

Report and Financial Statements

For the year ended 31st July 2021



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 2020/21:

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

Board of Governors

A full list of Governors is given on page 22-23 of these financial statements.

Mrs K Kavanagh acted as Clerk to the Corporation during the period.

Professional advisors

Financial statement auditors and reporting accountants

Bishop Fleming LLP
1 – 3 College Yard
Worcester
WR1 2LB

Internal auditor

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

Bankers

Barclays Bank PLC
15 Colmore Row
Birmingham
B3 2WN

National Westminster Bank PLC
103 Colmore Row
Birmingham
B3 3MN

Santander Corporate Banking
3rd Floor 1 Cornwall Street
Birmingham
B3 2DX

Solicitors

Harrison Clark Rickerbys Limited
5 Deansway
Worcester
WR1 2JG

CONTENTS

	Page number
Strategic Report	3
Statement of Corporate Governance and Internal Control	22
Statement of Regularity, Propriety and Compliance	30
Statement of the Responsibilities of the Members of the Corporation	31
Independent Auditor's Report to the Corporation of Heart of Worcestershire College	32
Reporting Accountant's Report on Regularity	36
Statement of Comprehensive Income	38
Statement of Changes in Reserves	39
Balance sheet as at 31 July	40
Statement of Cash Flows	41
Notes to the Financial Statements	42-68

STRATEGIC REPORT

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2021.

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

The College mission remains as follows:

To Inspire, Innovate, Advance

Covid-19

For the 2020/21 academic year the College continued to operate in line with the Department for Education guidance whilst the UK continued to experience the pandemic and various periods of lockdown. Amendments to the campus, which were implemented during 2019/20 as a result of the national lockdown, continued throughout 2020/21 to ensure sites were Covid secure.

The main strategy and priority during this time was to maintain delivery to learners remotely where necessary, or safely whilst onsite, support any vulnerable learners, whilst also ensuring key business functions remained operational to support learners and the College infrastructure.

Regular communications to staff and students during this time was again 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 any periods of lockdown.

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 22 to 23.

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.

With the College’s existing strategy reaching the end of its current cycle, the Corporation has considered the process of refreshment, in the context of a number of internal and external factors. These include:-

- The FE White Paper and associated legislation;
- The Comprehensive Spending Review;
- Post COVID-19 restoration and recovery; and
- Impending retirement of the Principal and Chief Executive.

The Corporation has established a specific Task and Finish Group to review the implications of these and other appropriate factors and make recommendations regarding the College’s future strategic direction, including potential relationships and partnerships with other institutions consistent with the College’s values and educational character. The Group will report in the Spring Term of 2022.

The top ten priorities for the College during the course of the current 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 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 2020/21 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 an operating surplus and seen a further small increase in the defined pension obligation which increased significantly at 31 July 2020. After pension year end adjustments of around £2.5m the College is reporting a deficit position, 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** However the College does has maintained strong cash balances and cash days despite two difficult financial years through the pandemic.
- Operating at least a break-even operating position (pre restructuring and excluding FRS102 28 Pension adjustments); **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; **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** – However reserves excluding the defined pension obligation are £50.3m, the valuation at 31st July is based on technical accounting processes including the economic position at the time of valuation, which the College has no influence over. However, the resulting impact, of the defined pension obligation, is the College contributions to the scheme.
- 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 2019/20 grading.

FINANCIAL POSITION

Financial Position

The College generated a deficit before other gains and losses in the year of £2,216,000 (2019/20 – £1,924,000), with total comprehensive income of £39,000, (2019/20 – (£13,684,000)). The total comprehensive income in 2020/21 is stated after accounting for restructuring costs and significant pension costs in relation to the defined benefit obligation, excluding these charges the underlying operating surplus was £601,000 (2019/20 – £90,000 deficit).

The defined benefit obligation, in relation to the Local Government Pension Scheme, at 31 July 2021 increased by £161,000, to £42.5m from £42.3m, this is following the significant increase of £13.5m experienced at the previous valuation at 31 July 2020. This was a direct result of the economic position which was significantly negatively impacted by Covid-19 and continues to be a concern. The increase in 2019/20 resulted in a balance sheet with negative net assets which has continued in 2020/21.

The final outturn surplus position is significantly improved over the original deficit budget that was set in June/July 2020, when the UK was still in the early stages of the pandemic and budgeting was conservative. There are several lines impacting on this improved position and funding that emerged after the budget was set, the most significant being:-

- Successfully delivery of 2 College Collaboration Fund projects.
- Review of Income Generating Activities and associated staffing.
- Holding of staffing vacancies where not impacting on direct delivery.
- Additional high needs learner numbers and the associated Element 3 claim.
- Continued use of the Coronavirus Job Retention Scheme.
- Confirmed lower tolerance level on the ESFA Adult Education Budget

The College has negative reserves of £7,894,000 (2019/20 - £7,933,000 negative), due to the significant increase in pension liability experienced in 2019/20 and a further smaller increase in 2020/21 to £42,490,000 at 31 July 21 (2019/20 - £42,329,000). Reserves before this liability are £36,004,000 at 31 July 2021 (2019/20 - £34,396,000); and cash and short-term investment balances of £8,524,000 (2019/20 - £6,344,000).

Tangible fixed asset additions during the year amounted to £2,264,000. This was split between land and buildings of £946,000, equipment of £776,000 and a further £542,000 of 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 Greater Birmingham and Solihull Local Enterprise Partnership towards the College investment in the Construction facilities at Alliance House Redditch.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2020/21 the funding bodies provided 79% 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 £408,000 (note 5); this is a direct result of the pandemic. Some of this reduction is mitigated by reduced non pay spend and the CJRS claim.

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 2020/21 was £3,369,000, an increase on the £1,728,000 during 2019/20.

Covid-19 has not significantly impacted the College cash position to 31 July 2021, 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 throughout 2020/21.

Borrowings during the year have reduced from £2.9m at 31 July 2020 to £2.7m as at 31 July 2021; 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 2020/21 this has not been achieved due to a further significant increase in defined pension obligation experienced in 2019/20.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial health

The College is assessed by the ESFA as having a "Good" financial health grading which is consistent with the 2019/20 grading.

Student Numbers

In 2020/21 the College delivered activity that has generated £21,689,000 in funding body grants (2019/20 - £21,250,000) as per note 2 to the Financial Statements.

Student Achievements

Heart of Worcestershire College has improved student outcomes against the difficult backdrop of a disrupted teaching year. Retention rates have increased slightly for all ages to 92.4%; 16 to 18 year olds are at 91%, and adult learners has risen by 2% to 94%.

Overall achievement rates have risen by 3%, to 82%. This has included ensuring students who had extensive periods of learning remotely on practical courses have extended study years, to ensure they were able to learn, exhibit and be tested on their ability to undertake required practical test at the industry standard. The College also provided Teacher-Assessed grades for many vocational courses and English and maths.

Overall apprenticeship achievement rates are not yet confirmed for 2020/21. The restrictions to working on site, limited placements and reduced economic activity, have all remained contributing factors to the take up and delivery of learning and assessment for apprentices.

Outcomes for English and Mathematics for 2020/21 were based on Teacher Assessed Grades and this has impacted on the comparisons to 2019/20 outcomes. GCSE results increased for substantially, in part due to onsite assessments replacing exams. 46%, achieving a grade 9-4 in English an increase of 20% and 30% achieving a grade 9-4 in Mathematics, up from 19%. Results for students were based on a range of evidence; set assessments provided by the Awarding Body, alongside completion of in-class assessments, completion of mock papers and in-class tasks. Functional Skills continued to be assessed by examination through a new more challenging syllabus and these led to a decrease in performance for English and maths.

Almost all learners, 96% of those surveyed, 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 into valuable employment meeting local and national priorities.

Future developments

During 2020/21 the College 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 was completed during the summer term.

An amount of £600,000 is budgeted for Capital Spend in 2021/22, this will see smaller projects being completed rather than significant ones the College has completed in more recent years.

The Senior Leadership Team and Corporation continue to review the impact Covid-19 has on the financial position and learner numbers during 2021/22 and onwards; apprenticeships have already seen a longer term impact with the budget for 2021/22 having been reduced significantly compared to prior years delivery.

Financial plan

The College governors approved the budget and financial plan in July 2021 which set budget targets for the period ending 31 July 2022. This excluded any non-recurrent funding not confirmed at the time of approval; however, it did include a reduction to apprenticeship budgets. This funding stream has seen the most longstanding impact following Covid-19 pandemic and it is anticipated it will take some time for it to recover to delivery levels in prior years.

The plan highlighted a potential deficit position of £0.7m for 2021/22, reflecting lower levels of apprenticeship delivery but increasing levels of pay due to National Minimum Wage and Pension increases; despite this planned level of deficit the financial health rating would continue to be "Good". The College objectives are to reduce this level of deficit where possible.

Curriculum Development

The curriculum offer in 2020/21 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);
- Management and Professional; and
- Three Counties Consortium (partners' delivery of adult skills and apprenticeships).

The college curriculum offer remained mainly stable over the 2020/21 year. This was in part due to COVID-19 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 continue to be changes to demand and reviews of funding and this may affect decisions about this type of provision. Apprenticeship demand has been impacted by COVID, ameliorated to some degree by additional incentives; these will end and the longer-term impact will be monitored.

The Government provided new funding streams and widened eligibility for Adults at level 3 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 2020/21, adult employment rates have also been significantly impacted locally showing that comparisons with March 2020, prior to the impact of the pandemic, the claimant count has increased by 6,425 or 77% and the number of claimants aged 18-24 has increased by 1,045 or 66% (Worcestershire Economic Survey September 2021). The college is exploring new curriculum for the 2021/22 year, these are likely to include more professional work, and courses to enable progression to higher levels as well as courses for unemployed adults via Sector Work Academy Programmes (SWAPs) and in supporting the Restart programme.

The College is funded through the AEB by the ESFA and also direct from a combined authority. This now includes the need to discuss and plan with the West Midlands Combined Authority (WMCA); a small contract through the Greater London Authority came to an end in 2021. This means our offer, whose campuses cut across these districts, will also be aligned to the priorities and ambitions of the West Midlands Combined Authority.

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. However, concerns 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 proved to be real and both the Digital and Childcare and Education T Levels did not attract enough learners; a pattern of recruitment experienced across many colleges. These T levels continue to be heavily promoted through marketing activities by the College and others (Worcestershire Careers) and it is hoped that greater access to schools will open up interest further. Additionally, a second digital T level (Support Services) with Business and engineering is in planning for a 2023 launch.

There was a continued decrease in the amount of apprenticeship activity recorded and delivered through the Three Counties Consortium, due both to planned reductions and the ability of some partners to obtain direct contracts. Adult education continues to be a strong element of partnership work.

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. Increased allocation achieved by a further 10 taking us to 250 overall. This represents a growth of just over 90% on allocation funding to now £1.5m. Element 3 negotiations have similarly performed well at just over 80% growth giving overall funding for high needs around £2.3m in 2020/21 compared to £1.3m in the first year of

merger (2014/15). Consultation currently out from Worcestershire County Council which we have responded to although rough estimates still predict some further growth despite additional alternative post 16 places being planned for creation in the county for social, emotional, mental health needs (SEMH). Approximately 60% of learners study within the Inclusive Learning area with the remainder across vocational and technical programmes.

The College continues to work closely with select 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 2020/21 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 continues to be a particular focus and we have been successfully reselected as one of only a minority of some 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. The Consortium now boasts 151 member institutions across the UK from Aberdeen to Cornwall and even as far afield as Jersey. This equates to 70% of the FE sector. The BLC content library has now grown to 2200 individual learning objects across 52 subject areas from Level 1 – Level 4 and over 700 short demonstration videos. Every learning object has built-in micro assessment to enable teachers to track engagement and for learners to be able to gauge their own progress as they work through the material.

It is estimated that over 500,000 learners are using the BLC content each year from 16-18 year olds to adults and apprentices. This was further increased during the national lockdowns.

The successful bidding and completion of two large College Collaboration Fund projects saw this team write, develop and publish 305 individual learning objects across a range of vocational subject areas including mental health awareness, English, mathematics and engineering. The second project was the development of 185 vocational demonstration videos that focused not only on popular subject areas but also more niche areas such as land-based activities. The team at HoW College built a bespoke virtual learning environment to host the materials and provide open access for any institution to browse and download the resources from. The resources have been made freely available to all institutions nationwide and have received great feedback from the educators who have used them. Since launching the resources at the end of June the Moodle hosting the material has had over 185,000 page visits with many of the demonstration videos being viewed over 5,000 times.

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 2020 to 31 July 2021, the College paid 93.81% 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 94.60% in 2019/20 and has only reduced due to the lockdowns experienced during the year and remote working throughout the autumn and spring 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	0.20

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

Total cost of facility time	£4k
Total pay bill	£18,761k
Percentage of total bill spent on facility time	0.02%

Time spent on paid trade union activities as a percentage of total paid facility time	100%
---	------

The employee undertaking this role left the College during the 2020/21 academic year.

Events after the end of the reporting period

There are no post balance sheet events.

Developments

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.

Streamlined Energy and Carbon Reporting

The College is committed to reducing its carbon emissions. At the Corporation meeting held on 25th May 2021 the Governors approved the target ‘50 in 10’ which reflects maximum effort toward or beyond a fair share of the 50% reduction in CO2 by May 2031; using baseline data from 2018/19.

The College has taken the following measures during the year to improve energy efficiency:

- Establish a cross College Eco-campus group.
- Appoint a Sustainability Lead Governor.
- Create and monitor an action plan aligned to the AOC RoadMap.
- Alter College working patterns and building usage for 2021/22 to improve energy efficiency.

UK Greenhouse gas emissions and energy use data for the period	Year ended 31 July 2021	Year ended 31 July 2020
Energy consumption used to calculate emissions (kWh)	5,871,692	5,081,437
<u>Scope 1 emissions in metric tonnes CO2e</u>		
Gas consumption	1,079.63	934.22
Owned transport	6.66	9.71
Total	1,086.29	943.93
<u>Scope 2 emissions in metric tonnes CO2e</u>		
Purchased electricity	579.47	656.20
<u>Scope 3 emissions in metric tonnes CO2e</u>		
Business travel in employee owned vehicles	5.50	29.93
Total gross emissions in metric tonnes CO2e	1,671.26	1,630.06
<u>Intensity ratio</u>		
Metric tonnes CO2e per		
FTE staff member	3.71390	3.63043
floor area	0.03367	0.03284

Qualification and reporting methodology

The College has followed the 2019 HM Government Environmental Reporting Guidelines. It has also used the GHG Reporting Protocol – Corporate Standard and have used the 2021 UK Government’s Conversion Factors for Company Reporting.

Intensity ratio

The chosen intensity measurement ration is “floor area” and “FTE staff member”.

RESOURCES

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

The college enrolled approximately 6,222 students. The college's student population includes 2,341 16-to-18-year-old students, 258 High Needs Students, 336 apprentices, 891 higher education students, and 2,396 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. Most recently 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.

The College has negative net asset position within the balance sheet of £7.9 million (including £42.5 million pension liability, £34.6 million before this liability) and debt of £2.7 million.

The College employed an average of 611 staff during 2020/21, of whom 331 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 Authority.

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 ongoing 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, minimise outbreaks and transmission which ultimately keep students in the classroom.

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 2020/21, 79% 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 and budget in October 2021 gave positive signs and additional funds to education however this detail of funding remains unclear. It is hoped this will give the College a much longer term view of funding which Colleges desperately require;
- The 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.

Economy

The current economic climate is posing real financial pressures upon Colleges from several different directions.

- Rising Inflation, currently at 3% with expectations of further increases, compared to frozen funding rates from the ESFA;
- Increases to National Insurance from April 2022 which are currently unfunded;
- Significant increases in Energy prices as the College exits existing contracts;
- Difficulties retaining and recruiting staff due to pay levels and general change in the employment market.

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. 2020/21 has seen a further increase in the deficit through the actuarial valuation at 31 July 2021.

The significant increase as at 31 July 2020 put a significant strain on the College Key Performance Indicators and directly resulted in one Loan Covenant monitor being breached, which was resolved during 2020/21. The valuation at 31 July 2021 continues to be at a significantly high level.

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 through to 2023, mitigating the 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 July 2022, 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.

Gender pay gap reporting

	Year ending 31 March 2021
Mean gender pay gap	13.73%
Median gender pay gap	24.05%
Mean bonus gender pay gap	0%
Median gender bonus gap	0%
Proportion of males/females receiving a bonus	0%

The proportion of males and females in each quartile of the pay distribution are:

	Males	Females
1 - Lower quartile	18.24%	81.76%
2	25.00%	75.00%
3	43.24%	56.76%
4 – Upper quartile	38.93%	61.07%

The college publishes its annual gender pay gap report on its website.

Going Concern

The budget for 2021/22 was approved by Corporation at its meeting on 6th July 2021, with a budgeted deficit position of £738,000; before restructuring or any pension costs.

Although the College has knowledge and experience of the previous 12 months managing the College through the pandemic and the impact this has had on student numbers, financials and staffing costs, there is still a degree of uncertainty over the lasting impact this will have on the economy, learner behaviour and employer demand.

The most significant budget change is an expected reduction in apprenticeship income to £1.5m in 2021/22, a significant reduction on historical levels, this reflects the lasting impact of the pandemic on take up of apprenticeships during lockdown and the number of learners “in learning”. This budget is based on learners currently in learning, where funding will carry into 2021/22 and prudent estimates of new starts after 1st August 2021.

Final cash balances for 2020/21 were £8.5m, this is higher than the budget and financial plan; this was largely due to an improved outturn to a surplus position, higher than anticipated cash receipts and sales ledger income, along with later than expected capital expenditure.

The cashflow forecast at November 2021 forecasts an improve position over the original budget with a projected closing balance at 31st July 2022 of £6.9m, however it should be noted there is an estimated £1.1m clawback from the ESFA in 2022/23 based on current ESFA contract values, budgeted consumption of the allocation and the assumption that the tolerance levels will revert back to pre-pandemic levels.

Headline projections are:-

	Budget £'000	Projection Nov-21 £'000
Deficit 2021/22	(£738)	(£767)
Cash at 31 July 2022	£4,643	£6,864

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, 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:

- The lasting impact COVID-19 has on apprenticeship recruitment and income generated from this funding stream;
- Additional costs the College will incur through increased national Insurance costs in April 2022 and energy prices from October 2021.
- The two remaining covenant tests with Santander at 31 July 2021 have been met and projections for 2021/22 indicate the test will remain compliant throughout the year.

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 14 December 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 2020 to 31 July 2021 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 20/21
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)	6/6
Mr D Miles (Vice Chair of Corporation)	01/08/14 Reappointed 22/05/18	4 years (wef 01/08/18)		Non-Executive	Audit Remuneration (Vice Chair of Corporation during 2020/21)	6/6
Mr D Ash (Vice Chair of Corporation)	10/10/17	4 years until 31/07/21		Non-Executive	Corporation Appeal (Chair) Governance & Search Remuneration (Vice Chair of Corporation for 2021/22)	6/6
Mr S Bolton	28/04/15 Reappointed 12/02/19	4 years (wef 28/04/19)		Non-Executive	Audit Corporation Appeal	6/6
Leon Evans-Lochlin	15/12/20	1 year until 31/07/21		Student	Governance & Search	4/5
Mr K Gaffney	01/08/14 Reappointed 22/05/18	4 years (wef 01/08/18)		Non-Executive	Audit (Chair)	6/6
Mr P Heath	01/08/14 Reappointed 17/07/18	4 years (wef 01/08/18)	21/02/21	Staff	Governance & Search	1/3

Heart of Worcestershire College

Mrs F Hellowell	01/08/16 Reappointed 01/08/20	4 years	16/09/21	Non-Executive	(Governor representative on Academic Board) Remuneration Corporation Appeal	6/6
Mrs L Hodgson	01/08/14 Reappointed 18/07/17	4 years (wef 01/08/17)	31/07/21	Non-Executive	Audit Corporation Appeal Governance & Search	2/6
Mr A King	09/10/18	4 years until 31/07/22		Non-Executive	Audit	6/6
Mr S Laverick	01/08/14	Ex officio		Principal	Governance & Search	6/6
Amelia Thomas	26/01/21	Remaining 1 year until 31/07/21	31/07/21	Student		0/3
Mrs D Morris	01/08/14 Reappointed 17/07/18	4 years (wef 01/08/18)	22/06/21	Staff	Audit	5/5
Mrs S Nicholls	09/10/18	4 years until 31/07/22	31/07/21	Non-Executive	Audit	3/6
Mr R Pearce	01/08/14 Reappointed 18/07/17	4 years (wef 01/08/17)	31/07/21	Non-Executive	Remuneration	5/6
Mr G Woodman	01/08/16 Reappointed 01/08/20	4 years		Non-Executive	Remuneration Corporation Appeal	5/6
Owen Jones	15/12/20	1 year until 31/07/21	26/01/21	Student		1/1
Angela Edwards	16/06/20	4 years	12/10/21	Non-Executive	Governance & Search	5/6
Nick Baldwin	16/06/20	4 years	26/08/21	Non-Executive	Remuneration	6/6
Helen Butler	01/08/20	4 years		Non-Executive	Remuneration	6/6
Kyra Peace	01/08/21	1 year until 31/07/22		Student		
Stephanie Simcox	01/08/21	4 years (wef 01/08/21)		Non-Executive	Audit Remuneration	
Sarah Owen	01/08/21	4 years (wef 01/08/21)		Non-Executive		
Andrea Borwell-Fox	01/08/21	4 years (wef 01/08/21)		Non-Executive	Audit	
Evan Whakahau	01/08/21	4 years (wef 01/08/21)		Staff		
Zalina Bingham	01/08/21	4 years (wef 01/08/21)		Staff		

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
Peakman Campus
Peakman Street
Redditch
Worcestershire B98 8DW

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 pandemic; however, Corporation and committees are meeting via Microsoft Teams with papers being received electronically. For 2021/22 some meetings will be held on site where national guidelines allow.

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

A workshop was held and enabled the Corporation to carry out a self-assessment of its own performance for the year ended 31 July 2021 and graded itself as “Good” on the Ofsted scale.

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 2021 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.

The Audit Committee met three times in the year to 31 July 2021. The members of the committee and their attendance records are shown below.

Committee member	Meetings attended
Mr K Gaffney (Chair)	3/3
Mr D Miles	2/3
Mr S Bolton	3/3
Mrs L Hodgson	2/3
Mr A King	3/3
Mrs D Morris	3/3
Mrs S Nicholls	3/3

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 2021 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 2021 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 2020/21 without any impact from the pandemic. In addition, the College return to work plans and risk assessments were reviewed by the 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 2019/20 and the Risk Management Plan 2020/21 at its meeting on 15 December 2020. On 9 March 2021 the Audit Committee monitored the Spring Term College Strategic Risk Register. On 22 June 2021 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 2021 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 2020/21.

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 2020/21 and up to the date of the approval of the financial statements are:

Assignment	Assurance level	Actions agreed			
		Low	Medium	High	Advisory
Framework for Compliance with Legal and Regulatory Requirements: Health and Safety	Substantial Assurance	2	1	0	0
IT: Cyber Security Controls	Reasonable Assurance	1	4	0	0
Follow up	Good progress	3	3	0	0
Learner Number Systems and Curriculum Planning Framework: T Level Preparations	Substantial Assurance	0	0	0	0
Governance and Risk Management Arrangements	Substantial Assurance	4	3	0	0
Human Resources: High Level Advisory Review	Advisory	3	2	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 financial statements, 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 December 2021 meeting the Corporation carried out the annual assessment for the year ended 31 July 2021 by considering documentation from the Senior Leadership Team, Audit Committee and Internal Auditors, and taking account of events since 31 July 2021.

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 14 December 2021 and signed on its behalf by:-



N Bucktin
Chair



S M Laverick
Principal

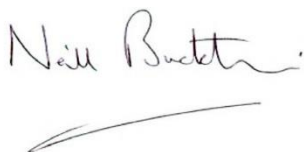
Statement of Regularity, Propriety and Compliance

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, or any other public funder.

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 14 December 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 corporation's grant funding agreements and contracts with 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 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the corporation and its surplus / deficit of income over expenditure for that period.

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 whether the corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate;
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the college will continue in operation.

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

The corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the college and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The corporation is responsible for the maintenance and integrity of its website; the work carried out by 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 and any other public funds are used only in accordance with the ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by the ESFA or any other public funder. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from the ESFA and other public bodies are not put at risk.

Approved by order of the members of the Corporation on 14 December 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 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Reserves, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice: Accounting for Further and Higher Education (the 'FE HE SORP') and the College Accounts Direction for 2020 to 2021.

In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2021 and of their income and expenditure, gains and losses, changes in reserves, and cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the FE HE SORP, College Accounts Direction 2020 to 2021 and the Office for Students' Accounts Direction.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion relating to going concern

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the College's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post 16 Audit Code of Practice Issued by the Education and Skills Funding Agency ('ESFA') requires us to report to you if, in our opinion:

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

Opinion on other matters prescribed by the Office for Students' Accounts Direction

In our opinion:

- Funds from whatever source administered by the College for the specific purposes have been applied to those purposes and managed in accordance with relevant legislation; and
- Funds provided by the Office for Students ('OfS') and Research England have been applied in accordance with the relevant terms and conditions and any other terms and conditions attached to them.

We have nothing to report in respect of the following matters in relation to which the Office for Students' Accounts Direction requires us to report to you if, in our opinion:

- the College's grant and fee income, as disclosed in the notes to the financial statements, has been materially misstated; or
- the College's expenditure on access and participation activities for the financial year has been materially misstated.

Responsibilities of the College

As explained more fully in the Statement of Responsibilities of the Members of the Corporation, the College is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the College determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for 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 the College either intend to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the sector, control environment and the College's performance;
- results of our enquiries of management and the members, including the committees charged with governance over the College finance and control, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the College's documentation of their policies and procedures relating to: identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance; detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- how the College ensured it met its obligations arising from it being financed by and subject to the governance requirements of the ESFA and OfS, and as such material compliance with these obligations is required to ensure the College will continue to receive its public funding and be authorised to operate, including around ensuring there is no material unauthorised use of funds and expenditure;
- how the College ensured it met its obligations to its principal regulator, the Secretary of State for Education; and
- the matters discussed among the audit engagement team and involving relevant internal college specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the College for fraud, which included incorrect recognition of revenue and management override of controls using manual journal entries and these were identified as having the greatest potential for fraud.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. We also obtained an understanding of the legal and regulatory frameworks that the College operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the College Accounts Direction, the Office for Students' Accounts Direction, and the FE HE SORP.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the College's ability to operate or to avoid a material penalty. These included safeguarding regulations, data protection regulations, occupational health and safety regulations, education and inspections legislation, and employment legislation.

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

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- reviewing the financial statement disclosures and testing to supporting documentation to assess the recognition of revenue;
- enquiring of the College's management and members concerning actual and potential litigation and claims;
- performing procedures to confirm material compliance with the requirements of the ESFA and OfS;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of the members and reviewing internal control reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
1-3 College Yard,
Worcester,
WR1 2LB



Date: 16th December 2021

Reporting accountant's assurance report on regularity to the Corporation of Heart of Worcestershire College ("the College") and Secretary of State for Education acting through the Department for Education ("the Department")

In accordance with the terms of our engagement letter dated 11 June 2021 and further to the requirements of funding agreement with the Education and Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by the College during the period 1 August 2020 to 31 July 2021 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 ("the Code") issued by the Department. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record returns, for which the Department has other assurance arrangements in place.

This report is made solely to the Corporation of the College and Department in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of the College and the Department 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 the College and the Department for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of the College and the reporting accountant

The Corporation of the 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 Code. 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 2020 to 31 July 2021 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 Code issued jointly by the Department. We performed a limited assurance engagement as defined in that framework.

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

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

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

The work undertaken to draw our conclusion includes:

- An assessment of the risk of material irregularity and impropriety across the College's activities;

Reporting accountant's assurance report on regularity to the Corporation of Heart of Worcestershire College ("the College") and Secretary of State for Education acting through the Department for Education ("the Department")

- Evaluation and validation of the processes and controls in place to ensure regularity and propriety for the use of public funds, including the consideration of the College's self-assessment questionnaire (SAQ); Testing transactions with related parties;
- Sample testing of income and expenditure to ensure that funds have been applied for the purposes that they were awarded, focused on areas assessed as high risk. 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 referenced to our regularity report.

The 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 Code.

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 2020 to 31 July 2021 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
1-3 College Yard,
Worcester,
WR1 2LB

Date: 16th December 2021

Heart of Worcestershire College

Statement of Comprehensive Income for the year ended 31 July 2021

	Note	Year ended 31 July 2021	Year ended 31 July 2020
		£'000	£'000
<u>Income</u>			
Funding body grants	2	22,841	22,501
Tuition fees and education contracts	3	4,604	4,363
Other grants and contracts	4	346	379
Other income	5	1,208	1,616
Investment income		9	18
Total income		29,008	28,877
<u>Expenditure</u>			
Staff costs	7	18,808	17,843
Fundamental restructuring costs	7	401	67
Other operating expenses	8	8,521	9,073
Depreciation	11	2,798	3,148
Interest and other finance costs	9	696	670
Total expenditure		31,224	30,801
Deficit before other gains and losses		(2,216)	(1,924)
Loss on disposal of assets		(84)	(9)
Deficit before tax		(2,300)	(1,933)
Taxation		-	-
Deficit for the year		(2,300)	(1,933)
Actuarial gain/(loss) in respect of pension scheme	23	2,339	(11,751)
Total Comprehensive Income for the year		39	(13,684)

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

Statement of Changes in Reserves
for the year ended 31 July 2021

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 August 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)	-
	(13,496)	(188)	(13,684)
Balance at 31 July 2020	(15,892)	7,959	(7,933)
Deficit from the income and expenditure account	(2,300)	-	(2,300)
Other comprehensive income	2,339	-	2,339
Transfers between revaluation and income and expenditure reserves	188	(188)	-
	227	(188)	39
Balance at 31 July 2021	(15,665)	7,771	(7,894)

Heart of Worcestershire College

Balance Sheet as at 31 July 2021

	Note	College 2021 £'000	College 2020 £'000
Non current assets			
Tangible fixed assets	11	45,995	46,694
Investments	12	0	0
		45,995	46,694
Current assets			
Stocks		37	43
Trade and other receivables	13	1,260	1,309
Investments	14	-	4
Cash and cash equivalents	19	8,524	6,340
		9,821	7,696
Less: Creditors - amounts falling due within one year	15	(7,132)	(8,444)
Net current (liabilities) / assets		2,689	(748)
Total assets less current liabilities		48,684	45,945
Less: Creditors - amounts falling due after more than one year	16	(14,002)	(11,549)
Provisions			
Defined benefit obligations	18	(42,490)	(42,329)
Other provisions	18	(86)	-
Total net (liabilities) / assets		(7,894)	(7,933)
Unrestricted reserves			
Income and expenditure account		(15,665)	(15,892)
Revaluation reserve		7,771	7,959
Total unrestricted reserves		(7,894)	(7,933)

The financial statements on pages 38 to 68 were approved and authorised for issue by the Corporation on 14 December 2021 and were signed on its behalf by;

Nick Bucktin

N Bucktin
Chair

S. M. Laverick

S M Laverick
Principal

Statement of Cash Flows
for the year ended 31 July 2021

	Note	2021 £'000	2020 £'000
Cash inflow from operating activities			
Deficit for the year		(2,300)	(1,933)
Adjustment for non-cash items			
Depreciation		2,798	3,148
Capital grants released to income		(772)	(914)
Decrease / (Increase) in stocks		6	(19)
Decrease / (Increase) in debtors		49	(490)
Increase / (Decrease) in creditors due within one year		813	218
Increase / (Decrease) in other provisions		86	(104)
Pension costs less contributions payable		2,500	1,776
Adjustment for investing or financing activities			
Investment income		(9)	(18)
Interest payable		33	55
Loss on sale of fixed assets		165	9
Net cash flow from operating activities		3,369	1,728
Cash flows from investing activities			
Investment income		9	18
Proceeds from sale of fixed assets		1	-
Payments made to acquire fixed assets		(2,263)	(5,784)
New capital grants received		1,372	2,217
		(881)	(3,549)
Cash flows from financing activities			
Interest paid		(33)	(55)
New unsecured loans		-	55
Repayments of amounts borrowed		(271)	(261)
		(304)	(261)
Increase / (Decrease) in cash and cash equivalents in the year		2,184	(2,082)
Cash and cash equivalents at beginning of the year	19	6,340	8,422
Cash and cash equivalents at end of the year	19	8,524	6,340

**Notes to the financial statements
for the year ended 31 July 2021**

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 2020 to 2021 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 2021 and 31 July 2020, they are not consolidated as the balance sheet is not material. 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 2021.

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, 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:

- The lasting impact COVID-19 has on apprenticeship recruitment and income generated from this funding stream;
- Additional costs the College will incur through increased national Insurance costs in April 2022 and energy prices from October 2021.

**Notes to the financial statements
for the year ended 31 July 2021**

1 Statement of accounting policies and estimation techniques (continued)

- The two remaining covenant tests with Santander at 31 July 2021 have been met and projections for 2021/22 indicate the test will remain compliant throughout the year.

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.

**Notes to the financial statements
for the year ended 31 July 2021**

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.

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 1992 incorporation valuations on the basis of depreciated replacement cost as the open market value for existing use is not readily available, this has become the deemed cost, except for one property where the open market value was available as at 31 July 1998. Land and buildings are not being reassessed and valuations would probably need to be uplifted in the event of a valuation. 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 2021**

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

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

Borrowing costs

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

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives are spread over the minimum lease term.

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 2021

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. 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 2021

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 2021. 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 2021**

2 Funding body grants

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Recurrent grants		
Education and Skills Funding Agency – adult	2,328	2,409
Education and Skills Funding Agency – 16-18	14,461	12,587
Education and Skills Funding Agency – apprenticeships	1,609	2,331
Education and Skills Funding Agency – Consortium partners - adult*	213	285
Education and Skills Funding Agency – Consortium partners – apprenticeships *	443	823
Education and Skills Funding Agency – College share of consortium* partners	107	178
West Midlands Combined Authority	1,164	1,067
Greater London Authority	59	132
College share of Management fee on Combined Authority Income	177	198
The Office for Students	642	737
Specific grants		
Education and Skills Funding Agency	486	503
Releases of government capital grants	772	914
Teacher Pension Scheme Contribution Grant	362	337
ESFA Advanced Learning Loan (clawback policy change)	18	-
	22,841	22,501

* 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 2021 £'000	Year ended 31 July 2020 £'000
Education and Skills Funding Agency	763	1,286
Payments to non College partners	(656)	(1,108)
Net Income	107	178

**Notes to the financial statements
for the year ended 31 July 2021**

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 2021 £'000	Year ended 31 July 2020 £'000
Grant income from the Office for Students	707	823
Grant income from other bodies	22,480	22,057
Covid Support Office for Students	32	
Fee income for taught awards (exclusive of VAT)	1,510	1,606
Fee income for research awards (exclusive of VAT)	-	-
Fee income from non-qualifying courses (exclusive of VAT)	3,094	2,757
Total	27,823	27,243

3 Tuition fees and education contracts

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Adult education fees	433	664
Apprenticeship fees and contracts	22	39
Fees for FE loan supported courses	462	525
Fees for HE loan supported courses	1,510	1,606
Total tuition fees	2,427	2,834
Education Contracts	2,177	1,529
Total	4,604	4,363

4 Other grants and contracts

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Coronavirus Job Retention Scheme grant	346	379
Total	346	379

The Corporation furloughed staff within some business support roles, in areas where income was not grant funded and was adversely affected. For example, Catering and Nursery staff, IT and Facilities staff. The funding received of £346,000 relates to staff costs which are included within the staff cost note.

Notes to the financial statements
for the year ended 31 July 2021

5 Other income

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Catering and residences	97	220
Other income generating activities	1,111	1,396
Total	1,208	1,616

6 Investment income

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Other interest receivable	9	18
Total	9	18

7 Staff numbers and costs

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

	2021	2020
Teaching staff	349	357
Non-teaching staff	282	287
	631	644

Staff costs for the above persons	2021 £'000	2020 £'000
Wages and salaries	13,108	12,845
Social security costs	1,131	1,083
Other pension costs (<i>including FRS102 (28) pension adjustment of £1,837,000 (2019/20: £1,161,000)</i>)	4,522	3,861
Payroll sub total	18,761	17,789
Contracted out staffing services	47	54
	18,808	17,843
Fundamental restructuring costs – Contractual	401	67
Total Staff costs	19,209	17,910

The fundamental restructuring costs relate to 43 members of staff in 2020/21 (6 in 2019/20).

**Notes to the financial statements
for the year ended 31 July 2021**

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

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

	2021	2020
The number of key management personnel including the Accounting Officer was:	3	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	
	2021	2020	2021	2020
£60,000 to £65,000	-	-	2	-
£65,001 to £70,000	-	-	1	-
£70,001 to £75,000	-	-	1	3
£80,001 to £85,000	1	-	-	-
£90,001 to £95,000	-	1	-	-
£95,001 to £100,000	1	-	-	-
£140,001 to £145,000	1	1	-	-
	<u>3</u>	<u>2</u>	<u>4</u>	<u>3</u>

Key management personnel compensation is made up as follows:

	2021 £'000	2020 £'000
Salaries	321	235
Employers National Insurance	41	30
Benefits in kind	2	3
	<u>364</u>	<u>268</u>
Pension contributions	64	47
Total key management personnel compensation	<u>428</u>	<u>315</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 2021**

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:

	2021 £'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	34	33

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 2020/21 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: -

	2021 £'000	2020 £'000
Principal/Chief Executive basic salary as a multiple of the median of all staff	1:5.43	1: 5.60
Principal/Chief Executive total remuneration (including pension) as a multiple of the median of all staff	1:5.87	1: 5.98

The Principal and Chief Executive's basic salary is 5.43 times (2019/20: 5.60) 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 £26,500 is used for both calculations.

The Principal and Chief Executive's total remuneration, which includes employer pension costs, is 5.87 times (2019/20: 5.87) 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 2021**

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 2021 £'000	Year ended 31 July 2020 £'000
Teaching costs	1,399	1,673
Non teaching costs	4,817	5,183
Premises costs	2,305	2,217
Total other operating expenses	8,521	9,073
Other operating expenses include:	2021 £'000	2020 £'000
Auditors remuneration:		
- financial statements audit	35	38
- internal audit	20	21
Loss on disposal of tangible fixed assets	84	9
Depreciation	2,798	3,148
Hire of plant and machinery - operating leases	57	71

8a Access and participation spending

	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Access investment	86	78
Financial support to students	44	41
Disability support	18	22
Research and evaluation (relating to access and participation)	0	0
Total other operating expenses as included in note 8 above	148	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 2021**

9 Interest and other finance costs

	2021	2020
	£'000	£'000
On bank loans	33	55
	33	55
Net interest on defined pension liability (note 23)	663	615
	696	670

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 2021**

11 Tangible fixed assets

	Land and Freehold Buildings £'000	Equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation				
At 1 August 2020	80,399	10,527		90,926
Additions	946	776	542	2,264
Disposals	(224)	(255)		(479)
At 31 July 2021	81,121	11,048	542	92,711
Depreciation				
At 1 August 2020	34,887	9,345	-	44,232
Charge for the year	2,173	625	-	2,798
Eliminated in respect of disposals	(79)	(235)	-	(314)
At 31 July 2021	36,981	9,735	-	46,716
Net book value at 31 July 2021	44,140	1,313	542	45,995
Net book value at 31 July 2020	45,512	1,182	-	46,694

12 Investments in subsidiary

	2021 £	2020 £
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 2021**

13 Trade and other receivables

Amounts falling due within one year:	2021 £'000	2020 £'000
Trade receivables	300	737
Prepayments and accrued income	958	481
Amounts owed by Combined Authorities	2	91
Total	1,260	1,309

14 Current investments

	2021 £'000	2020 £'000
Short term deposits	-	4
Total	-	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

	2021 £'000	2020 £'000
Bank loans	272	2,512
Payments received on account	1,161	912
Trade payables	946	361
Other taxation and social security	583	593
Accruals and accrued income	1,759	2,792
Deferred income – government capital grants	755	640
Amounts owed to the Education and Skills Funding Agency	1,656	634
Total	7,132	8,444

16 Creditors: amounts falling due after one year

	2021 £'000	2020 £'000
Bank loans	2,379	411
Deferred income – government capital grants	11,623	11,138
Total	14,002	11,549

**Notes to the financial statements
for the year ended 31 July 2021**

17 Maturity of debt

Bank loans are repayable as follows:

	2021	2020
	£'000	£'000
In one year or less	272	2,512
Between one and two years	272	132
Between two and five years	567	279
In five years or more	1,540	-
Total	2,651	2,923

As at 31 July 2021, following the signed agreement, the loans held with Santander are no longer in breach position; balances repayable are now reported in the timeframes they are due rather than “in one year or less”

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 was a direct result of the economic position which was significantly negatively impacted by Covid-19. As such the increase 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.

As the agreement was signed after the balance sheet date the Santander loan balances were 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 2020	42,329	-	42,329
Expenditure in the period	1,830	-	1,830
Additions in the period	(1,669)	86	(1,583)
At 31 July 2021	42,490	86	42,576

**Notes to the financial statements
for the year ended 31 July 2021**

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 has been made during 2020/21 to cover dilapidation costs at a leased property which was vacated during the year.

19 Cash and cash equivalents

	At 1 August 2020	Cash flows	At 31 July 2021
	£'000	£'000	£'000
Cash and cash equivalents	6,340	2,184	8,524
Total	6,340	2,184	8,524

20 Capital commitments

	2021 £'000	2020 £'000
Commitments contracted for at 31 July	134	852
Total	134	852

21 Lease obligations

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

	2021 £'000	2020 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	31	54
Later than one year and not later than five years	12	36
	43	90
Other		
No later than one year	55	48
Later than one year and not later than five years	166	184
	221	232

**Notes to the financial statements
for the year ended 31 July 2021**

22 Contingent Liabilities

There are no contingencies as at 31 July 2021 (2020: £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

	2021	2020
	£'000	£'000
Teachers' Pension Scheme: contributions paid	993	1,007
Local Government Pension Scheme:		
Contributions paid	1,692	1,705
FRS 102 (28) charge	1,837	1,161
	<hr/>	<hr/>
Charge to the Statement of Comprehensive Income	3,529	2,866
	<hr/>	<hr/>
Total Pension Cost for Year within staff costs (as per Note 7)	<u>4,522</u>	<u>3,861</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 £302,514 (2019/20 £289,388) 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 2021

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 2020/21 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 £993,000 (2019/20: £1,007,000).

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 2021 was £2,195,000 of which employers' contributions totalled £1,389,000; employees' contributions totalled £502,000 and lump sum deficit payments of £304,000.

**Notes to the financial statements
for the year ended 31 July 2021**

23 Defined benefit obligations (continued)

The agreed contribution rate for the coming year is 17.6% until 31 March 2022 for employers, this rate includes a provision for potential impact of McCloud; the rate for the 12 months proceeding has been agreed at 18.3%. The planned lump sum deficit payments have increased to £378,000 per annum from April 2021, the proceeding 12 month payment from April 2022 will see a further increase to £454,000. Payments after this period will be agreed following the actuarial valuation in 2022. Employee contribution rates range from 5.5% to 12.5% depending on full time equivalent salary.

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 2021	At 31 July 2020
CPI inflation / CARE benefits revaluation	2.60%	2.30%
Rate of increase in salaries	4.10%	3.80%
Rate of increase for pensions in payment / deferment	2.70%	2.40%
Discount rate for scheme liabilities	1.60%	1.60%
Commutation of pensions to lump sums	50%	50%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 July 2021	At 31 July 2020
<i>Retiring today/current pensioners</i>		
Males	22.7 years	22.6 years
Females	25.1 years	25.0 years
<i>Retiring in 20 years/future pensioners</i>		
Males	24.4 years	24.2 years
Females	27.1 years	27.0 years

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

	At 31 July 2021	At 31 July 2020
	£'000	£'000
Discount rate + 0.1%	(1,978)	(1,830)
Inflation +0.1%	2,016	1,866
Pay growth + 0.1%	112	132
Increase in life expectancy 1 year	3,393	2,995

**Notes to the financial statements
for the year ended 31 July 2021**

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 2021	Fair Value at 31 July 2020
	£'000	£'000
Equities	28,086	21,219
Government Bonds	-	12,290
Other Bonds	23,624	8,983
Property	3,456	5,346
Cash	-	1,929
Other	7,665	5,346
Total fair value of plan assets	62,831	55,113
Actual return on plan assets	7,095	(1,434)

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

	2021 £'000	2020 £'000
Fair value of plan assets	62,831	55,113
Present value of plan liabilities	(105,321)	(97,442)
Net pensions liabilities (Note 18)	(42,490)	(42,329)

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

	2021 £'000	2020 £'000
Amounts included in staff costs		
Current service cost	3,391	2,737
Curtailments and settlements	244	6
Administration expenses	32	31
Total	3,667	2,774
Amounts included in interest and other finance costs		
Net interest on pension liability	663	615
Total	663	615
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	6,208	(5,873)
Experience losses arising on defined benefit obligations	2,056	4,351
Changes in assumptions underlying the present value of plan liabilities	(5,925)	(10,229)
Amount recognised in Other Comprehensive Income	2,339	(11,751)

**Notes to the financial statements
for the year ended 31 July 2021**

23 Defined benefit obligations (continued)

Movement in net defined benefit liability during year	2021 £'000	2020 £'000
Net defined benefit liability in scheme at 1 August	(42,329)	(28,802)
Movement in year:		
Current service cost	(3,391)	(2,737)
Past service cost	-	(97)
Employer contributions	1,830	1,710
Curtailments and settlements	(244)	(6)
Administration expenses	(32)	(31)
Net Interest on the defined liability	(663)	(615)
Actuarial gain / (loss)	2,339	(11,751)
Net defined liability at 31 July	(42,490)	(42,329)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations	2021 £'000	2020 £'000
Defined benefit obligations at start of period	97,442	88,641
Current service costs	3,391	2,737
Interest costs	1,550	1,930
Contributions by Scheme participants	511	486
Experience gains on defined benefit obligations	(2,056)	(4,351)
Changes in financial assumptions	5,925	10,229
Estimated benefits paid	(1,686)	(2,333)
Curtailments and settlements	244	6
Past service cost	-	97
Defined benefit obligations at end of period	105,321	97,442
Changes in fair value of plan assets		
Fair value of plan assets at start of period	55,113	59,839
Interest on plan assets	887	1,315
Return on plan assets	6,208	(5,873)
Employer contributions	1,830	1,710
Administration expenses	(32)	(31)
Contributions by scheme participants	511	486
Estimated benefits paid	(1,686)	(2,333)
Fair value of plan assets at end of period	62,831	55,113

These accounts show a past service cost of £97,000 in 2019/20 in respect of GMP indexation.

Notes to the financial statements
for the year ended 31 July 2021

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 £60 (2019/20: £629). 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 (2019/20: None).

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

£9,495 paid in the year for the BID levy. £5,230 received in the year for various courses. (2019/20: £9,682 paid by the College, £3,052 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.

£250 paid by the College in respect of membership and conference fees. (2019/20: £830 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

£122,355 paid by the College in respect of services during the year. (2019/20: £95,927 paid by the College)
£648,340 received by the College in respect of funding and services provided to the Council. (2019/20: £988,782 received by the College)
£6,580 due to the College at year end (2019/20: £16,263 due to the College at year end)

Worcester City Council

£32,262 received by the College (2019/20: £0)
£82,176 paid by the College (2019/20: £76,987 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.

Notes to the financial statements
for the year ended 31 July 2021

25 Related party transactions (continued)

£0 received by the College in respect of a Capital Grant (2019/20: £988,782 received by the College)
£0 due to the College at year end (2019/20: £222,000 due to the College at year end)

Chamber of Commerce (H&W) - an organisation that Worcestershire LEP contracts through, in which Gary Woodman, Governor, is the Chief Executive.

£2,313 received by the College (2019/20: £0)

Association of Project Managers - an organisation in which Gary Woodman, Governor, is a member.

£2,098 paid by the College (2019/20: £2,036)

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.

£0 received by the College (2019/20: £3,281)

Sanctuary Housing Association - an organisation in which Anthony King, Governor, was Group Treasurer until September 2019.

£1,000 received by the College (2019/20: £3,690)

Platform Housing - an organisation in which Anthony King, Governor, is a Non Executive Director.

£1,979 received by the College (2019/20: £0)

University of Birmingham - an organisation in which Helen Butler, Governor, is Head of Data Governance.

£3,300 paid by the College (2019/20: £3,252)

Notes to the financial statements
for the year ended 31 July 2021

26 Amounts disbursed as agent

Learner support funds	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
Funding body grants – 16-19 Discretionary Bursary	444	459
Funding body grants – Adult Discretionary Bursary	93	135
Funding body grants – Advanced Learner Loan Bursary	189	159
Other Funding body grants – Capacity and Delivery Bursary	-	26
Other Funding body grants – OFS Covid allocation	32	-
	758	779
Disbursed to students	(550)	(470)
Excess claim - Advanced Learner Loan Bursary	(27)	(22)
Administration costs	(30)	(31)
Change to ESFA clawback guidance - Advanced Learner Loan Bursary	(19)	
	(626)	(702)
Balance unspent at 31 July included in creditors	132	77

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.