

HEREFORDSHIRE, LUDLOW AND NORTH SHROPSHIRE COLLEGE

**Annual Report and Financial Statements
For the Year Ended
31 July 2020**

Key Management Personnel, Board of Governors and Professional advisers

Key Management Personnel:

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

Ian Peake	Principal and CEO	Retired 31/7/20
Joanne Ricketts	Deputy Principal	
Edward Gwillim	Finance Director	
Alyson Moon	Assistant Principal	
Jonathan Gill	Assistant Principal	
Carl Morris	Head of Ludlow College	
Debra Baldwin	Personnel Director	

Board of Governors:

A full list of Governors is given on page 14 of these financial statements.

Mrs Linda Watkins acted as Clerk to the Corporation throughout the year.

External Independent Auditors:

Mazars LLP
Chartered Accountants and Statutory Auditors
90Victoria Street
Bristol
BS1 6DP

Internal Auditors:

RSM UK LLP
15/20 St Paul's Square
Birmingham
B3 1QT

Bankers:

Barclays Bank plc
1/3 Broad Street
Hereford
HR4 9BH

Solicitors:

T A Matthews
6 King Street
Hereford
HR4 9BS

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Report of the Members of the Corporation for the Year from 1 August 2019 to 31 July 2020

Operating and Financial Review

Nature, Objectives and Strategies:

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

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting Herefordshire, Ludlow and North Shropshire College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2011.

The Corporation was incorporated as Hereford College of Technology. Following the merger with Ludlow the Secretary of State granted consent to the Corporation to change the College's name to Herefordshire and Ludlow College from 01/08/2013. The College merged with North Shropshire College on 1st November 2018 and was known as Herefordshire, Ludlow and North Shropshire College from that date.

Mission

The College's mission as approved by its governors is:

- Success for our students

Public Benefit

Herefordshire, Ludlow and North Shropshire College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 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 14.

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

In delivering its mission, the College provides 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
- Links with Local Enterprise Partnerships (LEPs)

Implementation of strategic plan

In March 2014, the College updated the Three-Year Development Plan covering the period 2014-2017. This strategic plan included property and financial plans. The Corporation monitors performance against these plans. The plans are reviewed and updated each year. As a result of the retirement of the previous Principal, coupled with the pressures of managing the global Covid19 pandemic and subsequent difficulties in undertaking meaningful stakeholder consultation, the College did not create a new strategic plan during the 2019-20 academic year as originally planned. The incoming Principal, along with the College Management Team, intends to lead a stakeholder consultation on the College's mission, values and strategic plan during the 2020-21 academic year. Pending the completion of this work, the College's continuing strategic objectives are:

**Report of the Members of the Corporation
For the Year from 1 August 2019 to 31 July 2020 (continued)**

- To inspire and support all our learners to achieve their best;
- To create outstanding learning opportunities that meet the needs of young people, adults and employers;
- To provide outstanding resources for learning;
- To build partnerships that provide improved services for learners and employers, and
- To manage the College effectively and efficiently to maintain financial viability.

The College is on target to achieve these objectives.

The College's specific objectives for 2019/20 and achievement of those objectives have been addressed below.

- Implement the proposed merger with North Shropshire College to form Herefordshire, Ludlow & North Shropshire College ensuring a financial sustainable and successful college.
- Continuing to develop the curriculum to meet the needs of learners whilst ensuring a cost-effective offer.
- Continuing the series of property and land sales which will allow greater investment in college facilities in future years.

Merger with North Shropshire College

On 1st November 2018 Herefordshire & Ludlow College merged with North Shropshire College to form Herefordshire, Ludlow & North Shropshire College. It was a Type B merger with North Shropshire College being dissolved and its assets and liabilities transferred to Herefordshire & Ludlow College.

North Shropshire College had been in financial difficulty for a number of years and was in receipt of emergency funding support from the ESFA. Herefordshire & Ludlow College received support and grant funding of £6,727k to cover specific merger related costs over the period to 31/3/20. £1,500k of this amount is a potentially recoverable loan depending upon college financial performance.

Financial Objectives

The College's financial objectives are:

- To continue to maintain accumulated reserves of at least 10% of income throughout the development plan period;
- To continue to maintain cash days of 30 or more at all times;
- To achieve at least break-even at operating level;
- Pay expenditure targeted at a maximum of 65% of income;
- To generate positive cash inflows from operating activities;
- To maintain a current ratio of at least 1.5 throughout the development plan period;
- To be in financial health category "Good", as defined by the Skills Funding Agency, at the end of the development plan period;
- To produce management accounts on a monthly basis incorporating an income and expenditure account, balance sheet, 12-month rolling cash flow forecast and financial performance indicators;
- To test the desirability and affordability of any proposals which have a financial implication for the College;
- Providing financial and non-financial returns on time and in the agreed format;
- Ensuring all returns requiring certification by auditors are unqualified;
- Adhering to the policy to aim to pay all suppliers within 30 days of receipt of an invoice;
- Providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the College's financial procedures;
- Providing adequate information to ensure staff, management and governors are kept up to date with the financial position of the College;
- Generating sufficient funds to ensure the College's specified programme of planned maintenance can be undertaken;
- Generating sufficient funds to ensure the College can invest in new technology and equipment required to support learning programmes and administration;
- Ensuring adequate procedures are in place to protect assets from loss, theft and neglect.

Performance Indicators

Student

The College usually measures its performance using the student satisfaction surveys, the Department of Education's Compare Sports Performance website and the National Achievement Rate Tables. It should be noted that due to the Covid-19 pandemic the Department for Education announced that they are not holding colleges to account on the basis of exams and assessment data from summer 2020 and that data will not be used by others, such as Ofsted and local authorities, to hold colleges to account. They state that 'all those working with schools and colleges, such as Ofsted, Department for Education regional teams and local authorities, should use data from previous years when assessing school and college performance, and not the 2020 data'.

For 2019/20 the College's student survey and the National Student Survey (for higher education students) were used as performance indicators along with the ProAchieve college performance data. As the demand for statistics and data increased due to the Covid-19 pandemic, the Department for Education stopped the FE Choices Learner Satisfaction Survey for 2019/20.

Finance

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The Finance Record produces a financial health grading. The current rating of "Good" is considered an acceptable outcome.

Key performance indicator	Target	Actual for 2019/20
Reserves as a % of income	10%	(23) %*
Sector EBITDA as % of income	5%	2%
Staff costs as a % of income	63%	61%
Cash days in hand	60	71
Current ratio	1.5	1.8
ESFA Financial health grade	Good	Good

*The impact of the significant reduction in the discount rate used to calculate the Defined Benefit Obligation has been a very large increase in the level of this provision. It increased by £8m (@40%) to £28.2M. This significant increase in the defined benefit obligation has been experienced by most colleges and has a distorting effect upon the college balance sheet moving the college into a position of net liabilities for the first time since incorporation. If the defined benefit obligation is excluded from the balance sheet, college net assets would stand at £22,091k and Reserves as a % of income would be 83%

Financial results

The College accounts have been prepared in accordance with FRS 102.

The College incurred a deficit before other gains and losses in the year of £1,784,000 (2018/19: deficit of £549,000).

Net liabilities at the year-end were £6,117,000 (2018/19: net assets of £2,262,000 following 'gifted' net assets of £3,778,000 as a result of the merger with North Shropshire College on 1st November 2018).

Total Comprehensive Expense for 2019/20 was £8,379,000 (2018/19: Total Comprehensive Expense £2,927,000).

The Total Comprehensive Expense for the year includes an actuarial loss of £6,565,000 (2018/19: £6,188,000) in respect of the Local Government Pension Scheme.

The College has cash and short-term investment balances of £3,923,000 (2018/19: £4,275,000).

Tangible fixed asset additions during the year amounted to £789,000.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2019/20 the FE funding bodies provided 82% of the College's total income (2018/19: 79%).

Treasury policies and objectives

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

The College has a separate treasury management policy in place which aims to preserve the capital value of any investments and reduce risks.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows and Liquidity

Net cash flow from operating activities was £234,000 positive (2019/20: £2,655,000 positive).

The College is satisfied that current cash balances are sufficient to cover short-term liabilities as well as to allow future investment.

Value for Money

The college delivers value for money through its procurement methods as determined by its Financial Regulations. The college reports annually to its Audit Committee upon measures taken to ensure Value for Money.

Reserves Policy

The College needs to retain sufficient reserves to enable it to meet its obligations should there be an unexpected revenue shortfall. The existence of unrestricted reserves also offers the College flexibility to plan and fund major investment projects to develop and maintain its buildings and services. Such unrestricted reserves are expendable at the discretion of the Corporation in furtherance of College objectives.

Available unrestricted reserves (i.e. unrestricted funds excluding defined benefit obligations) stood at £22.1 million (83% of income) at 31 July 2020. The Corporation target is for the level of such reserves to exceed 70% of annual income.

Current and Future Development and Performance

Financial Health

Using the ESFA financial health model scoring system the College has assessed its year end score to be 210 points placing it in the "Good" category.

Student Numbers

The College is funded according to the level of activity it generates each year. In 2019/20 the College met the requirements for learner numbers set by the education sector funding bodies in the funding agreements.

Student Achievements

In 2019/20 the College continued to demonstrate good achievement rates – the headlines being an achievement rate of 83.6% all age, all qualifications (up from 83.2%), rising to 85.3% excluding English and Maths. This compares with a 2018/19 general further education national comparator of 86.7% for all age, all qualifications. Overall apprenticeship achievement rates of 70.9% and timely apprenticeship achievement of 56.9% were reported. Remarkably, considering the Covid-19 lockdown the College has outperformed all of the 2018/19 general further education national age comparators for overall apprenticeship achievement.

College Inspection

Herefordshire, Ludlow and North Shropshire College resulted from the merger of Herefordshire and Ludlow College (HLC) and North Shropshire College (NSC) on 1 November 2018. As a result of merger, the College is treated as a new provider by Ofsted (Office for Standards in Education) and must have a full inspection before being awarded an inspection grade. Legacy grades for HLC is grade 2 and NSC, grade 3. A full inspection is anticipated before 1 November 2021.

The College hosted an Ofsted monitoring visit in March 2019 at North Shropshire College. The inspectors judged the College to be making reasonable progress against the six themes identified during North Shropshire College's last inspection.

Curriculum Developments

The College offers a broad curriculum including AS Levels, A Levels and vocational qualifications at levels 1, 2 and 3 that include animal care, agriculture, business, engineering, computing and IT, travel and tourism, hair and beauty, hospitality and catering, health, social and childcare, public services and sport, construction, plumbing, electrical and motor vehicle studies.

The College is also committed to providing access to work and further education programmes at entry levels 2 and 3 to develop useful life skills, including gardening, catering and hospitality, car maintenance and household DIY.

The Eden Hair, Health and Beauty Salon at Hereford and the Visage Hair and Beauty Salon at Oswestry are open to the public offering a wide range of services, providing realistic working environments to support the hair and beauty curriculum. The College's industry standard training kitchens, Cider Orchard restaurant at Hereford and Scholars restaurant at Oswestry, support the hospitality and catering courses.

In 2019/20 around 800 apprentices were in training. Current apprentices are enrolled onto a variety of frameworks. Frameworks with the most enrolments were: Health and Social Care, Business and Administration, Children and Young People's Workforce, Supporting Teaching and Learning in Schools, Hairdressing, Catering and Professional Chefs and Vehicle Maintenance and Repair.

The College continues to work collaboratively with the University of Worcester to offer higher education provision and has recently increased its offer through Pearson Qualifications. The Hereford University Centre is run in partnership with the University of Worcester. The centre acts as an educational and cultural hub, aiming to raise aspirations in Herefordshire and encourage increased participation in higher education.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, required colleges, in the absence of agreement 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 year ended 31 July 2020, the College paid 92% of its invoices within 30 days (2018/19: 95%). The College incurred no interest charges in respect of late payment for this year (2018/19: nil).

Future prospects

The College has integrated the operations of the former North Shropshire College with the existing college operations and taken advantage of economies of scale and synergies across its enlarged region. Due to Covid-19 the College has rethought study programme delivery and aims to stabilise full-time student numbers. It hopes to maximise apprenticeship numbers in 2019/20 but recognises this may be difficult. The impact on adult and ACL students is yet unknown but recruitment could be lower than in previous years.

The College has various resources that it can deploy in pursuit of its strategic objectives and intends to work with other Further Education colleges in the Marches to collectively analyse curriculum, highlighting any geographical gaps in provision and opportunities for capital and/or curriculum development.

Tangible resources include four main college sites; Holme lacy, Hereford, Walford and Oswestry; two farms; Pound Farm and Walford Farm as well as all the associated fixtures, fittings, machinery and equipment. The College has £2.2m held in net current assets (2018/19: £2.0m).

Financial

The College has £22.1m of net assets excluding the £28.2m defined benefit contribution liability (2018/19: £22.4m net assets excluding the £20.1m defined benefit contribution liability).

People

The College employs 423 people (expressed as full-time equivalents), of whom 155 are teaching staff, and 268 non-teaching staff (2018/19: 449 people, 216 teaching, 233 non-teaching).

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

Going Concern

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

Covid-19 has had an immediate impact on the operations of the College, through the necessary implementation of Covid-19 management measures (resulting in the accreditation of 'Covid Aware'). There is also an anticipated reduction in the other income generating activities cashflow that the College expects in the next academic year. However, these matters are not sufficiently detrimental to the College activities that they would adversely affect the cashflow significantly enough to affect going concern.

Principal Risks and Uncertainties

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

Based on the strategic plan, 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 year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk 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.

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Government funding

The College has considerable reliance on continued government funding through the further education funding bodies and HEFCE. In 2019/20, 82% of the College's revenue was ultimately publicly funded (2018/19: 79%) and this public funding percentage 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 values or on the same terms.

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

- Changes to apprenticeship funding are still being rolled out and will continue to affect the amounts of funding the College receives from government and employers.
- The introduction of T levels could result in significant changes and the full details of this are still awaited
- Funding for FY22 and beyond appears likely to increase modestly with an improved funding rate as well as more specific funding initiatives
- The high costs of Covid 19 and the effect of Brexit upon the economy may impact adversely on the level of FE funding in the future

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements;
- By ensuring the College is rigorous in delivering high quality education and training;
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies;
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding;
- Regular dialogue with funding bodies and
- Continually seeking operational efficiencies in all aspects of college activity.

2. Tuition fee policy

In line with the majority of other colleges, the College will increase tuition fees in accordance with the fee assumptions. The price elasticity of adult learning for the College is not yet fully understood. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

The risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students; and
- Close monitoring of the demand for courses as prices change.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet. As the LGPS pension scheme is externally run, the risk cannot be fully mitigated by the College, however disclosure in the financial statements comply with the requirements of FRS102.

This risk is mitigated by an agreed deficit recovery plan with the Worcestershire Local Government Pension Scheme. At the 2019/20 Triennial Valuation of the Worcestershire LGPS fund the college was estimated to be 98% "funded", a significant improvement from the previous (2016) valuation of 77% funded.

Stakeholder Relationships

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

- Students
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers
- Local authorities
- Government Offices/Regional Development Agency/LEPs
- The local community
- Other FE institutions, schools and universities
- Trade unions
- Professional bodies.

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

Equality and Diversity

Herefordshire, Ludlow and North Shropshire College values social and cultural diversity and aims to ensure you will find the college to be an inclusive and welcoming place to study. We are a learner focused organisation with values based on trust, integrity and respect. We seek to provide a working environment free from harassment, discrimination and victimisation. We will not tolerate any form of discriminatory behaviour against actual or potential learners, visitors or employees. The college aims to actively promote equality of opportunity and challenge discriminatory attitudes.

Equality and diversity effects everyone as we all work in diverse teams with people of different genders, ethnic origins, sexual orientation, ability, beliefs, values, and working styles.

It is important to understand what we mean by equality and diversity, how it impacts on everyday life and the reasons for and benefits of promoting it.

Equality is about fair treatment

'Equality' means treating all groups of people fairly, providing equality of opportunity and removing barriers to success. It is not about treating everyone the same because different people have different needs. For example, making reasonable adjustments for disabled people removes to equality of opportunity and helps prevent discrimination. Increasing our understanding of the needs of different groups of people promotes good relations between people.

Our equality principles are:

- Challenging Inequality
- Celebrating Diversity
- Committed to Safeguarding

These principles recognise and support the equality characteristics set out in the 2010 Equality Act which are:

- Age
- Disability
- Gender reassignment (transgender)
- Marriage/civil partnership
- Race
- Religion or belief
- Pregnancy/maternity leave
- Sex
- Sexual orientation

Diversity is about respecting difference

'Diversity' refers to individual difference. People are unique and differ from one another in a range of ways. Differences may or may not be visible and may include personal characteristics such as background, culture and personality. We value diversity, which means that we aim to realise the potential of every individual learner or member of staff.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010.

- a) The College provides information, advice and arranges support where necessary for students with disabilities.
- b) The College has a range of specialist equipment and students who require additional specialist equipment can request an assessment of their support needs prior to enrolment. The College has access to specialist agencies who will also assess their equipment needs prior to confirming an offer of a place on a course.
- c) The admissions policy for all students is described in the Enquiries & Application Procedure. Appeals against a decision not to offer a place are dealt with under the Student Complaints Procedure.
- d) The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. There are a number of teaching assistants and assessors who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- e) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- f) Counselling and welfare services are described in the College Student Guide, which is available to students together with the Complaints and Disciplinary Procedure on the student intranet and is incorporated in student induction programmes.

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.

Number of employees who were relevant union officials during the relevant period	FTE employee number
3	3

Percentage of time	Number of employees
0%	-
1-50%	3
51-99%	-
100%	-

Total cost of facility time	£13,540
Total pay bill	£16,200,000
Percentage of total bill spent on facility time	0.0008%
Time spent on paid trade union activities as a percentage of total paid facility time	0.13%

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 15th December 2020 and signed on its behalf by:

A handwritten signature in black ink that reads "I. Andronov". The signature is written in a cursive style with a horizontal line above the first letter 'I' and another horizontal line below the name.

**Mr I Andronov
Chair of the Corporation**

Statement of Corporate Governance and Internal Control

The following Statement is provided to enable readers of the Annual Report and Accounts of the College to obtain a better understanding of its governance and legal structure. This Statement covers the period from 1st August 2019 to 31st July 2020 and up to the date of approval of the Annual Report and Financial Statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code).

In the opinion of the governors, the College complies with all the provisions of the Code and it has complied throughout the year ended 31 July 2020. This opinion is based on an internal Governance Evaluation reported to the board on 15th December 2020. The governing body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 1 August 2015.

Statement of Corporate Governance and Internal Control (continued)

The Corporation

The Members who served the Corporation during the year and up to the date of signature of this report were as follows:

Name of Governor	Date of Appointment	Term of Office	Status of Appointment	Committee Served	Attendance
Mr I Andronov	01.08.2013 Re-appointed 24.04.2017	4 years	Independent Member	Chair: Corporation Chair: Remuneration Quality & Standards Search & Governance	100%
Cllr W L S Bowen	30.12.2012 Re-appointed 19.04.2016	4 years	Independent Member	Audit	80%
Mr J Caird	01.08.2013 Reappointed 24.04.2017	4 years	Independent Member	Chair: Finance & Employment Remuneration	100%
Ms S Cassels	15.12.2015 Re-appointed 22.10.2019	4 years	Staff Governor	Q&S Committee	100%
Miss A Durant	10.12.2019	2 years	Student Governor		75%
Mr R A Ford	12.12.2011 Re-appointed 21.04.2015	4 years	Independent Member	Chair: Search & Governance Audit Remuneration	80%
Mrs L Johnston	03.07.2018	4 years	Independent Member	Chair: Quality & Standards Search & Governance Remuneration	60%
Mrs D K Lambert	29.04.2014 Re-appointed 03.07.2018	4 years	Independent Member	Quality & Standards	80%
Mr A Layng	07.07.2020	1 year	Independent Member	Finance & Employment	100%
Mr A F Matthews	10.12.2019	2 years	Student Governor		75%
Mr J Nicholls	23.10.2019	4 years	Independent Members	Quality & Standards Audit	100%
Ms R A Payne	12.02.2019	4 years	Independent Member	Finance & Employment	40%
Mr I F Peake	01.01.2005	Ex-officio	Principal	Finance & Employment Search & Governance Quality & Standards	100%
Mr D R Williams	01.08.2020	Ex-officio	Principal	Finance & Employment Search & Governance Quality & Standards	100%
Mr K M Tong	04.07.2017	4 years	Co-opted Member Audit Committee	Audit	67%

Mrs L J Watkins acts as Clerk to the Corporation.

Mr I Andronov was appointed as Chair of the Corporation with effect from 1 September 2019 until 31 August 2020 and re-appointed to 31 August 2021. The position of Chair of the Corporation is subject to annual appointment by the Corporation.

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, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets each term.

Statement of Corporate Governance and Internal Control (continued)

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance and Employment, Remuneration, Quality and Standards, Search and Governance, and Audit. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.hlcollege.ac.uk or from the Clerk to the Corporation at:

Herefordshire, Ludlow and North Shropshire College
Folly Lane
Hereford
HR1 1LS

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 Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation 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 Board 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 the Accounting Officer are separate.

Corporation Performance

The Governors normally annually self-assess their performance using a questionnaire framed around the areas of evaluation which are examined by the inspectors of Ofsted when a college is inspected. The guidance contained in the Good Governance Standards for Public Life have also been incorporated in the questionnaire. The self-assessment is presented to the Board and benchmarked against other colleges.

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 Search and Governance Committee which is comprised of 5 members responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are initially appointed for a 1-year term of office, followed by another two terms of three and four years respectively, but are eligible for re-appointment at the end of this term.

Remuneration Committee

Throughout the year ended 31 July 2020, the College's Remuneration Committee comprised 4 members. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal, the Clerk and other senior post-holders.

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

The Board has adopted the AoC's Remuneration Code for Senior Staff and has recognised the necessary amendment to the Code of Good Governance for English Colleges.

Audit Committee

The Audit Committee comprises 5 members of the Corporation (excluding the Principal as the Accounting Officer, and Chair of the Corporation). Membership includes a co-opted finance/audit specialist. 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 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.

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 recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

Internal Control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Funding Agreement between the College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns 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 risk of failure to achieve policies, aims and objectives; it can 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 in the College for the year ended 31 July 2020 and up to the date of approval of the annual financial statements.

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 is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2020 and up to the date of approval of the annual financial statements. 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, administration 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 governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The College has an internal audit service, which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

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

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

The senior management 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 management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to 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 thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2020 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2020.

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

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. Key factors considered include the College's strong balance sheet, current ratio of 1.6, zero borrowing and a positive financial plan for the next two years.

For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 15th January 2021 and signed on its behalf by:



**Mr I Andronov
Chair of Governors**

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**Mr D Williams
Accounting Officer**

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

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

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

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 these statements, they will be notified to the Education and Skills Funding Agency.

Approved by order of the members of the Corporation on 15th January 2021 and signed on its behalf by:



Mr I Andronov
Chair

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Mr D Williams
Accounting Officer

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Statement of the Responsibilities of the Members of the Corporation

The members of the Corporation, as charity trustees, 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 the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, ESAF's College Accounts Direction and the UK's Generally Accepted Accounting Practice, and which gives a true and fair view of the state of affairs of the Corporation and 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 UK 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 key supporting assumptions, qualifications or mitigating actions, as appropriate (which must be consistent with other disclosures in the accounts and auditor's report)
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the Corporation will continue in operation.

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

The Corporation is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Corporation, 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 the assets and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the ESFA, 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 economic, 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 15th January 2020 and signed on its behalf by:



Mr I Andronov
Chair of Governors

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Independent auditor's report to the members of Herefordshire, Ludlow and North Shropshire College

Opinion

We have audited the financial statements of Herefordshire, Ludlow and North Shropshire College ("the College") for the year ended 31 July 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and 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) and the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as of 31 July 2020 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Corporation is responsible for the other information. The other information comprises the information included in the strategic report other than the financial statements and our auditor's report thereon. 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.

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 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- the information given in the report of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and
- we have not received all the information and explanations we require for our audit.

Responsibilities of Members of the Corporation

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 20, the Corporation 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 Corporation determine 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 Corporation 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard.

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.

Other required reporting

Opinion on other matters prescribed in the OfS Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds provided by the OfS and UK Research and Innovation (including Research England) have been applied in accordance with the relevant terms and conditions attached to them; and
- the requirements of OfS's accounts direction have been met.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the OfS Audit Code of Practice requires us to report to you if, in our opinion:

- the provider's grant and fee income, as disclosed in the notes to the financial statements, has been materially misstated;

Use of the audit report

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

A handwritten signature in black ink that reads "Mazars LLP". The signature is written in a cursive, flowing style.

Mazars LLP

Chartered Accountants and Statutory Auditor

90 Victoria Street, Bristol, BS1 6DP

20/1/21

**Herefordshire, Ludlow and North Shropshire College
Consolidated and College Statements of Comprehensive Income
For the year ended 31 July 2020**

	Note	Year ended 31 July	Year ended 31 July
		2020 College £'000	2019 College £'000
INCOME			
Funding body grants	2	21,954	21,454
Tuition fees and education contracts	4	3,381	3,939
Other income	5	1,341	1,590
Endowment and investment income	6	16	16
Total Income		26,692	26,999
EXPENDITURE			
Staff costs	7	16,114	15,196
Fundamental restructuring costs	7	55	863
Other operating expenses	8	10,072	9,577
Depreciation and Amortisation	10,11	1,797	1,562
Interest and other finance costs	9	438	350
Total expenditure		28,476	27,548
Deficit before other gains and losses		(1,784)	(549)
Loss on disposal of assets		(30)	32
Assets gained on merger with North Shropshire College		-	3,778
Surplus/(Deficit) before tax		(1,814)	3,261
Taxation		-	-
Surplus/(Deficit) for the year		(1,814)	3,261
Actuarial (loss) in respect of pensions schemes	20	(6,565)	(6,188)
Total Comprehensive (Expense) for the year		(8,379)	(2,927)

All items of income and expenditure relate to continuing activities.

Herefordshire, Ludlow and North Shropshire College
Consolidated and College Statements of Changes in Reserves
For the year ended 31 July 2020

	Income and Expenditure account £'000	Revaluation reserve £'000	Total £'000
College			
Balance at 31st July 2018	4,033	1,156	5,189
Deficit from the income and expenditure account	3,261	-	3,261
Other comprehensive income	(6,188)	-	(6,188)
Total comprehensive income for the year	(2,927)	-	(2,927)
Balance at 31st July 2019	1,106	1,156	2,262
Surplus/(Deficit) from the income and expenditure account	(1,814)	-	(1,814)
Other comprehensive expense	(6,565)	-	(6,565)
Total comprehensive expense for the year	(8,379)	-	(8,379)
Balance at 31st July 2020	(7,273)	1,156	(6,117)

**Herefordshire, Ludlow and North Shropshire College
Consolidated and College Balance Sheets as at 31 July 2020**

	Note	College 2020 £'000	College 2019 £'000
Fixed assets			
Intangible fixed assets	11	3	4
Tangible fixed assets	10	45,649	46,785
Investments		-	-
		<u>45,652</u>	<u>46,789</u>
Current assets			
Stock		467	636
Trade and other receivables	12	514	342
Cash and cash equivalents	16	3,923	4,275
		<u>4,904</u>	<u>5,253</u>
Less: Creditors – amounts falling due within one year	13	(2,745)	(3,216)
Net current assets		<u>2,159</u>	<u>2,037</u>
Total assets less current liabilities		<u>47,811</u>	<u>48,826</u>
Less: Creditors – amounts falling due after more than one year	14	(24,640)	(25,199)
Provisions			
Defined benefit obligations	15	(28,208)	(20,141)
Other provisions	15	(1,080)	(1,224)
Total net assets		<u>(6,117)</u>	<u>2,262</u>
Unrestricted reserves			
Income and expenditure account		(8,379)	(2,927)
Reserves Brought Forward		1,106	4,033
Revaluation reserve		1,156	1,156
Total unrestricted reserves		<u>(6,117)</u>	<u>2,262</u>
Total reserves		<u>(6,117)</u>	<u>2,262</u>

The financial statements on pages 24 to 44 were approved and authorised for issue by the Corporation on 15th January 2021 and were signed on its behalf on that date by:



I Andronov
Chair



D Williams
Accounting Officer

Herefordshire, Ludlow and North Shropshire College
Consolidated Statement of Cash Flows
For the year ended 31 July 2020

	Note	College 2020 £'000	College 2019 £'000
Cash flow from operating activities			
Surplus /(Deficit) for the year		(1,814)	3,261
Adjustment for non-cash items			
Depreciation and amortisation	10 & 11	1,797	1,562
(Increase) / decrease in stocks		170	(466)
(Increase) / decrease in debtors	12	(172)	(77)
Increase / (decrease) in creditors due within one year	13	(471)	1,506
Increase / (decrease) in creditors due after one year	14	(559)	4,358
Increase / (decrease) / increase in provisions	15	(144)	934
Pensions costs less contributions payable	20	1,413	1,185
Net fixed as assets gifted at merger		-	(15,553)
Net defined pension obligation transferred at merger		-	5,989
Adjustment for investing or financing activities			
Investment income	6	(16)	(16)
Interest payable	9		4
Gain on sale of fixed assets		30	(32)
Net cash inflow / (outflow) from operation activities		234	2,655
Cash flows from investing activities			
Proceeds from sale of fixed assets		187	44
Investment income	6	16	16
Payments made to acquire fixed assets	10	(789)	(1,303)
Net cash (outflow) / inflow from investing activities		(586)	(1,243)
Cash flows from financing activities			
Interest paid	9		(4)
Repayments of amounts borrowed			(772)
Net cash outflow from financing activities		-	(776)
Increase in cash and cash equivalents in the year		(352)	636
Cash and cash equivalents at beginning of the year	16	4,275	3,639
Cash and cash equivalents at end of the year	16	3,923	4,275

Herefordshire, Ludlow and North Shropshire College is a Further Education College. The principal place of operations is Folly Lane, Hereford HR1 1LS.

1 Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2017 to 2018* and in accordance with Financial Reporting Standard 102 – “*The Finance 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.

Going concern

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

The College currently has no loans outstanding with bankers and a positive cash balance of £3.9m at 31 July 2020. The College’s forecasts and financial projections indicate that it will be able to operate within its existing banking facility and covenants for the foreseeable future.

Although the Covid 19 pandemic has affected many aspects of college activities and reduced a number of significant income streams, the college has been able to respond, utilising many innovative techniques such as remote teaching and learning. It has also been able to achieve some reductions in costs which, in conjunction with government measures such as reduced clawback and some specific grants, has enabled the college to limit its losses and preserve its cash reserves through this national crisis.

Accordingly, the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

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 under achievement 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 contract adjustments.

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

Grants (including research 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 method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

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.

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 currently 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 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. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Enhanced pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future costs of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retired. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current assets – Tangible fixed assets

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

Land and buildings

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 between 20 and 50 years. The College has a policy of depreciating major adaptations to building over the period of their useful economic life of between 20 and 50 years.

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 income 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.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any 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, 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 value of 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

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party, for example a charitable trust, they are only capitalised if the College has rights or access to ongoing future economic benefit.

These assets are then depreciated over their expected useful economic life.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- Technical equipment 5-10 years
- Motor vehicles 4 years
- Computer equipment 3-4 years
- Furniture, fixtures and fittings 5 years.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income & Expenditure.

Intangible assets and goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation.

Acquired goodwill, being of the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired, is initially recognised at cost and subsequently at cost less any accumulated amortisation and impairment losses. Goodwill arising on the acquisition of subsidiaries and joint ventures is included in the balance sheet category 'Intangible assets'. The gain or loss on the disposal of a subsidiary, associate or joint venture included the carrying value of any related goodwill.

Each financial year the College considers if there is any indication of impairment to the carrying value of goodwill. If such indicators exist, the College will evaluate the carrying value of goodwill to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the income and expenditure account.

Borrowing costs

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

Leased assets

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

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

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payment) 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.

Investments

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Inventories

Inventories are stated at the lower of their cost (using the first in – first out method) and net realisable value, being selling price less costs to complete and sell. 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 instruments accounting policy

The College enters into basic financial instruments transactions that result in recognition of financial assets and liabilities like trade and other debtors and creditors, accrued income, short term deposits, accruals and cash at bank.

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 Group 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 Group 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.

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 around 1% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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.

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 certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

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. The 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 group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

Tangible fixed assets, other than investment properties, 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 26, 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 2016 has been used by the actuary in valuing the pensions liability at 31 July 2020. Any difference between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2	Funding council grants	Year ended 31 July 2020 College £'000	Year ended 31 July 2019 College £'000
	Recurrent grants		
	Education and Skills Funding Agency – adult	3,520	3,554
	Education and Skills Funding Agency – 16-18	12,583	11,162
	Education and Skills Funding Agency – apprenticeships	2,228	2,431
	Office for Students	59	75
	Specific Grants		
	Releases of government capital grants	934	973
	Other Grants	570	275
	Education and Skills Funding Agency – provider relief scheme	1,549	2,984
	Teacher Pension Scheme contribution grant	479	-
	Coronavirus Job Retention Scheme Grants	32	-
	Total	21,954	21,454

Under the provider relief scheme, the corporation received funding of £1,369,000 from the ESFA. Of this, £1,369,000 was spent in the year. There is no remaining funding to be repaid.

The corporation furloughed some nursery staff under the government's Coronavirus Job Retention Scheme. The funding received in respect of 20 staff of £32,000 relates to staff costs which are included within the staff costs note below as appropriate

3	OFS grants analysis	Year ended 31 July 2020 College £'000	Year ended 31 July 2019 College £'000
	Grant income from Office for Students	59	75
	Grant income from other bodies	-	-
	Fee income for taught awards (exclusive of VAT)	118	61
	Fee income for non qualifying course (inclusive of VAT)		

The Office for Students only regulates higher education in colleges so the above table only records amounts relating to courses at Level 4 and above.

4	Tuition fees and education contracts	Year ended 31 July 2020 College £'000	Year ended 31 July 2019 College £'000
	Adult education fees	1,241	1,894
	Fees for FE loan supported courses	413	56
	Fees for HE loan supported courses	118	61
	Total tuition fees	1,772	2,011
	Education contracts	1,609	1,928
	Total	3,381	3,939

5	Other income	Year ended 31 July 2020 College £'000	Year ended 31 July 2019 College £'000
	Catering and residences	364	321
	Other income generating activities	440	604
	Farm income	476	528
	Miscellaneous income	61	2,011
	Total	1,341	1,590

6	Investment income	Year ended 31 July 2020 College £'000	Year ended 31 July 2019 College £'000
	Other interest receivable	<u>16</u>	<u>16</u>

7 Staff costs

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

	2020 Number	2019 Number
Teaching staff	155	216
Non-teaching staff	<u>268</u>	<u>233</u>
	423	449

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

	2020 Number	2019 Number
Teaching staff	325	359
Non-teaching staff	<u>484</u>	<u>383</u>
	809	742

Staff costs for the above persons

	2020 £'000	2019 £'000
Wages and salaries	11,743	11,065
Social security costs	919	922
Other pension costs	<u>3,278</u>	<u>2,965</u>
Payroll sub total	15,940	14,952
Contracted out staffing services	129	204
Apprenticeship Levy	<u>45</u>	<u>40</u>
	16,114	15,196
Fundamental restructuring costs - contractual	<u>55</u>	<u>863</u>
	16,169	16,059

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 Management Team which comprises the Principal, Deputy Principal, Finance Director, Personnel Director and Assistant Principals. Staff costs include compensation paid to key management personnel for loss of office.

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

	2020 Number	2019 Number
The number of key management personnel including the Accounting officer was:	<u>7</u>	<u>7</u>

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

	Key management personnel		Other Staff	
	2020 Number	2019 Number	2020 Number	2019 Number
£60,001 to £65,000	-	3	-	-
£65,001 to £70,000	3	-	-	-
£70,001 to £75,000	-	1	-	-
£75,001 to £80,000	1	-	-	-
£90,001 to £95,000	-	2	-	-
£95,001 to £100,000	2	-	-	-
£150,001 to £155,000	-	1	-	-
£155,001 to £160,000	1	-	-	-
	<u>7</u>	<u>7</u>	<u>-</u>	<u>-</u>

Key management personnel emoluments are made up as follows:

	2020 £'000	2019 £'000
Salaries	634	601
National Insurance	79	75
	<u>713</u>	<u>676</u>
Pension contributions	128	96
Total emoluments	<u>841</u>	<u>772</u>

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

The above emoluments include amounts payable to the Principal Accounting Officer (who is also the highest paid officer) of:

	2020 £'000	2019 £'000
Salaries	157	152
National Insurance	20	20
	<u>177</u>	<u>172</u>
Pension contributions	<u>27</u>	<u>24</u>

Compensation for loss of office paid to former key management personnel

	2020 £	2019 £
Compensation paid to the former post-holder – contractual	-	-

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

The total remuneration of the Principal

- One of the roles of college Governors is to oversee the appointment, grading suspension, dismissal and the determination of pay and conditions of Senior Postholders and the Clerk to the Corporation. The Corporation has a Remuneration Committee, chaired by the Chair of Governors, its remit to review and determine the Corporation's policy on executive remuneration package of the Senior Postholders and the Clerk to the Corporation. To do this fairly and transparently the Committee took account of the AoC's college senior pay survey 2019 comparing benchmarks with the Principal's total remuneration against other Principals' salaries in colleges of similar size and across a range of geographic areas, the College's performance, including the impact of COVID-19 and how the College's teaching and learning was sustained during lockdown. The Committee is also responsible for appraising Senior Postholders' performance. These processes ensure that Senior Postholders' remuneration is appropriate, they are fairly rewarded for their individual contributions to the college's overall performance, and to demonstrate to the public that the pay of the senior postholders is set 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.

Disposals	-	(236)	(236)	
At 31 July 2020	53,220	941	4,215	58,376
Accumulated Depreciation				
At 1 August 2019	8,765	126	2,147	11,038
Charge for the year	1,108	-	688	1,796
Disposals	-	-	(107)	(107)
At 31 July 2020	9,873	126	2,728	12,727
Net book value at 31 July 2020	43,347	815	1,487	45,649
Net book value at 31 July 2019	44,053	815	1,917	46,785

Fixed Assets include £1,287,000 of assets which were gifted to the College by the merger with part of the Pershore Group of Colleges at 1 August 2008. Land and Buildings of £1,287,000 were valued for this purpose by Mr J A Turner FRICS, whilst equipment of £nil book value was valued on a depreciated historic cost basis.

Fixed Assets also include £737,000 of assets which were gifted to the College by the merger with Ludlow College at 1 August 2013. Land and Buildings of £861,000 were valued for this purpose by Mr J A Turner FRICS at that date.

Fixed assets also include £15,553,000 of assets gifted to the college by the merger with North Shropshire College on 1 November 2018

The properties gifted by Ludlow College are legally owned by the Foundation of Ludlow College. The objective of the Foundation of Ludlow College is the provision of items, services and facilities to the former Ludlow College. The Foundation therefore cannot sell, lease or otherwise dispose of any of its property where this is still required for use by the College. The valuation of these assets has therefore been recognised in these financial statements subsequent to their transfer at merger. Lease agreements for the use of these properties by Ludlow College were signed on 24 January 2003, entitling the College to use the properties for 38 years.

11 Intangible fixed assets

	College £'000
Cost	
As at 1 August 2019	63
At 31 July 2020	63
Accumulated Amortisation	
As at 1 August 2019	59
Amortisation - charge for the year	1
At 31 July 2020	60
Net book Value at 31 July 2020	3
Net book value at 31 July 2019	4

Intangible fixed assets consist of investments in software, including installation costs, which are written off over its estimated economic life. Assets previously included as tangible fixed assets were recognised as intangible fixed assets for the accounts to 31 July 2020.

12 Trade and other receivables

	College 2020 £'000	College 2019 £'000
Amounts falling due within one year:		
Trade receivables	390	226
Prepayments and accrued income	121	116
Other receivables	3	

Total	514	342
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13 Creditors: amounts falling due within one year

	College 2020 £'000	College 2019 £'000
Bank loans and overdrafts	-	-
Other loans	34	15
Trade payables	214	169
Other taxation and social security	-	60
Accruals and deferred income	927	914
Deferred income – government capital grants	985	1,052
Amounts owed to the ESFA	585	1,006
Total	2,745	3,216

14 Creditors: amounts falling due after one year

	College 2020 £'000	College 2019 £'000
Bank loans	-	-
Other Loans and HP	21	23
Deferred income – government capital grants	24,619	25,176
Total	24,640	25,199

15 Provisions

	Defined benefit Obligations £'000	College Enhanced Pensions £'000	Other £'000	Total £'000
At 1 August 2019	20,141	1,202	22	21,365
Expenditure in the year	(1,091)	(54)	-	(1,145)
Transferred from income and expenditure account	9,158	(90)	-	9,069
At 31 July 2020	28,208	1,058	22	29,289

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 20.

Other provisions relate to leasehold dilapidation provision on premises occupied by the College.

The enhanced pension provision relates to the cost of staff who have already left the College's employment and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for these calculations are:

	2020	2019
Interest Rate	1.3%	2.3%
Inflation Rate (CPI)	2.2%	1.3%

16 Cash and cash equivalents

	At 1 August 2019 £'000	Cash Flows £'000	At 31 July 2020 £'000
Cash and cash equivalents	4,275	(352)	3,923
Total	4,275	(352)	3,923

17 Capital commitments

	College 2020 £'000	College 2019 £'000
Commitments contracted for at 31 July	<u>29</u>	<u>942</u>

18 Lease Obligations

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

Future minimum lease payments due	College 2020 £'000	College 2019 £'000
Land and buildings		
Not later than one year	70	82
Later than one year and not later than five years	158	166
Later than five years	<u>352</u>	<u>388</u>
	<u>580</u>	<u>636</u>
Other		
Not later than one year	37	45
Later than one year and not later than five years	<u>112</u>	<u>145</u>
	<u>149</u>	<u>190</u>
Total lease payments due	<u>729</u>	<u>826</u>

19 Contingent liabilities

The college is not aware of any circumstances at this time that would give rise to a material contingent liability (2019:nil).

20 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 in the Worcestershire Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Worcestershire County Council. Both are multi-employer defined-benefit schemes.

Total pension cost for the year	2020 £'000	2019 £'000
Teachers' Pension Scheme: contributions paid	1,221	864
Local Government Pension Scheme: Contributions paid	1,091	1,283
FRS 102 (28) charge	<u>975</u>	<u>797</u>
	2,066	2,080
Enhanced pension charge to Statement of Comprehensive Income	21	21
Total Pension Cost for Year within staff costs	<u>3,308</u>	<u>2,965</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 2020.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits including annual increases under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay as you go' basis, and employers' contributions, 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.

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

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2016 and in accordance with The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 5 March 2019. The key result of the valuation was that Employer contribution rates will increase from 16.48% of pensionable pay to 23.685% of pensionable pay from 1 September 2019.

Total scheme liabilities for the service to the effective date are £218.1 billion and notional assets are £196.1 billion giving a notional past service deficit of £22 billion.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location: www.teacherspensions.co.uk/news/employers/2019/04/teachers-pensions-valuation-report.aspx

Scheme Changes

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

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

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

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

The pension costs paid to TPS in the year amounted to £1,221,000 (2019: £864,000).

FRS 102 (28)

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

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

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Worcestershire Council. The total contribution made for the year ended 31 July 2020 was £1,421,000, of which employer's contributions totalled £1,091,000 and employees' contributions totalled £330,000. The agreed contribution rates for future years are 19.9% for employers and range from 5.5% to 12.5% for employees, depending on salary.

The bulk transfer/merger calculations relating to former North Shropshire College employees in the Shropshire County Council LGPS scheme merging into the fund have not yet been carried out. The separate valuation from the relevant Shropshire Council LGPS is shown in the "Business combinations" figures in the tables below.

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, ('GMP'). The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes required to LGPS schemes.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2017 updated to 31 July 2020 by a qualified independent actuary.

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.8%	3.7%
Future pensions increases	2.4%	2.3%
Discount rate for scheme liabilities	1.5%	2.1%
Inflation assumption (CPI)	2.3%	2.2%
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 2020 Years	At 31 July 2019 Years
Retiring today		
Males	22.6	22.8
Females	25.0	25.8
Retiring in 20 years		
Males	24.2	25.1
Females	27.0	28.2

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

	Long term rate of return expected at 31 July 2020	Fair Value at 31 July 2020 £'000	Long term rate of return expected at 31 July 2019	Fair Value at 31 July 2019 £'000
Equities	38.5%	15,211	70.9%	25,503
Government Bonds	22.3%	8,810	7.5%	3,015
Other Bonds	16.3%	6,440	5.0%	2,010
Property	9.7%	3,832	6.0%	2,412
Cash/liquidity	3.5%	1,383	2.9%	1,166
Other	9.7%	3,832	7.7%	3,096
Total market value of assets		39,508		40,202
Weighted average expected long term rate of return	13.20%		13.20%	
Actual return on plan assets		(965)		2,018

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

	2020 £'000	2019 £'000
Fair value of plan assets	39,508	40,202
Present value of plan liabilities	(67,716)	(60,343)
Net pensions liability (Note 15)	(28,208)	(20,141)

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

	2020 £'000	2019 £'000
Amounts included in staff costs		
Current service cost	1,896	1,438
Curtailements & admin expenses	170	642
Total	2,066	2,080

Amounts included in investment income

Net interest cost	(410)	(303)
	(410)	(303)

Amounts recognised in Other Comprehensive Expense

Experience (Losses)/Gains arising on defined benefit obligations	(6,682)	(6,326)
Amount recognised in Other Comprehensive Expense	(6,682)	(6,326)

Movement in net defined benefit liability during the year

	2020 £'000	2019 £'000
Deficit in scheme at 1 August	(20,141)	(6,726)
Movement in year:		
Current service cost	(1,896)	(1,438)
Employer contributions	1,091	1,290
Administration expenses	(20)	(18)
Curtailements	(150)	(631)
Net interest on the defined (liability)/asset	(410)	(303)
Business combinations	-	(5,989)
Actuarial gain or loss	(6,682)	(6,326)
Net defined benefit liability at 31 July	(28,208)	(20,141)

Asset and Liability Reconciliation

	2020 £'000	2019 £'000
Changes in the present value of defined benefit obligation		
Defined benefit obligations at start of period	60,343	31,023
Current Service cost	1,896	1,438
Interest cost	1,254	1,299
Contributions by Scheme participants	330	315
Experience gains and losses on defined obligations	5,140	7,213
Changes in financial assumptions	-	-
Estimates benefits paid	(1,397)	(1,237)
Past Service cost	150	318
Curtailments and settlements	-	313
Business combination	-	19,661
Defined benefit obligations at end of period	<u>67,716</u>	<u>60,343</u>

Reconciliation of Assets

Fair value of plan assets at start of period	40,202	24,297
Interest on plan assets	844	996
Remeasurements (assets)	(1,542)	1,020
Administration expenses	(20)	(18)
Business combination	-	13,539
Employer contributions	1,091	1,290
Contributions by Scheme participants	330	315
Estimated benefits paid	(1,397)	(1,238)
Assets at end of period	<u>39,508</u>	<u>40,202</u>

21 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. There are no identified related party transactions other than as reported in relation to expenses below.

The total expenses paid to or on behalf of the Governors during the year was £850; 4 governors (2019: £1,788; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2019: None).

22 Amounts disbursed as agent

Learner support funds

	2020 £'000	2019 £'000
Funding body grants – bursary support 16-18	358	358
Funding body grants – residential bursaries 16-18	128	67
	<u>486</u>	<u>425</u>
Disbursed to students	(486)	(407)
Administration costs (2020 fund oversubscribed no admin income available)	-	(18)
Balance unspent as at 31 July, included in creditors	<u>0</u>	<u>0</u>

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 disbursement are therefore excluded from the Statement of Comprehensive Income.

23 Financial Instruments

The College has the following financial instruments:

	Note	College 2020 £'000	College 2019 £'000
Financial assets that are debt instruments measured at amortised cost:			
- Trade debtors	12	369	226
- Other receivables	12	-	-
		<u>369</u>	<u>226</u>
Financial Liabilities measured at amortised cost:			
- Bank loans and overdrafts	13,14,15	-	-
- Other loan	13,14	-	38
- Trade creditors	13,14	193	169
- Amounts owed to ESFA	13,14	585	1,006
		<u>778</u>	<u>1,185</u>

To: The Corporation of Herefordshire, Ludlow and North Shropshire College and Secretary of State for Education acting through the Department for Education (“the Department”)

In accordance with the terms of our engagement letter and further to the requirements of the financial memorandum 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 Herefordshire, Ludlow and North Shropshire College during the period 1 August 2019 to 31 July 2020 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post 16 Audit Code of Practice (“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 (ILR) returns, for which the Department has other assurance arrangements in place.

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

Respective responsibilities of Herefordshire, Ludlow and North Shropshire College and the reporting accountant

The corporation of Herefordshire, Ludlow and North Shropshire 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 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued 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 to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.
- Reviewed the College's completed self-assessment questionnaire on regularity.
- Read the financial memorandum with the ESFA/ funding agreement with the ESFA.
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
- Obtained the policy for personal gifts and/or hospitality.
- Obtained the register of personal interests.
- Obtained the financial regulations/financial procedures.
- Obtained the College's whistleblowing policy.

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 1 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed: 

Mazars LLP

90 Victoria Street, Bristol, BS1 6DP

Date: 20/1/21