

REPORT AND FINANCIAL STATEMENTS

For the year ended 31st July 2016



REAL COURSES
REAL SKILLS
REAL JOBS
REAL FUTURES



HEART OF
WORCESTERSHIRE
COLLEGE

Heart of Worcestershire College

KEY MANAGEMENT PERSONNEL, BOARD OF GOVERNORS AND PROFESSIONAL ADVISERS

Key management personnel

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

Stuart Laverick	Principal and CEO; Accounting officer
Kelvin Nash	Vice Principal – Curriculum and Quality
Nicki Williams	Vice Principal – Corporate and Resources

Board of Governors

A full list of Governors is given on page 15-16 of these financial statements.

Mrs J E Morris acted as Clerk to the Corporation throughout the period.

Professional advisors

Financial statement auditors and reporting accountants

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
3rd Floor 1 Cornwall Street
Birmingham
B3 2DX

Solicitors

Harrison Clark Rickerbys Limited
5 Deansway
Worcester
WR1 2JG

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STRATEGIC REPORT

NATURE, OBJECTIVES AND STRATEGIES:

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

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting 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.

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.

Public Benefit

Heart of Worcestershire College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE 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.
- 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 2015/16 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, excluding the significant increase in defined pension obligation, 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;

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- operating at least a break even operating position (pre restructuring and FRS102 28 Pension adjustments);
- maintaining the gearing ratio below 20%;
- achieve a positive net operating cash inflow;
- continuing to meet and surpass all the required Bank Covenants whilst giving due consideration to all Treasury Policies;
- maintain unrestricted reserves above £6,000,000 to meet our obligations should there be an unexpected revenue shortfall, and to allow us the flexibility to plan and fund major projects which develop and maintain our curriculum offer, buildings and facilities; and
- ensuring debt servicing charges are less than 7% of income required by our funders and keeping net assets above £10m.

Performance Indicators

The College uses a number of non-financial KPI's to monitor its performance such as Retention, attendance and success rates, in addition to Financial KPI's around Financial Health, delivery against funding targets, cashflow, bank covenants and financial performance against budgets. KPI's are reported to each Corporation meeting.

The College is required to complete the annual Finance Record for the Skills Funding Agency. The College is assessed by the Skills Funding Agency as having a "Satisfactory" financial health grading which is a decline from the previous grading of "Good". The main reason for this decline is the inclusion of debt balances, following the breach of bank covenants, within Creditors – amounts falling due within one year.

FINANCIAL POSITION

Financial Position

The College generated a deficit before other gains and losses in the year of £1,569,000 (2014/15 – £1,101,000), with total comprehensive income of (£7,658,000), (2014/15 - (£4,081,000)). The total comprehensive income in 2015/16 is stated after accounting for restructuring costs and significant pension costs in relation to the Defined benefit obligation, excluding these charges underlying operating surplus was £133,000 (2014/15 - £794,000).

The College has accumulated reserves of £9,163,000, including the £28,144,000 pension liability and £37,327,000 before this liability; and cash and short term investment balances of £13,590,000.

Tangible fixed asset additions during the year amounted to £1,359,000. This was split between land and buildings of £587,000 and equipment purchased of £772,000. The College has continued to invest resources to improve its accommodation and equipment which impact positively upon the learner experience.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 79% of the College total income.

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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 and liquidity

Net cash inflow from operating cash activities was £313,000, this was after a significant reduction in creditors due within one year from 2014/15 balances.

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.

Reserves Policy

The College has reviewed its reserves policy and explicitly included an objective surrounding unrestricted reserves as to; "maintain unrestricted reserves above £6,000,000 to meet our obligations should there be an unexpected revenue shortfall, and to allow us the flexibility to plan and fund major projects which develop and maintain our curriculum offer, buildings and facilities".

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student Numbers

The College is funded on an agreed level of activity each year. In 2015/16 the College delivered activity that generated £26,960,000 in funding body main allocation funding.

Student Achievements

Heart of Worcestershire College, maintained the levels of achievement achieved in its first year, whilst continuing to re-focus its curriculum and operations in the second year of the merger. Retention rates exceeded targets for all types of learners, apprenticeships achievement rates have increased on those in 2014/15 and by improved timeframes, grade profiles for higher education learners have also improved.

Overall achievement rates for core aims are at 84%, which is a slight decrease on the previous year, but remains inline with the national averages. 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. Achievement rates for courses that are accredited at Diplomas, Awards or Certificates level are above national averages. The achievement rate for learners undertaking Access to Higher Education provision are at outstanding levels.

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Learner and employer feedback shows very high levels of satisfaction, both in learner forums and through internal and externally validated surveys. This is particularly evident in the percentage who would recommend the college to their peers, other employers, etc. Levels of progression to employment, further and higher education and training are very high, which is a key strength of the college. 97% of those learners that left in 2014/15 were in sustained positive destination one year on.

In 2015/2016, the College achieved other remarkable successes including:

- celebration of the 200th Princes Trust team;
- Sam Woodward was nominated for a hospitality award by his manager, during his week of work experience at Cheltenham Festival;
- The College hosted the World Skills regional competition for Hair and Beauty in July with Amanda Seckham, a Level 3 Diploma in Make-up Artistry student, taking second place in the 'Media Make-up Body' category; and
- The ILT department won the Highly Commended Award at this year's Association of Learning Technologists 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 2015/16 was planned, delivered and managed through five Directorates namely:

- Technology Business and skills;
- Sports, Arts and Services;
- Inclusive Learning;
- Higher Education and Professional Studies;
- Employer and External Relations

Each Directorate had curriculum responsibility for specific sector subject areas, where between them they offer 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.

The curriculum continues to be refreshed to reflect governmental changes, local and regional priorities as well as current practices in the employment market. Throughout 2015/16 the College worked closely with Chamber of Commerce, the councils at borough and county level, 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 employer and external relationships area and the Solutions team continue to develop and expand our work-based learning offer and the range of apprenticeship frameworks has increased to reflect this priority. Working with the Worcestershire LEP an apprenticeship training agency has been approved which will help support apprenticeship growth across Worcestershire and will commence in the academic year 2016/17.

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Other planned developments include a programme of capital works which will see our engineering and our special educational needs be improved in terms of both resource and estate. Additional work will be carried into 2016/17 based on realigning and embedding the apprenticeship provision further into curriculum directorates and core delivery as we come to terms with the impact of the apprenticeship levy and the effects that is likely to have.

The increased focus on the ability of students to study English and maths continues to be a governmental and College priority and in 2015/16 continued study of English and maths towards the attainment of a GCSE level became mandatory for all young people in post-compulsory education; this increased our numbers studying GCSE curriculum from 770 learners in 2014/15 to 2042 learners in 2015/16. 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 continues to be pivotal in putting together a programme of study that meets all funding demands whilst simultaneously meeting all external and internal stakeholder needs. English and maths in respect of Functional Skills and GCSE was managed by the Assistant Principal Standards, HE and Professional.

OFSTED awarded the College a 'requires improvement' grade in March of 2016; the College have taken on board the outcomes of the inspection and are now working to address areas for development in order to move the organisation towards becoming good or better. To achieve this ambition the College continues to work on raising standards of teaching, learning and assessment, and it is working on securing the outcomes of a post inspection action plan which has been designed to set up process and policy which will be delivered in the year 2016/17 further demonstrating our improvement work.

The curriculum mix has changed since the College merged in 2014, and whilst English and maths results remain at the lower end against national achievement averages, the College has maintained a strong focus on the quality of its study programme and core curriculum which has led to the continued maintenance of good overall College results over the last three years.

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 increased level of competition between providers of HE based courses is on-going and has had some effect on the recruitment of HE and professional 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 2015/16 90% of lesson observations were graded as good or better.

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 2015 to 31 July 2016, the College paid 96.12% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There are no post balance sheet events.

Future prospects

Heart of Worcestershire College enters its third year of operations in 2016/17 following the merger of North East Worcestershire College and Worcester College of Technology from 1st August 2014.

The College firmly believes the merger of the two Colleges will further ensure and enhance the continuing provision of high quality education for learners in the County and wider area.

During 2015/16 the College participated in the Marches and Worcestershire Area Review, this has now been concluded with no formal outcomes for the College other than to explore an Apprenticeship Training Association for the area. However the College continue to work collaboratively with partners and local FE Colleges.

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 £9.2 million of net assets (including £28.1 million pension liability, £37.3 million before this liability) and debt of £5.4 million.

People

The College employs 558 staff (expressed as full time equivalents), of whom 328 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.

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 2015/16, 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 apprenticeship funding in England from May 2017 and the impact of the new apprenticeship levy;
- continued delays in releasing information regarding the digital apprenticeship scheme and its operational matters;
- 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.

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 FRS102. 2015/16 has seen a significant increase in the deficit through the actuarial valuation at 31st July 2016; the College will also receive its full triennial valuation during 2016/17. Both the deficit value and cost of maintaining funding of our LGPS will be looked at closely during the course of 2016/17

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;
- Local Enterprise Partnerships (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.

Equal opportunities

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.

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.

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- 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.
- 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 characteristic 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.

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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 13 December 2016 and signed on its behalf by:

A handwritten signature in blue ink, appearing to read 'N Bucktin', followed by a horizontal line.

N Bucktin
Chair

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. This statement covers the period from 1st August 2015 to 31st July 2016 and up to the date of approval of the annual report and financial statements.

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 2014 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

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	Date of Resignation	Status of appointment	Committee and Task & Finish (T&F) Group Membership	Attendance at Corporation Meetings 15/16
Mr D Rood (Chair of Corporation)	01/08/14	2 years	31/07/16	Non-Executive	Governance & Search Remuneration Estates T & F Group Quality T&F Group (20/10/15) Teaching, Learning & Assessment (TLA) T & F Group (May/June2016)	6/6
Mr N M Bucktin (Vice Chair of Corporation)	01/08/14	4 years		Non-Executive	Governance & Search (Chair) Remuneration Reporting T & F Group (Chair) (to 15/12/15)	5/6
Mr S Bolton	28/04/15	4 years		Non-Executive	Audit (wef 20/10/15)	5/6
Ms S Fowler	01/08/14	3 years		Non-Executive	Governance & Search Remuneration Reporting T & F Group (to 15/12/15) TLA T & F Group (May/June2016)	5/6
Mr K Gaffney	01/08/14	4 years		Non-Executive	Audit Estates T & F Group TLA T & F Group (May/June2016)	4/6
Miss L Gresty	01/08/14	4 years		Non-Executive	Audit (Chair) Reporting T & F Group (to 15/12/15)	4/6
Mrs L Hodgson	01/08/14	3 years		Non-Executive	Audit Governance & Search	4/6

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Mr D Miles	01/08/14	4 years		Non-Executive	Audit Remuneration Estates T & F Group	5/6
Mr P McCunn	01/08/14 Reappointed 26/04/16	4 years (wef 01/08/16)		Non-Executive	Governance & Search Remuneration (Chair) Reporting T & F Group (to 15/12/15)	3/6
Mr R Pearce	01/08/14	3 years		Non-Executive	Remuneration Estates T & F Group (Chair) TLA T & F Group (May/June2016) Chair	6/6
Ms K Phillips	28/04/15	4 years		Non-Executive	Quality T&F Group (20/10/15) TLA T & F Group (May/June2016)	5/6
Mr P Redfern	01/08/14	2 years	31/07/16	Non-Executive	Audit	5/6
Ms B Sheils	28/04/15	4 years	31/07/16	Non-Executive	Quality T&F Group (Chair) (20/10/15)	6/6
Mr S Laverick	01/08/14	Ex officio		Principal	Governance & Search	6/6
Mr P Heath	01/08/14	4 years		Staff	Governance & Search	5/6
Mrs D Morris	01/08/14	4 years		Staff	Audit	4/6
Ms L Tudge	15/12/15 to	1 year	31/07/16	Student Worcester/M alvern		3/5
Ms V Greenfield	01/08/16	4 years		Non-Executive		n/a
Mrs F Hellowell	01/08/16	4 years		Non-Executive		n/a
Mr G Woodman	01/08/16	4 years		Non-Executive		n/a
Mr D Rowe	01/08/16	1 year		Student Worcester/M alvern		n/a

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 two to three 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.

Heart of Worcestershire College

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

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.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Governance and Search Committee which operates in accordance with written terms of reference approved by the Corporation. It consists of up to 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.

Corporation Performance

Governance at Heart of Worcestershire College is good. Governors, Leaders and Managers have established a clear and ambitious vision, to steer the direction of the college during the second year of a merger and into the third and final year of the harmonisation of staffing structures, processes and the quality framework. Outcomes show that the college has maintained a learner-centred approach during the unification of business support and curriculum teams to improve learner experience and maintain standards, whilst improving standards for progression and achievement.

Heart of Worcestershire College

In 2015/16, the Corporation assessed their strengths as:

- Overseeing and actively monitoring the implementation and embedding of the merger across the College in terms of culture, performance and systems. (Ofsted Inspection Report 2016: “Governors played a key strategic role in the merger and formation of the new organisation”.)
- Being actively involved in determining the College’s mission, vision and values and the College’s strategic plan and aims. Governors, in hand with Senior Managers, have ensured “that the values and vision are understood and shared throughout the new organisation” (Ofsted Inspection Report 2016) and have held to these values in decision-making around the College’s curriculum offer and accommodation strategy.
- Ensuring that the focus on learner outcomes and experience has been maintained throughout the merger process and beyond. Scrutinising and monitoring the Key Performance Indicators at each meeting to ensure that the College was on course to achieve its aims.
- Seeking to ensure that the College estate and facilities are maintained and enhanced to improve the learner experience and outcomes.
- Successfully recruiting three new members in 2016 in order to address skills gaps identified through the skills audit process, particularly in teaching and learning and business.
- Taking an active role in the life of the College through the ‘Governor Insight Scheme’ which has enhanced Governors’ knowledge and understanding of the College. Members attend student celebration events, accompany observations, facilitate learner feedback events, take part in quality reviews and regularly visit departments. They bring a variety of industry and sector experience to bear in setting challenge and support for Leaders and Managers, during quality reviews, for example. (Ofsted Inspection Report 2016: “Governors demonstrate they are finding that this initiative is enhancing their ability to provide effective challenge by being well informed, accessing relevant data and asking pertinent questions about the quality of provision”.)
- Robustly monitoring the financial management and health of the College, receiving comprehensive reports which enable them to challenge College management as necessary with a view to ensuring future sustainability.
- External perception of the College’s strategic decision making is strong. The Worcestershire and the Marches Area Review found that the decision to merge had provided the shape and ensured the strength and relevance of Heart of Worcestershire College and the Worcestershire Local Enterprise Partnership has in response asked the College to create the Apprentice Training Agency.

In 2015/16, the Corporation assessed their Areas for Improvement as:

- To increase the diversity of Corporation Members.
- To further address the issues raised by the Ofsted Inspection result, including the Corporation’s awareness of student behaviours and the need to understand fully the implications of the application of the new Common Inspection Framework.

Remuneration Committee

The College's Remuneration Committee operates in accordance with written terms of reference approved by the Corporation. It comprises of up to 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 key management personnel.

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

Audit Committee

The Audit Committee comprises of up to seven 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, reporting accountants and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the 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, reporting accountants and financial statements auditors and their remuneration for both audit and non-audit work as well as reporting annually to the Corporation.

Internal Control

Scope of responsibility

The Corporation is ultimately responsible for the 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 2016 and up to the date of approval of the annual report and accounts.

Capacity to Handle Risk

The Corporation has reviewed the key risks to which the College 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 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The Risk and Control Framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the 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:

Heart of Worcestershire College

- 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, the reporting accountant for regularity assurance, the appointed funding auditors in their management letters and other reports.

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 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 2016 meeting the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the Senior Leadership Team, Audit Committee and Internal Auditors, and taking account of events since 31 July 2016.

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".

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 13 December 2016 and signed on its behalf by:-



N Bucktin
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 we have had due regard to the requirements of the Financial Memorandum.

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

We 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.

Approved by order of the members of the Corporation on 13 December 2016 and signed on its behalf by:-



N Bucktin
Chair



S M Laverick
Principal

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 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 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction 2015 to 2016 issued jointly by the Skills Funding Agency and the 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 a Strategic Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The 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 which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard 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 in order to safeguard public and other funds and to 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 13 December 2016 and signed on its behalf by:-



N Bucktin
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 2016 which comprise the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows 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), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 23, the College's Governing Body 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 College's affairs as at 31 July 2016 and of its 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 Statement of Recommended Practice – Accounting for Further and Higher Education issued in March 2014.

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

14 December 2016

Reporting accountant's assurance report on regularity

To the corporation of Heart of Worcestershire College and Secretary of State for Education acting through Skills Funding Agency and Education Funding Agency

In accordance with the terms of our engagement letter dated 6 September 2016 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 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency in June 2016. 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 as imposed by the law, 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 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

Reporting accountant's assurance report 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:

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

Conclusion

In the course of our work, nothing has come to our attention which suggests that, in all material respects, the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Grant Thornton UK LLP
Chartered Accountants
Birmingham
19 December 2016

Heart of Worcestershire College

Statements of Comprehensive Income for the year ended 31 July 2016

	Note	Year ended 31 July 2016 £'000	Restated Year ended 31 July 2015 £'000
Income			
Funding body grants	2	27,672	30,411
Tuition fees and education contracts	3	5,029	5,941
Other income	4	2,140	1,888
Investment income	5	84	75
Total income		34,925	38,315
Expenditure			
Staff costs	6	19,085	19,652
Fundamental restructuring costs	6	675	1,168
Other operating expenses	7	12,730	14,733
Depreciation	10	3,048	2,965
Interest and other finance costs	8	956	898
Total expenditure		36,494	39,416
Deficit before other gains and losses		(1,569)	(1,101)
Other exceptional item		-	116
Deficit before tax		(1,569)	(985)
Taxation		-	-
Deficit for the year		(1,569)	(985)
Actuarial loss in respect of pension schemes	22	(6,089)	(3,096)
Total Comprehensive Income for the year		(7,658)	(4,081)

Heart of Worcestershire College

Statement of Changes in Reserves for the year ended 31 July 2016

	Income and expenditure account	Revaluation reserve	Total
	£'000		£'000
College			
Restated Balance at 1st August 2014	11,815	9,087	20,902
Deficit from the income and expenditure account	(985)	-	(985)
Other comprehensive income	(3,096)	-	(3,096)
Transfers between revaluation and income and expenditure reserves	188	(188)	-
	<hr/> (3,893) <hr/>	<hr/> (188) <hr/>	<hr/> (4,081) <hr/>
Balance at 31st July 2015	7,922	8,899	16,821
Deficit from the income and expenditure account	(1,569)	-	(1,569)
Other comprehensive income	(6,089)	-	(6,089)
Transfers between revaluation and income and expenditure reserves	188	(188)	-
	<hr/> (7,470) <hr/>	<hr/> (188) <hr/>	<hr/> (7,658) <hr/>
Total comprehensive income for the year	(7,470)	(188)	(7,658)
Balance at 31st July 2016	452	8,711	9,163

Heart of Worcestershire College

Balance Sheets as at 31 July 2016

	Note	College 2016 £'000	Restated College 2015 £'000
Non current assets			
Tangible fixed assets	10	44,783	46,476
		44,783	46,476
Current assets			
Stocks		46	44
Trade and other receivables	12	1,629	1,167
Investments	13	5,932	5,912
Cash and cash equivalents	18	7,658	9,227
		15,265	16,350
Less: Creditors - amounts falling due within one year	14	(13,463)	(9,551)
Net current assets		1,802	6,799
Total assets less current liabilities		46,585	53,275
Less: Creditors - amounts falling due after more than one year	15	(9,258)	(15,386)
Provisions			
Defined benefit obligations	17	(28,144)	(21,028)
Other provisions	17	(20)	(40)
Total net assets		9,163	16,821
Unrestricted reserves			
Income and expenditure account		452	7,922
Revaluation reserve		8,711	8,899
Total unrestricted reserves		9,163	16,821

The financial statements on pages 28 to 58 were approved and authorised for issue by the Corporation on 13 December 2016 and were signed on its behalf by;



N Bucktin
Chair



S M Laverick
Principal

Heart of Worcestershire College

Statement of Cash Flows for the year ended 31 July 2016

	Note	2016 £'000	Restated 2015 £'000
Cash inflow from operating activities			
Deficit for the year		(1,569)	(985)
Adjustment for non-cash items			
Depreciation		3,048	2,965
(Increase)/Decrease in stocks		(2)	11
(Increase)/Decrease in debtors		(462)	3,479
Increase/(Decrease) in creditors due within one year		(1,450)	(1,465)
Increase/(Decrease) in creditors due after one year		(366)	1,309
Increase/(Decrease) in other provisions		(20)	(733)
Pension costs less contributions payable		1,027	727
Adjustment for investing or financing activities			
Investment income		(84)	(75)
Interest payable		188	192
Loss on sale of fixed assets		3	-
Net cash flow from operating activities		<u><u>313</u></u>	<u><u>5,425</u></u>
Cash flows from investing activities			
Investment income		84	75
New deposits		(20)	(1,611)
Payments made to acquire fixed assets		(1,359)	(1,792)
		<u><u>(1,295)</u></u>	<u><u>(3,328)</u></u>
Cash flows from financing activities			
Interest paid		(188)	(192)
Repayments of amounts borrowed		(399)	(391)
		<u><u>(587)</u></u>	<u><u>(583)</u></u>
Increase / (decrease) in cash and cash equivalents in the year		<u><u>(1,569)</u></u>	<u><u>1,514</u></u>
Cash and cash equivalents at beginning of the year	18	9,227	7,713
Cash and cash equivalents at end of the year	18	7,658	9,227

**Notes to the financial statements
for the year ended 31 July 2016**

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 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2015 to 2016 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Transition to the 2015 FE HE SORP

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 26.

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

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

- Revaluation as deemed cost – at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value

Notes to the financial statements for the year ended 31 July 2016

1 Statement of accounting policies and estimation techniques (continued)

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain no-current assets.

Basis of consolidation

The financial statements include only the results of the College. Its subsidiaries Molinna Limited and North East Worcestershire College Limited ('NEWCEL') did not trade during the periods ending 31 July 2016 and 31 July 2015. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2016.

Going concern

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

The College currently has £5.7m of loans outstanding with three providers; liabilities are secured on parts of the freehold land and buildings of the College. At year end the College has breached its covenants with these providers largely due to the introduction of FRS102 and the significant increase in the defined benefit pension liability at 31st July 2016. In the event that total amounts owing to lenders become repayable instantly the College has sufficient cash balances to meet this liability.

The College's forecasts and financial projections indicate that, unless there is a significant reduction in the defined pension liability, covenants will continue to be breached. However the College will review these facilities with providers and options available to ensure breaches are not continued.

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.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

1 Statement of accounting policies and estimation techniques (continued)

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

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

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

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

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

Accounting for post-employment benefits

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

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

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

Notes to the financial statements for the year ended 31 July 2016

1 Statement of accounting policies and estimation techniques (continued)

Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. From the academic year 2014/15 the College operated an annual leave year in line with the financial year end, employees are unable to carry forward and unused leave and as such we have no ongoing accruals for any unused benefits.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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 within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year. Where a grant relates to leased premises the depreciation and grant are charged over the period to the first lease break clause.

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.

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, of which one property was revalued in 1998, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Notes to the financial statements for the year ended 31 July 2016

1 Statement of accounting policies and estimation techniques (continued)

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.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to the income and expenditure account in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,500 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

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

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.

Borrowing costs

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

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

1 Statement of accounting policies and estimation techniques (continued)

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding

Inventories

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Financial liabilities and equity

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

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

1 Statement of accounting policies and estimation techniques (continued)

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 sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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.

Provisions and contingent liabilities

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

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

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

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

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 where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. The College does normally retain 5% of the grant received to cover administration costs relating to disbursement of the funds.

**Notes to the financial statements
for the year ended 31 July 2016**

1 Statement of accounting policies and estimation techniques (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- Local Government Pension Scheme - The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

2 Funding body grants

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Recurrent grants		
Skills Funding Agency	4,604	5,233
Education Funding Agency	15,558	17,121
Higher Education Funding Council	1,304	1,331
Skills Funding Agency – Consortium partners*	4,491	4,875
Skills Funding Agency – College share of consortium* partners	817	673
Specific grants		
Skills Funding Agency	160	413
Education Funding Agency	26	25
Releases of government capital grants	712	658
ESF Co-financing	-	30
HE grant	-	52
	27,672	30,411

* 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.

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Skills Funding Agency Adult Skills Budget	5,308	5,548
Payments to non College partners	(4,491)	(4,875)
Net Income	817	673

3 Tuition fees and education contracts

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Adult education fees	970	1,037
Apprenticeship fees and contracts	103	120
Fees for FE loan supported courses	370	667
Fees for HE loan supported courses	2,711	3,065
Total tuition fees	4,154	4,889
Education Contracts	875	1,052
Total	5,029	5,941

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

4 Other income

	Year ended 2016 £'000	Year ended 31 July 2015 £'000
Catering and residences	143	152
Other income generating activities	1,461	959
Other grant income	536	777
Total	2,140	1,888

5 Investment income

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Other interest receivable	84	75
Total	84	75

6 Staff numbers and costs

The average weekly number of persons (including key management personnel) employed by the College during the year, described as full-time equivalents, was:

	2016	2015
Teaching staff	328	377
Non-teaching staff	230	243
	558	620

Staff costs for the above persons

	2016 £'000	2015 £'000
Wages and salaries	14,869	15,494
Social security costs	1,091	1,035
Other pension costs (<i>including FRS102 28 pension adjustment of £259,000 and 2014/15: £21,000</i>)	2,794	2,508
Payroll sub total	18,754	19,037
Contracted out staffing services	331	615
	19,085	19,652
Fundamental restructuring costs – Contractual	675	1,168
Total Staff costs	19,760	20,820

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

6 Staff numbers and costs (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal, Vice Principal Corporate and Resources and Vice Principal Curriculum and Quality.

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

	2016	2015
The number of key management personnel including the Accounting Officer was:	3	3

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

	Key management personnel		Other Staff	
	2016	2015	2016	2015
£60,001 to £70,000	0	0	2	0
£80,001 to £90,000	2	2	0	0
£140,001 to £150,000	1	1	0	0
	<u>3</u>	<u>3</u>	<u>2</u>	<u>0</u>

Key management personnel compensation is made up as follows:

	2016 £'000	2015 £'000
Salaries	315	297
Employers National Insurance	38	24
Benefits in kind	4	3
	<u>357</u>	<u>324</u>
Pension contributions	48	43
Total key management personnel compensation	<u>405</u>	<u>367</u>

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

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

6 Staff numbers and costs (continued)

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2016 £'000	2015 £'000
Salaries	145	147
Benefits in kind	2	1
	147	148
Pension contributions	24	21

No compensation for loss of office has been paid to former key management personnel during the reporting periods.

The members of the Corporation, other than the Accounting Officer 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.

7 Other operating expenses

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Teaching costs	2,017	3,443
Non teaching costs	8,192	8,300
Premises costs	2,521	2,990
Pension contributions	12,730	14,733
Other operating expenses include:	2016 £'000	2015 £'000
Auditors remuneration:		
- financial statements audit	32	30
- internal audit	37	31
Loss on disposal of tangible fixed assets	3	0
Hire of plant and machinery - operating leases	89	253

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

8 Interest payable

	2016 £'000	2015 £'000
On bank loans	188	192
	188	192
Pension finance costs (note 22)	768	706
	956	898

9 Taxation

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

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

10 Tangible fixed assets

	Land and Freehold Buildings £'000	Equipment £'000	Total £'000
Cost or valuation			
At 1 August 2015	68,635	10,149	78,784
Additions	587	772	1,359
Disposals	(21)	(1,461)	(1,482)
At 31 July 2016	69,201	9,460	78,661
Depreciation			
At 1 August 2015	23,127	9,181	32,308
Charge for the year	2,333	715	3,048
Eliminated in respect of disposals	(21)	(1,457)	(1,478)
At 31 July 2016	25,439	8,439	33,878
Net book value at 31 July 2016	43,762	1,021	44,783
Net book value at 31 July 2015	45,508	968	46,476

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 £15,277K and Equipment with a net book value of £264K 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.

11 Investments in subsidiary

	2016 £'s	2015 £'s
Investment in subsidiary companies	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.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

12 Debtors

Amounts falling due within one year:	2016 £'000	2015 £'000
Trade receivables	663	828
Prepayments and accrued income	966	339
Total	1,629	1,167

13 Current investments

	2016 £'000	2015 £'000
Short term deposits	5,932	5,912
Total	5,932	5,912

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

14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans	5,761	399
Payments received on account	909	752
Trade payables	396	810
Other taxation and social security	719	779
Accruals and accrued income	2,615	3,215
Deferred income – government capital grants	687	683
Amounts owed to the Skills Funding Agency	2,376	2,913
Total	13,463	9,551

15 Creditors: amounts falling due after one year

	2016 £'000	2015 £'000
Bank loans	0	5,761
Deferred income – government capital grants	9,258	9,625
Total	9,258	15,386

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

16 Maturity of debt

Bank loans are repayable as follows:

	2016 £'000	2015 £'000
In one year or less	407	399
Between one and two years	417	407
Between two and five years	1,310	1,279
In five years or more	3,627	4,075
Total	5,761	6,160

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.

At year end the College has breached bank covenants largely due to the introduction of FRS102 and the significant increase in the defined benefit pension liability at 31st July 2016. The outstanding balances have not been demanded as repayable instantly by providers, however as the breach was at year end the balances have been reflected in Creditors: amounts falling due within one year.

17 Provisions

	Defined benefit obligations £'000	Other £'000	Total £'000
At 1 August 2015	21,028	40	21,068
Expenditure in the period	1,653	(40)	1,613
Additions in period	5,463	20	5,483
At 31 July 2016	28,144	20	28,164

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 22.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

18 Cash and cash equivalents

	At 1 August 2015	Cash flows	At 31 July 2016
	£'000	£'000	£'000
Cash and cash equivalents	9,227	(1,569)	7,658
Total	9,227	(1,569)	7,658

19 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted for at 31 July	106	206
Total	106	206

20 Lease obligations

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

	2016 £'000	2015 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	115	151
Later than one year and not later than five years	24	24
	139	175
Other		
Later than one year and not later than five years	88	81
	88	81

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

21 Contingent liabilities

The College received notification in November 2016, from the Skills Funding Agency, advising of irregularities in relation to a previous subcontractor. The College is required, along with other Colleges who have worked with this provider, to obtain a report by an independent accountant providing assurance on the subcontracting delivery between 2012/13 and 2013/14. The Skills Funding Agency will look to recover funds from the College if irregularities are established; in this event the College would then seek redress from the subcontractor. During 2012/13 and 2013/14 a total of £1,121,000 was paid to this subcontractor. The report will be available during 2017 and in view of the uncertainty no financial provision has been made within these accounts. It is not considered practical to estimate the potential liability.

22 Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans:

- the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff;
- the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Worcestershire County Council.

Both are defined benefit schemes.

Total pension cost for the year

	2016 £'000	2015 £'000
Teachers' Pension Scheme: contributions paid	903	1,068
Local Government Pension Scheme:		
Contributions paid	1,631	1,470
FRS 102 (28) charge	259	21
Charge to the Statement of Comprehensive Income	1,890	1,491
Enhanced pension charge to Statement of Comprehensive Income	-	-
Total Pension Cost for Year within staff costs	2,793	2,559

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 £302,433 (2014/15 £303,365) were payable to the schemes at the end of the financial year, and are included within creditors.

22 Defined benefit obligations (continued)

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Valuation of the Teachers' Pension Scheme

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

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

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

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>

22 Defined benefit obligations (continued)

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £903,000 (2014/15: £1,068,000).

FRS 102 (28)

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

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

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 contributions made for the year ended 31 July 2016 was £2,136,000 of which employers' contributions totalled £981,000; employees' contributions totalled £505,000 and lump sum deficit payments of £650,000.

The agreed contribution rate for the coming year is 12.4% to 31 March 2017 for employers. 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 2016

22 Defined benefit obligations (continued)

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 2016	At 31 July 2015
CPI inflation / CARE benefits revaluation	1.70%	2.20%
Rate of increase in salaries	2.50%	3.70%
Rate of increase for pensions in payment / deferment	1.80%	2.20%
Discount rate for scheme liabilities	2.50%	3.80%
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:

	At 31 July 2016	At 31 July 2015
<i>Retiring today/current pensioners</i>		
Males	23.5 years	23.4 years
Females	25.9 years	25.8 years
<i>Retiring in 20 years/future pensioners</i>		
Males	25.8 years	25.6 years
Females	28.2 years	28.1 years

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

	Fair Value at 31 July 2016	Fair Value at 31 July 2015
	£'000	£'000
Equities	35,145	33,407
Government bonds	-	37
Other bonds	2,655	2,282
Property	1,896	-
Cash	969	374
Other	1,475	1,309
Total fair value of plan assets	42,140	37,409
Actual return on plan assets	4,307	3,036

**Notes to the financial statements
for the year ended 31 July 2016**

22 Defined benefit obligations (continued)

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

	2016	2015
	£'000	£'000
Fair value of plan assets	42,140	37,409
Present value of plan liabilities	(70,284)	(58,437)
Net pensions liabilities (Note 17)	(28,144)	(21,028)

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

	2016	2015
	£'000	£'000
Amounts included in staff costs		
Current service cost	1,850	1,449
Curtailments and settlements	30	72
Administration expenses	32	29
Total	1,912	1,550

Amounts included in interest payable

Net interest expenditure	768	706
Total	768	706

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	2,877	1,566
Changes in assumptions underlying the present value of plan liabilities	(8,966)	(4,662)
Amount recognised in Other Comprehensive Income	(6,089)	(3,096)

Movement in net defined benefit liability during year

	2016	2015
	£'000	£'000
Net defined benefit liability in scheme at 1 August	(21,028)	(17,205)
Movement in year:		
Current service cost	(1,850)	(1,449)
Employer contributions	1,653	1,529
Curtailments and settlements	(30)	(72)
Administration expenses	(32)	(29)
Net Interest on the defined liability	(768)	(706)
Actuarial loss	(6,089)	(3,096)
Net defined liability at 31 July	(28,144)	(21,028)

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

22 Defined benefit obligations (continued)

Asset and Liability Reconciliation

	2016	2015
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	58,437	51,205
Current service costs	1,850	1,449
Interest costs	2,198	2,177
Contributions by Scheme participants	524	473
Changes in financial assumptions	8,966	4,662
Estimated benefits paid	(1,721)	(1,601)
Curtailements and settlements	30	72
Defined benefit obligations at end of period	70,284	58,437

Changes in fair value of plan assets

Fair value of plan assets at start of period	37,409	34,000
Interest on plan assets	1,430	1,471
Return on plan assets	2,877	1,566
Employer contributions	1,653	1,529
Administration expenses	(32)	(29)
Contributions by scheme participants	524	473
Estimated benefits paid	(1,721)	(1,601)
Fair value of plan assets at end of period	42,140	37,409

Notes to the financial statements for the year ended 31 July 2016

23 Events after the reporting period

The College has received a “letter of comfort” from Santander in relation to the breach in bank covenants at 31 July 2016, the balance owing has not been demanded as repayable but the College will review the financial covenants with the lender.

The College has informed Barclays of the breach in bank covenants at 31 July 2016. The balance owing has not been demanded as repayable by Barclays; however the College continues to work with the bank to review the options available, being restructuring of the loan or repayment during 2016/17.

Natwest have written to the College confirming the breach position, waiving their right to call for repayment in this instance.

24 Related party transactions

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

The total expenses paid to, or on behalf of the, Governors during the year was £2,535 (2014/15: £2,451). 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 (2014/15: None).

Aspire Academy – an organisation in which Cherie Clements, Director of Finance, is a Governor.

£15,365 owed to the College for courses provided to 14-16 year olds.

Artrix Theatre – an organisation in which Donna Farrugia, Director of Human Resources, is a trustee.

£60,000 paid by the College to the use of the theatre including performances and acting classes.

Worcester Business Improvement District – an organisation in which Nicki Williams, Vice Principal Corporate and Resources, is a Director.

£4,305 paid by the College in respect of membership fees.

National Association for Managers of Student Services – an association in which Julia Breakwell, Assistant Principal – Information Systems and Student Experience, is an Executive Member.

£600 paid by the College in respect of membership and conference fees.

The College has members of the Corporation who are also Councillors within Worcestershire County Council and Worcester City Council.

Heart of Worcestershire College

Notes to the financial statements for the year ended 31 July 2016

24 Related party transactions (continued)

Worcestershire County Council

£112,378 paid by the College in respect of services during the year.

£570,542 received by the College in respect of funding and services provided to the Council

Worcester City Council

£124,405 paid by the College in respect of services during the year.

£6,356 received by the College in respect of services provided to the council

25 Amounts disbursed as agent

Learner support funds

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Funding body grants – bursary support	1,018	1,228
	1,018	1,228
Disbursed to students	(920)	(963)
Administration costs	(49)	(56)
	49	84
Balance unspent at 31 July included in creditors	49	84

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

Notes to the financial statements
for the year ended 31 July 2016

26 Transition to FRS102 and the 2015 FE HE SORP

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

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

		1 st August 2014 £'000	31 st July 2015 £'000
Financial Position	Note		
Total reserves under previous SORP		21,428	16,714
Employee leave accrual	(a)	(650)	-
Release of non-government capital grants	(b)	124	107
Total effect of transition to FRS 102 and 2015 FE HE SORP		(526)	(107)
Total reserves under 2015 FE HE SORP		20,902	16,821
		Year ended 31st July 2015 £'000	
Financial performance			
Surplus for the year after tax under previous SORP		(877)	
Reversal of capital grants amortisation	(b)	(17)	
Pensions provision – actuarial loss	(d)	(3,096)	
Release of employee leave accrual	(a)	650	
Changes to measurement of net finance cost on defined benefit plans	(c)	(741)	
Total effect of transition to FRS102 and 2015 FE HE SORP		(3,204)	
Total comprehensive income for the year under 2015 FE HE SORP		(4,081)	

Notes to the financial statements for the year ended 31 July 2016

25 Transition to FRS102 and the 2015 FE HE SORP (continued)

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense.

During 2013/14 academic year the College had several annual leave years in operation for various classifications of staff, these resulted in unused leave for staff totalling £650,000 as at 31 July 2014. However during 2014/15 the College harmonised annual leave years to a year end date of 31 July with staff unable to carry forward unused leave. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £650,000 was recognised within the restated figures at 1 August 2014 and at 31 July there was no ongoing unused leave and this accrual was released through the Comprehensive Income in the year ended 31 July 2015.

There is no unused annual leave as at 31 July 2016.

b) Non-government grants accounted for under performance model

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

c) Change in recognition of defined benefit plan finance costs

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

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

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