management information systems in Finance and MIS have been harmonised and integrated to ensure financial management and control continues across the College, and a single cross college IT domain is now in place.

The merger has been very positive for the Information Learning Technology (ILT) team. The SOLA curriculum model has been fully rolled out across all campuses this year, alongside improvements in ILT usage in maths and English and in the use of technologies in the classroom. The ILT team won both the TES and AoC awards for use of technology in education.

Staff have shown resilience and dedication during the past year during a time of significant change and uncertainty. A new Senior Leadership Team comprising of senior staff from each predecessor College was established and importantly staff terms and conditions have been harmonised to ensure a coherent workforce.

Although the merger was not driven primarily by monetary efficiency savings or a need to reduce costs, it was appreciated that in combining back office functions, systems and teams it would achieve some natural efficiencies and cost benefits. The College has remained in a surplus position for 2014/15 with an operating surplus of £175,000, prior to restructuring costs and exceptional items; this has enabled the College to maintain a SFA financial health classification of “good”. At the same time the College has invested in new resources and has planned capital expenditure to ensure the estate and physical environment is maintained. No financial support has been received from Government Agencies or Funding Bodies to support the merger process.

Heart of Worcestershire College

Operating and Financial Review (continued)

Mission and Vision of Heart of Worcestershire College

The Heart of Worcestershire College Mission and Strategic Intent 2014 to 2017 was considered by both Worcester College of Technology and North East Worcestershire College Corporations and formally approved by North East Worcestershire College as the continuing entity on 20th May 2014.

Our vision

To provide Worcestershire with high quality further and higher education and training

- raising students' aspirations, self-confidence and improving significantly their employability;
- providing employers with access to on-the-job and bespoke skills training;
- working with key strategic partners to enhance the learning capacity and economic prospects for the area.

These are the priorities which drive Heart of Worcestershire College's thinking and actions.

Heart of Worcestershire College's vision is to provide skilled inspirational staff, high quality facilities, innovative virtual learning platforms, and a relevant and vital curriculum offer that engages a wide range of school-aged, work-based and adult students.

This vision is delivered in co-operation with local schools, colleges and partner providers, and is steered and informed by the needs and voices of key stakeholders and community planners, especially those of employers and our students.

Our vision encompasses:

- widening student choice and increasing progression opportunities;
- a commitment to raising all aspects of quality of provision and of results;
- widening student choice and increasing progression opportunities;
- using our expertise to improve employer engagement and work-based skills training;
- building a curriculum offer which targets groups who are traditionally under-represented;
- ensuring financial stability and resilience;
- investing in facilities and resources to meet the needs of 21st century learning;
- utilising our strengths to do things even better;
- maintaining the distinct identity of each locality served by the College; and
- offering an inclusive facility, providing opportunities for all.

Our mission

'Promoting future success through high quality education and training.'

- Students from a wide range of backgrounds and starting points complete their courses; achieve their qualifications and progress into employment or further/higher education.
- Students' satisfaction survey feedback is very positive, staff are willing and able to develop their talents and progress successfully in their careers.
- External bodies consistently judge what we do to be inclusive, relevant and to be providing value.
- Employers and community groups want to partner with us because they recognise the quality of our operation.
- The College operates as a successful business – generating cash each year to reinvest in its education provision.

Heart of Worcestershire College

Operating and Financial Review (continued)

Public Benefit

Heart of Worcestershire College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who were trustees of the charity, are disclosed on page 15 and 16.

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

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

- high-quality teaching;
- widening participation and tackling social exclusion;
- excellent employment record for students;
- strong student support systems; and
- links with employers, industry and commerce.

Implementation of strategic plan

The Strategic Plan for Heart of Worcestershire College, 2014/15 to 2016/17, was revisited by Governors in January 2015 who dedicated a workshop specifically to review the plan in detail. The plan was updated following this workshop and approved by the Corporation in February 2015.

The Corporation monitors and reviews the performance of the College regularly against these plans. The plans are reviewed and updated each year.

The College's specific student strategic aims are as follows:

- Further Education – 14-16 learners: To improve post-16 progression rates from 14-16 year old students studying at College whilst maintaining high levels of successful 14-16 student outcomes.
- Further Education – 16-18 students: Long success rates are within a specified range each year and overall positive progressions improve year on year by some 3%.
- Further Education – NEET: Continue to build upon existing programmes and design new programmes to address the NEET cohort across Worcestershire whilst increasing student numbers. Success rates to be maintained and progression rates to increase.
- Further Education – Learning Difficulties and Disabilities (LDD) Learners: Ensure suitable and accessible provision is available locally, extending specialist curriculum offer to increase student numbers, continue to work in partnership with specialist schools to provide suitable post 16 provision.
- Further Education – Adult maths, English and ESOL: Develop new part time adult provision based around Foundation Learning providing opportunities for learners to improve their skills and progress into other further education programmes. Ensure the provision is high quality and at least in line with national averages.

Heart of Worcestershire College

Operating and Financial Review (continued)

- Further Education – Adult College based: Increase success rates for Access/Pre Access students, positive progression rates to be at 80%+, rationalise portfolio to align with new funding and funded qualifications landscape and to increase adult loan take up.
- Further Education – Community Adult Learning: Extend the College's active role in community strategy, economic development and corporate social responsibility. Increase the number of students that progress to employment, employment with training or higher study ensuring students are work ready and employable.
- Work Based Learning – Success rates both overall and timely to be 2% above national averages, whilst having specific growth targets for Apprenticeship delivery.
- Higher Education – Maintain directly funded full time students, grow part time provision and professional course delivery.

Financial Objectives

The overarching financial objectives for 2014/15 were:

- for the College to remain financially sound so as to:
 - protect itself from unforeseen adverse changes in enrolments;
 - generate sufficient income to enable maintenance and improvement of its accommodation and equipment; and
 - support aspirations and growth as detailed in the strategic plan.
- Improving financial management;
- maintaining the confidence of "external stakeholders"; and
- raising awareness of financial issues.

Principally these objectives were achieved by maintaining sound a financial base (solvency and liquidity):

- maintaining cash days of 25 or more at all times;
- maintaining a current ratio of at least 1.6;
- operating at least a break even operating position (pre FRS17);
- maintaining the gearing ratio below 20%;
- continuing to meet and surpass all the required Bank Covenants whilst giving due consideration to all Treasury Policies; and
- ensuring debt servicing charges are less than 7% of income required by our funders and keeping net assets above £20m.

Heart of Worcestershire College

Operating and Financial Review (continued)

FINANCIAL POSITION

Financial Position

- The College suffered an operating deficit in the year of £877K (2013/14: surplus £26k) which included FRS17 gain of £14k (2013/14 charge £175k) and restructuring costs of £1,168k (2013/14: £633k) from total income of £38.3m (2013/14: £44.1m) producing a Financial Health Performance ratio of 3.72% (2013/14: 5.49%).
- The College has operating working capital of £7.5m (2013/14: £6.3m) producing a Financial Health Solvency ratio of 1.84 (2013/14: 1.62).
- At the end of July the College's total borrowings outstanding was £6.2m (2013/14: £6.6m). This produced a Financial Health Gearing ratio of 12.79% (2013/14: 13.72%).
- These three ratios produce a Financial Health rating of "Good" for 2014/15 (2013/14: Good).
- The College has accumulated general reserves before FRS17 pension provisions of £28.8m (2013/14: £29.5m) and cash balances, including short term deposits, of £15.1m (2013/14: £12.0m).
- Capital investment in equipment and adaptations to buildings amounted to £1.8m (2013/14: £4.9m) which included final expenditure on the St Dunstan's major refurbishment project which became operational in September 2014.
- The FRS17 Pension reserve liability increased to £21.0m (2013/14: £17.2m) based on the latest actuarial valuation supplied by the fund administrator Worcestershire County Council.
- The College has subsidiary companies, North East Worcestershire College Enterprises Ltd (NEWCEL) and Molinna Ltd; both were dormant during the year.

Treasury Policies and Objectives

Treasury management relates to the College's: cash flow, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place detailed in its Financial Regulations. Borrowings are authorised by the Corporation and comply with the requirements of the Financial Memorandum with the SFA.

Cash Flows

Operating cash inflow for the year was £3.4 million during 2014/15 (2013/14 £1.4 million).

Liquidity

The size of the College's total borrowing, and its approach to interest rates, are assessed to ensure a reasonable balance between the total cost of servicing debt and operating cash flows.

Heart of Worcestershire College

Operating and Financial Review (continued)

CURRENT PERFORMANCE

Student Numbers

The College is funded on an agreed level of activity each year. In 2014/15 the College delivered activity that generated £29,753,000 in funding body main allocation funding.

Student Achievements

Heart of Worcestershire College and its students had a successful first year in 2014/15 with retention at year end at 94%, exceeding the College target of 92%.

Overall success rates were at 86-87% (excluding maths and English) which is a strong performance in this first year post merger. The improvement of English and maths remain a key priority for the College and is the only area, in terms of qualification type, where the College is below national averages. All others; Diplomas, Awards, Certificates and Access to Higher Education provision are above internal targets set for 2014/15.

Student and stakeholder feedback shows high levels of satisfaction, as well as increasing levels of progression to employment, further and higher education and training, 97% of those learners that left in 2013/14 were in a positive destination one year on.

In 2014/2015, the College achieved remarkable success from students including:

- sport student Jack Kelly being selected to represent Team GB as an inline skater;
- Prince's Trust student Kerry Simons volunteering in Guatemala;
- media students achieving a Guinness World Record;
- hairdressing student David Appleton being placed third in an international hairdressing competition;
- public services students completing phase 1 training with the Army Reserves; and
- Ryan Shemwell, the current holder of Worcestershire Apprentice of the Year, has now received a commendation at the West Midlands final of the National Apprenticeship Awards.

Student successes are recognised at the end of each year in our further education award ceremonies and at the higher education graduation ceremonies.

Curriculum Development

Changes in national curriculum and funding policy which have resulted in further reductions in funding continue to present challenges in providing an appropriate curriculum offer that, as a package, meet the needs of the student, the needs of the local and regional community as well as that of the employment market.

The curriculum offer in 2014/15 was planned, delivered and managed through five Directorates namely:

- Engineering and Construction;
- Care, Hair & Beauty, Sports and Uniformed Services;
- Inclusive Learning;
- Arts, Travel, Tourism, IT and Business; and
- HE, Professional & Business Development.

Heart of Worcestershire College

Operating and Financial Review (continued)

Curriculum Development (continued)

Each Directorate had curriculum responsibility for specific sector subject areas, where they offered a full range of courses from entry level to Higher Education, delivering both classroom and employment based learning to adults, young people, the community/unemployed as well as apprentices and in-company learning. English and maths in respect of Functional Skills and GCSE was managed by the Directors of Quality and Planning for their respective campus.

The curriculum continues to be refreshed to reflect governmental changes, local and regional priorities as well as current practices in the employment market. Throughout 2014/15 the College worked closely with both the Worcestershire and the Greater Birmingham and Solihull LEP to work towards LEP area priorities and, as in previous years, apprenticeships continue to be a strong government focus, where the Government has pledged to support 3 million apprenticeship starts during its term of office. To support this ambition the work of our Business Development area and the Solutions teams continue to develop and expand our work-based learning offer and the range of apprenticeship frameworks has increased to reflect this priority.

The increased focus on the ability of students to study English and maths continues to be a governmental and College priority and in 2014/15 continued study of English and maths towards the attainment of a GCSE level became mandatory for all young people in post-compulsory education. This increase in the delivery of English and maths has placed additional demands on teaching resources particularly in securing suitable and qualified delivery staff and meant that accurate and sophisticated curriculum planning was pivotal to putting together a programme of study that met all funding demands whilst simultaneously meeting all external and internal stakeholder needs.

The College continues to work on raising standards of teaching, learning and assessment, and it is working on a programme of continuous improvement engaging with a number of external stakeholders to support this ambition; for example throughout the early part of the academic year 2014/15 the College worked with a Senior OFSTED inspector through a process of support and challenge, in order to secure improvements in the standards of quality, teaching learning and assessment needed to move towards outstanding.

The College maintains a strong focus on quality assurance of all its procedures in order to secure improvements and this focus on teaching, learning and assessment has led to a continued three year trend increase in the overall College results.

The College continues to work closely with a range of Higher Educational partners to provide progression opportunities for our own students to study post level 3 and then onto study at HE level. The removal of the student number cap has increased the level of competition between providers of HE based courses, which has had an effect on recruitment of HE provision.

All departments were resourced and equipped to a high standard and the majority of teaching and learning was internally assessed as at least 'good' and, in many cases, 'outstanding'. In 2014/15 93% of lesson observations were graded as good or better, with 24% of teaching graded as outstanding, showing that even with the backdrop of a difficult financial environment and the College's past merger integration programme, standards for learners were maintained or improved.

Heart of Worcestershire College

Operating and Financial Review (continued)

Payment Performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires the College, in the absence of agreements to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2014 to 31 July 2015, the College paid 91.43% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period. Some delays were experienced at the point of merger as systems were being harmonised and improved arrangements are now in place.

Post Balance Sheet Events

There are no post balance sheet events.

RESOURCES

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

Tangible resources include two modern campuses at Redditch and Bromsgrove, various buildings in Deansway Worcester, a newly refurbished St Dunstan's building in Worcester, two Construction Centres at Alliance House Redditch and Spring Lane Malvern, and Osprey House also in Redditch

Financial

The College has £27.1 million of net assets (including £21.0 million FRS17 pension liability) and long term debt of £5.8 million.

People

The College employs 620 staff (expressed as full time equivalents), of whom 377 are teaching or direct delivery staff.

Reputation

The College has a good reputation across Worcestershire working closely with local and national stakeholders. Maintaining a quality brand is essential for the College's success at attracting students and maintaining external relationships.

Heart of Worcestershire College

Operating and Financial Review (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Based on the strategic plan and its own local and sector knowledge the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent years' appraisal will review their effectiveness and progress against risk mitigation actions.

In addition to the termly reviews the Group also considers any risks which may have arisen as a result of new areas of work being undertaken by the College.

A risk register is maintained by the College and reviewed at least termly by the Audit Committee. The register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system which gives a score of 1 to 5 for likelihood and impact, which are multiplied together to give a total out of 25. This is supported by a risk management briefing/training programme to raise awareness of risk throughout the College.

Outlined below is a description of some of the principal financial risks that may affect the College. Not all factors are within the College's control, and factors other than those listed may also adversely affect the College.

Government funding

The College has considerable reliance on continued government funding through the education sector funding bodies. In 2014/15, 79% of the College's revenue (including that received as consortia lead) was ultimately public funded and this level is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

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

- changes in Government and Funding Body policy following the Autumn Statement;
- reducing demographics of 16-18 students; and
- not achieving student numbers and funding targets.

This risk is mitigated in a number of ways:

- funding is derived through a number of direct and indirect contractual arrangements;
- ensuring the College is rigorous in delivering high quality education and training;
- ensuring the College is focused on those priority sectors which will continue to benefit from public funding; and
- responsiveness to the LEP agenda.

Heart of Worcestershire College

Operating and Financial Review (continued)

Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS17.

Accounting for defined benefit pension schemes under FRS17 is a risk as the relevant pension scheme is not under the direct control of the College and are accounted for in accordance with the advice of independent qualified actuaries. Significant judgements are required in relation to assumptions for future salary increases, inflation, investment returns and member longevity that underpin their valuations.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Heart of Worcestershire College has many stakeholders. These include:

- students;
- education sector funding bodies;
- FE Commissioner;
- OFSTED;
- staff;
- local employers (with specific links);
- local authorities;
- government offices/ LEPs;
- the local community;
- other FE institutions;
- HE institutions;
- trade unions; and
- professional bodies.

The College recognises the importance of these relationships and engages in regular communication with its stakeholders.

Equality and Diversity

Heart of Worcestershire College is committed to providing a learning environment which respects all individuals and celebrates diversity. Our mission statement "Promoting future success through high quality education and training" demonstrates our College values and our commitment to ensuring that we transform the life chances for all. As a College, we value social and cultural diversity and seek to promote equality of opportunity and respect amongst all learners, staff, governors, visitors, partners and other stakeholders.

The Heart of Worcestershire College strives to be an outstanding inclusive College where all staff and learners feel valued and respected, having a fair and equal chance to reach their potential. We aim to respond to the diverse profile of needs expressed by our learners, staff and stakeholders and celebrate the diversity of the College community. We aim to go beyond statutory requirements to ensure our learners, staff and partners have the best experience possible. Through our Equality Action Plan we work with the College community and beyond to make the College a truly inclusive organisation. We believe that Equality and Diversity is an essential ingredient for overall quality improvement.

Heart of Worcestershire College

Operating and Financial Review (continued)

Equality and Diversity (continued)

The Equality Act 2010 imposes both general and specific duties upon the College. The legislation applies not only to the College as an organisation but also to anyone working or studying with us and any partners, contractors and stakeholders. The general duties are to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010 - The act introduces the concept of “protected characteristics” of which there are nine. The definition of discrimination has been extended to include associative and perceptive discrimination.
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it - Reasonable adjustments are provided for learners, staff and customers who may be experiencing barriers due to their disability. The recruitment, retention and achievement of learners are monitored by protected characteristics to identify any trends enabling the College to respond effectively.
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it - The College ensures that Equality and Diversity is a natural part of the curriculum to raise awareness and understanding. All College processes are continually reviewed to ensure that the College is accessible and fair in all of its functions. Our customer service will be unbiased and welcoming to all.

The specific duties of the Equality Act 2010 are to:

- Publish information to demonstrate compliance with the general equality duty - This includes information relating to learners, employees, and other individuals who share a relevant protected characteristic who will be affected by our policies and practices. A report for Equality and Diversity is published annually to inform our College community of our progress and to celebrate our diversity.
- Prepare and publish equality objectives at least every four years which are accessible to the public - The objectives form the basis of the Equality Action Plan which can be found on our website.

Meeting the needs of learners

The Heart of Worcestershire College strives to be an outstanding, inclusive College and ensures that learners’ needs are assessed and responded to appropriately and effectively. An essential part of the College experience for a learner is to be prepared for working and living in a diverse society.

- All teaching and training resources reflect and promote Equality and Diversity as appropriate to raise awareness and understanding.
- Staff actively promote British Values throughout College life (Ofsted 2015) and empower students to challenge stereotypes, assumptions and discrimination within a culture of mutual respect and tolerance for others.

Heart of Worcestershire College

Operating and Financial Review (continued)

Meeting the needs of learners (continued)

- Admission processes and initial assessment are used to ensure that the correct support is available to learners at the beginning of their course. Learners are given opportunities throughout the year to disclose any disabilities or other protected characteristics they may have.
- Information, guidance and support are delivered in ways accessible to different groups with protected characteristics and in ways that challenge stereotypes.

A team of qualified personal learning coaches and personal tutors provide support across the College to ensure that all learners are able to access the College and enjoy their experience. Financial support is available to assist learners who may have difficulties in completing their course due to financial reasons. The Learner Voice continues to be a crucial mechanism for understanding and responding to the learner experience to ensure that the College is inclusive in all aspects of the service it delivers.

Recruitment and Employment of Staff

The College recognises its responsibilities under the Equality Act 2010, and therefore positive employment and recruitment practices are promoted through practices and legislation contained within the College's Recruitment and Selection Policy. The College monitors a number of key protected characteristics of job applicants, in addition to monitoring the profile of its workforce. All applicants are asked to advise the College of any adjustments that may be required for the purpose of the interview or if they were to be employed by the College. Where an existing employee declares they have a disability, the College will consider any necessary adjustments that may be required.

The College promotes equality of opportunity for all staff in providing opportunities to access continuous professional development, together with providing career progression opportunities for all staff.

All general employment policies are regularly updated to ensure compliance with employment legislation, and all managers receive training on the implementation of such policies. The HR Department play a key role in ensuring that working practices and policies are operating in a fair and equitable way, but also any potential discriminatory issues are addressed in a timely manner and in line with our policies.

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 15 December 2015 and signed on its behalf by:



D Rood
Chair

Heart of Worcestershire College
Operating and Financial Review (continued)

Professional advisors

Financial statement and regularity auditors	Grant Thornton UK LLP Colmore Plaza 20 Colmore Circus Birmingham West Midlands B4 6AT
Internal auditor	RSM Risk Assurance Services LLP Cedar House Woodlands Business Park Breckland Linford Wood Milton Keynes MK14 6EX
Bankers	Barclays Bank PLC 15 Colmore Row Birmingham B3 2WN National Westminster Bank PLC 103 Colmore Row Birmingham B3 3MN Santander Corporate Banking 3 rd Floor 1 Cornwall Street Birmingham B3 2DX
Solicitors	Harrison Clark Rickerbys Limited 5 Deansway Worcester WR1 2JG Eversheds LLP 115 Colmore Row Birmingham B3 3AL

Heart of Worcestershire College

Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

- i) in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); and
- ii) having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

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

The Corporation

On 1st August 2014 a new Corporation was appointed for Heart of Worcestershire College consisting of equal number of former non-executive Governors from North East Worcestershire College and Worcester College of Technology; 3 further non-executive Governors have been appointed during the year. The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below.

Name	Date of Appointment	Term of Office	Category of appointment	Committee and Task & Finish (T&F) Group Membership	Attendance at Corporation Meetings 14/15
Mr D Rood (Chair of Corporation)	01/08/14	2 years	Non-Executive	Governance & Search Remuneration Estates T & F Group (wef 20/10/15) Legacy Issues T & F Group Quality T&F Group (20/10/15)	10/10
Mr N M Bucktin (Vice Chair of Corporation)	01/08/14	4 years	Non-Executive	Governance & Search (Chair) Remuneration Reporting T & F Group (Chair)	8/10
Mr S Bolton	28/04/15	4 years	Non-Executive	Audit (wef 20/10/15)	2/2
Ms S Fowler	01/08/14	3 years	Non-Executive	Governance & Search Remuneration Legacy Issues T & F Group Reporting T & F Group	9/10
Mr K Gaffney	01/08/14	4 years	Non-Executive	Audit Estates T & F Group Legacy Issues T & F Group	9/10
Miss L Gresty	01/08/14	4 years	Non-Executive	Audit (Chair) Reporting T & F Group	10/10
Mrs L Hodgson	01/08/14	3 years	Non-Executive	Audit Governance & Search Legacy Issues T & F Group (Chair)	6/10

Heart of Worcestershire College

Statement of Corporate Governance and Internal Control (continued)

Mr D Miles	01/08/14	4 years	Non-Executive	Audit Remuneration Estates T & F Group	10/10
Mr P McCunn	01/08/14	2 years	Non-Executive	Governance & Search Remuneration (Chair) Reporting T & F Group	10/10
Mr R Pearce	01/08/14	3 years	Non-Executive	Remuneration Estates T & F Group (Chair) Legacy Issues T & F Group	9/10
Ms K Phillips	28/04/15	4 years	Non-Executive	Quality T&F Group (20/10/15)	1/2
Mr P Redfern	01/08/14	2 years	Non-Executive	Audit Legacy Issues T & F Group	7/10
Ms B Sheils	28/04/15	4 years	Non-Executive	Quality T&F Group (Chair) (20/10/15)	2/2
Mr S Laverick	01/08/14	Ex officio	Principal	Governance & Search	10/10
Mr P Heath	01/08/14	4 years	Staff	Governance & Search	9/10
Mrs D Morris	01/08/14	4 years	Staff	Audit	8/10
Mr J Colbourne	1/08/14 to 30/06/15	1 year	Student (SU President)		6/9

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, student outcomes and experience, quality matters and personnel related matters including health and safety and environmental issues. The Corporation operates under a limited committee system and meets three to four times each term.

The Corporation conducts its business through Corporation meetings and three committees. Each Committee has terms of reference, which have been approved by the Corporation. The Committees are Audit; Governance and Search; and Remuneration. Corporation appointed Task and Finish Groups to deal with Merger Legacy Issues, Quality, Reporting and Estates.

Full minutes of all Corporation and Committee meetings, except those items deemed confidential by the Corporation are available on the College website at www.howcollege.ac.uk or from the Clerk to the Corporation at:

Heart of Worcestershire College
Osprey House
Albert Street
Redditch
Worcestershire
B97 4DE

Heart of Worcestershire College

Statement of Corporate Governance and Internal Control (continued)

The Clerk to the Corporation maintains a register of financial and personal interests of the Governors. The register is available for inspection at the above address. All Governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Corporation for ensuring all applicable procedures and regulations are complied with. The appointment, evaluation, remuneration and removal of the Clerk are matters for the Corporation as a whole.

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

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

There is a clear division of responsibility in that the roles of the Chair and Principal are separate and the governance role is clearly defined in the Statement of Governance Principles.

Senior post-holders

The designated senior post-holders who served the Corporation during the period were:

Mr S M Laverick	- Principal
Miss N D Williams	- Vice Principal – Corporate and Resources
Mr K Nash	- Vice Principal – Curriculum and Quality

Clerk to the Corporation

Mrs J E Morris

Appointments to the Corporation

Any new appointments to the Corporation were a matter for the consideration of the Corporation as a whole. The Corporation has a Governance and Search Committee which operates in accordance with written terms of reference approved by the Corporation. It consists of seven members of the Corporation, and is responsible for the review and recommendation of new non-executive members for the Corporation's consideration. The Governance and Search Committee also monitors the process by which staff and student members are nominated and elected. The Corporation is responsible for ensuring that appropriate training and induction is provided for Governors as required.

Members of the Corporation are appointed for a term of office not exceeding 4 years.

Remuneration Committee

The College's Remuneration Committee operates in accordance with written terms of reference approved by the Corporation. It comprises six members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders including the Clerk.

Details of remuneration for the year ended 31 July 2015 are set out in note 7 to the Financial Statements.

Heart of Worcestershire College

Statement of Corporate Governance and Internal Control (continued)

Audit Committee

The Audit Committee comprises six members of the Corporation (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management to gain further assurances. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business. There is a constant risk focus at the meetings with regular reviews of the risk register, improvement suggestions surrounding the risks and presentations from Management on specific risks appearing on current registers.

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

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

Internal Control

Scope of Internal Control

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

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

The Purpose of the System of Internal Control

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

Heart of Worcestershire College
Statement of Corporate Governance and Internal Control (continued)

Capacity to Handle Risk

The Corporation has reviewed the key risks to which the College was exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there was a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2015 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The Risk and Control Framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Corporation;
- regular reviews by the Corporation of periodic and annual financial reports, which indicate financial performance against budget;
- setting targets to measure financial and other performance; and
- clearly defined capital investment control guidelines.

The College has an internal audit service, which operates in accordance with the requirements of the EFA and Skills Funding Agencies' Joint Audit Code of Practice.

The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee.

At least annually, the Head of Internal Audit provides the Corporation with a report on internal audit activity in the College. The report includes an independent opinion from the Head of Internal Audit on the adequacy and effectiveness of the College's system of risk management, controls and governance process.

Review of Effectiveness

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

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

Heart of Worcestershire College
Statement of Corporate Governance and Internal Control (continued)

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

The Senior Leadership Team receive reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training.

The members of the Senior Leadership Team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is to undertake a high level review of the arrangements for internal control.

The Corporation's agenda includes a regular item for consideration of risk and control and receives reports from the Senior Leadership Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not simply reporting by exception.

At its December 2015 meeting the Corporation carried out the annual assessment for the year ended 31 July 2015 by considering documentation from the Senior Leadership Team, Audit Committee and Internal Auditors, and taking account of events since 31 July 2015.

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

Going Concern

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

Approved by order of the members of the Corporation on 15 December 2015 and signed on its behalf by:-



D Rood
Chair



S M Laverick
Principal

Heart of Worcestershire College

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

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

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial memorandum. We further confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the Skills Funding Agency.

Heart of Worcestershire College

Statement of the Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year. Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency (SFA) and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education and with the Accounts Direction for 2014/15 Financial Statements issued jointly by the Skills Funding Agency and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare an Operating and Financial Review which describes what it is trying to do and how it is going about this, including the legal and administrative status of the College.

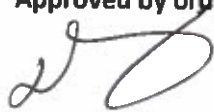
The Corporation is responsible for the keeping of proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the EFA and the Skills Funding Agency are used only in accordance with the Financial Memorandum with the EFA and the Skills Funding Agency and any other conditions that may be prescribed from time to time.

Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure that they are used properly. In addition, Members of the Corporation are responsible for securing economic, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the EFA and the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 15 December 2015 and signed on its behalf by:-



D Rood
Chair

Heart of Worcestershire College

Independent auditor's report to the Governing Body of Heart of Worcestershire College

We have audited the financial statements of Heart of Worcestershire College for the year ended 31 July 2015 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated statement of historical cost surpluses and deficits the consolidated and College balance sheets and the consolidated 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 College's Governing Body, as a body, in accordance with article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the College's Governing Body those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Governing Body as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Governing Body and auditor

As explained more fully in the Statement of the Responsibilities of the Members of the Corporation set out on page 22, the College's Corporation is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council'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 of the College's affairs as at 31 July 2015 and of the Group's deficit of income over expenditure for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

Heart of Worcestershire College
Independent auditor's report to the Governing Body of Heart of Worcestershire College

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
16 December 2015

Heart of Worcestershire College

Reporting accountant's assurance report on regularity

To the Corporation of Heart of Worcestershire College and Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency

In accordance with the terms of our engagement letter dated 2 October 2015 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that, in all material respects, the expenditure disbursed and income received by Heart of Worcestershire College during the period 1 August 2014 to 31 July 2015 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency in August 2015. In accordance with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency has other assurance arrangements in place.

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

Respective responsibilities of Heart of Worcestershire College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by are imposed by law and professional standards and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that, in all material respects, expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Heart of Worcestershire College
Reporting accountant's assurance report on regularity

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw our conclusion includes:

- making enquiries of management;
- analytical procedures;
- evaluation of controls and walkthroughs on a sample of material items
- review of completed and signed self-assessment questionnaire (SAQ);
- review of Board and Committee meeting minutes;
- review of internal audit papers (where relevant); and
- limited testing, on a selective basis, on a number of areas which are considered within the SAQ.

Conclusion

In the course of our work, nothing has come to our attention which suggests that, in all material respects, the expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
16 December 2015

Heart of Worcestershire College
Consolidated Income and Expenditure Account
for the year ended 31 July 2015

	Note	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
<u>Income</u>			
Funding body grants	2	30,428	35,444
Tuition fees and education contracts	3	5,941	6,845
Other income		1,888	1,660
Investment income	5	75	174
Total income		38,332	44,123
<u>Expenditure</u>			
Staff costs	6	20,243	22,766
Other operating expenses	8	14,733	17,420
Depreciation	12	2,965	2,984
Interest and other finance costs	9	216	251
Total expenditure		38,157	43,421
Surplus on continuing operations after depreciation of tangible fixed assets at valuation but before tax		175	702
Loss on disposal of assets		-	(43)
Exceptional restructuring costs	6	(1,168)	(633)
Other exceptional item		116	-
(Deficit)/Surplus on continuing operations after depreciation of tangible fixed assets at valuation, exceptional items and disposal of assets but before tax		(877)	26
Taxation	10	-	-
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and tax	11	(877)	26

Heart of Worcestershire College
Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 July 2015

	Year ended 31 July 2015	Year ended 31 July 2014
Note	£'000	£'000
(Deficit) / surplus on continuing operations after depreciation of assets at valuation, disposals of assets, exceptional items and tax	(877)	26
Actuarial loss in respect of pension scheme	(3,837)	(1,885)
	<hr/>	<hr/>
Total recognised losses since last report	(4,714)	(1,859)
	<hr/>	<hr/>
Reconciliation		
Opening reserves	21,428	23,287
Total recognised losses for the year	(4,714)	(1,859)
	<hr/>	<hr/>
Closing reserves	16,714	21,428
	<hr/>	<hr/>

Heart of Worcestershire College
Consolidated Note of Historical Cost Surpluses and Deficits
for the year ended 31 July 2015

		Year ended 31 July 2015	Year ended 31 July 2014
	Note	£'000	£'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation, disposals of assets, exceptional items and tax		(877)	26
Difference between historical cost depreciation and actual charge for the period calculated on the re-valued amount	22	188	217
Realisation of gains on disposal	22	-	1,284
Historical cost (deficit)/surplus for the year before and after taxation		(689)	1,527

Heart of Worcestershire College
Balance Sheets as at 31 July 2015

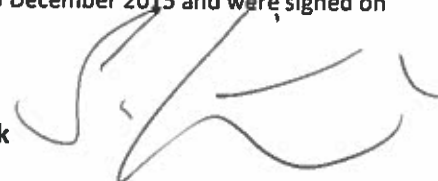
	Note	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Fixed assets					
Tangible assets	12	46,476	46,476	47,649	47,649
		<u>46,476</u>	<u>46,476</u>	<u>47,649</u>	<u>47,649</u>
Current assets					
Stock		44	44	55	55
Debtors	15	1,167	1,167	4,646	4,646
Investments		5,912	5,912	4,301	4,301
Cash at bank and in hand		9,227	9,227	7,713	7,713
		<u>16,350</u>	<u>16,350</u>	<u>16,715</u>	<u>16,715</u>
Less: Creditors: amounts falling due within one year	16	(8,868)	(8,868)	(10,334)	(10,334)
Net current assets		<u>7,482</u>	<u>7,482</u>	<u>6,381</u>	<u>6,381</u>
Total assets less current liabilities		53,958	53,958	54,030	54,030
Less: Creditors : amounts falling due after more than one year	17	5,761	5,761	6,160	6,160
Less: Provision for liabilities and charges	19	40	40	123	123
Net assets excluding pension liability		<u>48,157</u>	<u>48,157</u>	<u>47,747</u>	<u>47,747</u>
Net pension liability	32	(21,028)	(21,028)	(17,205)	(17,205)
NET ASSETS INCLUDING PENSION LIABILITY		<u>27,129</u>	<u>27,129</u>	<u>30,542</u>	<u>30,542</u>
Deferred capital grants	20	10,415	10,415	9,114	9,114
Income and expenditure account excluding pension reserve	23	28,843	28,843	29,546	29,546
Pension reserve	32	(21,028)	(21,028)	(17,205)	(17,205)
Income and expenditure account including pension reserve	23	7,815	7,815	12,341	12,341
Revaluation reserve	22	8,899	8,899	9,087	9,087
Total reserves		<u>16,714</u>	<u>16,714</u>	<u>21,428</u>	<u>21,428</u>
TOTAL FUNDS		<u>27,129</u>	<u>27,129</u>	<u>30,542</u>	<u>30,542</u>

The financial statements on pages 27 to 56 were approved by the Corporation on 15 December 2015 and were signed on its behalf by;

D Rood
Chairman



S M Laverick
Principal



Heart of Worcestershire College
Consolidated Cash Flow Statement
for the year ended 31 July 2015

	Note	2015	2014
		£'000	£'000
Cash inflow from operating activities	24	3,449	1,401
Returns on investments and servicing of finance	25	(117)	(44)
Capital expenditure and financial investment	26	184	(2,421)
Management of liquid resources	27	(1,611)	933
Financing	28	(391)	(718)
Increase / (decrease) in cash in the period	29	1,514	(849)
<i>Reconciliation of net cash flow to movement in net funds/(debt)</i>			
		£'000	£'000
Increase/(decrease) in cash in the period		1,514	(849)
Cash outflow/(inflow)to liquid resources	27	1,611	(933)
Cash outflow from repayment of secured loans	28	391	718
Movement in net funds in the period		3,516	(1,064)
Net funds at 1 August		5,463	6,527
Net funds at 31 July	29	8,979	5,463

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

1 Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP), the Accounts Direction for 2014/15 financial statements and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards. The merger between North East Worcestershire College and Worcester College of Technology on 1 August 2014 has been accounted for on a merger accounting basis under FRS 6. Comparative figures for the previous year have been formed by the addition of the corresponding lines in the previous year's financial statements of the two predecessor Colleges.

The merger was a strategic move designed to benefit learners in the area. In this regard guiding principles adopted by the Corporation included a clear commitment to parity of Governors from each Governing Body with no party holding a dominant position within the merged institution.

Going concern

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

The College currently has £6.2m of loans outstanding with three providers; liabilities are secured on parts of the freehold land and buildings of the College. The College's forecasts and financial projections indicate that it will be able to operate within these existing facilities and covenants for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the College and its subsidiary, Molinna Limited, for the year ended 31 July 2014. For the year ended 31 July 2015 the financial statements exclude the College's subsidiaries, Molinna Limited and North East Worcestershire College Limited ('NEWCEL') on the basis that companies did not trade during this period. In accordance with FRS 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2015.

1 Statement of accounting policies and estimation techniques (continued)

Recognition of income

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

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

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the asset.

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

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

ESF grant income is recognised in line with the amount due from actual completed achievements.

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

Post-retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Second Pension (S2P).

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in note 32, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions are recognised as they are paid each year.

1 Statement of accounting policies and estimation techniques (continued)

Post-retirement benefits (continued)

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increases during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Tangible fixed assets

Land and buildings

The College's buildings are specialised buildings and therefore, in general, it is not appropriate to value them on the basis of open market value. Land and buildings inherited from the Local Education Authority (LEA) are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily available, except for one property where the open market value was available as at 31 July 1998. Land and buildings acquired and building improvements made since incorporation are included in the balance sheet at cost.

Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years, freehold buildings purchased by Worcester College of Technology previous to 1 August 2014 are depreciated over 40 years and two freehold buildings purchased by North East Worcestershire College are being depreciated over 30 years; all inherited buildings are depreciated over 40 years. The College has a policy of depreciating major adaptations to buildings on a straight-line basis over a 15-year useful economic life.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Where a grant relates to leased premises the depreciation and grant are charged over the period to the first lease break clause.

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

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

Assets under construction

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

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

1 Statement of accounting policies and estimation techniques (continued)

Subsequent expenditure on existing fixed assets

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

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

Equipment

Equipment costing less than £1,500 per individual item is written off to income and expenditure account in the year of acquisition. All other equipment is capitalised at cost.

Equipment inherited from the LEA is included in the balance sheet at valuation. Inherited equipment has been depreciated on a straight line basis over its remaining useful economic life to the College of three years from incorporation and is now fully depreciated.

Capitalised equipment purchased after 1st August 2014 is depreciated over its useful economic life as follows:

General equipment	3 years on a straight-line basis
Computer equipment & software	3 years on a straight-line basis
Long term equipment / motor vehicles	7 years on a straight-line basis
Fixtures & fittings	7 years on a straight-line basis
Buildings adaptations	15 years on a straight-line basis

The useful economic lives (UEls) estimated by the two predecessor colleges for all assets that the College owned at the date of merger have been retained since the estimates used by the predecessor colleges continue to be appropriate. The UELs for all new assets purchased after the date of the merger have been separately assessed.

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

1 Statement of accounting policies and estimation techniques (continued)

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements, which transfer to the College substantially all the benefits and the risks of ownership of an asset, are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the economic lives of equivalent owned assets. The capital element outstanding is shown as obligations under finance leases.

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

Stocks

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period, with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Charitable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

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



1 Statement of accounting policies and estimation techniques (continued)

Liquid resources

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

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 38, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grant.

The College employs the equivalent of two full time members of staff dedicated to the administration of Learner Support Fund applications and payments.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

2 Funding body grants

	Total 2015 £'000	Total 2014 £'000
Recurrent grant – EFA	17,121	18,489
Recurrent grant – Skills Funding Agency	5,233	9,165
Recurrent grant - HEFCE	1,331	1,499
Non recurrent grants - EFA	25	17
Non recurrent grants – Skills Funding Agency	413	167
Non recurrent grants – HEFCE	52	246
Release of deferred capital grants (note 20)	675	806
ESF Co-financing	30	267
Skills Funding Agency Adult Skills Budget – consortium partners	4,875	4,212
Skills Funding Agency Adult Skills Budget – College*	673	576
	30,428	35,444

* The College is the lead partner in a consortium to deliver Adult Skills in the West Midlands Region. The income shown above represents that earned by the College in its capacity both as a provider and as the consortium lead, and that earned by partners.

	2015 £'000	2014 £'000
Skills Funding Agency Adult Skills Budget	5,548	4,788
Payments to non College partners	(4,875)	(4,212)
Net Income	673	576

3 Tuition fees and education contracts

	2015 £'000	2014 £'000
Tuition fees	4,889	5,245
Education contracts	1,052	1,600
	5,941	6,845

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

4 Research grants and contracts

The College did not receive any funding for research grants during the year.

5 Investment income

	2015 £'000	2014 £'000
Income from investments	75	174
	75	174

6 Staff numbers and costs

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

	2015 Number of employees	2014 Number of employees
Teaching staff	377	397
Non teaching staff	243	301
	620	698

	£'000	£'000
Costs for the above staffing were:		
Wages and salaries	16,144	18,093
Social security costs	1,035	1,154
Other pension costs (including FRS17 adjustment of (£38,000) 2014: £142,000)	2,449	2,640
Payroll sub total	19,628	21,887
Contracted out staffing services	615	879
	20,243	22,766
Exceptional restructuring costs	1,168	633
	21,411	23,399

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

6 Staff numbers and costs (cont)

The number of senior post holders and other staff who received emoluments, excluding pension contributions in the following ranges was:

	Senior Post Holders		Other Staff	
	2015 No.	2014 No.	2015 No.	2014 No.
£50,001 to £60,000	-	1	n/a	n/a
£60,001 to £70,000	-	-	-	1
£70,001 to £80,000	-	1	-	-
£80,001 to £90,000	2	1	-	-
£100,001 to £110,000	-	1	-	-
£120,001 to £130,000	-	1	-	-
£140,001 to £150,000	1	-	-	-
	3	5	0	1

7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal (or Chief Executive) and holders of the other senior posts whom the board have selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Corporation.

	2015	2014
The number of senior post-holders, including the Principal, was:	3	5

Senior post-holders' emoluments are made up as follows:	2015	2014
	£'000	£'000
Salaries	321	441
Benefits in kind	3	3
	324	444
Pension contributions	43	65
Total emoluments	367	509

The above emoluments include amounts payable to the Principal in 2015 and the two Principals in 2014 from predecessor Colleges (who is also the highest paid senior post-holder) of:

	2015	2014
	£'000	£'000
Salary	147	229
Benefits in kind	1	1
	148	230
Pension contributions	21	32
Total emoluments	169	262

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

7 Senior post-holders' emoluments (cont)

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the TPS or LGPS and are paid at the same rate as for other employees.

Compensation for loss of office paid to a former senior post-holder

	2015 £'000	2014 £'000
Compensation paid to the former post holder	-	38

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

Overseas activities

There were no overseas activities undertaken by Members of the Corporation or senior post-holders. One member of staff did undertake overseas travel during the 2014/15 year and in 2013/14, in addition one member of staff did undertake an exploratory trip in 2013/14 to gather information only.

8 Other operating expenses

	2015 £'000	2014 £'000
Teaching costs	3,443	3,144
Non teaching costs	8,300	11,162
Premises costs	2,990	3,114
	14,733	17,420

Other operating expenses include:

	2015 £'000	2014 £'000
Auditors' remuneration – financial statements audit	31	42
- internal audit	31	31
Loss on disposal of tangible fixed assets	0	4
Hire of plant and machinery - operating leases	253	158
	315	235

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

9 Interest payable

	2015 £'000	2014 £'000
On bank loans repayable wholly or partly in more than five years	192	218
Pension finance costs (note 32)	24	33
	<u>216</u>	<u>251</u>

10 Taxation

The Members of the Corporation do not believe the College was liable for corporation tax arising out of its activities during the year.

11 (Deficit)/surplus on continuing operations for the year

The (deficit)/surplus on continuing operations for the year is made up as follows:

	2015 £'000	2014 £'000
College's (deficit)/surplus for the year	(877)	26
Retained by subsidiary company	-	-
Total	<u>(877)</u>	<u>26</u>

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

12 Tangible fixed assets – Group and College

	Land and Freehold Buildings £'000	Assets under construction £'000	Equipment £'000	Total £'000
Cost or valuation				
At 1 August 2014	62,390	5,351	10,868	78,609
Adjustments to opening balances	(124)	-	(1,396)	(1,520)
Revised 1 August 2014	62,266	5,351	9,472	77,089
Additions	266	766	760	1,792
Transfer assets under construction	6,117	(6,117)	-	-
Disposals	-	-	(92)	(92)
At 31 July 2015	68,649	-	10,140	78,789
Depreciation				
At 1 August 2014	20,963	-	9,997	30,960
Adjustments to opening balances	(88)	-	(1,432)	(1,520)
Revised 1 August 2014	20,875	-	8,565	29,440
Charge for year	2,262	-	703	2,965
Eliminated in respect of disposals	-	-	(92)	(92)
At 31 July 2015	23,137	-	9,176	32,313
Net book value at 31 July 2015	45,512	-	964	46,476
Net book value at 31 July 2014	41,391	5,351	907	47,649

The transitional rules set out in FRS 15 *Tangible Fixed Assets* have been applied by the College on implementing FRS 15. Accordingly, the book values at implementation have been retained.

Land and buildings were valued in 1996 and 1998. Other tangible fixed assets inherited from the Local Education Authority at incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and building with a net book value of £12,194K and Equipment with a net book value of £351K have been financed by exchequer funds, fully or partially. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the funding body, to surrender the proceeds.

Adjustments have been made to opening balances to ensure they reflect values that are consistent with the asset register and accounting records, the opening net book values remain unchanged.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

13 Investments in subsidiary

	2015 £'s	2014 £'s
Investment in subsidiary companies at cost	4	4
	<u>4</u>	<u>4</u>

The College owns 100% of the issued ordinary £1 shares of Molinna Limited, a company incorporated in England & Wales. Molinna was dormant throughout the year.

The College owns 100% of the issued ordinary £1 shares of North East Worcestershire College Enterprises Limited (NEWCEL), a company incorporated in England and Wales. NEWCEL was dormant throughout the year.

14 Endowment assets

The College did not hold any endowment assets during the year.

15 Debtors

	2015		2014	
Amounts falling due within one year.	Group £'000	College £'000	Group £'000	College £'000
Trade debtors	828	828	3,954	3,954
Prepayments and accrued income	339	339	515	515
Amount owed by Skills Funding Agency / EFA	-	-	177	177
Total	1,167	1,167	4,646	4,646

16 Creditors

	2015		2014	
Amounts falling due within one year.	Group £'000	College £'000	Group £'000	College £'000
Bank loans	399	399	391	391
Payments received on account	752	752	2,267	2,267
Trade creditors	810	810	675	675
Other taxation and social security	779	779	1,211	1,211
Accruals	3,215	3,215	4,513	4,513
Other amounts owed to Skills Funding Agency / EFA	2,913	2,913	1,277	1,277
	<u>8,868</u>	<u>8,868</u>	<u>10,334</u>	<u>10,334</u>

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

17 Creditors

Amounts falling due after more than one year	2015		2014	
	Group £'000	College £'000	Group £'000	College £'000
Bank loans	5,761	5,761	6,160	6,160
	5,761	5,761	6,160	6,160

18 Borrowings – Group and College

Bank loans and overdrafts	2015 £'000	2014 £'000
Bank loans and overdrafts are repayable as follows:		
In one year or less	399	391
Between one and two years	407	398
Between two and five years	1,279	1,251
In five years or more	4,075	4,511
Total	6,160	6,551

Bank loans with three providers are repayable by monthly or quarterly instalments until 2024, 2025 and 2037. Interest on two facilities are payable at negotiated margins (between 0.62% and 1.25%) above base or LIBOR, over the life of the currently variable rate loans. A further third loan has fixed interest rates of 6.48%.

Loan liabilities are secured on parts of the freehold land and buildings of the College.

19 Provisions for liabilities and charges – Group and College

	Restructuring £'000	Other £'000	Total £'000
At 1 August 2014	49	74	123
Expenditure in the period	(49)	(74)	(123)
Transferred from income and expenditure account	0	40	40
At 31 July 2015	0	40	40

A provision has been added in 2014/15 for dilapidation charges on properties leased by the college where a decision has been made to vacate the property.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

20 Deferred capital grants – Group and College

	Funding bodies £'000	Other £'000	Total £'000
At 1 August 2014	7,152	1,962	9,114
Cash received	1,889	87	1,976
Released to income and expenditure account	(568)	(107)	(675)
	<hr/>	<hr/>	<hr/>
At 31 July 2015	8,473	1,942	10,415

21 Endowments

The College held no endowments during the year.

22 Movement on revaluation reserve – Group and College

	2015 £'000	2014 £'000
At 1 August	9,087	10,588
Transfer from revaluation reserve to general reserve in respect of:		
Depreciation on inherited assets	(188)	(217)
Eliminated in respect of disposals	-	(1,284)
	<hr/>	<hr/>
At 31 July	8,899	9,087

23 Movement on general reserves – Group and College

	2015 £'000	2014 £'000
Income and expenditure account reserve at 1 August	12,341	12,699
(Deficit) / surplus for the year	(877)	26
Transfer from revaluation reserve	188	1,501
Actuarial loss in respect of pension scheme	(3,837)	(1,885)
	<hr/>	<hr/>
At 31 July	7,815	12,341
	<hr/>	<hr/>
Balance represented by;		
Pension reserve	(21,028)	(17,205)
Income and expenditure account reserve excluding pension reserve	28,843	29,546
	<hr/>	<hr/>
At 31 July	7,815	12,341

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

24 Reconciliation of consolidated operating deficit to net cash inflows from operating activities

	2015 £'000	2014 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax	(877)	26
Depreciation (notes 1 & 12)	2,965	2,984
Deferred capital grants released to income (note 20)	(675)	(844)
Loss on disposal of tangible fixed assets	-	43
Interest receivable (note 5)	(75)	(174)
Interest payable (note 9)	192	218
FRS 17 pension costs less contributions payable (notes 6 & 32)	(38)	142
FRS 17 pension finance costs (notes 9 & 32)	24	33
Decrease/(increase) in stocks	11	(2)
Decrease/(increase) in debtors	3,479	(3,097)
(Decrease)/increase in creditors	(1,474)	2,492
Decrease in provisions	(83)	(420)
Net cash inflow from operating activities	3,449	1,401

25 Returns on investments and servicing of finance

	2015 £'000	2014 £'000
Other interest received (note 5)	75	174
Interest paid (note 9)	(192)	(218)
Net cash outflow from returns on investments and servicing of finance	(117)	(44)

26 Capital expenditure and financial investment

	2015 £'000	2014 £'000
Purchase of tangible fixed assets (note 12)	(1,792)	(4,864)
Deferred capital grants received (note 20)	1,976	(8)
Sales of tangible fixed assets	-	2,451
Net cash inflow/(outflow) from capital expenditure and financial investment	184	(2,421)

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

27 Management of liquid resources

	2015 £'000	2014 £'000
Withdrawals from deposits	0	933
Placing of deposits	(1,611)	0
Net cash (outflow) / inflow from management of liquid resources	(1,611)	933

28 Financing

	2015 £'000	2014 £'000
Debt due beyond a year: Repayment of amounts borrowed	(391)	(718)
Net cash outflow from financing	(391)	(718)

29 Analysis of changes in net funds

	At 1 August £'000	Cash £'000	Other £'000	At 31 July £'000
Cash in hand, and at bank	7,713	1,514	-	9,227
	7,713	1,514	-	9,227
Debt due within one year	(391)	391	(399)	(399)
Debt due after one year	(6,160)	-	399	(5,761)
Current asset investments	4,301	1,611	-	5,912
Total	5,463	3,516	-	8,979

30 Cash flow relating to exceptional items

There was no cash flow relating to exceptional items during 2014/15 or 2013/14.

31 Major non-cash transactions

There were no major non-cash transactions during 2014/15 or 2013/14.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

32 Pension and similar obligations

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

Total pension cost for the year

	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
Contributions to TPS	1,068	1,182
Contributions to LGPS	1,470	1,450
FRS17 Charge	(38)	142
Total pension cost for year	2,500	2,774

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

Contributions amounting to £303,365 (2013/14 £318,575) were payable to the schemes at the end of the financial year, and are included within creditors.

Teachers' Pension Scheme

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

32 Pension and similar obligations (continued)**The Teachers' Pension Budgeting and Valuation Account**

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

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

Valuation of the Teachers' Pension Scheme

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

- employer contribution rates were set at 16.48% of pensionable pay (including a 0.08% levy for administration);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay will be applied to future valuations.

The new employer contribution rate for the TPS has been implemented in September 2015.

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

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

Scheme Changes

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

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

32 Pension and similar obligations (continued)

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

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

The pension costs paid to TPS in the year amounted to £1,068,000 (2013/14: £1,182,000).

FRS17

Under the definitions set out in Financial Reporting Standard (FRS17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying (notional) assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the Scheme as if it were a defined contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Worcestershire County Council. The total contribution made for the year ended 31 July 2015 was £1,920,000 of which employers' contributions totalled £846,000; employees' contributions totalled £450,000 and lump sum deficit payments of £624,000.

The agreed contribution rate for the coming year is 12.0% to 31 March 2016 for employers; rates will increase to 13.4% in 2019/20. Employee contribution rates fall in the range 5.5% to 12.5% depending on full time equivalent salary.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

32 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

FRS17 Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2015 by a qualified independent actuary.

	At 31 July 2015	At 31 July 2014
Inflation assumption (CPI)	2.20%	2.30%
Rate of increase in salaries	3.70%	3.80%
Rate of increase for pensions in payment / inflation	2.20%	2.30%
Discount rate for scheme liabilities	3.80%	4.30%
Commutation of pensions to lump sums	50%	50%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement age 65 are:

Retiring today/current pensioners

	At 31 July 2015	At 31 July 2014
Males	23.4 years	23.3 years
Females	25.8 years	25.7 years

Retiring in 20 years/future pensioners

	At 31 July 2015	At 31 July 2014
Males	25.6 years	25.5 years
Females	28.1 years	28.0 years

The College's share of the assets and liabilities in the scheme and the expected rates of return were:

	Long-term rate of return expected at start of period 1 Aug 2014	Value at 31 July 2015	Long-term rate of return expected at start of period 1 Aug 2013	Value at 31 July 2014
		£'000		£'000
Equities	7.00%	33,407	7.00%	31,450
Government bonds	3.20%	37	3.30%	0
Other bonds	4.10%	2,282	4.30%	2,244
Cash	0.50%	374	0.50%	306
Other	7.00%	1,309	7.00%	0
Total Market Value of assets		37,409		34,000
 Present value of scheme liabilities		 (58,437)		 (51,205)
 Deficit in the scheme		 (21,028)		 (17,205)

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

32 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

	Year Ended 31 July 2015	Year Ended 31 July 2014
	£'000	£'000
Analysis of the amount charged to income and expenditure account		
Employer service cost (net of employee contributions)	1,419	1,482
Curtailments and settlements	72	54
Total operating charge	1,491	1,536
 Analysis of pension finance income / (costs)		
Expected return on pension scheme assets	2,183	2,142
Interest on pension liabilities	(2,207)	(2,175)
Pension finance	(24)	(33)
 Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actuarial gain / (losses) on pension scheme assets	825	(1,789)
Actuarial losses on scheme liabilities	(4,662)	(96)
Actuarial gain / (loss) recognised in STRGL	(3,837)	(1,885)
 Movement in deficit during year		
Deficit in scheme at 1 August	(17,205)	(15,145)
Movement in year:		
Employer service charge (net of employee contributions)	(1,491)	(1,536)
Employer contributions	1,529	1,394
Net interest / return on assets	(24)	(33)
Actuarial loss	(3,837)	(1,885)
Deficit in scheme at 31 July	(21,028)	(17,205)

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

32 Pension and similar obligations (continued)

Local Government Pension Scheme (continued)

Asset and Liability Reconciliation	Year Ended 31 July 2015	Year Ended 31 July 2014
	£'000	£'000
Reconciliation of Liabilities;		
Liabilities at start of period	51,205	47,831
Current service costs	1,419	1,482
Interest costs	2,207	2,175
Employee contributions	473	473
Actuarial loss	4,662	96
Benefits paid	(1,601)	(906)
Curtailments and settlements	72	54
Liabilities at end of period	58,437	51,205
Reconciliation of Assets;		
Assets at start of period	34,000	32,686
Expected return on assets	2,183	2,142
Actuarial gain / (loss)	825	(1,789)
Employer contributions	1,529	1,394
Employee contributions	473	473
Benefits paid	(1,601)	(906)
Assets at end of period	37,409	34,000

The estimated value of employer contributions for the year ended 31 July 2016 is £1,526,000.

History of experience gains and losses;	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Actuarial gain / (loss) on assets	825	(1,789)	4,331	(2,454)
Experience gain / (loss) on scheme liabilities	-	1,309	-	-
Total amount recognised in STRGL	(3,837)	(1,885)	3,428	(1,168)

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

33 Post balance sheet date events

There were no post balance sheet events

34 Capital commitments

	Group and College	
	2015	2014
	£'000	£'000
Commitments contracted for at 31 July	206	569

35 Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as follows:

	Group and College	
	2015	2014
	£'000	£'000
Land and buildings		
Expiring within one year	127	139
Expiring between two and five years inclusive	24	36
Total	151	175
Other		
Expiring within one year	-	50
Expiring between one and two years inclusive	81	95
Total	81	145

36 Contingent liability

There are no contingent liabilities.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2015

37 Related party transactions

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

The total expenses paid to Governors during the year were £2,451; (2013/14: £2,750). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and training events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2013/14: None).

There were no related party transactions during 2014/15.

38 Amounts disbursed as agent

Learner support funds

	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
Funding body grants – hardship support	1,012	745
Funding body grants – childcare	-	190
24+ Advanced learning loan bursaries	216	49
Other funding bodies grants (HEFCE)	-	44
Interest earned	-	-
	1,228	1,028
Awards to students	(963)	(892)
Staffing	(56)	(28)
Administration costs	-	(20)
Amount carried forward in line with HEFCE terms and conditions	-	(4)
	209	84
Balance unspent at 31 July included in creditors	209	84

Funding body grants are available solely for students. The College acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.