South Worcestershire College

Members' report and financial statements

For the year ended 31 July 2016

Contents

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 Evesham College (as it was previously known). The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

The Corporation was incorporated as Evesham College. On 1 September 2009, the Secretary of State granted consent to the Corporation to change the College's name to South Worcestershire College. The Corporation believed that the new name represents the broader activities of the College.

Charitable and taxation status

The College is an exempt charity for the purposes of the Charities Act 2011 and is not liable to corporation tax.

Ofsted Inspection

The College was inspected in November 2013 and the resulting grade was an overall grade of Good, including good grades for outcomes for learners, the quality of teaching, learning and assessment, and the effectiveness of leadership and management. All curriculum areas inspected were also graded as Good.

The Ofsted report findings:

The Provider is good because:

- Quality improvement has raised standards of performance management and staff development initiatives have increased the quality of teaching, learning and assessment and led to better outcomes for learners.
- Well-qualified and vocationally experienced teachers provide good teaching, learning and assessment.
- Managers and staff provide good education and training opportunities across both the main centres which support the local community well.
- The development of students' personal, social and employability skills is strong, links with employers are good and a high proportion of students' progress into work.
- Teachers track and monitor students' progress well, ensuring that the majority of students are successful.
- Teachers consistently provide students with constructive and useful feedback on their work which helps them to improve and make good progress.
- Staff promote equality and diversity well in lessons.

This is not yet an outstanding provider because:

- While overall outcomes for students increased markedly last year, a minority of courses are still underperforming.
- Outcomes for apprentices have declined and they are below average.
- Not enough teaching, learning and assessment is outstanding.

Operating and Financial Review *(continued)*

Nature, Objectives and Strategies *(continued)*

Mission, vision and values

In 2013 the College announced a revised vision, new mission and values following input from governors, staff and learners. These are outlined below:

Vision
'South Worcestershire College - developing and enriching lives through learning'

Mission
'Ensuring all learners achieve their full potential, making tomorrow better than today'

Public Benefit

South Worcestershire College is an exempt charity under Part 3 of the Charities Act 2011 and from 1st September 2013, 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 page 12.

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

In delivering its mission, the College provides the following identifiable public benefits:

Values:

- Put learners at the heart of what we do
- Strive to maximise the potential of students and staff
- Value everyone within the College's community
- Communicate effectively
- Project a positive image and promote the successes of the College
- Be accountable, and professional
- Recognise our challenges and always strive to improve, valuing innovation and enterprise

Operating and Financial Review *(continued)*

Nature, Objectives and Strategies *(continued)*

Implementation of the strategic plan

As part of a strategic planning process review the Governing Body agreed new key objectives, included within the Strategic Plan 2014-16 approved by the Board in September 2014, and updated in February 2015, which are outlined below:

1. To pro-actively identify the needs of learners in our communities and businesses and to providing learning that equips all learners for employment, for life, or for further study, that supports each learner in developing their full potential.

2. To continually drive up standards and the quality of our service for those who learn with us, raising aspirations in our communities and enabling the promotion of the College as a key driver in the development of enterprise, entrepreneurship and employability.

3. To increase learner, staff and stakeholder involvement to influence positively the effectiveness and success of the College by providing equality of opportunity, developing a safe community where all are treated with fairness and equity.

4. To support all staff in their continuing professional development and in embedding College values providing a diverse, safe, inclusive and welcoming environment.

5. To develop a marketing and development strategy that includes the College playing a key role in local economic and social regeneration and growth, caring for the environment, and leading to a sustainable and financially viable College.

Financial objectives for 2015/2016

The College's key financial objectives for 2015/2016 were:

Objective	Outcome
To maintain overall "good" financial health status	Achieved
To achieve 30 cash days at all times	Achieved
To achieve a current ratio of 1.9 by 31 July 2016	Current ratio at year end is 1.19
To make £140,000 of savings in staffing costs throughout the year	Staffing costs were lower than last year by approx.7% representing £300k
To maintain debtor days of less than 25 days	Trade debtor days at year end are 26
To consider the financial viability of all full time courses prior to commencement in September 2015 with a view to moving towards a minimum class size of 16 learners	Average class size for 2015/16 9.9 (LY 9.5)
To ensure there is maximum teaching staff utilisation	Overall staff utilisation at year-end is 95.58%
To encourage staff to identify "lean thinking" efficiencies	Achieved
To continue to ensure value for money through diligent procurement in line with the College Procurement Policy	Achieved
To generate a positive cash flow by the end of the year	Not Achieved as £(60)k outflow for 2015/16
To improve links with local businesses and develop courses that meet the needs of employers	The Business Development Manager successfully improved links with local employers
To set aside sufficient funds for capital to comply with the match funding requirements of the bid the College submitted to the LEP to support the developing engineering courses in the META partnership	Achieved

Operating and Financial Review *(continued)*

Financial Position

Financial results

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. (See note 27 for details of the previous year's re-statements to these standards for purposes of comparison)

The College generated a deficit in the year of £494k (*2014/15 – deficit £335k*). Financial health continues to be graded in accordance with funding body guidance and is reported to the relevant funding body. The financial health status at the year-end was "Good".

The College is committed to observing the importance of the financial health measures and continue to monitor these monthly through the management accounts and annually through the completion of the Annual Finance Record for the SFA. The Governing Body considers the College performance against sector benchmarking data as it becomes available throughout the year.

The College has accumulated reserves of £2,781k (excluding revaluation reserve) and cash balances of £481k.

Tangible fixed asset additions during the year amounted to £206k, being equipment purchased for the META Academy and Beauty salons and computers.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 75% of the College's total income.

Treasury policies and objectives

The College defines it treasury management activities as "The management of the College's cash flow, its banking and investment transactions; the effective control of the associated risks and the pursuit of optimum performance consistent with those risks"

The College has a separate Treasury Management policy in place which sets out the framework of formal policies, procedures and reporting arrangements for the effective management and control of the treasury management activities which outlines clear treasury management practices. Effective treasury management provides support towards achievement of key strategic, operational and financial objectives. Whilst risk aversion is a key aim of the treasury management the College is also fully committed to achieving best value.

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

Cash flows and Liquidity

A negative operating cash flow of £(60)k (*2014/15: Positive £527k*), reflects the College's worsening deficit from last year partly due to the loss of any ESF funding for 2015/16 (*2014/15*: ESF funding of £360k).

On 30th June 2016 the College repaid in full its only outstanding loan amounting to £211k. This was to avoid complicated and unnecessary novation of the Lloyds Bank loan upon merger as at 1st August 2016 with the Warwickshire College Group. (The loan had originally been taken out in March 2008 for £350k to help purchase and refurbish the Malvern site, and was originally repayable over 20 years by March 2028).

Operating and Financial Review *(continued)*

Current and Future Development and Performance

Learner numbers

The College enrolled 510 16-18 full time learners, against a target of 561, allocated by the Education Funding Agency (EFA) for 2015-2016. Funding for 2015/16 is unaffected by the low number, but will have an effect on funding in two years' time under the lagged learner number system, with the 2016/17 funding being reduced however due to the lower than allocated student numbers in 2014/15.

The College was allocated £1,028k Adult funding for 2015/16, (*2014/15*: £1,207k). Due to slight under delivery, there is a provision of £20k in the accounts for repayment to the Skills Funding Agency (SFA).

Curriculum Developments

The College has further developed its Gateway Programme for those not in education, employment or training.

Work has continued to develop our relationship with ROTEC Engineering and increase provision in this employment area, through the META partnership in association with a LEP bid of £350k for refurbishment and additional equipment. The LEP bid was approved in January 2016 but the grant has been delayed due to the merger with the Warwickshire College Group as of 1st August 2016.

Additional provision for 14-16 year olds has been run in conjunction with local schools including The De Montfort School, Pershore High School and the Vale of Evesham School.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of an agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or service or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting year 1 August 2015 to 31 July 2016 the College paid 97% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this year.

Post balance sheet events

Merger with the Warwickshire College Group

At a meeting of the Board of Governors on 23rd June 2016 it was unanimously agreed to enter into a full "Type B" merger with the Warwickshire College Group as of 1st August 2016 by way of the South Worcestershire College Corporation dissolving and transferring all its assets and liabilities to the Warwickshire College Group.

The Board of Governors of the Warwickshire College Group had met on the 21stth June 2016 and unanimously agreed to receive all assets and liabilities of South Worcestershire College upon their dissolution as of 1st August 2016.

The Department for Business, Innovation and Skills, the Skills Funding Agency and the FE Commissioner had all agreed for the merger process to proceed in tandem with the Marches and Worcestershire Area Review which ran from January to May 2016.

Operating and Financial Review *(continued)*

Current and Future Development and Performance *(continued)*

Post balance sheet events *(continued)*

The Area Review concluded that the merger with the Warwickshire College Group was the correct course of action for South Worcestershire College and that all stakeholders had been adequately involved, an in-depth search for the best partner for South Worcestershire College had taken place, and that through legal and financial due diligence had been performed by both parties and therefore endorsed the merger decision, incorporating the action as one of their final Area Review recommendations.

Our Vision for the Merged College

The proposed merger comes at a time when the FE sector is facing increasing financial pressures related to changes in government funding mechanisms. We are also very aware of the ongoing Area Review process which is driving closer inspection of productivity and overall financial sustainability of FE colleges. The way in which our students learn and access learning has changed and continues to evolve at an unprecedented rate, placing innovation and continuous improvement at the forefront of our operations. We are more and more reliant on good ICT infrastructure and connectivity to deliver our services and ensure accessibility for all. With these factors in mind we are striving to create a progressive, innovative and enterprising organisation that places the learner at the heart of everything we do. The proposed merger supports a number of key strategic priorities, namely enabling a financially viable, resilient and more efficient post-16 offer in the south of Worcestershire. This could include shared use of resources, removal of duplication and streamlining of systems. Sharing of expertise and best practice, for example in relation to e-learning or supporting students with learning difficulties and/or disabilities, will enhance the learner's experience. The merger also acknowledges that there are similarities in the economies and needs of the south of Warwickshire and the south of Worcestershire.

Operating and Financial Review *(continued)*

Future Developments

Resources

The Accommodation Strategy is the product of a thorough evaluation of the College physical resources and the identification of specific requirements that are necessary for the College to achieve its strategic objectives. It signifies the commitment required for the College to meet the changing demands of the curriculum and Government funding in order to provide students and staff with appropriate accommodation. It identifies capital developments, access improvements, minor works and repairs and maintenance required to update and maintain accommodation to ensure that that the College provides excellent teaching training and learning support facilities.

In February 2014 the Governing Body considered a new Accommodation Strategy for 2014/15 and 2015/2016. The document included an overview of the successful completion of the targets set out for 2013/2014, it provided an evaluation of the accommodation and set out planned improvements for the forthcoming years which are summarised below:

Capital developments – Short to medium term

Evesham Campus

- To continue to raise the College interest in acquiring the Evesham Day Centre premises which comprises of building and land which is located in the centre of the Evesham campus with utilities being routed via the College.

Malvern Campus

- To consider the merits of purchasing the freehold of the ex-youth centre land leased from Worcestershire County Council
- To submit a planning application to Malvern Hills District Council to extend approval for the 5 bay temporary classroom unit for a further 5 years.

Other accommodation objectives

Evesham Campus and Malvern Campus

- To continue to provide a secure, clean, safe, accessible and efficient environment
- To undertake a programme of maintenance to ensure that training and working environments meet the needs of a range of users whilst embedding energy saving measures
- The ongoing updating of the College infrastructure and social facilities
- The creation of a new College shop and a Hybrid Vehicle Training Centre.
- The refurbishment of all female toilet facilities in the Evesham Campus D Block

Resources

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

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 £415k

Tangible fixed asset additions during the year amounted to £206k.

- ***Financial***

  The College has £245k of net liabilities, including £5,506k pension liability and no long term debt after repayment of the Lloyds Bank loan on 30th June 2016 to the value of £211k. (£350K loan when originally take out in 2008 – see above comment under sub-heading Cash flows and liquidity).

- ***People***

  The College employs 143, (*2014/15*: 150), people (expressed as full time equivalents), of whom 71, (*2014/15*: 76), are Teaching staff.

- ***Reputation***

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

Operating and Financial Review *(continued)*

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. Particular emphasis was given to the Risk Management Policy, Plan and Process.

The Board of Governors and the Senior Management Team identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In additional to the annual review, risks are also considered arising out of any potential new area of work that may be undertaken by the College. A matrix to track the opportunities for and evidence of mitigating risk has been designed for use at Governing Body level and for SMT level. This matrix was reviewed and amended in 2015/2016 to reflect best practice.

A Risk Management Plan is maintained at the College level which is reviewed termly by the SMT and annually by the Audit Committee and more frequently where necessary. The Risk Management Plan identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system. Outlined below is a description of the principal risks that may affect the College. Other factors besides the ones listed below may also adversely affect the College, full details of these are set out in the College Risk Management Plan.

Principal Risks include:

1. **Loss of income from failure to meet recruitment targets**
   This risk is mitigated in a number of ways:
   - Marketing Plan
   - IAG
   - SMT/School links
   - Business Development Strategy
   - University of Worcester Agreement
   - Apprenticeship Operational Meetings
   - Introduction of new provision to recruit later in the year
   - Progress towards Community Learning Plan

   The following early warning indicators and/or monitoring area used for this risk:
   - KPI targets
   - HE numbers
   - Monthly monitoring
   - 16-18
   - 19+Apprenticeships

2. **Poor reputation results from failing quality**
   The risk is mitigated in a number of ways:
   - Through our rigorous quality assurance process and Standards Committee monitoring

   The following early warning indicators and/or monitoring area used for this risk:
   - Monthly KPIs
   - Lesson Observation
   - Success rates/retention
   - Learning Survey results
   - EV Reports
   - Attendance

Operating and Financial Review *(continued)*

Principal Risks and Uncertainties *(continued)*

3. **Uncertainty re sustainability of College**
   The risk is mitigated in a number of ways:
   - Options Review process
   - Compliance with SFA guidelines
   - Open consultation and communication
   - SFA attendance at Options Group
   - Timescale/Milestone Plan
   - Governors adherence to key success factors
   - College structure and project appraisal document

   The following early warning indicators and/or monitoring area used for this risk:
   - Governing Body minutes/meetings
   - Options Group reporting
   - Tracking of progress against milestones

4. **SWC falls into financial difficulty through failure to meet budget 2015/2016**
   The risk is mitigated in a number of ways:
   - Review of funding/budgets, monthly and quarterly reviews
   - SMT and Executive meetings – standing items/reporting
   - On-going cost savings planned

   The following early warning indicators and/or monitoring area used for this risk:
   - KPIs
   - Financial health indicators
   - Monthly budget monitoring/reports
   - Class size reports
   - Recruitment numbers

Stake Holder Relationships

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

- Learners;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Local Enterprise Partnerships (LEPs)
- The local community;
- Other FE institutions;
- Trade unions; and
- Professional bodies.

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

Equality and Diversity and the employment of disabled persons

The College aims to ensure that all employees, learners and other members of the College community are treated equally, regardless of age; disability; family responsibility; marital status, civil partnerships; race; religion or belief; gender; sexual orientation; gender identity; maternity; pregnancy; trade union activity; unrelated criminal convictions; other relevant criteria. Particular regard is paid to the needs of those with disabilities and/or learning difficulties. Everyone will be treated with respect and dignity, and seek to provide a safe and positive working and learning environment, free from discrimination, harassment or victimisation.

Operating and Financial Review *(continued)*

Staff and learner involvement

The College considers good communication with its staff and learners to be very important and to this end:

- Publishes a monthly staff diary covering all College business, announcements and meetings
- Has routine staff forum meetings with the Principal
- Utilises an Employee Consultative Committee
- Provides a daily newsfeed on the College staff portal
- Has Learner Councils on both College campuses
- Has a learner announcements page on the College virtual learning environment
- Celebrates both student and staff success

Single Equality Policy

The Single Equality Policy is a practical scheme which enables the College, with the help of the community, to meet its statutory duties as a public body. The scheme addresses the responsibilities placed upon the College by the Equality Act 2010.

The College is determined to ensure that everyone is treated with dignity and respect, and that everyone has the same chances of reaching their potential. Individual diversity is one of the College's greatest strengths, adding much richness and flavour to its environment.

The College values everyone equally and treats all staff, learners and visitors with respect and dignity within a safe positive working and learning environment free from discrimination, harassment and victimisation. The College is committed to providing high quality education in a welcoming and supportive environment enabling everyone regardless of their race, disability, age, sexual orientation, religion or belief, sex or marital status. The College has also embraced the new protected characteristics of the Equality Act 2010 namely maternity and pregnancy, marriage and civil partnership and gender identity in all areas of work to achieve equality and fairness. The College is aware of the socio economic duty created by the Equality Act 2010 and although this is not a direct requirement for Further Education colleges believe that as a community college it must ensure that deprivation is not a factor which will affect recruitment, retention, achievement, or success.

Good governance, leadership and commitment at all levels of South Worcestershire College are central to the success of the policy. The College will endeavour never to consciously or unconsciously discriminate or disadvantage individuals or groups, and will always seek opportunities to promote equality, diversity and human rights wherever possible. The policy is reviewed annually in consultation with all of those who have a stake in the success of the College. These stakeholders include learners, staff, governors, contractors, community groups, the local authority and other statutory bodies. Through this process the College will take on board suggestions of how to improve the policy, and consequently its practices.

Operating and Financial Review *(continued)*

Professional advisers

External Auditors:	PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT
Internal Auditors:	RSM Risk Assurance Services LLP, St Philips Point, Temple Row, Birmingham, B2 5AF
Bankers:	Lloyds TSB, 19 High Street, Evesham, WR11 4DQ
Solicitors:	MFG Solicitors LLP, Tythe House, 20-21 The Tything, Worcester, WR1 1HD

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 of the Warwickshire College Group 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 27 February 2017:

S Wood
Chair of the Corporation

Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code (the "Code"), issued by the FRC in June 2010. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2016. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in 2012.

The Governing Body agreed to formally adopt the final version of the Code of Good Governance for English Colleges, published in March 2015, at the meeting held on the 21st May 2015. Future reviews of Governance Performance will include an assessment on performance against the values and principle responsibilities set out in this code.
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 the Board of Governors during the year were as follows and up to the date of signature of this report were as follows:

Name	Original Date of Appointment	Periods of Re-appointment	Term of Office	Date of Resignation	Category	Committees Served Annual attendance % at full Board
Mr D. Ansell	June 2015	-	-	July 2016	Interim Principal	BG,SEA,STD,FIN (100%)
Mr M. Bevan	Jan 2014	-	4 years	July 2016	Support Staff	BG (100%)
Mr M. Bleach	April 2016	-	4 months	July 2016	Teaching Staff	BG (100%)
Mrs I. Buchanan	Sept 2015	-	4 years	July 2016	Corporation	BG, IA (56%)
Mr P. Chandler	April 2011	Apr 14-Mch 18	4 years	July 2016	Corporation	BG, STD (11%)
Mr C. Cooper	Jan 2011	Jan 15-Dec 16	2 years	July 2016	Corporation	BG,STD, OPWG (78%)
Mr J. Darby	Nov 2008	Nov 12-Oct 16	4 years	July 2016	Corporation	BG, AUD, REM (89%)
Miss S. Luce	Jan 2014	-	4 years	Mar 2016	Teaching Staff	BG (75%)
Miss J. Hodgson	Feb 2016	-	1 year	July 2016	Student	BG (40%)
Prof S. Martin	Jan 2012	Jan 16-Feb 16	2 months	March 2016	Corporation	BG, FIN (20%)
Mr P. Merrick	Jan 2014	-	4 years	July 16	Corporation	BG, STD, FIN (100%)
Mr B. McGinity	Jan 2007	Jan 2015-2018	4 years	July 2016	Corporation	BG, REM, SEA,OPWG, FIN (100%)
Mrs Z. Oakes	April 2015	-	4 years	July 2016	Corporation	BG,REM,SEA,STD (100%)
Mrs S. O'Connell	April 2015	-	4 years	July 2016	Corporation	BG, STD (78%)
Dr J. Reading	Jan 2007	Jan 2015-2018	4 years	July 2016	Corporation	BG, AUD, REM, STD, OPWG (67%)
Mr T. Whiting	April 2015	-	4 years	July 2016	Corporation	BG, STD (56%)
Mr S. Williams	Sept 2012	-	4 years	July 2016	Corporation	BG, AUD, OPWG, FIN (100%)

BG – Board of Governors, AUD- Audit Committee, SEA – Search Committee, STD – Standards Committee, REM – Remuneration Committee, FIN – Finance Committee, OPWG – Options Working Group.

Mrs Lynn Miles-Price acts as the Clerk to the Corporation.

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 per 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, finance, remuneration, search and standards. An Options Working Group has also been created, which has its own set of terms of reference. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at Davies Road, Evesham, Worcs WR11 1LP.

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

All governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Principal of the College 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 Committee comprising of the Chairman of Governors, the Principal, and another three Governors, who are responsible for the selection and nomination of any new member for the Corporation's consideration. The Clerk to 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.

Remuneration Committee

Throughout the year ending 31 July 2016, the College's remuneration committee comprised of four members of the governing body. The committee's responsibilities are to make recommendations to the Board on the, remuneration and benefits of the Principal and other senior post-holders and the Clerk to the Corporation.

Details of remuneration for the year ended 31 July 2016 are set out in note 8 to the financial statements.

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

Audit Committee

The Audit Committee comprised of four members of the Governing Body (excluding the Principal and Chair). The committee operates in accordance with written terms of reference approved by the Corporation. This committee acts as key advisers to the Board to fulfil statutory and legal duties in respect of risk, governance, control, value for money and safeguarding assets.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and financial statement auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies, as they affect the College's business.

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

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

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

Finance Committee

The Finance Committee was formed in November 2014 to support the Governing Body in its commitment to achieving excellence and to hold the Executive Team and Senior Management Team to account for achieving the targets and actions set out in the Accountability Review Guidance.

The Finance Committee comprises the Principal and four members of the Governing Body, one of whom is a qualified Chartered Accountant. The Finance Committee meets on a termly basis and its remit is to review and, where delegated authority is given, determine on behalf of the Governing Body items of financial business. The Committee also monitors and makes recommendations on a wide range of financial controls, as outlined in the Committee's Terms of Reference.

The Governing Body reserves responsibility for the approval of the annual budget and the financial statements.

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 they are personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between the College and the funding bodies. They are also responsible for reporting to the Corporation any material weaknesses or break-downs in internal control.

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

Internal Control *(continued)*

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 South Worcestershire College for the year ended 31 July 2016 and up to the date of approval of the annual 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 annual report and financial statements. This process is regularly reviewed by the Corporation.

The risk and control framework

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

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Corporation
- Regular reviews by the Corporation 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.
As a minimum, the Head of Internal Audit (HIA) annually provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

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

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

***Review of effectiveness** (continued)*

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

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and 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 of the Warwickshire College Group, as the responsible body for the College, carried 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 Principal, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*".

Going Concern

After making appropriate enquiries, the Corporation considered that although the College was capable of being debt free and still hold £0.5m of funds in the bank this year it was not viable in the longer term due to the national funding cutbacks and changes to the funding methodology of both the Skills Funding Agency and Education Funding Agency and therefore recommended merger with the Warwickshire College Group as of 1st August 2016 following a comprehensive selection process and full due diligence exercise. This decision was supported and adopted in the outcomes of the Worcestershire and The Marches Area Review which took place between January and June 2016.

As part of the above merger process the Corporation resolved to dissolve as of 1st August 2016 and the College formally merged with the Warwickshire College Group. The operations and education provision of the College continues but under a different entity name. Due to the dissolution of the Corporation, the College is no longer considered to be a going concern and as such these accounts have been prepared on a basis other than going concern as this is tantamount to a liquidation. The basis other than going concern that has been adopted is described in note 1 of the notes to the financial statements below.

Authority was given by the Corporation of the Warwickshire College Group 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 27 February 2017:

....	....
S Wood	*A Joyce*
Chair of the Corporation	*Accounting Officer*

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

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with the Skills Funding Agency's terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of its consideration the Corporation has had due regard to the requirements of the financial memorandum.

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

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

Authority was given by the Corporation of the Warwickshire College Group 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 27 February 2017:

....
S Wood
Chair of the Corporation

....
A Joyce
Accounting Officer

Statement of the responsibilities of the members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency (EFA) and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102), and which give a true and fair view of the state of affairs of the College and the result for that year.

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation. In this regard a basis other than going concern has been used in light of the merger with the Warwickshire College Group as of 1st August 2016.

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

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

Authority was given by the Corporation of the Warwickshire College Group 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 27 February 2017:

....

S Wood
Chair of the Corporation

Independent auditors' report to the Corporation of South Worcestershire College ("the College")

Report on the financial statements

Our opinion

In our opinion, South Worcestershire 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 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 basis of preparation. Following the year end the College has entered into a merger with Warwickshire College which has led to the dissolution of the College. Accordingly, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a basis other than going concern as described in note 1 to the financial statements. Adjustments have been made in these financial statements to reclassify fixed assets and long-term liabilities as current assets and current liabilities. No adjustments were necessary to reduce assets to their realisable values or to provide for liabilities arising from the dissolution.

What we have audited

The financial statements comprise:

- the 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 Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (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 18 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 Corporation members' 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 Members' 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

9 March 2017

(a) The maintenance and integrity of South Worcestershire 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 South Worcestershire 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 South Worcestershire 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 South Worcestershire 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 South Worcestershire 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 South Worcestershire 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 South Worcestershire College and the reporting accountant

The Corporation of South Worcestershire College is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the 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.

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 South Worcestershire 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 9 March 2017
PricewaterhouseCoopers LLP
Chartered Accountants

Statement of Comprehensive Income

For the year ended 31 July 2016

	Note	Year ended 31 July 2016	Year ended 31 July 2015
		College	College
		£'000	£'000
INCOME			
Funding body grants	2	4,439	4,560
Tuition fees and education contracts	3	1,103	1,412
Other grants and contracts	4	4	19
Other income	5	333	308
Investment income	6	4	4
Donations	7	-	-
Total income		**5,883**	**6,303**
EXPENDITURE			
Staff costs	8	4,289	4,545
Other operating expenses	9	1,393	1,354
Depreciation	13	548	597
Interest and other finance costs	10	145	127
Total expenditure		**6,375**	**6,623**
Deficit before other gains and losses		**(492)**	**(320)**
Loss on disposal of assets	13	(2)	(15)
Deficit before tax		**(494)**	**(335)**
Taxation	11	-	-
Deficit for the year		**(494)**	**(335)**
Actuarial loss in respect of pensions schemes	21	(1,609)	(534)
Total Comprehensive Expense for the year		**(2,103)**	**(869)**
Represented by:			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		(2,103)	(869)
		(2,103)	(869)

Statement of Changes in Reserves

For the year ended 31 July 2016

	Income and expenditure account	Revaluation reserve	Total unrestricted reserve
	£'000	**£'000**	**£'000**
College			
Balance at 1st August 2014	57	2,670	2,727
Deficit for the year	(335)	-	(335)
Other comprehensive income	(534)	-	(534)
Transfers between revaluation and income and expenditure reserves	67	(67)	-
Total comprehensive expense for the year	(802)	(67)	(869)
Balance at 31st July 2015	**(745)**	**2,603**	**1,858**
Deficit for the year	(494)	-	(494)
Other comprehensive income	(1,609)	-	(1,609)
Transfers between revaluation and income and expenditure reserves	67	(67)	-
Total comprehensive expense for the year	(2,036)	(67)	(2,103)
Balance at 31 July 2016	**(2,781)**	**2,536**	**(245)**

Balance sheet as at 31 July

	Note	College	College
		2016	**2015**
		£'000	**£'000**
Non-current assets			
Tangible Fixed assets	13	0	6,852
		0	**6,852**
Current assets			
Tangible fixed assets to be transferred	13	6,508	0
Trade and other receivables	14	200	209
Cash and cash equivalents	19	481	968
Total Assets		**7,189**	**8,029**
Creditors – amounts falling due within one year	15	(1,928)	(1,083)
Defined benefit obligations	21	(5,506)	0
Net current (liabilities)/assets		**(245)**	**94**
Total assets less current liabilities		**(245)**	**6,946**
Creditors – amounts falling due after more than one year	16	0	(1,389)
Provisions			
Defined benefit obligations	21	0	(3,699)
Total net (liabilities)/assets		**(245)**	**1,858**
Unrestricted Reserves			
Income and expenditure account		(2,781)	(745)
Revaluation reserve		2,536	2,603
Total unrestricted reserves		**(245)**	**1,858**

Authority was given by the Corporation of the Warwickshire College Group at its meeting on 13 December 2016 for the Chair and the Accounting Officer to approve the financial statements on pages 23 to 49 on its behalf. These were subsequently signed on 27 February 2017:

S Wood
Chair of the Corporation

A Joyce
Accounting Officer

Statement of Cash Flows

For the year ended 31 July 2016

	Notes	2016	2015
		£'000	**£'000**
Cash flow from operating activities			
Deficit for the year		(494)	(335)
Adjustment for non-cash items			
Depreciation		548	597
(Increase)/decrease in debtors		9	(61)
Increase in creditors due within one year		862	223
Decrease in creditors due after one year		(1,183)	(83)
Increase/(decrease) in provisions		-	-
Pensions costs less contributions payable		198	173
Adjustment for investing or financing activities			
Investment income		(4)	(4)
Interest payable		2	2
Loss on sale of fixed assets		2	15
Net cash flow from operating activities		**(60)**	**527**
Cash flows from investing activities			
Investment income		4	4
Payments made to acquire fixed assets		(206)	(138)
Net cash flow from investing activities		**(202)**	**(134)**
Cash flows from financing activities			
Interest paid		(2)	(2)
Repayments of amounts borrowed		(223)	(27)
Net cash flow from financing activities		**(225)**	**(29)**
Increase / (decrease) in cash and cash equivalents in the year		**(487)**	**364**
Cash and cash equivalents at beginning of the year		968	604
Cash and cash equivalents at end of the year		481	968

Notes

1 Statement of accounting policies

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 27.

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

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 cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

Notes *(continued)*

1 **Statement of accounting policies** *(continued)*

As described in the Operating and Financial Review, the College has prepared the accounts on a basis other than going concern due to the dissolution of the College as of 1st August 2016 for the merger with the Warwickshire College Group.

The operations and education provision of the College continues as part of the merged College but the legal entity ceased to exist as of 1st August 2016 when the Corporation was dissolved. This is considered to be tantamount to a liquidation and has therefore prompted the use of a basis other than going concern.

This basis of preparation used is described below for the key balance sheet items:

Tangible fixed assets – Tangible fixed assets will retain their balance sheet value as at 31st July 2016 with no adjustment as they are to be transferred to the new College in their current form. The fixed assets are due to be transferred for nil consideration and it is not deemed appropriate to uplift these to their market value in this case. This may cause a net asset position which is not considered to accurately reflect the financial position of the College operations to be transferred. The fixed assets have been transferred to current assets to reflect the transfer on 1st August 2016

Trade and other receivables – Trade and other receivables have been reviewed but no impairment has been identified. No adjustment to reduce these receivables to their residual values is therefore deemed necessary.

Cash and cash equivalents – Cash and cash equivalents will retain their value and remain within current assets.

Trade and other creditors within one year – Current trade and other creditors will retain their value and remain within current liabilities.

Trade and other creditors due in greater than one year – This balance wholly consists of deferred capital grant balances which have been deferred over the life of the relevant asset in line with the useful economic life of the asset as per the accruals method. There is not considered to be a risk of clawback with the associated balances and no impairment has been applied to this balance. The non-current liabilities have been transferred to current liabilities.

Defined benefit obligations – the Warwickshire College Group have agreed to take on the past, present and future liabilities associated with South Worcestershire College's membership in defined benefit pension schemes. For this reason no adjustment to the value has been made. The defined benefit obligations have been transferred to current liabilities.

Recognition of income

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

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

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*
Recognition of income *(continued)*

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.

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.

Further details of the pension schemes are given in note 21.

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 between 20 and 64 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life. Any refurbishments to buildings are depreciated over a period of 10 to 20 years depending on their nature.

Notes *(continued)*

1 **Statement of accounting policies** *(continued)*

Tangible fixed assets *(continued)*

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.

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(s) 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 1996), but not to adopt a policy of revaluations of these properties in the future. The additional valuation of the land amounted to an increase of £415k for South Worcestershire College.

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.

Equipment

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. In addition, smaller I.T. items (e.g. tablets and mobile devices) over £300 may be capitalised. All other equipment is capitalised at cost.

Equipment is depreciated over its useful economic life as follows:

Motor vehicles	-	3 years straight line
Computer equipment	-	4 years straight line
Other equipment	-	5 years straight line

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. Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding body capital equipment grants, the associated assets are designated as grant-funded assets.

Payments under operating leases are charged against income in the year the payments are made.

Investments

Listed investments held as fixed assets or endowment assets are stated at market value.

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

Notes *(continued)*

1 **Statement of accounting policies** *(continued)*

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 Chapter 3 Part 11 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.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks and building societies and government securities.

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 16-18 Bursary funds, 19+ discretionary support funds and 24+ Advanced Learning Loans Bursary funds. Related income received from the funding bodies and subsequent disbursements to learners and other further education colleges, are excluded from the income and expenditure account and are shown separately in note 26, except for the 5% of the grant received which is available to the College to cover administration costs relating to the grants. Within the Learner Services team, there is one member of staff who has responsibility for administration of the Bursary and Learner Support Fund applications and payments.

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.

Notes *(continued)*

1 Statement of accounting policies *(continued)*

***Judgements in applying accounting policies and key sources of estimation uncertainty** (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 21, 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.

Notes *(continued)*

2 Funding Body grants

	2016	2015
Recurrent Grants	**£'000**	£'000
Skills Funding Agency	**1,599**	1,818
Education Funding Agency	**2,617**	2,651
Specific Grants		
Skills Funding Agency	**142**	8
Releases of government capital grants	**81**	83
	4,439	4,560

3 Tuition fees and education contracts

	2016	2015
	£'000	£'000
Adult education fees	**156**	117
Apprenticeship fees and contracts	**430**	490
Fees for FE loan supported courses	**251**	305
Total tuition fees	**837**	912
Education contracts	**266**	500
Total	**1,103**	1,412

4 Other grants and contracts

	2016	2015
	£'000	£'000
Other grants and contracts	**4**	19
	4	19

Notes *(continued)*

5 Other income

	2016 £'000	2015 £'000
Catering and residences	123	128
Other income generating activities	-	-
Non-government capital grants	6	6
Miscellaneous income	204	174
	333	308

6 Investment income

	2016 £'000	2015 £'000
Other interest receivable	4	4
Pension finance income	-	-
	4	4

7 Donations

None

8 Staff numbers and costs

The average number of persons employed by the College (including senior post holders) during the year, expressed as full-time equivalents, was as follows:

	2016 Number	2015 Number
Teaching staff	71	76
Non- teaching staff	72	74
	143	150

Notes *(continued)*

8 Staff numbers and costs (continued)

Staff costs for the above persons were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	**3,538**	3,797
Social security costs	**192**	208
Other pension costs (including FRS 102 adjustments of £55,000) *(2014/15: £43,000)*	**559**	540
Payroll sub total	4,289	4,545

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 Management Team, which comprises the Principal, Vice Principal Learning and Performance and Vice Principal Finance and Resources.

Emoluments of Key Management Personnel, Accounting Officer and other higher paid staff

	2016 Number	**2015 Number**
The number of key management personnel including the Accounting Officer was	4	5

The number of key management personnel and other staff who received annual emoluments in the following ranges was:

	2016 Number of key management personnel	**2016 Number of other staff**	2015 Number of key management personnel	2015 Number of other staff
£60,001 to £70,000	1	-	1	-
£70,001 to £80,000	2	-	3	-
£80,001 to £90,000	-	-	-	-
£100,001 to £110,000	1	-	-	-
£120,001 to £130,000	-	-	1	-
TOTAL	**4**	-	5	-

Notes *(continued)*

8 Staff numbers and costs (continued)

Key management personnel emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries (Previous VP F&R retired 30/09/2015 : Successor on FTC)	**54**	239
Benefits in kind	**0**	3
National Insurance contributions	**6**	25
Pension contributions	**8**	29
Interim Principal paid via invoice (plus £23k commission to AoC Create)	**110**	10
Interim Vice Principal Learning & Performance paid via Agency	**75**	26
	253	332

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	2016 £'000	2015 £'000
Salaries – former Principal	-	104
Salaries – current Principal		
as Interim Principal paid on invoice (plus £23k commission to AoC)	**110**	10
Benefits in kind	-	1
Pension contributions	-	14
	110	129

The pension contributions in respect of the employed senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme or WCC LGPS as appropriate and are paid at the same rate as those for other employees.

The Interim Principal started on 12/06/2015 with the previous Principal leaving 17/06/2015. The Interim Principal left 31/07/2016 prior to the merger with the Warwickshire College Group as at 1st August 2016.

Compensation for loss of office paid to a former senior post holder

	2016 £'000	2015 £'000
Compensation paid	-	2

The estimated value of other benefits has been calculated in accordance with Financial Reporting Standard 17. The members of the Corporation other than the Principal and the staff member did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Notes *(continued)*

9 Other operating expenses

	2016 £'000	2015 £'000
Teaching costs	**476**	513
Non-teaching costs	**550**	501
Premises costs	**367**	340
	1,393	1,354
Other operating expenses include:		
Auditors remuneration:		
Financial statements audit	**20**	16
Internal audit	**13**	12
Hire of plant and machinery – operating leases	**4**	6
Hire of other assets - operating leases – cars, buildings	**21**	21

10 Interest and other finance costs

	2016 £'000	2015 £'000
On bank loans, overdrafts and other loans	**2**	2
Pension finance costs	**143**	125
	145	127

11 Taxation

The College believes that it is not liable for any corporation tax arising out of its activities during either year.

12 Deficit on continuing operations for the year

	2016 £'000	2015 £'000
College's deficit for the year	**(494)**	(335)

Notes *(continued)*

13 Tangible fixed assets

	Land and Buildings Freehold £'000	Equipment £'000	Total £'000
Cost or valuation			
At 1 August 2015	9,456	3,087	12,543
Additions	6	200	206
Disposals	(35)	(285)	(320)
Transfer to current assets	(9,427)	(3,002)	(12,429)
At 31 July 2016	-	-	-
Accumulated Depreciation			
At 1 August 2015	3,136	2,555	5,691
Charge for year	291	257	548
Eliminated in respect of disposals	(35)	(283)	(318)
Transfer to current assets	(3,392)	(2,529)	(5,921)
At 31 July 2016	-	-	-
At 31 July 2016	-	-	-
At 31 July 2015	6,320	532	6,852

The transitional rules set out in FRS 102 have been applied. Accordingly the book values at implementation of the standard have been retained for buildings and equipment but the land has been revalued with an increase of £415k.

Land and buildings were valued for the purpose of the 1994 financial statements at depreciated replacement cost by Hereford and Worcester County Council Property Services Department, an independent chartered surveyor, in accordance with the RICS Statement of Asset Valuation Practice and Guidance notes. Other tangible fixed assets inherited from the local education authority at incorporation have been valued by the corporation on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £1,280k *(2014/15: £1,280k)* have been partly financed from exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the financial memorandum with the SFA, to surrender the proceeds.

The gross book value of tangible fixed assets includes an amount of £925k *(2014/15: £925k)* which represents the land, for both Evesham and Malvern Campuses, which is not depreciated.

Acquired Brain Injury Education Service
In April 1999 the Acquired Aphasia Trust, a registered charity, constructed a building on College land that was funded through a lottery grant, in which to carry out its charitable activities. The land is leased to the Trust for a term of 20 years at a notional rent. The College occupies part of the building for the delivery of courses for learners with an acquired brain injury.

If inherited land and buildings had not been valued they would have been included at £nil *(2014/15: £nil)*.

Notes *(continued)*

14 Trade and other receivables

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	95	139
Other receivables	50	-
Prepayments and accrued income	55	70
Fixed Assets held for transfer	6,508	-
	6,708	209

15 Creditors - Amounts falling due within one year

	2016	2015
	£'000	£'000
Bank loans	-	17
Deferred income – government capital grants	1,208	95
Payments received on account	222	273
Trade payables	170	134
Other taxation and social security	68	68
Accruals	181	260
Amounts owed to the Skills Funding Agency	79	236
	1,928	1,083

16 Creditors - Amounts falling due after more than one year

	2016	2015
	£'000	£'000
Bank loans	-	206
Deferred income – government capital grants	-	1,183
	-	1,389

17 Borrowings

	2016	2015
	£'000	£'000
Bank loans and overdrafts		
Bank loans and overdrafts are repayable as follows:		
In one year or less or on demand	-	17
Between one and two years	-	18
Between two and five years	-	54
In five years or more	-	134
	-	223

Notes *(continued)*

17 Borrowings (continued)

During 2007/08 the College obtained a bank loan of £350,000 repayable by instalments falling due between March 2008 and March 2028. The loan is unsecured and attracts an interest rate of 0.35% above the LIBOR and is for a term of 20 years.

On 30th June 2016 the College repaid in full this loan amounting to £211,000. This was to avoid complicated and unnecessary novation of the Lloyds Bank loan upon merger with the Warwickshire College Group.

18 Maturity of Debt

Not applicable.

19 Provisions

	Defined benefit obligations	Total
	£'000	£'000
At 1 August 2015	3,699	3,699
Expenditure in the year	(229)	(229)
Additions in the year	2,036	2,036
At 31 July 2016	**5,506**	**5,506**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 21.

20 Cash and cash equivalents

	At 1 August 2015	Cash flows	Other changes	At 31 July 2016
	£'000	£'000	£'000	£'000
Cash and cash equivalents	968	(487)	-	481
Overdrafts	-	-	-	-
Total	**968**	**(487)**	**-**	**481**

Notes *(continued)*

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

Total pension cost for the year		**2016**		**2015**
		£000		**£000**
Teachers' Pension Scheme: contributions paid		280		273
Local Government Pension Scheme:				
Contributions paid	229		224	
FRS 102 (28) charge	55		43	
Charge to the Statement of Comprehensive Income		284		267
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year within staff costs		**564**		**540**

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.

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

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

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

Notes *(continued)*

21. Defined benefit obligations (continued)

Teachers' pension scheme (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:

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

The new employer contribution rate for the TPS was implemented in September 2015.
A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

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 £280,000 (2015: £273,000)

FRS 102 (28)
Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

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

Local Government Pension Scheme
The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Worcestershire County Council. The total contributions made for the year ended 31 July 2016 were £298,000, of which employer's contributions totalled £229,000 and employees' contributions totalled £69,000. The agreed contribution rates for future years are 14.1 % for employers and range from 5.5% to 8.5% for employees, depending on salary.

Notes *(continued)*

21. Defined benefit obligations (continued)

Local Government pension scheme (continued)

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.

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	3.2%	3.7%
Future pensions increases	1.8%	2.2%
Discount rate for scheme liabilities	2.5%	3.8%
Inflation assumption (CPI)	1.7%	2.2%
Commutation of pensions to lump sums	50%	50%

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

	At 31 July 2016	At 31 July 2015
	years	years
Retiring today		
Males	23.5	23.4
Females	25.9	25.8
Retiring in 20 years		
Males	25.8	25.6
Females	28.2	28.1

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

	2016	2015
	£'000	£'000
Fair value of plan assets	7,769	6,989
Present value of plan liabilities	(13,275)	(10,688)
Net pensions (liability)/asset (Note 19)	**(5,506)**	**(3,699)**

Notes *(continued)*

21. Defined benefit obligations (continued)

Local Government pension scheme (continued)

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	284	267
Past service cost	0	0
Total	**284**	**267**
Amounts included in finance costs/investment income		
Net interest cost/Net interest income	(138)	(125)
	(138)	**(125)**
Amount recognised in Other Comprehensive Income		
Return on pension plan assets	535	293
Changes in assumptions underlying the present value of plan liabilities	(2,144)	(827)
Amount recognised in Other Comprehensive Income	**(1,609)**	**(534)**

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

	2016 £'000	2015 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(3,699)	(2,992)
Movement in year:		
Current service cost	(284)	(267)
Administration expenses	(5)	(5)
Employer contributions	229	224
Net interest on the defined (liability)/asset	(138)	(125)
Actuarial gain or loss	(1,609)	(534)
Net defined benefit (liability)/asset at 31 July	**(5,506)**	**(3,699)**

Asset and Liability Reconciliation

	2016 £'000	2015 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of year	10,688	9,314
Current service cost	284	267
Interest cost	403	399
Contributions by Scheme participants	69	74
Changes in financial assumptions	2,144	827
Estimated benefits paid	(313)	(193)
Defined benefit obligations at end of year	**13,275**	**10,688**

Notes *(continued)*

21. Defined benefit obligations (continued)

Local Government pension scheme (continued)

Changes in fair value of plan assets		
Fair value of plan assets at start of year	6,989	6,322
Interest on plan assets	265	274
Return on plan assets	535	293
Administration expenses	(5)	(5)
Employer contributions	229	224
Contributions by Scheme participants	69	74
Estimated benefits paid	(313)	(193)
Fair value of plan assets at end of year	**7,769**	**6,989**

22 Post balance sheet events

Merger with the Warwickshire College Group

At a meeting of the Board of Governors on 23rd June 2016 it was unanimously agreed to enter into a full "Type B" merger with the Warwickshire College Group as of 1st August 2016 by way of the South Worcestershire College Corporation dissolving and transferring all its assets and liabilities to the Warwickshire College Group.

The Board of Governors of the Warwickshire College Group had met on the 21stth June 2016 and unanimously agreed to receive all assets and liabilities of South Worcestershire College upon their dissolution as of 1st August 2016.

The Department for Business, Innovation and Skills, the Skills Funding Agency and the FE Commissioner had all agreed for the merger process to proceed in tandem with the Marches and Worcestershire Area Review which ran from January to May 2016.

The Area Review concluded that the merger with the Warwickshire College Group was the correct course of action for South Worcestershire College and that all stakeholders had been adequately involved, an in-depth search for the best partner for South Worcestershire College had taken place, and that through legal and financial due diligence had been performed by both parties and therefore endorsed the merger decision, incorporating the action as one of their final Area Review recommendations.

Our Vision for the Merged College ("Stronger Together")

The merger comes at a time when the FE sector is facing increasing financial pressures related to changes in government funding mechanisms. We are also very aware of the ongoing Area Review process which is driving closer inspection of productivity and overall financial sustainability of FE colleges. The way in which our students learn and access learning has changed and continues to evolve at an unprecedented rate, placing innovation and continuous improvement at the forefront of our operations. We are more and more reliant on good ICT infrastructure and connectivity to deliver our services and ensure accessibility for all. With these factors in mind we are striving to create a progressive, innovative and enterprising organisation that places the learner at the heart of everything we do. The merger supports a number of key strategic priorities, namely enabling a financially viable, resilient and more efficient post-16 offer in the south of Worcestershire. This includes shared use of resources, removal of duplication and streamlining of systems. Sharing of expertise and best practice, for example in relation to e-learning or supporting students with learning difficulties and/or disabilities, will enhance the learner's experience. The merger also acknowledges that there are similarities in the economies and needs of the south of Warwickshire and the south of Worcestershire. The merger has proceeded smoothly and the saving anticipated in "Stronger Together" have been more than realised.

Notes *(continued)*

23 Financial commitments

At 31st July, the College had annual commitments under non-cancellable operating leases as follows:

	2016		2015	
	Land & buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Expiring within one year	-	5		1
Expiring between two and five years	-	18		23
	-	23	-	24

24 Contingent liability

The College had no contingent liabilities as at 31 July 2016 *(2014/15: £nil).*

25 Related party transactions

Due 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 organisations in which a member of the Board of Governors may have an interest 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 £1,800 for 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 during the year (2015: None).

Transactions with the Skills Funding Agency, EFA and HEFCE are detailed in notes 2, 15 and 26.

26 Amounts disbursed as agent

Learner support funds & Bursaries

	2016 £'000	2015 £'000
Funding body grants – hardship support	69	43
Funding body grants – childcare	0	43
Funding body grants – 24+ Advanced Loans Bursary funds	54	54
Funding body grants – 16-18 Bursary funds	87	114
Total funds received	**210**	**254**
Disbursed to learners	143	151
Administration costs	9	9
Total funds spent	**152**	**160**
Balance unspent at 31 July, included in creditors	**58**	**94**

Funding body grants are available solely for learners. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements have therefore been excluded from the income and expenditure account, other than when the College has directly incurred expenditure itself.

Notes *(continued)*

27 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.

	Note	1st August 2014 College £'000	31st July 2015 College £'000
Financial Position			
Total reserves under previous SORP		2,477	1,581
Employee leave accrual	(a)	(201)	(163)
Release of non-government capital grants	(b)	36	25
Revaluation of fixed assets used as deemed cost	(e)	415	415
Changes to measurement of net finance cost and other costs on defined benefit plans	(c)	-	-
Total effect of transition to FRS 102 and 2015 FE HE SORP		250	277
Total reserves under 2015 FE HE SORP		2,727	1,858

Notes *(continued)*

27 Transition to FRS 102 and the 2015 FE HE SORP (continued)

		Year ended 31st July 2015 College £'000
Financial performance		
Surplus for the year after tax under previous SORP		(225)
Movement in the employee leave accrual	(a)	38
Release of non-government grants received	(b)	6
Reversal of capital grants amortisation	(b)	(17)
Pensions provision – actuarial loss		(534)
Changes to measurement of net finance cost and other costs on defined benefit plans	(c)	(137)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(644)
Total comprehensive income for the year under 2015 FE HE SORP		(869)

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 meaning that, at the reporting date, there was an average of **12 days** unused leave for teaching staff and **7 days** unused leave for 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 £201k was recognised at 1 August 2014, and £163k at 31 August 2015. The movement on this provision of a reduction of £38k has been charged to Comprehensive Income in the year ended 31 July 2015.

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.

Notes *(continued)*

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

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.

e) Asset revaluation used as deemed cost

Under FRS 102 there is an exemption that allows an asset valuation as at the date of transition, 1st August 2014, to be used as a deemed cost for the fixed asset going forward. Any gain on revaluation is credited to the revaluation reserve and this value is then treated as the cost of the asset under the cost model. The College has used this exemption to revalue their land assets.