

Report and Financial Statements

For the year ended 31st July 2020



HEART OF
WORCESTERSHIRE
COLLEGE

Key management personnel

Key management personnel are defined as members of the College Executive Team and were represented by the following in 2019/20:

Stuart Laverick	Principal and CEO; Accounting officer
Nicki Williams	Vice Principal and Deputy Chief Executive Officer

Board of Governors

A full list of Governors is given on page 20-21 of these financial statements.

Mrs S Frost and Mrs K Kavanagh acted as Clerks to the Corporation during the period.

Professional advisors

Financial statement auditors and reporting accountants

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Internal auditor

RSM Risk Assurance Services LLP
Cedar House
Woodlands Business Park
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Linford Wood
Milton Keynes
MK14 6EX

Bankers

Barclays Bank PLC
15 Colmore Row
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Birmingham
B3 3MN

Santander Corporate Banking
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Solicitors

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Worcester
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CONTENTS

	Page number
Strategic Report	3
Statement of Corporate Governance and Internal Control	20
Statement of Regularity, Propriety and Compliance	27
Statement of the Responsibilities of the Members of the Corporation	28
Independent Auditor's Report to the Corporation of Heart of Worcestershire College	29
Reporting Accountant's Report on Regularity	32
Statement of Comprehensive Income	34
Statement of Changes in Reserves	35
Balance sheet as at 31 July	36
Statement of Cash Flows	37
Notes to the Financial Statements	38-63

STRATEGIC REPORT

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2020.

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 continue within the merged College.

Mission

Governors reviewed the College's mission during 2016/17, the College mission remains as follows:

To Inspire, Innovate, Advance

Covid-19

The College, along with the rest of the UK, went into lockdown in late March 2020. The main strategy and priority during this time was to maintain delivery to learners remotely, support any vulnerable learners, whilst ensuring key business functions remained operational to support learners and the College infrastructure.

The College is a Microsoft Showcase College and during 2019 it commenced a College wide strategy to improve the digital skills of its staff; these skills and experience were key to adapting the workforce to work remotely and deliver remotely to its students during the lockdown period.

Regular communications to staff and students during this time was crucial and was also facilitated by use of Microsoft teams, email briefings, College Managers Team meeting and social media.

The Finance Management System and existing processes enables the Finance team, and budget holders, to work remotely but also paperless in the majority of its processes, this ensured the wider network of suppliers and other institutions continued to receive timely payments and regular communications during lockdown. Key contracts such as cleaning, intercampus bus and grounds maintenance were reviewed and where possible staff within these organisations were furloughed which resulted in reduced, but continued, payment to these organisations.

Efforts during the latter part of lockdown were concentrated on ensuring the sites were Covid Secure in anticipation of a small amount of student assessments that were allowed and required on site; these were with plumbing and electrical where Centre Assessed Grades were not appropriate to sign off the qualification.

The remainder of the 2019/20 term and into summer of 2020 has been concentrated on preparing for a full return to College in line with the Department for Education guidance, requirements for our sites and specific curriculum needs.

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 Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 20 to 21.

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

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;
- Links with employers, industry and commerce; and
- Links with Local Enterprise Partnerships (LEPs).

Inspection

The College underwent a full inspection by Ofsted in February 2018. The inspection report found the College to be "good".

Implementation of the strategic plan

The Corporation monitors the performance of the College regularly against the strategic plan. The plan is reviewed and updated each year, the current strategic plan period is 2018 to 2021. The current plan was reviewed and presented to Corporation in December 2020.

The top ten priorities for the College during the course of the strategy are:

1. Further developing the quality of our offer;
2. Growth and development of our FE and apprenticeships provision;
3. Establishing growth throughout Worcestershire through our Business Development Opportunities;
4. Growing our partnerships with employers, educational institutions, and other stakeholders;
5. Taking advantage of the growth and development of our blended learning – ILT capabilities;
6. Investigating the development of a local alternative to specialist residential provision for high needs learners to support Worcestershire County Council Post 16 Supported Living capacities available within the County;
7. Delivering on an engineering new build or refurbishment of existing Worcester engineering facilities;
8. Investigate the new external funding landscape both pre- and post Brexit, and where appropriate, help shape, and apply for alternative and newly developing funding sources and partnership opportunities; eg those offered by devolution; putting appropriate resource in place to ensure these are maximised;
9. Ensuring the smooth introduction of new Technical Levels; and

10. Reinforce and further develop transition programmes for school leavers from Pupil Referral Units/Academies and SEN schools to facilitate improved progression outcomes for those learners into the College.

The College has set strategic objectives that will be monitored over the course of the strategic plan, these objectives are specific to each key market segment of the College, being:

- 14 – 16 year olds;
- 16 – 18 year olds;
- Not in education, employment or training (NEET);
- Special educational needs (SEN);
- Adult further education and community learning;
- Higher education; and
- Business commercial and economic development, including apprenticeships full cost and services.

The College has a strategic framework which is designed to sit beneath the 2018 – 2021 College strategy to support its achievement through the delivery of measures against a set of cross College strategic themes and College enablers.

Through the cross cutting strategic themes by 2021 the College will:

Core theme one – Quality

- Further establish our reputation for a responsive and innovative curriculum that is linked to local skills priorities, in flexible delivery models by expert and professionally qualified teams.
- Build on our reputation as a high quality, learner-centred organisation that integrates teaching, learning and assessment practice, with the use of information, advice and guidance and learner support services, to deliver against our right student, right course ethos in facilitating progression to positive destinations.
- Self-assess ourselves as good, heading towards outstanding and have external validation of that assessment.
- Capitalise on the strength and quality of our Higher Education provision, as a result of above sector average student satisfaction and achievement rates that underpin our approved status by external quality assurance bodies.

Core theme two – Technology

- Lead a successful, nationally praised, Blended Learning Consortium and other partnerships, to champion and support the proliferation and improvement of e-learning across the college sector.
- Have evaluated opportunities for expansion of the Blended Learning Consortium ‘type’ provision through an international dimension.
- Capitalise upon our strengths and innovations in blended, fully online learning and virtual learning environments to create materials, training and products for commercial opportunities and in our higher education and professional prospectus.
- Build on our core competencies in IT services and ILT to adapt our business support and external engagement services to create greater efficiencies and improve the effectiveness of our operations.

Core theme three – Partnerships

- Have evaluated opportunities for partnership and collaborative working with other high-quality providers (pre-16, post-16, FE and HE) in the region and nationally and acted promptly to benefit from them in order to seek both organic and inorganic growth.
- Work collaboratively and in partnership with large, medium-sized employers and SME networks in the region to the mutual benefit of all stakeholders, by understanding and responding to their needs both in terms of training, services and other products (i.e. compliance products – e.g. online and auditable licences to practice).
- Be closely involved in the development plans of local and regional organisations, such as the Local Enterprise Partnership, schools, universities and local authorities that contribute to the development of skills in the workforce, address current and future skills shortages, ignite re-generation projects and boost productivity. Be responsive to any 'Midland Engine for Growth' schemes, initiatives and funding opportunities.
- Continue to develop long-term partnerships such as the Blended Learning Consortium and the Three Counties Consortium, that 'flex' to the needs of national and local government priorities, employers' needs and those of other stakeholders, while seeking out new opportunities where this approach would work.

Core theme four – HoW experience

- Increasingly build on our work to educate and train our learners in modern and inspiring learning environments that enhance personal development, improve technical skills and raise aspirations.
- Further develop the use of real work environments to produce motivated and ambitious learners who have developed excellent communication skills.
- Ensure that our current focus on making sure that all learners have the basic skills they require to reach their full potential is maintained.
- Continue to embed excellent opportunities for learners to develop digital literacy skills throughout the curriculum.
- Futureproof progression routes for learners by teaching them the skills needed to embrace change, develop resilience and use creativity to solve problems.
- Implement and celebrate change driven by the Learner Voice to support learner satisfaction.
- Celebrate the achievement of learners from all parts of society, as a result of our inclusive values arising from diverse curriculum that increases opportunity.
- Promote global citizenship through activities that develop British Values.
- Educate learners to keep themselves safe in all situations and to always act with respect for others.
- Ensure that learners enjoy their experience and that learner survey indicators show that students have developed in confidence.

College enabler 1 – Our people

College enabler 2 – Our resources

College enabler 3 – Our services

Financial Objectives

The overarching financial objectives for 2019/20 remain:

- 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.

During the year the College generated a small operating deficit and a saw a significant increase in defined pension obligation, which directly impacted on the following financial objectives; however principally the College has maintained a sound financial base (solvency and liquidity) moving forward:

- Maintaining cash days of 25 or more at all times; **MET**
- Maintaining a current ratio of at least 1.6; **NOT MET**
- Operating at least a break-even operating position (pre restructuring and excluding FRS102 28 Pension adjustments); **NOT MET**
- Maintaining the gearing ratio below 20%; **MET**
- Achieve a positive net operating cash inflow; **MET**
- Continuing to meet and surpass all the required Bank Covenants whilst giving due consideration to all Treasury Policies; **NOT MET**
- 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 **NOT MET**
- Ensuring debt servicing charges are less than 7% of income required by our funders and keeping net assets above £10m. **MET**

Performance Indicators

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

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The College is assessed by the ESFA as having a “Good” financial health grading which is consistent with the 2018/19 grading.

FINANCIAL POSITION

Financial Position

The College generated a deficit before other gains and losses in the year of £1,924,000 (2018/19 – £1,511,000), with total comprehensive income of (£13,684,000), (2018/19 – (£13,338,000)). The total comprehensive income in 2019/20 is stated after accounting for restructuring costs and significant pension costs in relation to the defined benefit obligation, excluding these charges the underlying operating deficit was £90,000 (2018/19 – £277,000 deficit).

The defined benefit obligation, in relation to the Local Government Pension Scheme, at 31 July 2020 increased significantly for the second year running, increasing from £28.8m to £42.3m. This is a direct result of the economic position which was significantly negatively impacted by Covid-19. As such the increase has resulted in a balance sheet with negative net assets and directly resulted in a breach on one of three loan covenants with Santander.

Santander have agreed to remove this covenant, which views “net assets including pension liabilities” in its entirety, an amendment to the loan agreement was signed off by Corporation at their meeting on December 2020. However as this has been agreed after the balance sheet date the Santander loan balances will be treated as current liabilities within the balance sheet at 31 July 2020.

The final outturn position is improved over budget and that originally projected when lockdown was announced. Adult funding projections were reduced by around £170,000 initially, however the ESFA confirmed a lower tolerance level on their AEB reconciliation, the College delivery was above this limit and therefore received and recognised 100% of the allocation. Apprenticeship income was directly impacted as the College is paid on actuals, the impact within 2019/20 is around £150,000 however with limited starts in the period March to July 2020 the impact for 2020/21 is likely to be greater.

Income from fees remained in line with projections prior to lockdown, the majority of adult and HE courses had enrolled in the autumn and were delivered online.

To ensure the College was Covid secure exceptional costs of around £270,000 were incurred up to the end of September 2020, this includes spend on consumables, equipment and IT.

The College also made use of the Coronavirus Job Retention scheme (CJRS) and furloughed a small proportion of its staff, an amount of £379,000 in respect of these claims has been recognised within the financial statements.

The College has benefited in reduced spend in facilities and overheads during the time buildings were closed or operating on minimal numbers on site.

The College has negative reserves of £7,933,000 (2018/19 - £5,751,000 positive), due to the increase in pension liability to £42,329,000 (2018/19 - £28,802,000) at 31 July 2020 and £34,396,000 (2018/19 - £34,553,000) before this liability; and cash and short term investment balances of £6,344,000 (2018/19 - £8,422,000).

Tangible fixed asset additions during the year amounted to £5,784,000. This was split between land and buildings of £5,289,000, equipment of £495,000 and a further £3,649,000 movement from assets under construction. The College has continued to invest resources to improve its accommodation and equipment which impact positively upon the learner experience. Capital Grant has been received in year from the

Heart of Worcestershire College

Worcestershire Local Enterprise Partnership towards the College investment in the Engineering facilities and specialist equipment within this area.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2019/20 the funding bodies provided 78% of the College total income.

Other sources of income such as Catering, Nursery and other income generating sources have been impacted by the lockdown by around £250,000; this is a direct result of College closures. Some of this reduction is mitigated by reduced non pay spend and the CJRS claim. These income sources will also continue to be impacted during 2020/21.

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 statement in place detailed in its Financial Regulations. Borrowings are authorised by the Corporation and comply with the requirements of the funding agreements with the ESFA.

Cash Flows and liquidity

Net cash inflow from operating cash activities in 2019/20 was £3,942,000, a small decline on the £4,373,000 during 2018/19.

Covid-19 has not significantly impacted the College cash position to 31 July 2020, as such no direct cashflow support has been requested or provided from the ESFA or other funders. Suppliers have been supported and payments continued to be made in a timely manner during the lockdown.

Borrowings during the year have reduced from £3.1m at 31 July 2019 to £2.9m as at 31 July 2020; this is for scheduled repayment of the principal loans.

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 previously 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".

During 2019/20 this has not been achieved due to a further significant increase in defined pension obligation.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial health

The College is assessed by the ESFA as having a “Good” financial health grading which is which is consistent with the 2018/19 grading.

Student Numbers

In 2019/20 the College delivered activity that has generated £21,250,000 in funding body grants (2018/19 - £22,273,000) as per note 2 to the Financial Statements.

Student Achievements

Heart of Worcestershire College has worked hard to maintain high levels of performance throughout 2019/20 despite face to face teaching ceasing on 20 March 2020 due to Covid-19. Retention rates for learners of all ages is good at 91.8%. The proportion of learners retained has remained high for 16 to 18 year olds at 93%, and has dropped slightly in 19/20 for adult learners at 91.8%.

Overall achievement rates for 2019/20 are based, for the majority of programmes, on Centre Assessed Grades. Due to the impact of Covid-19 assessments were adapted, delayed or results were calculated. This has impacted on results that were claimed for College and achievement for 19/20 as some programmes have extended delivery into 2020/21 and the results for these are not included within the final data. Overall achievement for all courses for 2019/20 is 79%. It would not be appropriate to compare this data with previous years for a comparison judgement.

Overall apprenticeship achievement rates not yet confirmed for 2019/20. Due to Covid-19 and the impact on apprentices and completion of End Point Assessment no official data will be published for the academic year. The College overall apprenticeship achievement rate - using provisional data as ‘official’ data is not yet published - is currently 55.6% and although lower than 2018/19, is good considering the pausing of face to face delivery in March 2020 and the limited availability of End Point Assessment opportunities. Timely achievement rates - again using provisional data - require continued work as they are currently 52.8%.

Outcomes for English and Mathematics for 2019/20 were again based on Centre Assessed Grades and this has impacted on the results for 2019/20. Functional Skills results have declined in 2019/20, with English at 52.3% and Mathematics 54.7%. GCSE results increased for 2019/20 with 26.1% achieving a grade 9-4 in English and 18.6% in Mathematics. Results for students were based on a range of evidence, attendance, completion of in-class assessments, completion of mock papers, completion of in-class tasks and homework. The results from these were then used to put students into a rank order within grade boundaries for GCSE programmes which were submitted to exam board for approval, or for Functional Skills as the basis for awarding pass or fail.

Almost all learners who complete their courses go on to a range of positive destinations, including employment and higher education. Learners with complex needs gain skills which enable them to progress to positive destinations including higher level study, internships and employment. Learners acquire qualifications and experience which enables them to progress in to valuable employment meeting local and national priorities.

Learners report that they feel well prepared for their next steps. Destination data collected by an independent agency shows that the vast number of learners progress directly into employment and have study progression rates at similarly high levels. 95% of learners contacted were in a positive destination. There has been a significant increase in learners applying to university in 2019/20 with applications increasing from 326 in 2018/19 to 456 this academic year.

Future developments

During 2020/21 the College has secured match funding from the Greater Birmingham and Solihull LEP (GBSLEP) of £250,000 towards the Alliance House construction area redevelopment project in Redditch; this project is planned to complete in March 2021.

The College has also received the Further Education Capital Allocation during 2020/21 of £1.1m, this will be spent by the end of March 2021 on various projects across the College which improve student facilities and the condition of buildings; including some essential works that have been highlighted in recent years but were unaffordable without capital grant support.

The Senior Leadership Team and Corporation continue to review the impact Covid-19 has on the financial position and learner numbers during 2020/21 and onwards. As information becomes available mitigation actions are taken where possible and does not directly impact on the learner experience, for example holding vacancies and non-essential spend during the time of uncertainty.

Financial plan

The College governors approved a financial plan in July 2020 which set budget targets for the period ending 31 July 2021, this included estimates for the likely impact of Covid-19 would have on income streams; particularly those areas where there is higher risk of impact for example within Apprenticeships.

The plan highlighted a potential deficit position of £1.5m in 2020/21, at this level of deficit financial health rating will decline to "Requires Improvement". The College objectives are to reduce this level of deficit where possible and retain a health rating of "good".

Curriculum Development

The curriculum offer in 2019/20 was planned, delivered and managed through five areas namely:

- Vocational and Technical (Study programmes, adult, HE, Access);
- Inclusive Learning (Study programmes, adult, community);
- Apprenticeships (across vocational areas and direct for business admin);
- Management and Professional; and
- Three Counties Consortium (partners' delivery of adult skills and apprenticeships).

The college curriculum offer remained mainly stable over the 2019/20 year. This was in part due to COVID impact which restricted some plans for the full expansion of College plans.

The College has made suitable preparations for the change in Apprenticeships, and new standards have been created in marketing, accounting and HR. The college anticipates there will be changes to demand and potentially the format of Apprenticeships and Apprenticeship funding over the next two years. This will affect the College directly and the partners it works with. That period will also see new apprenticeships standards in Electrical Engineering and Project Management. These trends are being seen nationally and are not a reflection of the College's delivery.

The Government has announced its intention to provide new funding streams for Adults and some HE provision. The College will continue to examine these and provide the right opportunities based upon the links to LEP Priorities, local demand and that arising through our partners. COVID impacted significantly on adult groups, in terms of retention and completing their assessments in 2019/20, adults employment rates have also been significantly impacted locally. The college is exploring new curriculum for the 2020/21 year, these are likely to include more professional work, increased Access programmes and craft provision. The College's projects supported by Worcestershire LEP investment, were close to conclusion in 19/20, that being the

Heart of Worcestershire College

Cathedral building for Engineering, the Duckworth School of Engineering, the Electrical Installation base, sport provision in the community as just some of the achievements from investments. LEP investment from Greater Birmingham and Solihull will commence during 2020/21 for improvements within Construction department.

The College is funded through the AEB by the ESFA and also direct from combined authorities. This now includes the need to discuss and plan with the West Midlands Combined Authority (WMCA) and to a lesser extent, the Greater London Authority (GLA). This means our offer, whose campuses cut across these districts, will also be aligned to the priorities and ambitions of these combined authorities, as well as those in the WM LEP.

In May 2019 it was confirmed that HoW College would commence delivery of T levels in September 2021, plans are proceeding well to the launch of these new quals in September 2021. There is some concern that interest may be dampened and that the current restrictions may continue to have an impact on how students can participate in the project learning and work-based learning inherent in these qualifications. We will be offering T Levels in Childcare and Education and Digital. These will be offered at the Worcester and Redditch Campuses.

There was a decrease in the amount of activity recorded and delivered through the Three Counties Consortium. Concerns of the extent of activity in this area, have been raised further due to the impact of the COVID developments.

Our provision for high needs continues to grow with additional funding increasing year on year. The college has seen significant investment in this area both in terms of physical facilities but also educational programmes. There is now a myriad of options for individual and group programmes that learners and their families can choose from.

The College continues to work closely with a range of Higher Educational (HE) partners to provide progression opportunities for our own students to study post level 3 and then onto study at HE level. The partnerships with Staffordshire University was judged to have come to a natural end as numbers on the Law department dropped to unsustainable levels. The increased level of competition between providers of HE based courses is on-going and has had some effect on the recruitment of HE in 2019/20 and professional provision. Partnership reviews were successfully achieved with the University of Worcester and this relationship continues.

The work of the Blended Learning team and the College's approach to the development of both its staff and students' digital literacy skills is a particular focus this year and we have been successfully reselected as one of only 18 FE Colleges in the country as a Microsoft Showcase College. This accolade enables the College to develop its staff training, student access to skills development and provider commercial services over the coming year and beyond which see the successful implementation and achievement of the College's Digital Skills strategy and accompanying staff newsletter and training schedules.

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 2019 to 31 July 2020, the College paid 94.60% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period. This is a slight reduction on 96.68% in 2019/20 and has only reduced due to the lockdown in March 2020 and remote working throughout the spring and summer terms, for both suppliers and the Finance department.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college.

Numbers of employees who were relevant period	FTE employee number
1	0.17

Percentage of time	Number of employees
0%	0
1-50%	1
51-99%	0
100%	0

Total cost of facility time	£8k
Total pay bill	£17,789k
Percentage of total bill spent on facility time	0.04%

Time spent on paid trade union activities as a percentage of total paid facility time	100%
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Events after the end of the reporting period

There are no post balance sheet events.

Developments

In the development of the new Strategic Plan, the College has been aware of the local economy and the needs of the communities. The College works closely with the Worcestershire Local Enterprise Partnership (WLEP), local schools and employers to ensure that the curriculum and services address the needs of College stakeholders and creates relevant and valuable opportunities not just for the people within the communities but for the economy as a whole.

The College continues to invest in its estate and facilities, the £4.0m of capital spend project completed in 2019/20 saw refurbishment of the Worcester City Campus namely Cathedral Building, All Saints Building and St Andrews Building to host the Engineering facility; this project was match funded with the WLEP.

RESOURCES

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

The college enrolled approximately 6,422 students. The college's student population includes 2,400 16-to-18-year-old students, 239 High Needs Students, 394 apprentices, 825 higher education students, and 2,564 adult learners.

Tangible resources include two modern campuses at Redditch and Bromsgrove, various buildings in Deansway Worcester, St Dunstan's building in Worcester which was significantly refurbished in 2014, two Construction Centres at Alliance House Redditch and Spring Lane Malvern, and Osprey House also in Redditch.

The Duckworth Centre became operational in September 2019 following the purchase and refurbishment of new facilities to house Automotive Engineering and Plumbing and Heating Engineering. This project aligned strategically with the WLEP emerging construction skills strategy as well as creating dedicated high quality space for this provision. The College received match funding from the WLEP towards this building.

The College has negative net asset position within the balance sheet of £7.9 million (including £42.3 million pension liability, £34.4 million before this liability) and debt of £2.9 million.

The College employed an average of 644 staff during 2019/20, of whom 357 are teaching or direct delivery staff.

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. The College has direct relationships with the West Midlands Combined Authority and the Greater London

PRINCIPAL RISKS AND UNCERTAINTIES

The College has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement of Corporate Governance and Internal Control.

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 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.

Covid-19 Pandemic

The most significant current risk to the College is the Covid-19 pandemic and the negative impact it can potentially have on the day-to-day activities of the College, student numbers, student experience, student success and financial position.

The College is following the current Department for Education and Public Health England guidance to ensure the College is Covid secure and can continue to remain open whilst not in any national lockdown.

Regular communications to staff and students are important in a rapidly changing environment, where information is released, at times, daily.

Government funding

The College has considerable reliance on continued government funding through the education sector funding bodies. In 2019/20, 78% of the College's revenue, including that received as consortia lead, was ultimately public funded and this reliance 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; particularly during the pandemic.

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

- The spending review which is likely to be only for one year only, giving no longer term view for Colleges;
- The future White Paper outlining significant policy changes for the sector is likely to impact on the structure and funding of colleges;
- Continued impact of changes in apprenticeship funding in England from May 2017 and the apprenticeship levy;
- Not achieving student numbers and funding targets; and
- Failure to ensure the smooth introduction of new Technical (T)'Levels.

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.

Pensions

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS102. 2019/20 has seen a further significant increase in the deficit through the actuarial valuation at 31 July 2020; this again is a direct result of the discount factor used within the valuation and the economic position at the time of calculation.

This increase has put significant strain on the College Key Performance Indicators and directly resulted in one Loan Covenant monitor being breached.

The College has received results from Worcestershire County Council LGPS for the triennial actuarial valuation at 31 March 2019, this indicates a significantly different valuation at £4.0m. These results have resulted in an agreed deficit recovery plan for the next three years, mitigating and short term risk of increased contributions.

The cost burden on the College, through changes to the contribution rates for Teachers Pension scheme, came into effect during 2019/20. The ESFA have funded this increase up to March 2021, however there is a risk that this funding may not continue after this date; the College has very few options to mitigate this risk.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Heart of Worcestershire College engages with many stakeholders.

These include:

- Students;
- Education sector funding bodies;
- Devolved authorities;
- FE Commissioner;
- OFSTED;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE institutions;
- HE institutions;
- Awarding bodies;
- Trade unions; and
- Professional bodies.

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

Equality

Heart of Worcestershire College is committed to providing a learning environment which respects all individuals and celebrates diversity. Our mission statement “Inspire, Innovate, Advance” demonstrates our College values of Trust, Integrity, Inclusivity and Partnership 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 strive 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, Diversity and Inclusion 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.

- 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.
- Specialist programmes are published in College prospectuses and website.

Heart of Worcestershire College has teams of qualified staff providing support across the College to ensure that all learners can access the College and enjoy their experience.

- The High Needs Support Co-ordinators work closely with local authorities to ensure the college can meet the needs of students with Educational Health Care Plans (EHCPs).
- Personal Learning Coaches provide academic support to learners with an identified learning need.
- Personal Tutors support learners to achieve their academic goals and meet their set targets.

- Financial support is available to assist learners who may have difficulties in completing their course due to financial reasons.
- The Welfare team offer tailored welfare support to learners experiencing difficulties with their home or college life.
- 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.
- The Careers team offer specialist careers guidance sessions for all learners.

Going Concern

An initial budget based on historical curriculum enrolment patterns, current applications and current funding allocations was close to completion, before the pandemic. Management completed a high-level review of the budget to incorporate headline amendments to budget figures where there was a higher level of risk due to the likely impact Covid-19 may have on the financial position of the College, and to stress test College finances. The original draft budget before any impact of Covid-19 was estimated at around £318,000 deficit position. The revised Covid budget, including the headline amendments to higher risk lines within the budget, highlighted a potential deficit position of £1,532,000.

Cash balances budgeted for year ending July 2021 were £2.6m, the lowest point as per the budgeted cashflow forecast in 2020/21 is £1.4m in March 2021.

The College has claimed under the Coronavirus Job Retention Scheme during 2019/20 and continues to make use of this scheme in 2020/21 particularly during the January 2020 national lockdown. No other financial support has been claimed during the year.

The College has undertaken a review and reforecast of the financial position in January 2021, this review takes into account more actual learner numbers, additional project money received and more accurate information on spending required to deliver education safely during the pandemic. This review has projected an improved position as below, there are still some uncertainty within the budget and prudent assumptions have been made around these areas, for example adult enrolments from January 2021 – July 2021.

Headline projections are:-

	Budget £'000	Projection Dec-20 £'000
Deficit 2020/21	(£1,532)	(£1,010)
Cash at 31 July 2021	£2,647	£4,293

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

The financial statements have been prepared on a going concern basis which the Corporation considers to be appropriate for the following reasons.

The Corporation has prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements. After reviewing these forecasts, the Corporation is of the opinion that, taking account of severe but plausible downsides, including the anticipated impact of COVID-19, the College will have sufficient funds to meet its liabilities as they fall due over the period of at least 12 months from the date of approval of the financial statements.

In reaching this conclusion the Corporation has taken the following factors into account:

- a potential downturn in recruitment for apprenticeships, adults, commercial, income generating activities and Higher Education learners resulting from COVID 19;
- additional costs associated with the pandemic such as cleaning, hygiene supplies, PPE, covering staff absence and the costs of making the estate COVID 19 safe to enable socially distanced learning to take place; and
- as noted within note 17, following a breach of one of its three covenant tests with Santander at 31 July 2020, the bank agreed to amend the facility agreement to remove this covenant subsequent to the year end. In all scenarios modelled the College remains in compliance with the remaining two loan covenants.

Consequently, the Corporation is confident that the College will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 26 January 2021 and signed on its behalf by:



N Bucktin
Chair

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 1 August 2019 to 31 July 2020 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 2018 insofar as it is applicable to the further education sector.

We have not adopted and therefore do not apply the UK Corporate Governance Code 2018. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code 2018 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:	Attendance at Corporation Meetings 18/19
Mr N M Bucktin (Chair of Corporation)	01/08/14 Reappointed 22/05/18	4 years (wef 01/08/18)		Non-Executive	Corporation Appeal Governance & Search (Chair)	7/7
Mr D Miles (Vice Chair of Corporation)	01/08/14 Reappointed 22/05/18	4 years (wef 01/08/18)		Non-Executive	Audit Remuneration	7/7
Mr D Ash	10/10/17	4 years until 31/07/21		Non-Executive	Corporation Appeal (Chair) (Governance & Search Remuneration	7/7
Mr S Bolton	28/04/15 Reappointed 12/02/19	4 years (wef 28/04/19)		Non-Executive	Audit	5/7
Miss S Finch	04/12/18	1 year until 31/07/20	31/07/20	Student		7/7
Mr K Gaffney	01/08/14 Reappointed 22/05/18	4 years (wef 01/08/18)		Non-Executive	Audit (Chair)	7/7
Mr P Heath	01/08/14 Reappointed 17/07/18	4 years (wef 01/08/18)		Staff	Governance & Search	7/7
Mrs F Hellowell	01/08/16	4 years		Non-Executive	(Governor representative on Academic Board) Remuneration Corporation Appeal	5/7

Heart of Worcestershire College

Mrs L Hodgson	01/08/14 Reappointed 18/07/17	4 years (wef 01/08/17)		Non-Executive	Audit Corporation Appeal Governance & Search	5/7
Mr A King	09/10/18	4 years until 31/07/22		Non-Executive	Audit	7/7
Mr S Laverick	01/08/14	Ex officio		Principal	Governance & Search	7/7
Mr P McCunn	01/08/14 Reappointed 26/04/16	4 years (wef 01/08/16)	31/07/20	Non-Executive	Remuneration (Chair)	7/7
Mrs D Morris	01/08/14 Reappointed 17/07/18	4 years (wef 01/08/18)		Staff	Audit	7/7
Mrs S Nicholls	09/10/18	4 years until 31/07/22		Non-Executive	Audit	4/7
Mr R Pearce	01/08/14 Reappointed 18/07/17	4 years (wef 01/08/17)		Non-Executive	Remuneration	5/7
Mr G Woodman	01/08/16	4 years		Non-Executive	Remuneration Corporation Appeal	7/7
Susannah Twigg	17/12/19	1 year until 31/07/20	31/07/20	Student	Governance & Search	6/6
Angela Edwards	16/06/20	4 years		Non-Executive		2/2
Nick Baldwin	16/06/20	4 years		Non-Executive		2/2
Helen Butler	01/08/20	4 years		Non-Executive		0/0
Mr A Ciriello	09/10/18	4 years until 31/07/22	31/08/19	Non-Executive	Governance & Search	3/6

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. In addition to these the Corporation Appeal Committee was re-established in 2018/19 but has yet to meet. The College also has an Estates Group which includes Governor Members.

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 Accounting Officer are separate.

No changes were made in respect of governance during the lockdown, however Corporation and committees are meeting via Microsoft Teams with papers being received electronically.

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, plus the Principal, 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 and serve a maximum of two four year terms.

Corporation Performance

The Corporation carried out a self-assessment of its own performance for the year ended 31 July 2019 and graded itself as "Good" on the Ofsted scale, a review of performance for the year ending 31 July 2020 will be completed when governors are able to meet in a workshop session.

Remuneration Committee

The College's Remuneration Committee operates in accordance with written terms of reference approved by the Corporation. It comprises up to seven members of the Corporation. The purpose is to advise the Corporation on the appointment, performance and early termination of Senior Postholders, so as to ensure that all Senior Postholders are fairly rewarded for their individual contributions to the College's overall performance and to demonstrate to the public that the pay of Senior Postholders is recommended by a committee which has no personal interest in the outcome of its decision and which gives due regard to the interests of the public and of

the financial health of the College.

The Corporation approved the adoption of the AoC Senior Post Holder Remuneration Code on 11 June 2019. Revised Terms of Reference for the Remuneration Committee, a Senior Post Holder Remuneration Policy and a Senior Post Holder Policy for Income Derived from External Activities are being developed by the Remuneration Committee for Corporation approval.

Details of remuneration for the year ended 31 July 2020 are set out in note 7 to the Financial Statements.

Audit Committee

The Audit Committee comprises up to seven members of the Corporation (excluding the Accounting Officer 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 external 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 and improvement suggestions surrounding the risks.

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 Funding Agreements 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

2020 and up to the date of approval of the annual report and accounts.

Capacity to Handle Risk

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there 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 2020 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;
- Clearly defined capital investment control guidelines; and
- The adoption of formal project management disciplines, where appropriate.

The College's system of internal controls and governance structures ensure regularity and propriety in the use of funds, including all public funds, via the following processes:

- The Corporation is responsible for maintaining a sound system of internal control that safeguards the public and other funds and assets for which it has responsibility.
- The College maintains a set of Financial Regulations and Procedures, giving control over the totality of the College's resources and providing an appropriate financial regulatory framework which ensures that resources are used with due regard to propriety, regularity and value for money.
- The College is required to adhere to key funder rules, in addition to the requirements of its own Financial Regulations and Procedures, and operates various controls to do this.
- The College's Internal Audit function provides assurance to management and the Audit Committee. Internal Audit makes recommendations for improvement in key management processes. It particularly aims to ensure that key risks are being appropriately managed, including those in relation to the use of funds and value for money.

The College's External Audit and Internal Audit providers both make recommendations for improvement in key management and internal control processes. Internal audit reviews include periodic reviews of the College's approach to delivering value for money. In addition to the annual assurance report received from Internal Audit, the Audit Committee and Governors receive benchmarking and sector specific reports from both Internal and External Auditors to assist them in discharging their responsibility to monitor the College's performance in delivering value for money.

The College has internal auditors, who operate in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal auditors 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.

All planned internal audit activity was completed during 2019/20 without any impact from the pandemic. In addition the College return to work plans and risk assessments have been reviewed by out insurers to ensure they are compliant and to receive any necessary feedback.

Risks faced by the Corporation

The Audit Committee was instrumental in developing the Corporation's approach to monitoring risk through the use of a Strategic Risk Register based on risks that have a high score after mitigating action including narrative columns detailing progress with RAG rating.

The full version of the Risk Register is maintained by the Senior Leadership Team and is available on the Governors' Portal.

The Corporation approved the Risk Management Annual Report for 2018/19 and the Risk Management Plan 2019/20 at its meeting on 17 December 2019. On 4 March 2020 the Audit Committee monitored the Spring Term College Strategic Risk Register. On 30 June 2020 the Audit Committee monitored the Summer Term College Strategic Risk Register.

The corporation is of the view that there is 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 2020 and up to the date of approval of the annual report and accounts.

Control weaknesses identified

No significant internal control weaknesses or failures have arisen during 2019/20.

Responsibilities under funding agreements

Corporation receives and monitors progress against financial key performance indicators at each meeting; it receives more detailed reports on financial performance as part of its annual cycle of business. Each year internal audit will review compliance with the funding requirements through a learner number systems audit, this looks at a different funding stream each year.

Statement from the Audit Committee

The audit committee has advised the board of governors that the Corporation has an effective framework for governance and risk management in place. The Audit Committee believes the Corporation has effective internal controls in place.

The specific areas of work undertaken by the audit committee in 2019/20 and up to the date of the approval of the financial statements are:

Assignment	Assurance level	Actions agreed			
		Low	Medium	High	Advisory
Management information Framework	Substantial Assurance	3	0	0	0
Framework for Efficiency	Reasonable Assurance	0	3	0	0
Key Financial Controls	Substantial Assurance	4	0	0	0
Learner Number Systems: AEB	No opinion / Advisory	2	3	0	0
Quality Assurance Systems	Substantial Assurance	2	1	0	0
Follow up	Reasonable Assurance	3	4	0	0
Student Support Arrangements: Employability and Careers Strategy	Substantial Assurance	2	0	0	0

Review of Effectiveness

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

- The work of the internal auditors;
- The work of the senior managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the College's external 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 receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training.

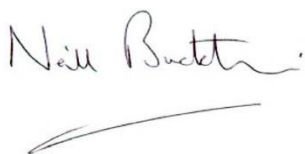
The Senior Leadership Team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is to undertake a high level review of the arrangements for internal control.

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 January 2021 meeting the Corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the Senior Leadership Team, Audit Committee and Internal Auditors, and taking account of events since 31 July 2020.

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".

Approved by order of the members of the Corporation on 26 January 2021 and signed on its behalf by:-



N Bucktin
Chair



S M Laverick
Principal

Statement of Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the College's grant funding agreements and contracts with ESFA. As part of our consideration we have had due regard to the requirements of the grant funding agreements and contracts with ESFA.

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 terms and conditions of funding under the College's grant funding agreements and contract with ESFA.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.

Approved by order of the members of the Corporation on 26 January 2021 and signed on its behalf by:-



N Bucktin
Chair



S M Laverick
Principal

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 College's grant funding agreements and contracts with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2019 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction 2019 to 2020 issued by the ESFA, 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;
- Assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 information about the legal and administrative status of the College.

The Corporation is responsible for keeping adequate 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 such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

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

Approved by order of the members of the Corporation on 26 January 2021 and signed on its behalf by:-



N Bucktin
Chair

Opinion

We have audited the financial statements of Heart of Worcestershire College ("the College") for the year ended 31 July 2020 which comprise the Statement of Comprehensive Income and Expenditure, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- Give a true and fair view of the state of the College's affairs as at 31 July 2020, and of the College's income and expenditure, gains and losses, changes in reserves and cash flows, for the year then ended;
- Have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2019 *Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- Meet the requirements of the Accounts Direction dated 25 October 2019 issued by the Office for Students ('the OfS Accounts Direction').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the College in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Corporation has prepared the financial statements on the going concern basis as it does not intend to liquidate the College or to cease their operations, and as it has concluded that the College's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Corporation's conclusions, we considered the inherent risks to the College's business model, and analysed how those risks might affect the College's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the College will continue in operation.

Other information

The Corporation is responsible for the other information, which comprises the Members' Report and the Corporation's statement of corporate governance and internal control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Independent Auditor's report to the Corporation of Heart of Worcestershire College

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Post-16 Audit Code of Practice 2019 to 2020 (July 2020) issued by the Education and Skills Funding Agency we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the College; or
- the College's 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.

We have nothing to report in these respects.

Corporation's responsibilities

As explained more fully in their statement set out on page 28, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We are required to report on the following matters by the OfS Accounts Direction.

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation; and
- funds provided by the Office for Students, UK Research and Innovation (including Research England), the Education and Skills Funding Agency and the Department for Education have been applied in accordance with the relevant terms and conditions.

Matters on which we are required to report by exception

We are required by the OfS Accounts Direction to report to you where the College has an access and participation plan that has been approved by the Office for Students' director of fair access and participation and the results of our audit work indicate that the College's expenditure on access and participation activities for the financial year disclosed in Note 8a has been materially misstated.

Independent Auditor's report to the Corporation of Heart of Worcestershire College

We are also required by the OfS Accounts Direction to report to you where the results of our audit work indicate that the College's grant and fee income, as disclosed in note 2a to the financial statements has been materially misstated.

We have nothing to report in these respects.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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



Anthony Felthouse
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

28 January 2021

Reporting Accountant's Report on Regularity to the Corporation of Heart of Worcestershire College and the Secretary of State for Education acting through the Education and Skills Funding Agency (ESFA)

In accordance with the terms of our engagement letter dated 5 November 2020 and further to the requirements and conditions of funding in ESFA grant funding agreements and contracts, or those of any other public funder, 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 2019 to 31 July 2020 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 Post-16 Audit Code of Practice issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA or devolved authority has other assurance arrangements in place.

This report is made solely to the corporation of Heart of Worcestershire College and the ESFA 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 the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of Heart of Worcestershire College and the ESFA 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 & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 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 2019 to 31 July 2020 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 Post-16 Audit Code of Practice issued by the ESFA. We performed a limited assurance engagement as defined in that framework.

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

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

Reporting Accountant's Report on Regularity to the Corporation of Heart of Worcestershire College and the Secretary of State for Education acting through the Education and Skills Funding Agency (ESFA)

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

The work undertaken to draw our conclusion included:

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

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a limited assurance conclusion on regularity consistent with the requirements of the Post-16 Audit Code of Practice.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Anthony Felthouse
For and on behalf of KPMG LLP, Reporting Accountant
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

28 January 2021

Heart of Worcestershire College

Statement of Comprehensive Income for the year ended 31 July 2020

	Note	Year ended 31 July 2020	Year ended 31 July 2019
		£'000	£'000
<u>Income</u>			
Funding body grants	2	22,501	23,127
Tuition fees and education contracts	3	4,363	4,428
Other grants and contracts	4	379	-
Other income	5	1,616	1,929
Investment income		18	24
Total income		28,877	29,508
<u>Expenditure</u>			
Staff costs	7	17,843	17,074
Fundamental restructuring costs	7	67	61
Other operating expenses	8	9,073	10,299
Depreciation	11	3,148	3,089
Interest and other finance costs	9	670	496
Total expenditure		30,801	31,019
Deficit before other gains and losses		(1,924)	(1,511)
Loss on disposal of assets		(9)	-
Deficit before tax		(1,933)	(1,511)
Taxation		-	-
Deficit for the year		(1,933)	(1,511)
Actuarial loss in respect of pension scheme	23	(11,751)	(11,827)
Total Comprehensive Income for the year		(13,684)	(13,338)

The statement of comprehensive income is in respect of continuing activities.

Heart of Worcestershire College

Statement of Changes in Reserves for the year ended 31 July 2020

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 August 2018	10,754	8,335	19,089
Deficit from the income and expenditure account	(1,511)	-	(1,511)
Other comprehensive income	(11,827)	-	(11,827)
Transfers between revaluation and income and expenditure reserves	188	(188)	-
	<hr/> (13,150)	<hr/> (188)	<hr/> (13,338)
Balance at 31 July 2019	(2,396)	8,147	5,751
Deficit from the income and expenditure account	(1,933)	-	(1,933)
Other comprehensive income	(11,751)	-	(11,751)
Transfers between revaluation and income and expenditure reserves	188	(188)	-
	<hr/> (13,496)	<hr/> (188)	<hr/> (13,684)
Total comprehensive income for the year	(13,496)	(188)	(13,684)
Balance at 31 July 2020	(15,892)	7,959	(7,933)

Heart of Worcestershire College

Balance Sheet as at 31 July 2020

	Note	College 2020 £'000	College 2019 £'000
Non current assets			
Tangible fixed assets	11	46,694	44,066
Investments	12	0	0
		46,694	44,066
Current assets			
Stocks		43	24
Trade and other receivables	13	1,309	818
Investments	14	4	4
Cash and cash equivalents	19	6,340	8,422
		7,696	9,268
Less: Creditors - amounts falling due within one year	15	(8,444)	(6,228)
Net current (liabilities) / assets		(748)	3,040
Total assets less current liabilities		45,945	47,106
Less: Creditors - amounts falling due after more than one year	16	(11,549)	(12,449)
Provisions			
Defined benefit obligations	18	(42,329)	(28,802)
Other provisions	18	-	(104)
Total net (liabilities) / assets		(7,933)	5,751
Unrestricted reserves			
Income and expenditure account		(15,892)	(2,396)
Revaluation reserve		7,959	8,147
Total unrestricted reserves		(7,933)	5,751

The financial statements on pages 34 to 63 were approved and authorised for issue by the Corporation on 26 January 2021 and were signed on its behalf by;



N Bucktin
Chair



S M Laverick
Principal

Statement of Cash Flows
for the year ended 31 July 2020

	Note	2020 £'000	2019 £'000
Cash inflow from operating activities			
Deficit for the year		(1,933)	(1,511)
Adjustment for non-cash items			
Depreciation		3,148	3,089
(Increase) / Decrease in stocks		(19)	15
(Increase) / Decrease in debtors		(490)	468
Decrease in creditors due within one year		(45)	(38)
Increase in creditors due after one year		1,563	1,034
(Decrease) / Increase in other provisions		(104)	104
Pension costs less contributions payable		1,776	1,173
Adjustment for investing or financing activities			
Investment income		(18)	(24)
Interest payable		55	63
Loss on sale of fixed assets		9	-
Net cash flow from operating activities		3,942	4,373
Cash flows from investing activities			
Investment income		18	24
New deposits		-	(1)
Payments made to acquire fixed assets		(5,784)	(5,054)
		(5,766)	(5,031)
Cash flows from financing activities			
Interest paid		(55)	(63)
New unsecured loans		55	78
Repayments of amounts borrowed		(258)	(245)
		(258)	(230)
Decrease in cash and cash equivalents in the year		(2,082)	(888)
Cash and cash equivalents at beginning of the year	19	8,422	9,310
Cash and cash equivalents at end of the year	19	6,340	8,422

Notes to the financial statements
for the year ended 31 July 2020

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 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2019 to 2020 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.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

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 2020 and 31 July 2019. 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 2020.

Going concern

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

The financial statements have been prepared on a going concern basis which the Corporation considers to be appropriate for the following reasons.

The Corporation has prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements. After reviewing these forecasts, the Corporation is of the opinion that, taking account of severe but plausible downsides, including the anticipated impact of COVID-19, the College will have sufficient funds to meet its liabilities as they fall due over the period of at least 12 months from the date of approval of the financial statements.

In reaching this conclusion the Corporation has taken the following factors into account:

- a potential downturn in recruitment for apprenticeships, adults, commercial, income generating activities and Higher Education learners resulting from COVID 19;
- additional costs associated with the pandemic such as cleaning, hygiene supplies, PPE, covering staff absence and the costs of making the estate COVID 19 safe to enable socially distanced learning to take place; and

Notes to the financial statements
for the year ended 31 July 2020

1 Statement of accounting policies and estimation techniques (continued)

- as noted within note 17, following a breach of one of its three covenant tests with Santander at 31 July 2020, the bank agreed to amend the facility agreement to remove this covenant subsequent to the year end. In all scenarios modelled the College remains in compliance with the remaining two loan covenants.

Consequently, the Corporation is confident that the College will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Recognition of income

Revenue grant funding

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 underachievement for the Adult Education 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.

The recurrent grant from the Office for Students 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.

Capital grant funding

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

Fee income

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.

Investment income

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.

1 Statement of accounting policies and estimation techniques (continued)

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.

Teachers' Pension Scheme (TPS)

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 there is insufficient information available to use defined benefit accounting. 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.

Worcestershire Local Government Pension Scheme (LGPS)

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 in interest and other finance costs.

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

Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. The College operates an annual leave year in line with the financial year end, employees are unable to carry forward any 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 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Notes to the financial statements
for the year ended 31 July 2020

1 Statement of accounting policies and estimation techniques (continued)

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 as it is considered to have an infinite useful life.

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.

Assets under construction

Assets 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.

Notes to the financial statements for the year ended 31 July 2020

1 Statement of accounting policies and estimation techniques (continued)

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 (UEs) 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 UEs 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 to the Statement of Comprehensive Income and Expenditure. 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.

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.

Notes to the financial statements
for the year ended 31 July 2020

1 Statement of accounting policies and estimation techniques (continued)

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.

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.

1 Statement of accounting policies and estimation techniques (continued)

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 Statement of Comprehensive Income 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.

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.

Notes to the financial statements
for the year ended 31 July 2020

1 Statement of accounting policies and estimation techniques (continued)

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 23, 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 2019 has been used by the actuary in valuing the pensions liability at 31 July 2020. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

**Notes to the financial statements
for the year ended 31 July 2020**

2 Funding body grants

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Recurrent grants		
Education and Skills Funding Agency – adult	2,409	2,344
Education and Skills Funding Agency – 16-18	12,587	12,894
Education and Skills Funding Agency - apprenticeships	2,331	2,300
Education and Skills Funding Agency – Consortium partners - adult*	285	1,569
Education and Skills Funding Agency – Consortium partners – apprenticeships *	823	1,258
Education and Skills Funding Agency – College share of consortium* partners	178	486
West Midlands Combined Authority	1,067	-
Greater London Authority	132	-
College share of Management fee on Combined Authority Income	198	-
The Office for Students	737	859
Specific grants		
Education and Skills Funding Agency	503	563
Releases of government capital grants	914	854
Teacher Pension Scheme Contribution Grant	337	-
	22,501	23,127

* 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 2020 £'000	Year ended 31 July 2019 £'000
Education and Skills Funding Agency	1,286	3,313
Payments to non College partners	(1,108)	(2,827)
Net Income	178	486

**Notes to the financial statements
for the year ended 31 July 2020**

2a Grant and fee income

OFS registered colleges are required to include a note analysing grant and fee income received in a single additional table. OfS's requirements overlap with the existing structure of ESFA's finance record.

Any income relating to courses at Level 4 and above are included in the "fee income for taught awards" line, all other fee income is included within the "fee income for non-qualifying courses" line.

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Grant income from the Office for Students	823	964
Grant income from other bodies	22,057	22,163
Fee income for taught awards (exclusive of VAT)	1,606	1,793
Fee income for research awards (exclusive of VAT)	-	-
Fee income from non-qualifying courses (exclusive of VAT)	2,757	2,635
Total	27,243	27,555

3 Tuition fees and education contracts

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Adult education fees	664	782
Apprenticeship fees and contracts	39	48
Fees for FE loan supported courses	525	545
Fees for HE loan supported courses	1,606	1,793
Total tuition fees	2,834	3,168
Education Contracts	1,529	1,260
Total	4,363	4,428

4 Other grants and contracts

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Coronavirus Job Retention Scheme grant	379	-
Total	379	-

The Corporation furloughed staff within some business support roles, in areas where income was not grant funded and adversely affected or where a full cost courses did not run, for example Catering and Nursery staff, IT and Facilities staff, Hourly paid staff delivering recreational courses. The funding received of £379,000 relates to staff costs which are included within the staff cost note.

Notes to the financial statements
for the year ended 31 July 2020

5 Other income

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Catering and residences	220	298
Other income generating activities	1,396	1,631
Total	1,616	1,929

6 Investment income

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Other interest receivable	18	24
Total	18	24

7 Staff numbers and costs

The average weekly number of persons (including key management personnel) employed by the College during the year, was:

	2020	2019
Teaching staff	357	361
Non-teaching staff	287	292
	644	653

Staff costs for the above persons	2020 £'000	2019 £'000
Wages and salaries	12,845	12,750
Social security costs	1,083	1,080
Other pension costs (<i>including FRS102 (28) pension adjustment of £1,161,000 (2018/19: £740,000)</i>)	3,861	3,164
Payroll sub total	17,789	16,994
Contracted out staffing services	54	80
	17,843	17,074
Fundamental restructuring costs – Contractual	67	61
Total Staff costs	17,910	17,135

The fundamental restructuring costs relate to 6 members of staff in 2019/20 (17 in 2018/19).

**Notes to the financial statements
for the year ended 31 July 2020**

7 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 and Chief Executive and Vice Principal and Deputy Chief Executive Officer.

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

	2020	2019
The number of key management personnel including the Accounting Officer was:	2	2

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	
	2020	2019	2020	2019
£65,001 to £70,000	0	0	0	3
£70,001 to £75,000	0	0	3	0
£90,001 to £95,000	1	1	0	0
£140,001 to £145,000	1	1	0	0
	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>

Key management personnel compensation is made up as follows:

	2020 £'000	2019 £'000
Salaries	235	232
Employers National Insurance	30	30
Benefits in kind	3	3
	<u>268</u>	<u>265</u>
Pension contributions	47	36
Total key management personnel compensation	<u>315</u>	<u>301</u>

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

**Notes to the financial statements
for the year ended 31 July 2020**

7 Staff numbers and costs (continued)

The above compensation includes amounts payable to the Principal and Chief Executive who is the accounting officer and who is also the highest paid member of staff. Their pay and remuneration is as follows:

	2020 £'000	2019 £'000
Basic salary	144	144
Performance related pay and bonus	0	0
Other including benefits in kind	0	0
	144	144
Pension contributions	33	24

The governing body has adopted AoC's Senior Staff Remuneration Code in July 2019 and will assess future pay in line with its principles.

The Principal and Chief Executive reports to the Chair of the Corporation, who undertakes an annual review of performance against agreed RAG rated objectives using both qualitative and quantitative measures of performance.

The remuneration package of key management personnel, including the accounting officer, is recommended to the Corporation by the Remuneration Committee which considers a range of factors, including pay awards granted to all staff in the College and performance against agreed RAG rated objectives. No benchmarking information was considered in 2019/20 other than staff pay awards. The Remuneration Committee's view is that the key management personnel's, including the accounting officer's, emoluments are justified in terms of the value they add to the College and the effectiveness of their performance.

Relationship of Principal/Chief Executive pay and remuneration expressed as a multiple:-

	2020 £'000	2019 £'000
Principal/Chief Executive basic salary as a multiple of the median of all staff	1 : 5.60	1 : 5.61
Principal/Chief Executive total remuneration (including pension) as a multiple of the median of all staff	1: 5.98	1 : 5.71

The Principal and Chief Executive's basic salary is 5.60 times (2018/19: 5.61) the median pay of all staff, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the College to its staff. The same median of £25,675 is used for both calculations.

The Principal and Chief Executive's total remuneration, which includes employer pension costs, is 5.98 times (2018/19: 5.71) the median pay of all staff, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the College to its staff.

This calculation excludes any staff paid via agency or Protocol.

**Notes to the financial statements
for the year ended 31 July 2020**

7 Staff numbers and costs (continued)

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.

8 Other operating expenses

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Teaching costs	1,673	1,643
Non teaching costs	5,183	6,104
Premises costs	2,217	2,552
Total other operating expenses	9,073	10,299
Other operating expenses include:	2020 £'000	2019 £'000
Auditors remuneration:		
- financial statements audit	38	29
- internal audit	21	20
Loss on disposal of tangible fixed assets	9	-
Depreciation	3,148	3,089
Hire of plant and machinery - operating leases	71	70

8a Access and participation spending

	Year ended 31 July 2020 £'000
Access investment	78
Financial support to students	41
Disability support	22
Research and evaluation (relating to access and participation)	0
Total other operating expenses as included in note 8 above	141

The College access and participation plan can be found here
<https://www.howcollege.ac.uk/about/legal/policies/>

**Notes to the financial statements
for the year ended 31 July 2020**

9 Interest and other finance costs

	2020	2019
	£'000	£'000
On bank loans	55	63
	55	63
Net interest on defined pension liability (note 23)	615	433
	670	496

10 Taxation

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

Notes to the financial statements
for the year ended 31 July 2020

11 Tangible fixed assets

	Land and Freehold Buildings £'000	Equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation				
At 1 August 2019	71,597	10,455	3,649	85,701
Movement of assets in course of construction	3,608	41	(3,649)	-
Additions	5,289	495	-	5,784
Disposals	(95)	(464)	-	(559)
At 31 July 2020	80,399	10,527	-	90,926
Depreciation				
At 1 August 2019	32,490	9,145	-	41,635
Charge for the year	2,487	661	-	3,148
Eliminated in respect of disposals	(90)	(461)	-	(551)
At 31 July 2020	34,887	9,345	-	44,232
Net book value at 31 July 2020	45,512	1,182	-	46,694
Net book value at 31 July 2019	39,107	1,310	3,649	44,066

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.

12 Investments in subsidiary

	2020 £	2019 £
Investment in subsidiary companies	4	4
	4	4

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.

**Notes to the financial statements
for the year ended 31 July 2020**

13 Trade and other receivables

Amounts falling due within one year:	2020 £'000	2019 £'000
Trade receivables	737	326
Prepayments and accrued income	481	492
Amounts owed by Combined Authorities	91	-
Total	1,309	818

14 Current investments

	2020 £'000	2019 £'000
Short term deposits	4	4
Total	4	4

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.

15 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Bank loans	2,512	253
Payments received on account	912	718
Trade payables	361	563
Other taxation and social security	593	567
Accruals and accrued income	2,792	2,625
Deferred income – government capital grants	640	901
Amounts owed to the Education and Skills Funding Agency	634	601
Total	8,444	6,228

16 Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Bank loans	411	2,874
Deferred income – government capital grants	11,138	9,575
Total	11,549	12,449

**Notes to the financial statements
for the year ended 31 July 2020**

17 Maturity of debt

Bank loans are repayable as follows:

	2020	2019
	£'000	£'000
In one year or less	2,512	253
Between one and two years	132	261
Between two and five years	279	757
In five years or more	-	1,856
Total	2,923	3,127

The defined benefit obligation, in relation to the Local Government Pension Scheme, at 31st July 2020 increased significantly for the second year running, increasing from £28.8m to £42.3m. This is a direct result of the economic position which was significantly negatively impacted by Covid-19. As such the increase has resulted in a balance sheet with negative net assets and directly resulted in a breach on one of three loan covenants with Santander.

Santander agreed to remove this covenant, which views “net assets including pension liabilities” in its entirety, an amendment to the loan agreement was signed off by Corporation at their meeting on 15th December 2020 removing this. However as this has been agreed after the balance sheet date the Santander loan balances will be treated as current liabilities within the balance sheet at 31 July 2020.

Loans are also held with NatWest, however no covenants are in place which require testing.

Remaining bank loans are repayable by monthly or quarterly instalments until 2024, 2025 and 2037. Interest is payable at negotiated margins (between 0.62% and 1.45%) above base or LIBOR, over the life of the currently variable rate loans.

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

18 Provisions

	Defined benefit obligations	Other	Total
	£'000	£'000	£'000
At 1 August 2019	28,802	104	28,906
Expenditure in the period	1,710	(104)	1,606
Additions in the period	11,817	-	11,817
At 31 July 2020	42,329	-	42,329

**Notes to the financial statements
for the year ended 31 July 2020**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 23.

A provision had been made during 2018/19 to cover dilapidation costs at leased properties which were to be vacated during 2019/20 along with further provision has been made in respect of a small legal case and an employment case, there is no amount to carry forward in respect of these provisions.

19 Cash and cash equivalents

	At 1 August 2019	Cash flows	At 31 July 2020
	£'000	£'000	£'000
Cash and cash equivalents	8,422	(2,082)	6,340
Total	8,422	(2,082)	6,340

20 Capital commitments

	2020 £'000	2019 £'000
Commitments contracted for at 31 July	852	3,528
Total	852	3,528

21 Lease obligations

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

	2020 £'000	2019 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	54	65
Later than one year and not later than five years	36	51
	90	116
Other		
No later than one year	48	-
Later than one year and not later than five years	184	70
Total lease payments due	232	70

**Notes to the financial statements
for the year ended 31 July 2020**

22 Contingent Liabilities

There are no contingencies as at 31 July 2020 (2019: £Nil).

23 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; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Worcestershire County Council.

Both are multi-employer defined benefit schemes.

Total pension cost for the year

	2020	2019
	£'000	£'000
Teachers' Pension Scheme: contributions paid	1,007	693
Local Government Pension Scheme:		
Contributions paid	1,705	1,737
FRS 102 (28) charge	<u>1,161</u>	<u>740</u>
Charge to the Statement of Comprehensive Income	2,866	2,477
Total Pension Cost for Year within staff costs (as per Note 7)	<u>3,861</u>	<u>3,164</u>

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 2016 and the LGPS 31 March 2019.

Contributions amounting to £289,388 (2018/19 £272,497) were payable to the schemes at the end of the financial year, and are included within creditors.

Notes to the financial statements
for the year ended 31 July 2020

23 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 2014. These regulations apply to teachers in schools and other educational establishments, including Colleges. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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. Retirement and other pension benefits are paid by public funds provided by Parliament.

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.

The valuation of the TPS is carried out in line with regulations made under the Public Service Pension Act 2013. Valuations credit the teachers' pension account with a real rate of return assuming funds are invested in notional investments that produce that real rate of return.

The latest actuarial review of the TPS was carried out as at 31 March 2016. The valuation report was published by the Department for Education (the Department) (DfE) in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion; giving a notional past service deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19) The DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019/20 academic year.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website.

The pension costs paid to TPS in the year amounted to £1,007,000 (2018/19: £693,000).

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 2020 was £2,179,000 of which employers' contributions totalled £1,164,000; employees' contributions totalled £470,000 and lump sum deficit payments of £541,000.

The agreed contribution rate for the coming year is 16.9% until 31 March 2021 for employers, this rate includes a provision for potential impact of McCloud; the rate for the two preceding years has been agreed at 17.6% and 18.3%. The planned lump sum deficit payments have reduced for the three year period. Employee contribution rates range from 5.5% to 12.5% depending on full time equivalent salary.

Notes to the financial statements
for the year ended 31 July 2020

23 Defined benefit obligations (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 July 2020 by a qualified independent actuary.

	At 31 July 2020	At 31 July 2019
CPI inflation / CARE benefits revaluation	2.30%	2.20%
Rate of increase in salaries	3.80%	3.00%
Rate of increase for pensions in payment / deferment	2.40%	2.30%
Discount rate for scheme liabilities	1.60%	2.20%
Commutation of pensions to lump sums	50%	50%

The College has updated its approach to setting RPI and CPI inflation in light of the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK statistics Authority. The College continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.2% at 31 December 2018 to 0.4% at 31 December 2019, reflecting an allowance for additional market distortions caused by the RPI referral proposals. For CPI, the College has proposed a long term gap between RPI and CPI of 80 basis points, compared to the 120 basis points at the prior year end. The estimated impact of the change in the methodology is approximately a £7.5m increase in the defined benefit obligation in respect of the LGPS scheme.

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 2020	At 31 July 2019
<i>Retiring today/current pensioners</i>		
Males	22.6 years	22.8 years
Females	25.0 years	25.8 years
<i>Retiring in 20 years/future pensioners</i>		
Males	24.2 years	25.1 years
Females	27.0 years	28.2 years

The sensitivity analysis below models the change in assumptions and the resulting potential increase or (decrease) in deficit position.

	At 31 July 2020 £'000	At 31 July 2019 £'000
Discount rate + 0.1%	(1,830)	(1,762)
Inflation +0.1%	1,866	1,797
Pay growth + 0.1%	132	187
Increase in life expectancy 1 year	2,995	1,708

**Notes to the financial statements
for the year ended 31 July 2020**

23 Defined benefit obligations (continued)

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

	Fair Value at 31 July 2020	Fair Value at 31 July 2019
	£'000	£'000
Equities	21,219	42,426
Government Bonds	12,290	4,488
Other Bonds	8,983	2,992
Property	5,346	3,590
Cash	1,929	1,735
Other	5,346	4,608
Total fair value of plan assets	55,113	59,839
Actual return on plan assets	(1,434)	2,751

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

	2020 £'000	2019 £'000
Fair value of plan assets	55,113	59,839
Present value of plan liabilities	(97,442)	(88,641)
Net pensions liabilities (Note 18)	(42,329)	(28,802)

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

	2020 £'000	2019 £'000
Amounts included in staff costs		
Current service cost	2,737	2,135
Curtailments and settlements	6	24
Administration expenses	31	29
Total	2,774	2,188
Amounts included in interest and other finance costs		
Net interest on pension liability	615	433
Total	615	433
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	(5,873)	1,097
Experience losses arising on defined benefit obligations	4,351	-
Changes in assumptions underlying the present value of plan liabilities	(10,229)	(12,924)
Amount recognised in Other Comprehensive Income	(11,751)	(11,827)

**Notes to the financial statements
for the year ended 31 July 2020**

23 Defined benefit obligations (continued)

Movement in net defined benefit liability during year	2020 £'000	2019 £'000
Net defined benefit liability in scheme at 1 August	(28,802)	(15,802)
Movement in year:		
Current service cost	(2,737)	(2,135)
Past service cost	(97)	(307)
Employer contributions	1,710	1,755
Curtailments and settlements	(6)	(24)
Administration expenses	(31)	(29)
Net Interest on the defined liability	(615)	(433)
Actuarial loss	(11,751)	(11,827)
Net defined liability at 31 July	(42,329)	(28,802)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations	2020 £'000	2019 £'000
Defined benefit obligations at start of period	88,641	72,702
Current service costs	2,737	2,135
Interest costs	1,930	2,086
Contributions by Scheme participants	486	463
Experience gains and losses on defined benefit obligations	(4,351)	-
Changes in financial assumptions	10,229	12,924
Estimated benefits paid	(2,333)	(2,000)
Curtailments and settlements	6	24
Past service cost	97	307
Defined benefit obligations at end of period	97,442	88,641
Changes in fair value of plan assets		
Fair value of plan assets at start of period	59,839	56,900
Interest on plan assets	1,315	1,653
Return on plan assets	(5,873)	1,097
Employer contributions	1,710	1,755
Administration expenses	(31)	(29)
Contributions by scheme participants	486	463
Estimated benefits paid	(2,333)	(2,000)
Fair value of plan assets at end of period	55,113	59,839

These accounts show a past service cost of £97,000 in 2019/20 in respect of GMP indexation, the figure of £307,000 in 2018/19 was in respect of the McCloud / Sergeant judgment which ruled that the transitional protection for some members of public service schemes implemented when they were reformed constituted age discrimination.

Notes to the financial statements
for the year ended 31 July 2020

24 Events after the reporting period

There are none to report.

25 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 £629 (2018/19: £1,009). 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 (2018/19: None).

Artrix Theatre – an organisation in which Nicki Williams, Vice Principal and Deputy Chief Executive Officer; and Charlotte Swain, Vice Principal - Vocational and Technical Education, are trustees.

£570 paid by the College to the use of the theatre for a conference. (2018/19: £750) £0 due to the College at year end. (2018/19: £0).

Worcester Business Improvement District – an organisation in which Nicki Williams Vice Principal and Deputy Chief Executive Officer, is a Director.

£9,682 paid in the year for the BID levy. £3,052 received in the year for various courses. (2018/19: £1,899 paid by the College, £570 received)

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

£830 paid by the College in respect of membership and conference fees. (2018/19: £575 paid by the College)

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

Worcestershire County Council

£95,927 paid by the College in respect of services during the year. (2018/19: £106,751 paid by the College)

£988,782 received by the College in respect of funding and services provided to the Council. (2018/19: £691,061 received by the College)

£16,263 due to the College at year end (2018/19: £7,104 due to the College at year end)

Notes to the financial statements
for the year ended 31 July 2020

25 Related party transactions (continued)

Worcester City Council

£0 received by the College (2018/19: £1,700)

£76,987 paid by the College (2018/19: £252,564 paid by the College)

Worcestershire LEP – an organisation in which Gary Woodman, Governor, is the Chief Executive Officer, Anthony King, Governor is on the Audit Committee and Stuart Laverick, Principal and CEO, is a board member.

£988,782 received by the College in respect of a Capital Grant (2018/19: £1,836,604 received by the College)

£222,000 due to the College at year end (2018/19: £0 due to the College at year end)

The Forge Short Stay School - an organisation in which Julia Breakwell, Assistant Principal – Information Systems and Student Experience, is Vice Chair on the governing board and Donna Gibson, Principal's Personal Assistant, is Clerk.

£3,281 received by the College (2018/19: £2,077)

Worcestershire Cricket Board - an organisation in which Claire Heywood, Vice Principal - Inclusive, Commercial & Employer Learning, is a Communities and Inclusion Director.

£4,956 paid by College (2018/19: £11,050). £1,150 received by College (2018/19: £4,013)

Sanctuary Housing Association - an organisation in which Anthony King, Governor, is Group Treasurer.

£3,690 received by the College (2018/19: £2,875)

26 Amounts disbursed as agent

Learner support funds

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Funding body grants – bursary support	495	718
	495	718
Disbursed to students	(470)	(692)
Administration costs	(25)	(26)
Balance unspent at 31 July included in creditors	-	-

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.