

# ANNUAL REPORT

*2015 – 2016*

FINANCIAL STATEMENTS FOR YEAR ENDING 31 JULY 2016



**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31 JULY 2016**

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# **Warwickshire College**

## **Operating and Financial Review**

### **Nature, objectives and strategies**

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

### **Legal Status**

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

The Corporation was initially incorporated as Mid-Warwickshire College, Royal Leamington Spa. On 1 August 1996, the Secretary of State granted consent to the Corporation to change the College's name to Warwickshire College, Royal Leamington Spa and Moreton Morrell following the agreed merger of the assets of Warwickshire College for Agriculture, Horticulture and Equine Studies. The merger with Rugby College on 1 August 2003 resulted in the new name of Warwickshire College, Royal Leamington Spa, Rugby and Moreton Morrell. On 1 August 2007, the assets and liabilities of Pershore Group of Colleges (without the Holme Lacy centre) were acquired which resulted in a further change of name to Warwickshire College. The College adopted the trading name of Warwickshire College Group in 2014.

As at 1<sup>st</sup> August 2016 Warwickshire College merged with South Worcestershire College and accepted all South Worcestershire College assets and liabilities on the dissolution of the South Worcestershire Corporation again as at 1<sup>st</sup> August 2016. The trading name WCG has also now been adopted, to better reflect the College's increased presence in the two counties of Warwickshire and Worcestershire.

### **Vision and Core values**

Warwickshire College is a successful, complex general Further Education (FE) College with significant Higher Education (HE), apprenticeship and international provision.

Our vision is to create inspirational learning environments that are recognised nationally and internationally by students, employers, educators and entrepreneurs for developing ambitious, confident and successful citizens.

The core values are actively promoted at every opportunity. They provide a flexible framework by which decisions are made and priorities agreed.

The core values are:

- Put the learner first
- Deliver the highest quality in all that we do
- Promote a fair, open and respectful culture

### **Public Benefit**

Warwickshire College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 15 and 16.

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



## **Warwickshire College Operating and Financial Review (continued)**

In delivering its core values, 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

### **Strategic priorities 2015/16**

In 2014 the College adopted a new vision and five-year plan. Within the plan are three strategic priorities. These are:

**Priority one** – Maintain improving student success measures across all areas

**Priority two** – Ensure financial health and sustainability

**Priority three** – Develop stronger and wider reaching educational, business/commercial and community partnerships and ventures

Each priority has a set of success indicators attached to enable the College to track progress and to allow staff to see the part that they can play in ensuring the College meets its strategic priorities.

### **Quality**

The strategic driver for quality is to continually improve quality of all provision, in the classrooms, workshops and workplace, recognising this activity as core business and instilling a culture of continuous quality improvement. The College seeks to continually improve the learner experience of the whole College, including all services and aspects of support that impact on that experience. The College's target is to achieve a success rate at or above the national 75th percentile rate of 90%. Course level targets for student retention, achievement and success are regularly monitored through quality review meetings.

### **Inspection**

The College was inspected by the Office for Standards in Education (Ofsted) in March 2014, when the College's overall effectiveness was judged to be Good. The inspectors said that:

- Learners demonstrate a high standard of skills in their vocational subjects
- Apprenticeship provision and achievements at level 3 have been consistently high over the last few years
- Provision across the majority of subject areas is good, and learners make good progress to higher education
- The focus of the curriculum in developing learners' work-related and enterprise skills has enabled large numbers to enter full-time employment or to set up their own business
- The training and support that teachers receive have improved teaching, learning and assessment

The College group also received particular praise for its work with industry, with the inspectors saying "links with local employers and the local enterprise partnerships have enabled the College to grow its provision to meet local and regional needs very closely, and have led to the development of new courses and increased opportunities for learners to become familiar with industry".

The College's Higher Education provision was last reviewed by the Quality Assurance Agency for Higher Education (QAA) in December 2015 and was judged to meet expectations in relation to quality of the information about its HE learning opportunities and also the enhancement of learning opportunities.



## **Warwickshire College Operating and Financial Review (continued)**

On 1 September 2014, the College was awarded Foundation Degree Awarding Powers (FDAP). The new Foundation Degree Awarding Powers (FDAP) allows the College to offer foundation degree qualifications without requiring a university partner. Before granting such powers the college was subject to a year-long scrutiny by the Quality Assurance Agency for Higher Education (QAA) in order to demonstrate it is a "well-founded, cohesive and self-critical academic community that demonstrates firm guardianship of its standards".

An Ofsted report was issued following a Social Care Inspection of the College's residential facilities in November 2016. The overall quality rating was considered to be good.

### **Employer Engagement**

As noted in the College's Ofsted inspection of March 2014 we have excellent links with both local and national employers. Throughout 2015/16 this has enabled us to continue to increase our engagement and partnerships and to extend the number and range of apprenticeships offered. Through our Business Relationship Team we have also worked with many companies to meet their bespoke training needs.

This is a sample of the companies that we work with:

Alstom Power Ltd  
Calor Gas Limited  
Coventry City Council  
Coventry University  
Cummins Ltd  
Doosan Babcock Limited  
Jaguar Land Rover Limited  
Rolls-Royce Group plc  
Royal Parks  
South Warwickshire NHS Foundation Trust  
University of Worcester  
University of Warwick

### **Higher Education**

With nearly 600 new HE entrants (full-time, part-time and including top-up students) enrolments to HE courses in 2015/16 were similar to the previous year. There was little change in overall HE student numbers with a total of 1150 HE students (1125 in 2014/15 and 1052 in 2013/14) although the FTE increased to 970 (up from 944 in 2014/15 and 860 in 2013/14).

Following the grant of Foundation degree-awarding powers (FDAP) in September 2014, the College has now approved a wide range of Foundation degree programmes; in 2015/16 there were registrations on eleven of the first suite of Foundation degree programmes and a further eight degrees were approved in summer 2016.

The College had its cyclical HE Review by the Quality Assurance Agency for HE (QAA) in December 2015. The Review was a 'light touch' process because Academic Standards and Student Learning Opportunities had been reviewed as part of the College's recent application for FDAP. QAA judged that WCG 'Meets expectations' in relation to quality of the information about its HE learning opportunities and also the enhancement of learning opportunities. The reviewers identified the following good practice:

- The carefully tailored provision of learning opportunities and teaching practices, to enable students to develop as independent reflective learners;
- The use of industrial advisers, the range of staff occupational expertise and links with professional networks, which contribute to the enrichment of the student learning experience and promote employability;
- The comprehensive and effective pre-entry and induction information, which signals the College's focus on employability; and
- Higher education student symposia, which develop understanding of employability, entrepreneurship activity and opportunities for further study.

## **Warwickshire College**

### **Operating and Financial Review (continued)**

Success rates continued to be high across the Group's HE provision with an overall forecast of success at 85%, expected to be slightly improved from the previous year (84%).

The College has agreed a revised HE Strategy 2016-2020 with four strategic objectives:

1. Maintain growth in higher education students numbers to 1400 students (1200 FTE) in 2020;
2. Increase market share for degree apprenticeships meeting local, regional and national needs;
3. Develop smart approaches to scholarly activity and research to support applied HE and postgraduate activity; and
4. Maintain a strategic approach to enhancement of its HE provision.

The College is working towards delivery of these objectives in 2016/17.

#### **Student numbers**

The College had approximately 5,272 (2014/15 5,933) Skills Funding Agency (SFA) / Education Funding Agency (EFA) funded students and 6,146 (2014/15 6,373) non SFA funded students. The number of students engaged in employer responsive learning was 1,740 (2014/15 1,639). 14-16 provision has continued with approximately 122 (2014/15 158) young learners attending programmes at the College.

#### **Financial position**

##### **Financial Health Priority**

The last year has seen the College make further progress in improving its operating model, despite further government cuts and other cost pressures not in its direct control, such as changes in teacher pension contributions.

Staff costs were moved closer to sector norms through a combination of natural wastage, voluntary and compulsory redundancies in 2014/15. Changes to terms and conditions negotiated this year (effective from 1<sup>st</sup> August 2016) will again assist with this. At the same time strict control over all non-staff costs has been maintained.

In consequence the underlying operating results (before staff restructuring and disposal of fixed assets) have been significantly improved from a £3,327k loss in 2013/14 (on an old GAAP basis) to a £1,278k loss in 2014/15 and a £893k surplus in 2015/16.

The merger with South Worcestershire College also now provides an opportunity to take up to £1.1m of costs out of the consolidated structure, principally through elimination of duplication in support functions. This is currently the subject of collective consultation and the restructure will be implemented in early 2017.

Net debt has been significantly reduced through a combination of lower capital investment and the conclusion of two property sales. Net debt at 31 July 2016 was £13.0m (£22.2m 2014/15) and equates to 28% of income (47% in 2014/15). Operating cash flows increased in year to £2,894k.

We are now in to the third year of a debt reduction strategy linked to a series of property transactions and an attendant debt amortisation schedule. We are also committed to further financial performance improvements.

The following form key elements of the plan and the current status of each are as follows:

- Disposal of the old Rugby site in Hillmorton Road for £7.6m. This transaction was completed in Nov 2014 and the proceeds were received in two equal tranches – Nov 2014 and Nov 2015.
- The College in April 2016 contracted for the sale and leaseback of its residential accommodation blocks at Royal Leamington Spa. This transaction also secured the building of additional accommodation capacity to support our growth, which will be available for occupation from September 2017. The sale proceeds were received in two tranches, £4.8m in April 16 and £0.4m received in June 16, and this will result in ongoing rental costs, to be covered by future student rentals.

## **Warwickshire College**

### **Operating and Financial Review (continued)**

- Disposal of part of the Moreton Morrell site, for £3m for housing development. Contract for sale was exchanged with David Wilson Homes in July 2014, subject to planning permission. Stratford District Council twice rejected planning permission and the matter was referred to the Secretary of State on appeal. This appeal was dismissed on the 11th May 2016 on the sole grounds of uncertainty over public open space, despite commitments already given by the College to this. The original sale contract has now lapsed and we are currently reviewing our options in discussion with a number of developers, as the inspector had approved both the quantity and the quality of housing proposed. This sale has however been further complicated by the approval of the Stratford Districts Development plan which caps the number of houses that can be built in the village. We are still targeting to complete a sale transaction by latest December 2017; the long stop date included in our recent invitation to bid.
- The closure of the Henley in Arden College at the end of July 2016, had originally been announced in September 2015. This was the smallest College site in the Group by income and the catchment area did not support its continued existence. Education provision for the County has however been retained by relocating it to other College sites (Royal Leamington Spa – Art & Design, Hair & Beauty and Moreton Morrell – Sport)
- A change of use application for Henley in Arden site was submitted to Stratford District Council in Nov 2015 and permission was granted in June 2016 to develop part of the site as a retirement village following extensive consultation. Under this scheme over half of the site, including the sports hall and pitches, would be retained by the College and operated commercially to serve local community needs. Unconditional offers were sought, but despite considerable interest in the site, the offers received were disappointing and it would appear the permission granted was too restrictive for developers. The property has therefore been re-marketed and conditional offers were invited for 16th December 2016 and are currently under evaluation. We expect to realise significant value from the site, but it is deemed too commercially sensitive to disclose our expectations at this stage. Due to the conditional nature of the bids it is considered too uncertain to build this into our cash flow projections for our going concern assessment
- Disposal of the Henley in Arden site, as we indicated last year, did raise a possible risk of clawback of grants received in the past to develop the site (in total £2.8m). In practice the risk is considered remote, both due to the age of the grants and the fact that a significant part of the site is being retained (and to which much of the grants related). The SFA have recently revised their policy on grant clawback and we have submitted a request for formal waiver, in line with the new policy. This has now been confirmed by the SFA.
- The College owns a property on Warwick New Road, Prospero House, which is currently used for student accommodation. When the new student accommodation is built at Royal Leamington Spa, the intention is to sell this property for development. Planning permission has been sought and we target to complete a sale by July 2017. As for Henley it is considered too commercially sensitive to indicate likely value.
- Detailed monthly cash flow projections for the period to July 2018 have been prepared incorporating the above assumptions and, reflecting the debt amortisation schedule agreed with our banks. Based on these projections, the College has adequate headroom and/or ability to arrange its affairs to cover the relevant forward period, allowing for all reasonable sensitivities. On this basis the Governors have agreed that the College should prepare its accounts on a going concern basis, subject to the full disclosure of the above assumptions. These conditions give rise to a material uncertainty which cast significant doubt over going concern.

### **Financial results**

The year ended 31 July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. (See note 28 for details of the previous year's re-statements to these standards for purposes of comparison)



## **Warwickshire College**

### **Operating and Financial Review (continued)**

The College generated a surplus before other gains and losses of £600k (2014/15 £2,973k), after charging depreciation of £ 3,378k (2014/15 £3,499k). After disposal of assets the surplus was £2,894k (2014/15 £801k deficit).

The Financial Reporting Standard (FRS102) (28) pension adjustment had a material impact on the financial statements during the year. A cost of £395k (2014/15 £641k) for staff costs and £1,196k cost (2014/15 £1,140k) for finance cost was included in the operating deficit above. In addition, there was an actuarial loss of £6,300k (2014/15 £3,132k loss) which was recorded in the Statement of Comprehensive Income

The funding received from EFA was £17,279k (2014/15 £16,677k). The SFA Adult Skills Budget received was £4,988k (2014/15 £5,420k) and 16-18 Apprenticeships funding was £4,064k (2014/15 £3,300k).

Tuition fees income decreased overall by 1.5% to £12,203k (2014/15 £12,384k), including fees paid by employers which rose by 17.5% to £3,137k, (2014/15 £2,670k). HE tuition fees increased 5.3% to £4,715k (2014/15 £4,479k). Overseas student income however fell by 28.3% to £1,508k due to the end of a large contract (2014/15 £2,102k).

Staff costs excluding the effects of FRS 102 and restructuring reduced by 0.9% to £31,136k from £31,421k, last year. Staff restructuring costs amounted to £293k (2014/15 £1,695k).

Total capital expenditure on land and buildings was £1,505k (2014/15 £8,031k). The governors and management of the College have continued to invest in the College building stock to eliminate poor quality facilities, but equally moderated this to reflect the need to reduce debt levels. Net costs of £221k relating to these capital projects were also incurred and charged direct to income and expenditure during the year, (2014/15 £527k). The College also spent a total of £963k (2014/15 £634k) on new equipment.

#### **Future strategy**

The strategic priorities for the College have been reviewed and remain as follows:-

- Maintain improving student success
- Ensure financial health and sustainability
- Develop partnerships in all sectors

As at 1<sup>st</sup> August 2016 Warwickshire College merged with South Worcestershire College and accepted all South Worcestershire College assets and liabilities on the dissolution of the South Worcestershire Corporation again as at 1<sup>st</sup> August 2016.

Success indicators have been reviewed and agreed with Governors for 2016/17 for each strategic priority.

The success indicators relating to the 2016/17 financial health objectives are as follows:

1. Achieve a breakeven budget out-turn (excluding property proceeds and restructuring costs)
2. Increase 16-18 learner numbers to 4,300
3. SFA financial health grade of 'satisfactory'
4. Each college to achieve a contribution of:-
  - Pershore 5%
  - Moreton Morrell 25%
  - Royal Leamington Spa 25%
  - Warwick Trident 25%
  - Rugby 25%
  - Evesham 10%,
  - Malvern 5%
5. Average class size of 17
6. Achieve overall curriculum contribution of 40%
7. Realise a minimum of £10m of property proceeds
8. Maintain current staff utilisation at 86%
9. Achieve growth of £0.5m (5.5%) in delivered apprenticeship income
10. Achieve growth of £0.8m (17%) in HE income
11. Achieve growth of £0.5m (8%) in commercial income
12. Debt to EBITDA ratio less than 2

## Warwickshire College Operating and Financial Review (continued)

13. 75% of those staff who complete the annual staff survey would like to progress their career within Warwickshire College Group
14. Devise on-line learning equating to £200k increased income

Performance against 2015/16 success indicators was as follows:

1. Achieve a breakeven budget out-turn (excluding property proceeds and restructuring costs) - --  
**2015/16 operating surplus was £0.1m**
2. Increase 16-18 learner numbers to 3,800 – **16-18 learner numbers increased to 3,753**
3. SFA financial health grade of satisfactory – **Achieved**
4. Turnover/Income of £51m – **2015/16 Income was £46.7m**
5. Each college to achieve 30% contribution, before support costs – **RLS 14%, Trident 28%, Rugby 9%, MM 28%, Pershore 2% and Henley 3%**
6. Course contribution (after direct delivery costs and exam fees) target of 60% - **Measure withdrawn**
7. Implement new human resources policies including staff utilisation measure to improve efficiency – **Achieved**
8. Realise a minimum of £11m of property proceeds - **£9.0m realised from property proceeds**
9. Achieve capital investment of £1m for growth achieved through new models – **Achieved**
10. Achieve growth of £1.6m (21%) in delivered apprenticeship income – **Growth of £1.5m (19%)**
11. Achieve growth of £0.6m (9%) in HE income – **Growth of £0.2m (4%)**
12. Achieve growth of £0.7m (28%) in international income – **Reduction of £0.6m**
13. Achieve growth of £0.5m in commercial income in 15/16 – **Reduction of £0.9m**
14. Debt managed within agreed faculty limits – **Achieved**
15. Participation in staff survey to improve from 30% to 50% - **Achieved 54%**

### Budget for 2016/17

The financial budget was prepared by a combination of a top down modelling exercise and a bottom up build, with the two approaches being made to converge, as clarity around issues emerged.

The focus of the budget process was to build on the improvements in the operating model achieved in 2015/16, but with a sharp focus on reducing debt.

A number of challenges and opportunities are and were evident:

- Integration of Evesham and Malvern Hills College
- Transitioning of provision from Henley College to Moreton Morell and Royal Leamington Spa College
- University of Warwick taking in house its International Foundation Programme
- Grant cuts from both EFA and HEFCE
- Growth opportunities for Apprenticeships in particular
- Uncertainty about the implications of the Apprenticeship Levy
- Cost pressures in particular from pension funding, national insurance changes and the Apprenticeship Levy
- The desire for a long overdue pay award
- Benefits of negotiated revised terms and conditions
- The need to implement further restructuring
- The need to deliver further property sales to reduce net debt further

In summary then, as for many colleges, despite the growth factored in and the further cost reductions contemplated the budget reflects a need to run fast to stand still.

On the debt front we are however looking for a significant reduction from a combination of lower capital spend and a series of property disposals scheduled over the next two years. Delivering these is central to retaining the support of our banks.

## **Warwickshire College**

### **Operating and Financial Review (continued)**

#### **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 treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Principal as Accounting Officer. Such arrangements are restricted by limits in the College's Financial Memorandum agreed with the SFA. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

#### **Cash flow**

Operating cash was an inflow of £2,894k (2014/15 £801k outflow). Cash resources increased by £2,119k (2014/15 £118k decrease) having decreased loans by £7,071k (2014/15 £1,223k decrease). Net debt was £12,981k, down from £22,171k at the previous year end.

#### **Liquidity**

At the year end the College had the following loans financed through Lloyds Bank plc. A secured £8.6m sixteen year term loan that is fully drawn down with interest rates fixed for the full period ending September 2027, a five year revolving credit facility ending 31 December 2016 for £3m fully drawn down and a three year revolving credit facility ending 1 February 2017 for £3m also fully drawn down at the year end. Lloyds additionally provide a £1m overdraft facility.

The £2m balance of a secured £10m term loan facility also remained with the Allied Irish Bank, repayable by annual instalments of £1m which will be fully repaid in September 2017.

All the above facilities are shown as current as at the year end, as both lenders had reserved their rights following covenant breaches in 2013/14 and 2012/13.

AIB - debt has now been reduced by £1m in Sept 2016 to just £1m outstanding and a supplementary agreement is in place with them agreeing to a re-scheduling of these facilities. They have confirmed that for 2015/16 they will apply covenant tests on a "frozen GAAP" (i.e. old UK GAAP) basis. We are confident that we are compliant on this.

Lloyds Bank have continued to be supportive and we have maintained an open dialogue with them on all developments – so there are no surprises for them. Lloyds have now made us an offer to extend our facilities and Heads of Terms were agreed by Governors on 13<sup>th</sup> December allowing us to proceed to documenting this early in the new calendar year.

The key terms are:

- Term Loan and RCF facilities to be extended until April 2018 (with an option for them to extend without further arrangement fees)
- Margin on facilities remains unchanged
- Overdraft facility (£1m) to be extended for 12 months until Nov 2017 (max term possible). We would expect this to then be renewed for a further 12 months.
- Amortisation schedule on RCF facility to be £1m on the earlier of the disposal of Prospero House or 31st Aug 2017 and then £2m on the earlier of MM Triangle sale or 31st Jan 2018.
- Amortisation on Term facility is to be maintained at previously agreed levels with £0.2m repaid in September 2016 and the next repayment (£0.2m) due in September 2017
- Additional security will be taken over Prospero House and Evesham College site
- New Covenant tests to apply are as follows: Debt to EBITDA < 5.25x and Debt to Income less than 35%. These will replace the existing tests for 2015/16 onwards once the amendment documents are signed.



## **Warwickshire College Operating and Financial Review (continued)**

### **Resources**

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

Tangible fixed assets of £106,024k include the College's six main sites at Leamington Spa, Rugby, Moreton Morrell, Pershore, Henley and Whitnash. Evesham and Malvern sites will also be added following the merger with South Worcestershire College as at 1 August 2016.

The College has decided to re-value the Land element of its Fixed Assets as allowed under FRS 102 and the 2015 FE HE SORP. This has resulted in an increase in the value of the Colleges Land by £11,245k.

### *Financial*

The College has £16,156k (2014/15 £19,562k) of net assets including £40,884k (2014/15 £32,993k) defined benefit obligations and net debt of £12,981k (2014/15 £22,171k).

### *People*

The College employs 899 (2014/15 948) people (expressed as full time equivalents), of whom 580 (2014/15 600) are within teaching departments.

### **Reputation**

The College has a good reputation locally and nationally for its teaching, learning and work based learning provision. Maintaining a quality brand is essential for the College's success at attracting students and external partnerships. This is carefully managed and associated risks are monitored via the College's risk management procedures.

The recent Ofsted inspection is well recognised by prospective students, their parents, employers and stakeholders and is a key part of the College's reputation. The College's new Group identity, which was introduced in 2014 as part of an overall proactive and comprehensive marketing and communications strategy, has been well received and enabled partner schools and stakeholders to more clearly identify with the group structure.

### **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.

The Senior Leadership Team (SLT) undertakes a comprehensive review of the risks to which the College is exposed, identifying a risk owner for each of the risks identified. They identify systems and procedures, including specific preventable actions to mitigate any potential impact on the College. The internal controls are then implemented.

The Senior Leadership Team considers any new risks which may arise as a result of a new area of development for 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.

The key strategic risks to the College, which have a high risk score, have been identified as follows:

- 1) *Loss of reputation/income due to complaints from learners and/or other stakeholders, particularly relating to equality legislation*
- 2) *Lack of preparation and awareness leaves WCG vulnerable in the event of an act of terrorism*
- 3) *Poor security procedures at any of the College sites results in loss, injury or death and/or a major incident*

## **Warwickshire College**

### **Operating and Financial Review (continued)**

- 4) *Poor arrangements in maintaining facilities and failure to meet H&S requirements reduces the safety of people using the college sites and facilities resulting in a health and safety incident, injury or death*
- 5) *Information and data governance is not consistent across the organization and therefore there is an increased danger of data loss resulting in reputational damage*
- 6) *Expected growth not delivered in apprenticeships*
- 7) *Loss of key contracts (valued at over £2m pa), due to competition and perceived reduction in quality, leads to a loss of reputation and income*
- 8) *Failure to maintain a "satisfactory" SFA financial health rating due to reductions in funding and changed external environment result in intervention by the SFA.*
- 9) *Loss of confidence in financial markets, due to economic turmoil /changes in banking environment (including an increase in interest rates), affects loan conditions leading to inability to service loan conditions, leading to inability to service loans or secure additional finance.*

As part of the risk management process, appropriate mitigating steps have been identified and implemented against each of the above risks.

### **Building partnerships and responding to the community**

Effective partnership working is essential to the College's core values in meeting the needs of the diverse customer base that it serves. The College builds on a strong history of successful delivery with a range of partners, and maintains effective partnerships with employers, schools, other colleges, universities and providers.

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

- students
- funding agencies
- staff
- local employers
- national employers
- local Authorities
- LEPS
- the local community
- other FE institutions and schools
- universities
- trade unions
- professional bodies
- local entrepreneurs

Economic well-being and educational excellence is at the centre of our activity, as is supplying skills to large and small businesses. We are committed to making our footprint area an economic success and to contributing to community advancement and economic regeneration. This ambition has been central to the development of the College's strategy for teaching and learning which places the development of work-readiness and employability skills at its heart.

### **Student and staff involvement**

The College continues to improve its responsiveness to students through robust and extensive student involvement activities, empowering students to affect change within the college community; building upon citizenship activity to engage them as advocates and active citizens. Students have welcomed the opportunity to contribute to the development of the College through events such as the Student Conference, and by taking an active role in College committees at all levels.

## Warwickshire College

### Operating and Financial Review (continued)

The College believes communication and engagement with its staff to be very important and to this end a new Employee Engagement Plan has been developed. A new intranet was also launched in Autumn 2015 and internal communications are now embedded within marketing to ensure staff are kept well informed of College developments.

### Equality and diversity

The College is committed to serving the wider community by developing equality of opportunity in all of its actions and by supporting human rights. The aim of the College is that everyone is given reasonable and appropriate support and the opportunity to reach their full potential. In fulfilling this aim the College works proactively to ensure that no one is disadvantaged as a result of their protected characteristics:

- age
- disability
- gender reassignment
- race
- marriage and civil partnership
- pregnancy and maternity
- religion/beliefs
- sex
- sexual orientation

The College will actively promote harmony between different groups and encourages both tolerance and understanding of the beliefs of others. The College is committed to recognising the achievements of all members of the College community. The College community is defined as places where College functions take place and includes all out-reach centres, work placements, employer premises and other venues where activities are taking place in the name of, or on behalf of, the College. Every member of this community has a responsibility to tackle and eliminate discriminatory behaviour including bullying, harassment and intimidation. Visitors, contracted personnel and partners will be required to ensure that equality is upheld both in principle and practice, when visiting or working with the College.

Public Sector Equality Duty came into force in 2011. The Equality Duty ensures that all public bodies play their part in making society fairer by tackling discrimination and providing equality of opportunity for all.

The Equality Duty has three aims. It requires public bodies to *have due regard* to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- *foster good relations* between people who share a protected characteristic and people who do not share it.

'*Having due regard*' means consciously thinking about the three aims of the Equality Duty as part of the process of decision-making. This means that consideration of equality issues must influence the decisions reached by the College – such as in how we act as employers; how we develop, evaluate and review policy; how we design, deliver and evaluate services, and how we commission and procure from others.

*Having due regard* to the need to advance equality of opportunity involves considering the need to:

- remove or minimise disadvantages suffered by people due to their protected characteristics;
- reasonably meet the needs of people with protected characteristics; and
- encourage people with protected characteristics to participate in College.

*Fostering good relations* involves tackling prejudice and promoting understanding between people who share a protected characteristic and others.

Complying with the Equality Duty may involve treating some people better than others, as far as this is allowed by discrimination law. For example, it may involve making use of an exception or the positive action provisions in order to provide a service in a way which is appropriate for people who share a protected characteristic.



## **Warwickshire College**

### **Operating and Financial Review (continued)**

Under the Equality Duty the College is required to:

- publish information to demonstrate their compliance with the Equality Duty, at least annually; and
- set equality objectives, at least every four years

#### **Encouraging participation of under-representative groups**

The College will be proactive in identifying under-represented groups and encourage them to participate by developing flexible provision in appropriate surroundings within the College community. The College recognises that it has an opportunity to model equal access and empower all groups including disabled, ethnic, religious and socially & economically disadvantaged and will:

- Try to recruit governors representative of the student population and/or community;
- Encourage the widest participation from students, parents, lecturers and employers;
- Support individuals and community groups to express their case on matters affecting themselves and their community; and
- Encourage all employers to support their workforce in their learning.

This policy is representative of the College core values and will be monitored through the College Single Equality Scheme and associated actions.

The College in all its activities will endeavour to:

- Promote Equality and Diversity throughout the student journey and in particular in teaching and learning and in all areas of the curriculum;
- Provide vision and strong leadership in all aspects of equality, diversity and tolerance with all our stakeholders, students and staff;
- Respond to the needs of individual learners and seek to include those who are disaffected or marginalised;
- Provide the appropriate environment and facilities for all staff and not limit the equality of opportunity for particular staff;
- Provide the appropriate environment and facilities for all groups of students and not limit the equality of opportunity for particular groups;
- Ensure that all groups of students are supported to achieve their maximum potential;
- Consult with representatives of community groups, employers and other external organisations to inform the planning of specific learning programmes, initiatives, programme planning and curriculum development;
- Operate an admissions system that promotes tolerance of the beliefs of others, that is sensitive to all prospective students and staff and offers the relevant advice and guidance;
- Give prospective students (where appropriate) the opportunity to visit the College, so that they can make an independent judgement as to whether the environment is suitable;
- Provide reasonable support systems to students by encouraging disclosure, assessing their particular needs and publicising additional support arrangements including any costs incurred;
- Publicise childcare facilities and costs;
- Ensure that staff recruitment systems are compliant with equality legislation;
- Induct students and staff and raise their awareness of the Equality & Diversity Policy;
- Monitor feedback via the Customers Services team for issues that relate to Equality & Diversity to ensure that the College does not indirectly discriminate against one particular group/groups;
- Provide opportunities for students to take part in a wide range of activities;
- Ensure good equality and diversity practice in organisations where students take part in work based learning and employer engagement;
- Encourage and support all employers and suppliers to develop Equality & Diversity Policies;
- Ensure that assessment and examination methods are fair;
- Promote that the College is representative of the community it supports and make sure that all students, governors, volunteers and staff understand that our value of tolerance relating to the beliefs of others is central to everything the College does.
- Promote British Values within the College and specifically the aspects regarding mutual respect and tolerance of different faiths and beliefs.

## **Warwickshire College Operating and Financial Review (continued)**

### **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.

**Authority was given by the Corporation at its meeting on 13 December 2016 for the Chair and the Accounting Officer to approve the financial statements on its behalf. These were subsequently signed on 21 December 2016.**



**S Wood**  
**Chair of the Corporation**

### **Professional advisers**

#### *Financial statement and regularity auditors:*

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

#### *Internal auditors:*

BDO LLP  
125 Colmore Row  
Birmingham  
B3 3SD

#### *Bankers:*

Lloyds Bank PLC  
125 Colmore Row  
Birmingham  
B3 3SF

#### *Solicitors:*

Shakespeare Martineau  
No 1 Colmore Square  
Birmingham  
B4 6AA

## Warwickshire College

### Statement of Corporate Governance and Internal Control

The college endeavours to conduct its business:

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

The College is committed to exhibiting best practice in all aspects of corporate governance. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complies with the spirit of the AoC Code of Good Governance (March 2015). 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.

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

#### The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed below:

Key to abbreviations:

|       |  |
|-------|--|
| ASQA  | Academic Standards and Quality Assurance Committee |
| AUDIT | Audit Committee                                    |
| RES   | Resources Committee                                |
| SGR   | Search Governance and Remuneration Committee       |

| Name       | Date of Appointment, and most recent re-appointment | Term of office | Date of resignation | Status of appointment | Committees served  | Attendance During 2015-16                     |
|------------|---|----------------|---------------------|-----------------------|--|---|
| C Bradshaw | January 2015  | 2 Years        |                     | External              | Member of Audit  | Corporation 100%<br>Audit 100%                |
| J D'Arcy   | August 2015   | 2 years        |                     | Staff                 | Member of ASQA   | Corporation 63%<br>ASQA 75%                   |
| B Doyle    | January 2009<br>July 2015                           | 18 months      |                     | External              | Chair of RES   | Corporation 100%<br>Resources 100%<br>SGR 50% |
| A Drury    | September 2011<br>September 2013                    | 4 years        | 31 July 2016        | External              | Vice Chair of Corporation<br>Member of SGR<br>Member of ASQA | Corporation 88%<br>ASQA 75%<br>SGR 67%        |
| N Eastwood | August 2016   | 2 years        |                     | External              | Member of RES  | N/A   |



**Warwickshire College**  
**Statement of Corporate Governance and Internal Control (continued)**

| Name         | Date of Appointment, and most recent re-appointment | Term of office | Date of resignation | Status of appointment   | Committees served   | Attendance During 2015-16                                   |
|--------------|---|----------------|---------------------|-------------------------|---|---|
| D Holmes     | August 2016   | 2 years        |                     | External                | Member of ASQA  | N/A   |
| C Hume       | August 2016   | 1 year         |                     | Student                 | Member of ASQA  | N/A   |
| A Joyce      | April 2015  | N/A            |                     | Group Principal and CEO | Ex-Officio all committees except Audit and Remuneration             | Corporation 100%<br>Resources 100%<br>ASQA 100%<br>SGR 100% |
| L Kelland    | August 2006<br>July 2012                            | 4 years        | 31 July 2016        | External                | Chair of Audit<br>Member of SGR                                     | Corporation 88%<br>Audit 100%<br>SGR 67%                    |
| D Kinnersley | May 2006<br>May 2012                                | 4 years        | 31 May 2016         | External                | Member of SGR   | Corporation 88%   |
| R Large      | August 2016   | 1 year         |                     | Student                 | Member of ASQA  | N/A   |
| P Manford    | August 2008<br>July 2014                            | 4 years        |                     | External                | Vice Chair of Corporation<br>Member of RES,<br>Member of SGR        | Corporation 100%<br>Resources 100%<br>SGR 100%              |
| S Mason      | January 2015  | 2 Years        |                     | External                | Member of Audit   | Corporation 88%<br>Audit 100%                               |
| D McGuire    | August 2015   | 1 year         | 31 July 2016        | Student                 | Member of ASQA  | Corporation 75%<br>ASQA 75%                                 |
| L Simpson    | September 2011<br>September 2013                    | 4 years        |                     | External                | Chair of ASQA<br>Member of RES<br>Member of SGR                     | Corporation 100%<br>ASQA 100%<br>Resources 50%<br>SGR 67%   |
| R Singh      | September 2011<br>September 2013                    | 4 years        | 10 November 2016    | External                | Member of Audit<br>Member of SGR                                    | Corporation 75%<br>Audit 75%                                |
| K Skudra     | November 2011<br>November 2013                      | 2 years        |                     | Staff                   | Member of ASQA  | Corporation 100%<br>Audit 75%                               |
| R Vitish     | May 2010<br>April 2012                              | 4 years        | 31 July 2016        | External                | Chair of RES<br>Member of SGR                                       | Corporation 57%<br>Resources 25%<br>SGR 0%                  |
| S Wood       | January 2007<br>January 2013                        | 4 years        |                     | External                | Chair of Corporation, SGR<br>ex-officio all committees except Audit | Corporation 88%<br>Resources 100%<br>ASQA 67%<br>SGR 67%    |
| M Williams   | January 2015  | 2 Years        |                     | External                | Member of ASQA  | Corporation 63%<br>ASQA 75%                                 |

## **Warwickshire College**

### **Statement of Corporate Governance and Internal Control (continued)**

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 at least twice each term.

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 Audit, Resources, Academic Standards and Quality Assurance, and Search, Governance and Remuneration. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website.

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the following address:

Warwickshire College Group  
Royal Leamington Spa College  
Warwick New Road  
Royal Leamington Spa  
CV32 5JE

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 as appropriate.

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

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

#### **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, Governance and Remuneration committee, consisting of six members of the Corporation, which is 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 appointed for a term of office not exceeding four years.

#### **Search Governance and Remuneration committee**

Throughout the year ending 31 July 2016, the College's Search Governance and Remuneration committee comprised nine members of the Corporation. The committee's responsibilities in relation to Remuneration are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer, other senior post-holders and the Clerk to the Corporation. The committee has regard to performance target goals and objectives to ensure that the senior post-holders and the clerk to the corporation are fairly rewarded for their individual contributions to the College's overall performance and takes account of the regional and national contexts for the remuneration of comparable posts, and the financial health of the College. It demonstrates through membership, constitution and actions that the pay of the senior post-holders and the clerk is proposed by a committee which has no personal interest in the outcome of its recommendations. Details of remuneration for the year ended 31 July 2016 are set out in the financial statements.

**Statement of Corporate Governance and Internal Control (continued)**

**Audit Committee**

The Audit Committee comprises five members but excluding the Chair of the Corporation and the Accounting Officer. The committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets four times a year and provides a forum for reporting by the College's internal and financial statements auditors, who have access to the committee for independent discussion, without the presence of College management. The committee also receives and considers reports from the SFA as they affect the College's business.

The College's internal auditors monitor the systems of internal control in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Corporation on the appointment of internal and financial statements auditors and their remuneration for both audit and non-audit work.

**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 she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Warwickshire College and the funding bodies. She 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 the impact should they be 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 2016 and up to the date of approval of the Report and 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 ending 31 July 2016 and up to the date of approval of the Report and Financial Statements. This process is regularly reviewed by the Corporation.

## **Warwickshire College**

### **Statement of Corporate Governance and Internal Control (continued)**

#### *The risk and control framework*

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- 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 EFA and SFA's *Joint Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At 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 Accounting Officer'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, the regularity auditors, the appointed funding auditors in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior leadership team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is 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 2016 meeting, the Corporation carries out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

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



**Warwickshire College**  
**Statement of Corporate Governance and Internal Control (continued)**

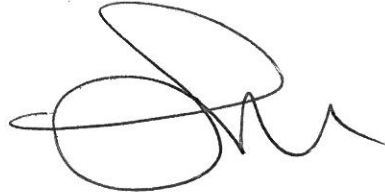
**Going concern**

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.

Authority was given by the Corporation at its meeting on 13 December 2016 for the Chair and the Accounting Officer to approve the financial statements on its behalf. These were subsequently signed on 21 December 2016.



**S Wood**  
**Chair of the Corporation**



**A Joyce**  
**Accounting Officer**

## **Warwickshire College**

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

The Corporation has considered its responsibility to notify the SFA/EFA of material irregularity, impropriety and non-compliance with SFA/EFA terms and conditions of funding, under the financial memorandum/funding agreement in place between the College and SFA/EFA. As part of our consideration we have had due regard to the requirements of the financial memorandum/funding agreement.

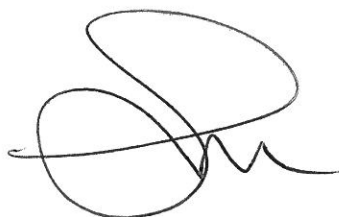
We confirm, on behalf of the Corporation, that after due enquiry and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the SFA/EFA's terms and conditions of funding under the College's financial memorandum/funding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

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

Authority was given by the Corporation at its meeting on 13 December 2016 for the Chair and the Accounting Officer to approve the financial statements on its behalf. These were subsequently signed on 21 December 2016.



**S Wood**  
**Chair of the Corporation**



**A Joyce**  
**Accounting Officer**

## **Warwickshire College**

### **Statement of Responsibilities of the Members of the Corporation**

The members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum agreed between the SFA/EFA and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* (SORP) and with the Accounts Direction for 2015 to 2016 issued jointly by the SFA and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

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

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

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

Members of the Corporation are responsible for ensuring that expenditure and income were 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 SFA and the EFA are used only in accordance with the Financial Memorandum with the SFA/EFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the SFA and EFA are not put at risk.

Authority was given by the Corporation at its meeting on 13 December 2016 for the Chair and the Accounting Officer to approve the financial statements on its behalf. These were subsequently signed on 21 December 2016.



**S Wood**  
**Chair of the Corporation**

## **Warwickshire College**

### **Independent auditors' report to the Corporation of Warwickshire College ("the College")**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion:

- Warwickshire College's financial statements (the "financial statements") give a true and fair view of the state of the College's affairs as at 31 July 2016 and of the College's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

##### **Emphasis of matter: Going Concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in note 1 of the financial statements concerning the College's ability to continue as a going concern.

There is uncertainty over when the College will reach agreement with its bankers on a new loan facility and uncertainty over the value and timing of the sale of the assets likely to be required to make repayments. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the College was unable to continue as a going concern.

##### **What we have audited**

The financial statements comprise:

- the College Balance Sheet as at 31 July 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Reserves for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the Statement of Recommended Practice for Further and Higher Education, incorporating United Kingdom Generally Accepted Accounting Practice.

In applying the financial reporting framework, the Corporation has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, it has made assumptions and considered future events.

##### **Opinions on other matters prescribed in the Joint Audit Code of Practice issued by the Education Funding Agency and the Chief Executive of Skills Funding**

In our opinion, in all material respects:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records and returns.



## **Responsibilities for the financial statements and the audit**

### **Respective responsibilities of the Corporation and auditors**

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

This report, including the opinions, has been prepared for and only for the Corporation as a body in accordance with Article 22 of the College's Articles of Government and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Corporation; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Members of the Corporation's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

*22 December 2016*

- a) The maintenance and integrity of Warwickshire College's website is the responsibility of the Corporation; 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.
- b) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### **Independent Reporting Accountant's Assurance Report on Regularity to the Corporation of Warwickshire College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency and Secretary of State for Education acting through Education Funding Agency**

In accordance with the terms of our engagement letter dated 31 October 2016 and further to the requirements of the funding agreement with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Warwickshire College during the period 01 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In 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 Skills Funding Agency has other assurance arrangements in place.

This report is made solely to the Corporation of Warwickshire College and the Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of Warwickshire College and Skills Funding Agency 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 Warwickshire College and Skills Funding Agency for our work, for this report, or for the conclusion we have formed, save where expressly agreed in writing.

### **Respective responsibilities of Warwickshire College and the reporting accountant**

The Corporation of Warwickshire 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 Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 01 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them as set out in the Association of Colleges Accounts Direction 2015 to 2016.

## Warwickshire College

### **Independent Reporting Accountant's Assurance Report on Regularity to the Corporation of Warwickshire College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency and Secretary of State for Education acting through Education Funding Agency (continued)**

#### **Approach**

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

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

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

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

The work undertaken to draw to our conclusion includes:

- Obtaining an understanding of Warwickshire College's key policies, procedures and controls;
- Reviewing a sample of payments to governors, settlement payments and expenses; and
- Confirming that activities during the year reflect the controls, policies and procedures identified.

#### **Conclusion**

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them as set out in the Association of Colleges Accounts Direction 2015 to 2016.

*PricewaterhouseCoopers LLP*

Date *22 December 2016*

PricewaterhouseCoopers LLP

Chartered Accountants

# Warwickshire College

## Statement of Comprehensive Income for the year ended 31 July 2016

|  | Note | 2016<br>£'000  | 2015<br>£'000  |
|--|------|----------------|----------------|
| <b>INCOME</b>  |      |                |                |
| Funding body grants                                    | 2    | 28,862         | 27,675         |
| Tuition fees and education contracts                   | 3    | 12,652         | 12,841         |
| Other grants and contracts                             | 4    | 67             | 177            |
| Other income   | 5    | 6,943          | 7,555          |
| Endowment and investment income                        | 6    | 63             | 44             |
| Donations and Endowments                               | 7    | -              | -              |
| <b>Total income</b>                                    |      | <b>48,587</b>  | <b>48,292</b>  |
| <b>EXPENDITURE</b>                                     |      |                |                |
| Staff costs  | 8    | 31,531         | 32,062         |
| Fundamental restructuring costs                        | 8    | 293            | 1,695          |
| Other operating expenses                               | 9    | 10,806         | 12,046         |
| Depreciation   | 12   | 3,378          | 3,499          |
| Interest and other finance costs                       | 10   | 1,979          | 1,963          |
| <b>Total expenditure</b>                               |      | <b>47,987</b>  | <b>51,265</b>  |
| <b>Surplus/(deficit) before other gains and losses</b> |      | <b>600</b>     | <b>(2,973)</b> |
| Profit on disposal of assets                           | 12   | 2,294          | 2,172          |
| <b>Surplus/(deficit) before tax</b>                    |      | <b>2,894</b>   | <b>(801)</b>   |
| Taxation   | 11   | -              | -              |
| <b>Surplus/(deficit) for the year</b>                  |      | <b>2,894</b>   | <b>(801)</b>   |
| Unrealised surplus on revaluation of assets            |      | -              | -              |
| Actuarial loss in respect of pensions schemes          |      | (6,300)        | (3,132)        |
| <b>Total Comprehensive expense for the year</b>        |      | <b>(3,406)</b> | <b>(3,933)</b> |



**Warwickshire College**

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

|   | Income and<br>Expenditure<br>account<br>£'000 | Revaluation<br>reserve<br>£'000 | Total<br>£'000 |
|---|---|---------------------------------|----------------|
| <b>Balance at 1st August 2014</b>                                 | (6,578)                                       | 30,073                          | 23,495         |
| Deficit from the income and expenditure account                   | (801)   |                                 | (801)          |
| Other comprehensive expense                                       | (3,132)                                       |                                 | (3,132)        |
| Transfers between revaluation and income and expenditure reserves | 442   | (442)                           | -              |
|   | <hr/> (3,491)                                 | <hr/> (442)                     | <hr/> (3,933)  |
| <b>Balance at 31st July 2015</b>                                  | (10,069)                                      | 29,631                          | 19,562         |
| Surplus from the income and expenditure account                   | 2,894   | -                               | 2,894          |
| Other comprehensive expense                                       | (6,300)                                       | -                               | (6,300)        |
| Transfers between revaluation and income and expenditure reserves | 442   | (442)                           | -              |
| <b>Total comprehensive expense for the year</b>                   | <hr/> (2,964)                                 | <hr/> (442)                     | <hr/> (3,406)  |
| <b>Balance at 31st July 2016</b>                                  | <hr/> (13,033)                                | <hr/> 29,189                    | <hr/> 16,156   |

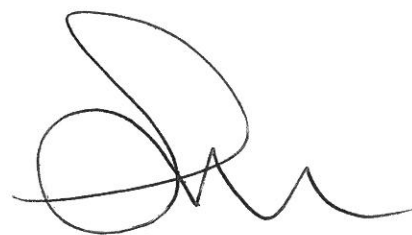
**Warwickshire College**  
**Balance sheet as at 31 July 2016**

|   | Note | 2016<br>£'000   | 2015<br>£'000   |
|---|------|-----------------|-----------------|
| <b>Fixed assets</b>   |      |                 |                 |
| Tangible fixed assets   | 12   | 106,024         | 109,929         |
| Investments   | 13   | 2               | 2               |
|   |      | <b>106,026</b>  | <b>109,931</b>  |
| <b>Current assets</b>   |      |                 |                 |
| Stocks  |      | 461             | 624             |
| Trade and other receivables   | 14   | 2,302           | 5,674           |
| Investments   | 15   | 1               | 10              |
| Cash and cash equivalents   | 20   | 749             | 10              |
|   |      | <b>3,513</b>    | <b>6,318</b>    |
| <b>Less: Creditors – amounts falling due within one year</b>          | 16   | (19,679)        | (31,059)        |
| <b>Net current liabilities</b>  |      | <b>(16,166)</b> | <b>(24,741)</b> |
| <b>Total assets less current liabilities</b>                          |      | <b>89,860</b>   | <b>85,190</b>   |
| <b>Less: Creditors – amounts falling due after more than one year</b> | 17   | (31,618)        | (31,418)        |
| <b>Provisions</b>   |      |                 |                 |
| Defined benefit obligations   | 19   | (40,884)        | (32,993)        |
| Other provisions  | 19   | (1,202)         | (1,217)         |
| <b>Total net assets</b>   |      | <b>16,156</b>   | <b>19,562</b>   |
| <b>Unrestricted reserves</b>  |      |                 |                 |
| Income and expenditure account  |      | (13,033)        | (10,069)        |
| Revaluation reserve   |      | 29,189          | 29,631          |
| <b>Total unrestricted reserves</b>                                    |      | <b>16,156</b>   | <b>19,562</b>   |

Authority was given by the Corporation at its meeting on 13 December 2016 for the Chair and Accounting Officer to approve the financial statements on pages 27 to 56 on its behalf. These were subsequently signed on 21 December 2016.



**S Wood**  
**Chair of the Corporation**



**A Joyce**  
**Accounting Officer**

**Warwickshire College**  
**Statement of Cash Flows for the year ended 31 July 2016**

|   | Notes | 2016<br>£'000  | 2015<br>£'000  |
|---|-------|----------------|----------------|
| <b>Cash inflow/(outflow) from operating activities</b>                |       |                |                |
| Surplus/(deficit) for the year  |       | 2,894          | (801)          |
| <b>Adjustment for non cash items</b>                                  |       |                |                |
| Depreciation  | 12    | 3,378          | 3,499          |
| Decrease in stocks  |       | 163            | 110            |
| Decrease/(increase) in debtors  |       | (452)          | (751)          |
| (Decrease)/increase in creditors due within one year                  |       | (2,873)        | 1,100          |
| Increase in creditors due after one year                              |       | 107            | 3,217          |
| (Decrease)/increase in provisions                                     |       | (15)           | 16             |
| Pensions costs less contributions payable                             |       | 1,591          | 1,781          |
| Taxation  |       | -              | -              |
| <b>Adjustment for investing or financing activities</b>               |       |                |                |
| Investment income   | 6     | (63)           | (4)            |
| Interest payable  | 10    | 741            | 774            |
| Taxation paid   |       | -              | -              |
| (Profit)/loss on sale of fixed assets                                 |       | (2,294)        | 8              |
| Profit on sale of current assets held for resale                      |       | -              | (2,180)        |
| Investment written off  |       | 9              | 80             |
| Profit on sale of investments   |       | -              | (40)           |
| <b>Net cash flow from operating activities</b>                        |       | <b>3,186</b>   | <b>6,809</b>   |
| <b>Cash flows from investing activities</b>                           |       |                |                |
| Proceeds from sale of fixed assets                                    |       | 5,289          | (7)            |
| Proceeds from sale of current assets held for resale                  |       | 3,822          | 3,777          |
| Investment income   | 6     | 63             | 50             |
| Payments made to acquire fixed assets                                 | 12    | (2,468)        | (8,665)        |
|   |       | <b>6,706</b>   | <b>(4,845)</b> |
| <b>Cash flows from financing activities</b>                           |       |                |                |
| Interest paid   |       | (702)          | (859)          |
| New unsecured loans   |       | 148            | -              |
| Repayments of amounts borrowed  |       | (7,219)        | (1,223)        |
|   |       | <b>(7,773)</b> | <b>(2,082)</b> |
| <b>Increase / (decrease) in cash and cash equivalents in the year</b> |       | <b>2,119</b>   | <b>(118)</b>   |
| Cash and cash equivalents at beginning of the year                    | 20    | (1,370)        | (1,252)        |
| Cash and cash equivalents at end of the year                          | 20    | 749            | (1,370)        |

# **Warwickshire College**

## **Notes to the Financial Statements for the year ended 31 July 2016**

### **1. Accounting policies**

#### **Basis of accounting**

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

#### ***Basis of preparation***

These financial statements have been prepared in accordance with *the Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the College Accounts Direction for 2015 to 2016 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

#### **Transition to the 2015 FE HE SORP**

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

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 28.

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

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

- Revaluation as deemed cost - at 1 August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- The College has utilised the exemption allowed for Public Benefit entities to not retrospectively apply the business combinations rules under FRS 102. This is in relation to previous public benefit business combinations.

#### ***Basis of accounting***

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

#### ***Going concern***

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



**1. Accounting policies (continued)**

Net debt has been significantly reduced through a combination of lower capital investment and the conclusion of two property sales. Net debt at 31 July 2016 was £13.0m (£22.2m 2014/15)

We are now in to the third year of a debt reduction strategy linked to a series of property transactions and an attendant debt amortisation schedule. We are also committed to further financial performance improvements.

The following form key elements of the plan and the current status of each are as follows:

- Disposal of the old Rugby site in Hillmorton Road for £7.6m. This transaction was completed in Nov 2014 and the proceeds were received in two equal tranches – Nov 2014 and Nov 2015.
- The College in April 2016 contracted for the sale and leaseback of its residential accommodation blocks at Royal Leamington Spa. The sale proceeds were received in two tranches, £4.8m in April 16 and £0.4m received in June 16, and this will result in ongoing rental costs, to be covered by future student rentals.
- Disposal of part of the Moreton Morrell site, for £3m for housing development. Contract for sale was exchanged with David Wilson Homes in July 2014, subject to planning permission. Further negotiations are still ongoing.
- The closure of the Henley in Arden College at the end of July 2016, had originally been announced in September 2015. This was the smallest College site in the Group by income and the catchment area did not support its continued existence. Education provision for the County has however been retained by relocating it to other College sites (Royal Leamington Spa – Art & Design, Hair & Beauty and Moreton Morrell – Sport)
- Disposal of the Henley in Arden site, as we indicated last year, did raise a possible risk of clawback of grants received in the past to develop the site (in total £2.8m). In practise the risk is considered remote, both due to the age of the grants and the fact that a significant part of the site is being retained (and to which much of the grants related). Application for formal waiver has been made to the SFA, for which confirmation has now been received.
- The sale of Prospero House in Leamington Spa.
- The College has agreed heads of terms with Lloyds over a new amortisation schedule and updated facility agreement. Legal formalities are however at the time of signing the accounts yet to be completed. This has been incorporated into the forecasts and includes repayments across the next two years which are not linked to asset sales, however to raise the funds necessary to make the repayments the asset disposals above may need to be completed. The College hopes to agree this new facility agreement in the near future.

Detailed monthly cash flow projections for the period to July 2018 have been prepared reflecting these factors and the debt amortisation schedule agreed with our banks. Based on these projections, the College has adequate headroom and/or ability to arrange it's affairs to cover the relevant forward period, allowing for all reasonable sensitivities. On this basis the Governors have agreed that the College should prepare its accounts on a going concern basis. However, as the above items are uncommitted at the time of signing the accounts, these conditions indicate the existence of a material uncertainty which may cast doubt upon the College's ability to continue as a going concern.

***Recognition of income***

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account.

**1. Accounting policies (continued)**

***Recognition of income (continued)***

The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from 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.

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

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

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

***Accounting for post-retirement benefits***

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

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

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

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

## **1. Accounting policies (continued)**

### **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 cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the college's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

### **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.

### **Tangible fixed assets**

#### *Land and buildings*

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated.

Freehold buildings are depreciated over their expected useful economic life to the College of up to 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 capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs and additional running costs which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets. Costs relating to the preparative stages of capital projects are written off at the time of expenditure.

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 revalue the land, but retain the book value of the buildings, (which were revalued in 1993), 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 assets*

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

- market value of the tangible fixed asset is subsequently improved
- asset capacity increases
- substantial improvement in the quality of the output or reduction in operating costs
- significant extension of the tangible fixed asset's life beyond that conferred by repairs and maintenance

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**1. Accounting policies (continued)**

*Equipment*

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment or groups of items less than £1,000 but which are considered to be interdependent, are capitalised at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment is now fully depreciated. All other equipment is depreciated to write off cost on a straight line basis over 5 years.

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

***Leased assets***

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

***Investments***

Investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

***Stocks***

Horticulture stocks are calculated at retail prices and reduced by appropriate margins to the lower of cost and net realisable value. Shop, refectory and Spa stock are stated at the lower of cost or net realisable value on a first in, first out basis. The valuation of farm and horse stock is carried out by professional valuers. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

***Milk Quota***

The College inherited milk quota at £0 cost, which accordingly has not been included within the financial statements. Quota purchased since incorporation is included under stocks, valued at cost and depreciated over its estimated useful life.

***Foreign currency translation***

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

***Taxation***

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the 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.

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**1. Accounting policies (continued)**

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

***Cash and cash equivalents***

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

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

***Financial liabilities and equity***

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

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

***Provisions***

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

***Agency Arrangements***

The College acts as an agent in the collection and payment of discretionary support funds and employer incentive grants. Related payments received from the funding bodies and subsequent disbursements to learners and other organisations, are excluded from the income and expenditure account 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. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the 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.



## **1. Accounting policies (continued)**

### *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 25, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 2 Funding body grants

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Education Funding Agency - recurrent grant    | 17,279        | 16,677        |
| Skills Funding Agency - 16-18 Apprenticeships | 4,064         | 3,300         |
| Skills Funding Agency - Adult Skills Budget   | 4,988         | 5,420         |
| Funding body non recurrent grants             | 649           | 305           |
| Higher Education Funding Council              | 1,197         | 1,268         |
| Releases of funding body capital grants       | 685           | 705           |
| <b>Total</b>                                  | <b>28,862</b> | <b>27,675</b> |

### 3 Tuition fees and education contracts

|                              | 2016<br>£'000 | 2015<br>£'000 |
|------------------------------|---------------|---------------|
| Further Education students   | 2,843         | 3,133         |
| Non European Union students  | 1,508         | 2,102         |
| Higher Education students    | 4,715         | 4,479         |
| Employer dedicated provision | 3,137         | 2,670         |
| Total tuition fees           | 12,203        | 12,384        |
| <b>Education contracts</b>   |               |               |
| Local Education Authorities  | 155           | 163           |
| Higher education income      | 294           | 294           |
| <b>Total</b>                 | <b>12,652</b> | <b>12,841</b> |

### 4 Other grants and contracts

|                            | 2016<br>£'000 | 2015<br>£'000 |
|----------------------------|---------------|---------------|
| Other grants and contracts | 67            | 177           |
| <b>Total</b>               | <b>67</b>     | <b>177</b>    |

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 5 Other income

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Residencies, catering and conferences       | 3,285         | 3,403         |
| Other income generating activities          | 3,028         | 3,150         |
| Other income                                | 428           | 751           |
| Releases of non funding body capital grants | 202           | 251           |
|   | <u>6,943</u>  | <u>7,555</u>  |
| <b>Total</b>                                |               |               |

### 6 Endowment and Investment income

|                                  | 2016<br>£'000 | 2015<br>£'000 |
|----------------------------------|---------------|---------------|
| Other interest receivable        | 6             | 2             |
| Other investment income          | 57            | 42            |
|                                  | <u>63</u>     | <u>44</u>     |
| Pension finance income (note 25) |               |               |
|                                  | <u>63</u>     | <u>44</u>     |

### 7 Donations and Endowments

|                        | 2016<br>£'000 | 2015<br>£'000 |
|------------------------|---------------|---------------|
| Unrestricted donations |               |               |
| <b>Total</b>           | <u>-</u>      | <u>-</u>      |

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 8 Staff costs

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

|                    | 2016<br>No. | 2015<br>No. |
|--------------------|-------------|-------------|
| Teaching staff     | 580         | 600         |
| Non teaching staff | 319         | 348         |
|                    | <u>899</u>  | <u>948</u>  |

### Staff costs for the above persons

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Wages and salaries                            | 23,949        | 24,889        |
| Social security costs                         | 1,788         | 1,665         |
| Other pension costs                           | 4,958         | 4,423         |
|   | <u>30,695</u> | <u>30,977</u> |
| Payroll sub total                             | 836           | 1,085         |
| Contracted out staffing services              |               |               |
|   | <u>31,531</u> | <u>32,062</u> |
| Fundamental restructuring costs - contractual | 293           | 1,695         |
|   | <u>31,824</u> | <u>33,757</u> |

### 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 Senior Leadership Team which comprises the Principal, Deputy Principals and Vice 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

|  | 2016<br>No. | 2015<br>No. |
|--|-------------|-------------|
| The number of key management personnel including the Accounting Officer was: | 7           | 7           |
|  | <u></u>     | <u></u>     |

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**8 Staff costs (continued)**

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

|                       | Key management personnel |          | Other staff |           |
|-----------------------|--------------------------|----------|-------------|-----------|
|                       | 2016 No.                 | 2015 No. | 2016 No.    | 2015 No.  |
| £ 60,001 to £ 70,000  | -                        | -        | 8           | 10        |
| £ 70,001 to £ 80,000  | 1                        | -        | 5           | 3         |
| £ 80,001 to £ 90,000  | 2                        | 3        | -           | 1         |
| £ 90,001 to £ 100,000 | 1                        | 1        | 1           | 1         |
| £110,001 to £ 120,000 | -                        | -        | -           | 1         |
| £120,001 to £ 130,000 | 1                        | 1        | -           | -         |
| £130,001 to £ 140,000 | 1                        | -        | -           | -         |
| £160,001 to £ 170,000 | -                        | 1        | -           | -         |
| £180,001 to £ 190,000 | -                        | 1        | -           | -         |
| £190,001 to £ 200,000 | 1                        | -        | -           | -         |
|                       | <u>7</u>                 | <u>7</u> | <u>14</u>   | <u>16</u> |

Key management personnel emoluments are made up as follows:

|                                  | 2016<br>£'000     | 2015<br>£'000     |
|----------------------------------|-------------------|-------------------|
| Salaries                         | 619               | 583               |
| Benefits in kind                 | 12                | 6                 |
|                                  | <u>631</u>        | <u>589</u>        |
| National Insurance contributions | 75                | 68                |
| Pension contributions            | 80                | 64                |
| Settlement                       | -                 | 47                |
| <b>Total emoluments</b>          | <u><b>786</b></u> | <u><b>768</b></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 Accounting Officer (who is also the highest paid officer) of:

|                                  | 2016<br>£'000 | 2015<br>£'000 |
|----------------------------------|---------------|---------------|
| Salaries                         | 165           | 50            |
| Benefits in kind                 | 1             | -             |
|                                  | <u>166</u>    | <u>50</u>     |
| National Insurance contributions | 21            | 6             |
| Pension contributions            | 27            | 8             |

The above emoluments for 2015 include the salary of the Accounting Officer who joined the College on 13 April 2015. They do not include payments made to the Interim Principal who was contracted on a consultancy basis until April 15. Costs of £99,675 for 2014/15 are included in Note 9 within Non Teaching Costs.

**Compensation for loss of office paid to former key management personnel**

|   | 2016<br>£ | 2015<br>£ |
|---|-----------|-----------|
| Compensation paid to the former post-holder - contractual | -         | 47,000    |

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



**Warwickshire College****Notes to the Financial Statements for the year ended 31 July 2016 (continued)****9 Other operating expenses**

|                    | 2016<br>£'000        | 2015<br>£'000        |
|--------------------|----------------------|----------------------|
| Teaching costs     | 3,824                | 4,187                |
| Non teaching costs | 3,945                | 4,424                |
| Premises costs     | <u>3,037</u>         | <u>3,435</u>         |
| <b>Total</b>       | <b><u>10,806</u></b> | <b><u>12,046</u></b> |

**Other operating expenses include:**

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Auditors' remuneration:                                      |               |               |
| Financial statements audit                                   | 50            | 40            |
| Internal audit   | 33            | 30            |
| Other services provided by the financial statements auditors | 2             | 2             |
| Other services provided by the internal auditors             | 45            | -             |
| Hire of assets under operating leases - Land and Buildings   | <u>139</u>    | <u>68</u>     |

**10 Interest and other finance costs**

|  | 2016<br>£'000       | 2015<br>£'000       |
|--|---------------------|---------------------|
| On bank loans, overdrafts and other loans: | <u>741</u>          | <u>774</u>          |
|  | 741                 | 774                 |
| Enhanced pension charge                    | 42                  | 49                  |
| Pension finance costs (note 25)            | <u>1,196</u>        | <u>1,140</u>        |
| <b>Total</b>                               | <b><u>1,979</u></b> | <b><u>1,963</u></b> |

**11 Taxation**

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

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 12 Tangible fixed assets

|                                       | Land and<br>buildings<br><br>Freehold | Equipment     | Assets in the<br>Course of<br>Construction | Total          |
|---------------------------------------|---------------------------------------|---------------|--|----------------|
|                                       | £'000                                 | £'000         | £'000                                      | £'000          |
| <b>Cost or valuation</b>              |                                       |               |  |                |
| At 1 August 2015                      | 121,049                               | 10,018        | 8,280                                      | 139,347        |
| Additions                             | 1,297                                 | 963           | 208  | 2,468          |
| Transfers                             | 8,280                                 | -             | (8,280)                                    | -              |
| Disposals                             | (3,428)                               | (946)         | -  | (4,374)        |
| <b>At 31 July 2016</b>                | <b>127,198</b>                        | <b>10,035</b> | <b>208</b>                                 | <b>137,441</b> |
| <b>Depreciation</b>                   |                                       |               |  |                |
| At 1 August 2015                      | 21,903                                | 7,515         | -  | 29,418         |
| Charge for the year                   | 2,302                                 | 1,076         | -  | 3,378          |
| Elimination in respect of disposals   | (433)                                 | (946)         | -  | (1,379)        |
| <b>At 31 July 2016</b>                | <b>23,772</b>                         | <b>7,645</b>  | <b>-</b>                                   | <b>31,417</b>  |
| <b>Net book value at 31 July 2016</b> | <b>103,426</b>                        | <b>2,390</b>  | <b>208</b>                                 | <b>106,024</b> |
| Net book value at 31 July 2015        | 99,146                                | 2,503         | 8,280                                      | 109,929        |

Land and buildings were valued in 1996 at depreciated replacement cost by a firm of independent chartered surveyors.

If fixed assets had not been revalued they would have been included at the following historical cost amounts:

|                                      | £'000      |
|--------------------------------------|------------|
| Cost                                 | Nil        |
| Aggregate depreciation based on cost | Nil        |
| <b>Net book value based on cost</b>  | <b>Nil</b> |

## Warwickshire College

### Notes to the Financial Statements for the year ended 31 July 2016 (continued)

#### 13 Non current investments

|                   | 2016<br>£'000   | 2015<br>£'000   |
|-------------------|-----------------|-----------------|
| Other investments | 2               | 2               |
|                   | <hr/>           | <hr/>           |
| <b>Total</b>      | <b><u>2</u></b> | <b><u>2</u></b> |

The College owns 100% of the issued £1 ordinary shares of Warwickshire College Ltd (previously called Moreton Hall Enterprises Limited), and Warwickshire College Enterprises Ltd (previously called Moreton Hall (Power) Limited). Both companies are incorporated in England, have called up share capital of £100 and were dormant during the year. Consequently the College has not prepared consolidated financial statements.

The College owns 4 ordinary £500 shares of the 975 issued by Rugby Farmers Mart Limited. Rugby Farmers Mart Limited was founded in 2006 by a group of 250 local farmers. The principal activity of the company is selling livestock.

The College owns a 50% shareholding in Pershore Indoor Tennis Centre Limited (PITC Limited), a company registered in England and Wales whose principal activity is the provision of leisure facilities. The College owns 10 ordinary shares of a nominal value of £1 each. The results for PITC Limited have not been consolidated as the College does not exercise significant influence and the value of the College's share is not material.

#### 14 Trade and other receivables

|   | 2016<br>£'000       | 2015<br>£'000       |
|---|---------------------|---------------------|
| Amounts falling due within one year:          |                     |                     |
| Trade receivables                             | 800                 | 780                 |
| Amounts due on sale of asset held for resale  | -                   | 3,822               |
| Prepayments and accrued income                | 403                 | 207                 |
| Amounts owed by the Skills Funding Agency/EFA | 1,099               | 865                 |
|   | <hr/>               | <hr/>               |
| <b>Total</b>                                  | <b><u>2,302</u></b> | <b><u>5,674</u></b> |

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 15 Current investments

|                           | 2016<br>£'000 | 2015<br>£'000 |
|---------------------------|---------------|---------------|
| Current Asset Investments | 1             | 10            |
| <b>Total</b>              | <b>1</b>      | <b>10</b>     |

### 16 Creditors - amounts falling due within one year

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Bank loans and overdrafts                     | 13,600        | 22,180        |
| Other loans                                   | 37            | 1             |
| Trade payables                                | 979           | 3,570         |
| Other taxation and social security            | 602           | 589           |
| Accruals and deferred income                  | 4,156         | 3,460         |
| Amounts owed to the Skills Funding Agency/EFA | 305           | 1,259         |
| <b>Total</b>                                  | <b>19,679</b> | <b>31,059</b> |

### 17 Creditors - amounts falling due after one year

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Bank loans                                  | -             | -             |
| Other loans                                 | 93            | -             |
| Deferred VAT                                | -             | 27            |
| Deferred income - government capital grants | 31,525        | 31,391        |
| <b>Total</b>                                | <b>31,618</b> | <b>31,418</b> |

## Warwickshire College

### Notes to the Financial Statements for the year ended 31 July 2016 (continued)

#### 18 Maturity of debt

##### (a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

|                            | 2016<br>£'000 | 2015<br>£'000 |
|----------------------------|---------------|---------------|
| In one year or less        | 13,600        | 22,180        |
| Between one and two years  | -             | -             |
| Between two and five years | -             | -             |
| In five years or more      | -             | -             |
| <b>Total</b>               | <b>13,600</b> | <b>22,180</b> |

The College has a fully utilised Term Loan facility with an outstanding balance of £2,000,000 (2014/2015 £4,000,000) with the Allied Irish Bank. This loan is secured against the Leamington Spa campus. Repayment of the Term Loan is by annual £1,000,000 payments ending on 30 September 2017.

The College has a £9,000,000 Term Loan with Lloyds Bank plc which is fully utilised and has a maturity date of September 2027 subject to a 30 April 2018 dated break clause, with annual capital payments of increasing amounts starting in September 2014. The balance of the Term Loan at 31 July 2016 was £8,600,000. The College also has a £6m Revolving Credit Facility with termination date of 30 April 2018. At the year end £3,000,000 of the Revolving credit loan had been utilised. These loans are secured against the Trident Campus, the Henley Campus, the Evesham Campus, the Pershore Campus, Prospero House and the Moreton Morrell Triangle of land.



# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 19 Provisions

|   | Defined<br>benefit<br>Obligation<br>£'000 | Enhanced<br>pensions<br>£'000 | Total<br>£'000       |
|---|---|-------------------------------|----------------------|
| At 1 August 2015                        | 32,993                                    | 1,217                         | 34,210               |
| Expenditure in the year                 | (2,879)                                   | (78)                          | (2,957)              |
| Transferred from income and expenditure | 10,770                                    | 63                            | 10,833               |
| <b>At 31 July 2016</b>                  | <b><u>40,884</u></b>                      | <b><u>1,202</u></b>           | <b><u>42,086</u></b> |

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 25.

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 this calculation are:

|                 | 2016 | 2015 |
|-----------------|------|------|
| Price inflation | 1.3% | 1.7% |
| Discount rate   | 2.3% | 3.5% |

### 20 Cash and cash equivalents

|                           | At 1 August<br>2015<br>£'000 | Cash<br>flows<br>£'000 | Other<br>changes<br>£'000 | At 31 July<br>2016<br>£'000 |
|---------------------------|------------------------------|------------------------|---------------------------|-----------------------------|
| Cash and cash equivalents | 10                           | -                      | -                         | 10                          |
| Bank/(overdraft)          | (1,380)                      | 2,119                  | -                         | 739                         |
| <b>Total</b>              | <b><u>(1,370)</u></b>        | <b><u>2,119</u></b>    | <b><u>-</u></b>           | <b><u>749</u></b>           |

### 21 Capital commitments

|                                       | 2016<br>£'000 | 2015<br>£'000 |
|---------------------------------------|---------------|---------------|
| Commitments contracted for at 31 July | <u>247</u>    | <u>171</u>    |

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**22 Lease Obligations**

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

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| <b>Future minimum lease payments due</b>          |               |               |
| <b>Land and buildings</b>                         |               |               |
| Not later than one year                           | -             | -             |
| Later than one year and not later than five years | 62            | 62            |
| later than five years                             | 291           | -             |
|   | <u>353</u>    | <u>62</u>     |
| <b>Other</b>                                      |               |               |
| Not later than one year                           | -             | -             |
| Later than one year and not later than five years | -             | -             |
| later than five years                             | -             | -             |
|   | <u>-</u>      | <u>-</u>      |

**23 Contingent liabilities**

No contingent liabilities identified

**24 Events after the reporting period**

On 1 August 2016 the College completed a type B merger with South Worcestershire College.

Headline terms for extended facilities have been agreed with Lloyds Bank as detailed in note 18 and are now subject to documentation.

Following the year end, the College received further information that resulted in additional funding body income of £797k being recognised in the accounts.

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**25 Defined benefit obligations**

The College's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Warwickshire County Council. Both are multi-employer defined-benefit plans.

| <b>Total pension cost for the year</b>                       | <b>2016<br/>£'000</b> | <b>2015<br/>£'000</b> |
|--|-----------------------|-----------------------|
| Teachers Pension Scheme: contributions paid                  | 1,663                 | 1,509                 |
| Local Government Pension Scheme:                             |                       |                       |
| Contributions paid   | 2,879                 | 2,226                 |
| FRS 102 (28) charge  | <u>395</u>            | <u>641</u>            |
| Charge to the Statement of Comprehensive Income              | 3,274                 | 2,867                 |
| Enhanced pension charge to Statement of Comprehensive Income | 21                    | 47                    |
| <b>Total Pension Cost for Year</b>                           | <b><u>4,958</u></b>   | <b><u>4,423</u></b>   |

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

Contributions amounting to £426,000 (2015: £424,000) were payable to the scheme and are included in creditors.

**Teachers' Pension Scheme**

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

**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 payable 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.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost 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.

## **Warwickshire College**

### **Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

#### **25 Defined benefit obligations (continued)**

##### **Valuation of the Teachers' Pension Scheme**

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

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

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

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

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

##### **Scheme Changes**

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

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

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

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

The pension costs paid to TPS in the year amounted to £1,663,000 (2015: £1,509,000)

## Warwickshire College

### Notes to the Financial Statements for the year ended 31 July 2016 (continued)

#### 25 Defined benefit obligations (continued)

##### 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 Warwickshire County Council. The total contribution made for the year ended 31 July 2016 was £2,458,000, of which employer's contributions totalled £1,772,000 and employees' contributions totalled £686,000. The agreed contribution rates for future years are 16.1% for employers and range from 5.5% to 12.5% cent for employees, depending on salary.

##### Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary

|                                      | 2016  | 2015  |
|--------------------------------------|-------|-------|
| Rate of increase in salaries         | 3.90% | 4.50% |
| Future pensions increases            | 1.90% | 2.60% |
| Discount rate for scheme liabilities | 2.40% | 3.60% |
| Inflation assumption (CPI)           | 1.90% | 2.60% |
| Commutation of pensions to lump sums | 50%   | 50%   |

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

|                             | 2016  | 2015  |
|-----------------------------|-------|-------|
|                             | years | years |
| <i>Retiring today</i>       |       |       |
| Males                       | 22.40 | 22.40 |
| Females                     | 24.40 | 24.40 |
| <i>Retiring in 20 years</i> |       |       |
| Males                       | 24.30 | 24.30 |
| Females                     | 26.60 | 26.60 |



# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 25 Defined benefit obligations (continued)

#### Local Government Pension Scheme (Continued)

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

|   | 2016<br>£'000          | 2015<br>£'000          |
|---|------------------------|------------------------|
| Fair value of plan assets               | 61,552                 | 53,098                 |
| Present value of plan liabilities       | (102,436)              | (86,091)               |
| <b>Net pensions liability (Note 19)</b> | <b><u>(40,884)</u></b> | <b><u>(32,993)</u></b> |

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

|  | 2016<br>£'000       | 2015<br>£'000       |
|--|---------------------|---------------------|
| <b>Amounts included in staff costs</b>             |                     |                     |
| Current service cost                               | 3,261               | 3,042               |
| Past service cost and curtailments and settlements | 13                  | 33                  |
| <b>Total</b>                                       | <b><u>3,274</u></b> | <b><u>3,075</u></b> |

#### Amounts included in investment income

|              |                       |                       |
|--------------|-----------------------|-----------------------|
| Net interest | (1,196)               | (1,140)               |
|              | <b><u>(1,196)</u></b> | <b><u>(1,140)</u></b> |

#### Amounts recognised in Other Comprehensive Income

|   |                       |                       |
|---|-----------------------|-----------------------|
| Return on pension plan assets   | 4,656                 | 2,616                 |
| Experience losses arising on defined benefit obligations                | 841                   | 465                   |
| Changes in assumptions underlying the present value of plan liabilities | (11,797)              | (6,213)               |
| <b>Amount recognised in Other Comprehensive Income</b>                  | <b><u>(6,300)</u></b> | <b><u>(3,132)</u></b> |

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 25 Defined benefit obligations (continued)

#### Local Government Pension Scheme (Continued)

##### Movement in net defined benefit (liability)/asset during the year

|  | 2016<br>£'000          | 2015<br>£'000          |
|--|------------------------|------------------------|
| Deficit in scheme at 1 August                      | (32,993)               | (28,080)               |
| Movement in year:                                  |                        |                        |
| Current service cost                               | (3,261)                | (3,042)                |
| Employer contributions                             | 2,879                  | 2,434                  |
| Past service cost and curtailments and settlements | (13)                   | (33)                   |
| Net interest on the defined (liability)/asset      | (1,196)                | (1,140)                |
| Actuarial gain or loss                             | (6,300)                | (3,132)                |
| <b>Net defined benefit liability at 31 July</b>    | <b><u>(40,884)</u></b> | <b><u>(32,993)</u></b> |

##### Asset and Liability Reconciliation

|  | 2016<br>£'000         | 2015<br>£'000        |
|--|-----------------------|----------------------|
| <b>Changes in the present value of defined benefit obligations</b> |                       |                      |
| <b>Defined benefit obligations at start of year</b>                | 86,091                | 75,094               |
| Current Service cost   | 3,261                 | 3,042                |
| Interest cost  | 3,140                 | 3,045                |
| Contributions by Scheme participants                               | 735                   | 745                  |
| Experience gains and losses on defined benefit obligations         | (841)                 | (465)                |
| Changes in financial assumptions                                   | 11,797                | 6,213                |
| Estimated benefits paid  | (1,760)               | (1,616)              |
| Past Service cost  | 13                    | 1                    |
| Curtailments and settlements                                       | -                     | 32                   |
| <b>Defined benefit obligations at end of year</b>                  | <b><u>102,436</u></b> | <b><u>86,091</u></b> |

##### Reconciliation of Assets

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Fair value of plan assets at start of year</b> | 53,098               | 47,014               |
| Interest on plan assets                           | 1,944                | 1,905                |
| Return on plan assets                             | 4,656                | 2,616                |
| Employer contributions                            | 2,879                | 2,434                |
| Contributions by Scheme participants              | 735                  | 745                  |
| Estimated benefits paid                           | (1,760)              | (1,616)              |
| <b>Assets at end of year</b>                      | <b><u>61,552</u></b> | <b><u>53,098</u></b> |

**Warwickshire College**  
**Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

**26 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 in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £1,728; 6 governors (2015: £2,460; 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 (2015: None).

*A governor was a member of SEMTA Bit Steering Group*

Sales transactions in the year amounted to £6,921 (2015 – £4,197). Balances outstanding at the year end amounted to £6,047 (2015 – £1,127)

*A governor was a governor of Queen Alexandra College*

Sales transactions in the year amounted to £301 (2015 – £2,097). Balances outstanding at the year end amounted to £nil (2015 – £292)

*A governor was a Director of Warwickshire Race and Equality Partnerships*

Sales transactions in the year amounted to £6,475 (2015 – £7,305). Balances outstanding at the year end amounted to £128 (2015 – £395)

**27 Amounts disbursed as agent**

**Learner support funds**

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Funding body grants – hardship                       | 835           | 907           |
| Funding body grants – residential bursaries          | 136           | 228           |
| Funding body grants – 24+ Bursary                    | 123           | 145           |
|  | <u>1094</u>   | <u>1,280</u>  |
| Disbursed to students                                | (873)         | (1,149)       |
| Administration costs                                 | (52)          | (58)          |
| Balance unspent as at 31 July, included in creditors | <u>169</u>    | <u>73</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 disbursements are therefore excluded from the Statement of Comprehensive Income.

**Employer incentive grant - funding body grant**

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Amount carried forward from previous year            | 17            | 38            |
| Amount received in the year                          | 416           | 319           |
|  | <u>433</u>    | <u>357</u>    |
| Disbursed to companies                               | (341)         | (340)         |
| Balance unspent as at 31 July, included in creditors | <u>92</u>     | <u>17</u>     |

Employer Incentive Grant is received from the SFA and paid out to companies to encourage them to take on apprentices. The College only acts as a paying agent and therefore the grants and related disbursements are excluded from the Statement of Comprehensive Income.

# Warwickshire College

## Notes to the Financial Statements for the year ended 31 July 2016 (continued)

### 28 Transition to FRS 102 and the 2015 FE HE SORP

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

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

|  | 1st August 2014       | 31st July 2015 |
|--|-----------------------|----------------|
|  | £'000                 | £'000          |
| <b>Financial Position</b>  |                       |                |
| <b>Total reserves under previous SORP</b>                            | 9,493                 | 5,491          |
| Revaluation of Land  | 11,580                | 11,580         |
| Employee leave accrual   | (500)                 | (500)          |
| Release of non-government capital grants and government grants for   | 2,922                 | 2,991          |
| Changes to measurement of net finance cost on defined benefit plans  |                       |                |
| <b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>     | <u>14,002</u>         | <u>14,071</u>  |
| <b>Total reserves under 2015 FE HE SORP</b>                          | <u>23,495</u>         | <u>19,562</u>  |
|  | <b>Year ended</b>     |                |
|  | <b>31st July 2015</b> |                |
|  | £'000                 |                |
| <b>Financial Performance</b>   |                       |                |
| <b>Surplus for the year after tax under previous SORP</b>            | 27                    |                |
| Release of non-government grants received                            | 127                   |                |
| Reversal of capital grants amortisation                              | (58)                  |                |
| Pensions provision – actuarial loss                                  | (3,132)               |                |
| Changes to measurement of net finance cost on defined benefit plans  | (897)                 |                |
| <b>Total effect of transition to FRS 102 and 2015 FE HE SORP</b>     | <u>(3,960)</u>        |                |
| <b>Total comprehensive income for the year under 2015 FE HE SORP</b> | <u>(3,933)</u>        |                |

## **Warwickshire College**

### **Notes to the Financial Statements for the year ended 31 July 2016 (continued)**

#### **28 Transition to FRS 102 and the 2015 FE HE SORP (continued)**

##### **a) Recognition of short term employment benefits**

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £500,000 was recognised at 1 August 2014, 31 July 2015 and 31 July 2016.

##### **b) Non-government grants accounted for under performance model**

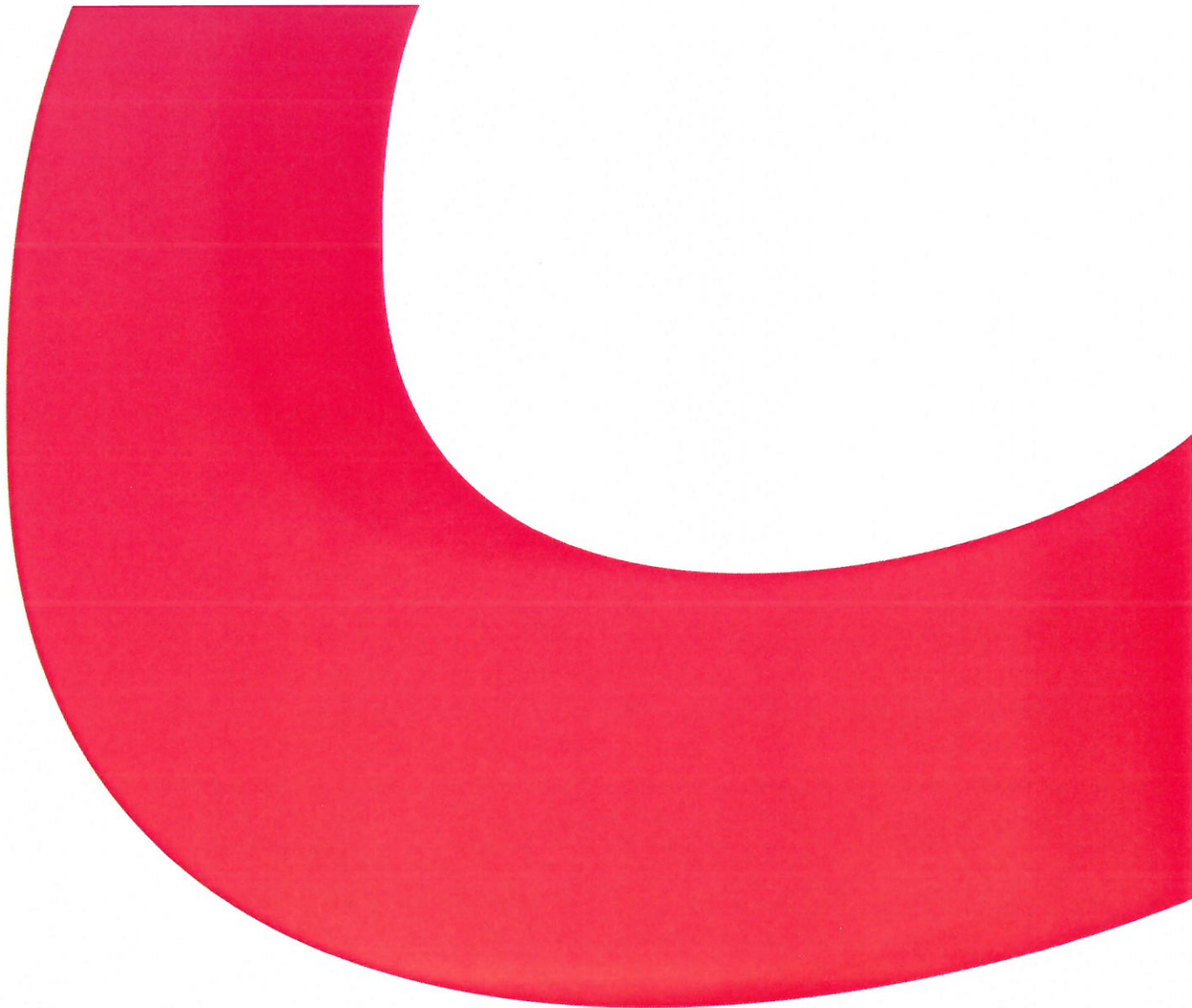
The College has previously been in receipt of certain capital grants from sources other than those classified as "government" under FRS 102 and the 2015 FE HE SORP. Under the previous UK GAAP and 2007 SORP, these were able to be capitalised and amortised over the remaining useful economic life of the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

##### **c) Change in recognition of defined benefit plan finance costs**

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

##### **d) Presentation of actuarial gains and losses within Total Comprehensive Income**

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



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COLLEGE**  
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LEAMINGTON SPA  
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COLLEGE**  
TECHNOLOGY DRIVE  
RUGBY  
CV21 1AR



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